

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 12-270

CONCORD STEAM CORPORATION

2012-2013 Cost of Energy Adjustment

Order Approving Cost of Energy Rate

O R D E R N O. 25,436

November 1, 2012

APPEARANCES: Patrick H. Taylor, Esq., of McLane, Graf, Raulerson and Middleton, P.A., for Concord Steam Corporation; and Alexander F. Speidel, Esq. for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 12, 2012, Concord Steam Corporation (Concord Steam), a public utility supplying steam service primarily to commercial and institutional customers in Concord, filed its annual cost of energy (COE) rate adjustment for the period November 1, 2012 through October 31, 2013. Included in the filing was the pre-filed testimony of Peter G. Bloomfield, president of Concord Steam. *See* Hearing Exhibit 1. The Commission issued an order of notice on September 20, 2012, scheduling a hearing on October 23, 2012. Concord Steam filed updates to its COE filing on October 5, 2012. *See* Hearing Exhibit 2. There were no intervenors, and the hearing was held on October 23, 2012 as scheduled, at which Concord Steam provided further updates to certain COE filing schedules as an exhibit at the hearing. *See* Hearing Exhibit 3.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam

Concord Steam, through Mr. Bloomfield, addressed: (1) Concord Steam's proposed COE rate and the resulting bill impacts; (2) fuel purchase strategy and reasons for the increase in

costs; (3) Concord Steam's request, made in connection with its rate case filing made in Docket No. DG 12-242, to transfer certain costs related to steam production from Concord Steam's base rates to its COE rate; (4) sales forecast and unaccounted-for steam; (5) co-generation operations; and (6) status of Concord Steam's new plant.

1. Proposed COE Rate and Bill Impacts

Concord Steam's filing, as updated, indicates that the COE rate for the coming year will be \$21.08 per Mlb. of steam, with the inclusion in the COE rate of certain costs related to steam production historically included in Concord Steam's base rates, discussed below. This represents an increase of \$3.62 per Mlb. from last year's projected weighted average COE rate of \$17.46 per Mlb. (The increase in the COE rate attributable to increased costs not related to the proposed transfer of steam production costs from base rates is \$1.38 per Mlb.), *see* Hearing Exhibit 3, Updated Schedule 1, October 23, 2012. The approved COE rate is subject to a "collar" that permits Concord Steam to move the COE rate up or down by 20 percent without requiring further Commission action. *See, e.g., Concord Steam Corp.*, Order No. 23,822 (November 1, 2001).

The estimated bill impact for all classes of steam customer (small, medium-sized, and large) from the requested COE rate is an approximate increase of 3 percent for all classes compared to last year. *See* Hearing Exhibit 2, Updated Schedule 6, October 5, 2012. When combined with the increase in temporary delivery rates at the level approved in Concord Steam's petition for a rate increase, in Docket No. DG 12-242, *see, Concord Steam Corp.*, Order No. 25,432 (October 30, 2012), the total bill impact is a 15 percent increase.

2. Fuel Purchase Strategy and Reasons for the Increased Costs

Mr. Bloomfield, in his pre-filed testimony, stated that the majority, about 70 percent, of Concord Steam's steam is generated through the use of wood chips and shredded wood as a fuel supply. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 5. The remaining 30 percent is generated by a mixture of natural gas and oil, including waste oil and oil. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 5-7. The filing indicates that the projected COE rate increase, not attributable to the proposed shift in steam production costs from base rates, is due in part to increases in the cost of wood and oil. Mr. Bloomfield indicated that higher diesel fuel costs, in particular, directly impact the cost of wood used by Concord Steam as its primary fuel source. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 5.

Regarding its fuel supplies, Concord Steam has entered into contracts for its wood supply that will result in an average delivered cost of wood of approximately \$28 per ton. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 6-7. Of this amount, approximately \$1 is for the actual cost of the wood, \$14 is for labor and chipping, and \$13 is for transportation. *Id.* If all ancillary wood handling costs at Concord Steam's steam plant and wood yard are included, the anticipated cost of wood fuel for Concord Steam for the coming year is approximately \$35 per ton. *Id.*, *see also* Hearing Exhibit 2, Updated Schedule 8, October 5, 2012. According to his pre-filed testimony, Mr. Bloomfield indicates that a ton of wood is approximately equal to a barrel of oil in the amount of energy it produces. He stated that, at the current rate of oil and gas futures, wood was an attractive, economical choice, even compared to natural gas. *Id.*; Transcript of October 23, 2012 Public Hearing (Tr.) at 14, 19-20. At the time of its filing, Concord Steam

estimated that the energy savings to its customers from burning wood, including the allowance for additional direct costs associated with it, is over \$300,000. *Id.*

Concord Steam stated in its filing that, at present, it pre-purchases about 25 percent of its wood fuel requirements, and about 90 percent of its fossil fuel requirements, for the upcoming heating season. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 7. Concord Steam's filing also indicated that it was pre-buying market wood for offsite storage at its wood yard for reclamation during the heating season. *Id.*

Regarding the reliability of Concord Steam's supplies of wood, Mr. Bloomfield stated at the hearing that there have been no wood supply disruptions in the past year. Tr. at 15.

