

April 23, 2000

Committee on Accounts, Enrollment and Revenue Administration  
City of Manchester, New Hampshire  
Honorable Aldermen: Hirschmann, Thibault, Pinard, Lopez and Levasseur

Dear Honorable Committee Members:

In March of 2000 a request was made of Internal Audit (IA) by the Mayor to review the Manchester Area Aggregation Plan (MAAP) at the Highway Department (Highway). The request was made to provide Committee Members with a better understanding of how the funds have been disbursed. Through conversations with Tina Parsons, a review of MAAP origin and agenda, and the testing of individual transactions since fiscal year 1996, the following information and results of testing were generated.

The audit procedures began with an interview and inquiries of Tina Parsons (MAAP personnel) and an examination of MAAP's purpose and goals. Tina Parsons provided valuable insight into the background and current situation of MAAP.

A Settlement Agreement, entered into on August 2, 1999, by Public Service Company of New Hampshire (PSNH), Northeast Utilities, the Governor, the Governor's Office of Energy and Community Services, the Office of Attorney General, and designated staff of the New Hampshire Public Utilities Commission (NHPUC), has been the focus of extensive hearings before the NHPUC during the last year. Restructuring proceedings have been stayed pending consideration of this agreement. As of March 3, 2000, legal briefs were due upon conclusion of the hearings.

MAAP is a unique municipal program designed to take advantage of the newly emerging energy services markets. A competitive energy services market will provide customers with electricity and natural gas supplies, and other energy services. MAAP is designed to manage energy demands and consumption and is the first municipal program to take advantage of this newly emerging market.

MAAP is unique in that it allows residential, commercial, and industrial customers the opportunity to aggregate their energy requirements with the City of Manchester's (the City) municipal operations. This enables the smaller customer to become part of a much larger and more diverse energy load, which results in lower prices. Also, MAAP allows for participation by cities and towns, including their residents, businesses and industries, once again increasing the size and diversity of the energy requirements. MAAP was designed with a comprehensive approach to energy management enabling it to procure electric, natural gas and other energy services. It is believed that the City of Manchester will

benefit from an estimated 15.8 million dollars of savings upon the implementation of electric deregulation.

Currently, the economics and rate structure make it reasonable for only large gas users to participate in MAAP. As hearings continue before the New Hampshire Public Utilities Commission (NHPUC), it may become possible for small users to competitively purchase their gas supplies. In the interim, MAAP has engaged Ewantage to design and install energy efficient measures into municipal facilities. At this time, Ewantage is in the process of upgrading six facilities throughout the City. Due to ongoing litigation and an inability of the NHPUC to implement retail competition, no electric supply contract has been awarded to date.

On March 19, 1996, the City issued a Request for Proposals, seeking joint consulting and legal services in regard to the restructuring of the electric utility industry in the State of New Hampshire. The consulting firm of SVBK Consulting Group (SVBK) and the law firm of O'Neill, Grills & O'Neill (O'Neill) were awarded the project. The firms have provided consulting services in four major project areas. The development of the aggregation program for the New Hampshire Retail Pilot Program, was the first major area. Second, both firms assisted in the creation and implementation of MAAP. Third, at hearings before the NHPUC, SVBK and O'Neill have served as the City's voice. Finally, both firms have prepared evaluations of the possible acquisition of the Amoskeag hydroelectric facility.

SVBK and O'Neill have followed the express direction of the Board of Mayor and Aldermen (BMA) and the City's staff. O'Neill has communicated its accomplishments with the City Solicitor's Office, ensuring the proper review of all legal matters and related documentation. Periodically, the BMA and the Board's Oversight Committee have been briefed on matters relating to the restructuring developments achieved by both the consultants and the City's personnel.

State Statute RSA 53-E provides that no General Fund appropriation shall be utilized to operate the aggregation program. The Aggregation Plan (adopted 7/1/97) is to be operated as an enterprise fund under the direction of the Finance Officer or his designee. The residents and businesses that voluntarily participate must cover the entire cost of the program. Upon assignment of the Aggregation Fee to program participants, cash advances from the General Fund to the Aggregation Plan will be repaid, with interest. This is to be done to relieve the taxpayers of the City from any financial burden.

Currently, an administrator and an analyst operate the Aggregation Program. A secretary and three customer service representatives will provide customer services of the program once it is in full operation. The analyst provides analytical support in administrating the accounts, in calculating and monitoring the Aggregation Fee, and with pricing and contracting issues. The additional staff will not be added until Competition has commenced.

The Board of Mayor and Aldermen approved Resolutions for fiscal years 1998, 1999, and 2000 in the amounts of \$1,058,685, \$748,445, and \$808,118, respectively, to be appropriated to the Manchester Aggregation Program. Consulting fees comprise \$1,885,022 or 86% of the \$2,191,464 expense total and are the focus of the disbursement testing conducted.

## **Testing and Findings**

### Cash Disbursements

IA reviewed all expenses greater than \$1,000 and judgmentally selected amounts less than \$1,000. In total, support for approximately \$1,810,996 or 83% of expenditures was reviewed. Of the items reviewed, none were identified as being in violation of the Board approved Resolutions. All expenditures tested were for the intended purpose and appeared reasonable.

Schedules summarizing consulting fees incurred by the City since 1996 are attached. Total consulting expenditures incurred since commencement of the program approximate \$1,885,022. The schedules also provide brief descriptions of the consulting services rendered and highlight the major accomplishments to date.

Salaries comprise approximately 6.8% or \$150,381 of total expenditures, over a three year fiscal period. As previously mentioned, staffing for the Aggregation Program currently consists of two city employees. Four other positions will not be added until commencement of competition and even then only on an as needed basis. In light of the circumstances, current staffing appears reasonable.

Approximately \$1,700 of expenditures have been incurred for communication and advertising. Said expenditures include payments made to the Union Leader, the Boston Globe, and Portland Newspapers and were for classified legal notices necessary for the Aggregation Program.

### Spending Within Appropriation

IA tested salary, line item, capital outlay, and restricted fund expense spending for authorization. Actual expenditures were compared to amounts appropriated by the BMA. No instances of spending beyond appropriated amounts, without proper authorization, were noted. MAAP is in compliance with expense spending as resolved by the BMA. The Resolutions for fiscal years 1998, 1999, and 2000 are attached.

### Cash Receipts

IA inquired of MAAP personnel regarding program-funding procedures. Accompanying this report is a schedule of funding sources by amount and source name. Such information is shown for fiscal years 1996 through fiscal year 2000. Testing procedures revealed that funding amounts equaled disbursements for each fiscal year. MAAP consistently remains within its appropriated spending budget.

### Plan Amendment

Investigation of RSA 53-E and the Aggregation Plan, adopted by the BMA on 7/1/97, revealed a discrepancy in the current reporting structure. The Aggregation Plan requires MAAP to be operated

under the direction of the Finance Officer or his designee. Currently, MAAP is a division of the Highway Department and reports to the Public Works Director and not to the Finance Director. An amendment to the City's Aggregation Plan needs to be adopted before a public hearing to rectify the discrepancy.

### **Conclusion**

At the end of February 2000, the Manchester Area Aggregation Program is at a standstill. District and federal court decisions will dictate further program actions. Based on the testing performed and conversations with MAAP personnel, IA believes the aggregation fund is in compliance with the guidelines set forth by the Board of Mayor and Aldermen. All expenditures are for services necessary to achieve the goals of the aggregation program for the benefit of the taxpayers of the City of Manchester.

Respectfully Submitted,

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Internal Audit Manager