Regarding Concord Steam's proprietary wood yard, Mr. Bloomfield stated that there have been no significant changes to the operations of the wood yard and that Concord Steam continues to use the yard to efficiently manage its wood resources. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 6.

Concord Steam also stated that, as part of its 2012-2013 COE Rate, it sought to recover an under-collection of \$146,122 from the 2011-2012 COE year, resulting from a much warmer than normal 2011-2012 winter heating season, and resultant lower steam sales. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 4 and 8; Hearing Exhibit 3, Updated Schedule 1, October 23, 2012 (presenting updated under-collection figure).

3. Proposed Shift of Steam Production Costs to COE Rate

Mr. Bloomfield discussed, in his pre-filed testimony and at the hearing, Concord Steam's request to shift certain costs related to steam production from base rates to the COE rate. Concord Steam believed it appropriate to recover costs related to water and sewer service, water

treatment chemicals, ash disposal, and the State of New Hampshire emissions fee through the COE rate going forward. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 3. Mr. Bloomfield noted that when Concord Steam's new steam production plant comes on line, Concord Steam will become solely a distribution company, purchasing finished steam from Concord Power and Steam, LLC, the owner of the future plant. Concord Steam expects that such steam-production expenses as are assigned to Concord Steam, as part of its steam purchase agreement with the new plant operator, would be recovered through the COE charge after the new plant opens. *Id.*; Tr. at 12-13.

As of the date of hearing, Concord Steam had filed (on October 19, 2012) a settlement agreement entered into with Staff on its petition for temporary rates in Docket No. DG 12-242, its base rate proceeding. *See* Docket No. DG 12-242, Hearing Exhibit 2, Settlement Agreement, October 19, 2012. As part of this settlement agreement, Concord Steam and Staff agreed that \$312,984 in such steam production costs incurred during the rate case test year ending December 31, 2011 would be recovered through the 2012-2013 COE rate during the period that temporary rates are in effect. *Id.* At the hearing, Mr. Bloomfield confirmed that Concord Steam would only recover these shifted costs once, through the 2012-2013 COE rate, and would not engage in a double recovery through base rates. Tr. at 12-13.

4. Sales Forecast and Unaccounted-for Steam

Mr. Bloomfield indicated that Concord Steam normalizes actual steam sales from the prior year for weather variations using a 30-year normal degree day average. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 8; Hearing Exhibit 3, Updated Schedule 3, October 23, 2012. Mr. Bloomfield did note that Concord Steam has lost three commercial steam

customers over the past year, but expressed confidence that, especially in light of the new plant's impending construction, new customers would be drawn to Concord Steam. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 8; Tr. at 15-16.

Regarding its unaccounted-for steam (system steam losses), Mr. Bloomfield indicated that Concord Steam has continued its thermal imaging efforts to detect steam leaks, and also completed its system survey as an aid to steam line maintenance. *See* Hearing Exhibit 1, Direct Testimony of Peter Bloomfield at 9. At the hearing, Mr. Bloomfield confirmed that the cost of these efforts at reducing system steam losses, including repair work, would continue to be recovered in Concord Steam's base rates. Tr. at 17. Mr. Bloomfield provided a status update regarding one such repair project, at Pleasant Street, involving a dispute with the telephone utility FairPoint. Tr. at 23-25. Mr. Bloomfield confirmed that it was possible that insurance-related cost recovery related to this repair work could be recouped by Concord Steam in the future. Tr. at 25.

5. Cogeneration Operations

Concord Steam reported in its cost-benefit analysis pertaining to its cogeneration operations that 2,885,200 kilowatt-hours of electricity were generated last year. Of that total, it used 1,309,200 kilowatt-hours for steam plant operations and sold 1,576,000 kilowatt-hours to the regional wholesale electricity market operated by ISO New England. Concord Steam received revenues of \$52,009 from the sale of its electricity and avoided costs of electric purchases from Unitil amounting to \$117,982. Concord Steam estimated that it would have had to pay \$183,122 for electricity without self-generation. According to Concord Steam, the benefit-

cost analysis demonstrates that the cogeneration operation is cost effective, with a benefit-cost ratio of 1.30. *See* Hearing Exhibit 1, Schedule CB-1 & CB-2.

6. Status of the New Steam Plant Project

Mr. Bloomfield provided up-to-date information regarding Concord Steam's new steam plant project through oral testimony at the hearing, to augment the information provided in its initial COE filing. Mr. Bloomfield confirmed that financing for the new plant, involving both debt and equity components, was in progress, and that Concord Steam expected that the new plant would be fully completed by early 2014. Tr. at 21-22. Mr. Bloomfield indicated that the decommissioning requirements for closure of its current plant, owned by the State of New Hampshire and leased by Concord Steam, would be of limited cost and labor burden, and that the new plant could be expected to offer significant financial benefits for Concord Steam in the form of lower steam costs, as the new plant's operator Concord Steam and Power, LLC would be able to use its modern pollution controls and thus take advantage of Renewable Energy Credit (REC) monies. Tr. at 17-23.

B. Staff

Staff, in the context of its review of Concord Steam's rate case filing, including a petition for temporary rates, in Docket DG 12-242, filed the testimony of Stephen P. Frink, Assistant Director of the Gas and Water Division, relating to Concord Steam's request for a shift in steam production costs to the COE rate. *See* Docket No. DG 12-242, Hearing Exhibit 4, Direct Testimony of Stephen Frink, October 19, 2012, at 4-6. Staff noted that Concord Steam did reduce test year 2011 expenses by \$312,984, the amount of production costs sought for transfer to the 2012-2013 COE rate, in its rate filing. *Id.* at 5. Staff did agree that the majority of these

costs were appropriately included in the COE, but also stated that some relatively small percentage of those costs related to system maintenance, and should be reflected in delivery base rates. *Id.* at 5-6. Staff expected that the precisely appropriate allocation of these costs between COE and base rates would be developed through Staff's discovery in the permanent rate phase of DG 12-242, but supported the full transfer of expenses totaling \$312,984 to the COE rate for the purposes of the settlement agreement on temporary rates reached in DG 12-242. *Id.*

In its closing, Staff stated that it had completed its review of the Concord Steam COE filing for the upcoming period and recommended approval of the proposed rates, including the transfer of costs to the COE. Tr. at 27-28. According to Staff, Concord Steam's demand forecast is consistent with forecasts filed for previous winter periods and approved by the Commission. Tr. at 28. Staff noted that when the 2011-2012 COE period ends on October 31, 2012, Concord Steam will submit a final reconciliation to the Commission's audit staff and any discrepancies found in the reconciliation would be addressed through the monthly adjustment mechanism. Tr. at 27-28. Furthermore, because fuel costs and revenues are reconciled after the period, any issues that might arise during the upcoming year can be addressed in next years' COE. Tr. at 27-28.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket we approve the proposed COE rate of \$21.08 per Mlb. as being just, reasonable and lawful, as required by RSA 378:7. We have recently approved the settlement agreement reached by Concord Steam and Staff in Docket No. DG 12-242, Concord Steam's base rate proceeding, by Order No. 25,432, and for purposes of this docket, we approve the shift in test year 2011 steam production costs amounting to

\$312,984, to Concord Steam's 2012-2013 COE rate, subject to reconciliation. This transfer of costs is not automatic for future COE years, but is rather subject to the ongoing review in Docket No. DG 12-242. Concord Steam asserted that it expects use of wood as fuel to produce significant savings during the 2012-2012 COE period as compared to other fuel sources. We expect that Concord Steam will continue to keep Staff and the Commission informed as to the status of the new steam plant project, and will be prepared to make required filings related to any steam purchase agreement with the new plant operator, and any issuance of debt and/or equity by Concord Steam related to the project.

Based upon the foregoing, it is hereby

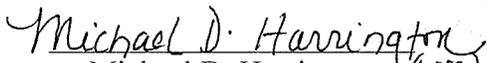
ORDERED, that Concord Steam's proposed 2012-2013 COE rate of \$21.08 per Mlb. effective November 1, 2012 on a service-rendered basis, is APPROVED, effective November 1, 2012, subject to the terms of the Settlement Agreement approved in Docket No, DG 12-242 in Order No. 25,432; and it is

FURTHER ORDERED, that Concord Steam may adjust the approved COE rate of \$21.08 per Mlb. upward or downward monthly based on Concord Steam's calculation of the projected over or under-collection for the period, but the cumulative adjustments shall not exceed 20 percent of the approved COE rate; and it is

FURTHER ORDERED, that Concord Steam shall provide the Commission with its monthly calculation of the projected over- or under-calculation, along with the resulting revised COE rate for the subsequent month, not less than five business days prior to the first day of the subsequent month, and shall include a revised tariff if Concord Steam elects to adjust the COE rate; and it is

FURTHER ORDERED, that Concord Steam file properly annotated tariff pages in compliance with this order no later than 15 days from the issuance date of this order, as required by N.H. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this first day of November, 2012.


Michael D. Harrington (KNS)
Commissioner


Robert R. Scott
Commissioner

Attested by:


Debra A. Howland
Executive Director

SERVICE LIST - EMAIL ADDRESSES - DOCKET RELATED

Pursuant to N.H. Admin Rule Puc 203.11 (a) (1): Serve an electronic copy on each person identified on the service list.

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