

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

RE: CONCORD STEAM CORPORATION

DG 16 –
Petition For Emergency Rates and
To Discontinue Service

PREFILED DIRECT TESTIMONY
OF
PETER BLOOMFIELD, P.E.

July 19, 2016

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2

3 **I. INTRODUCTION AND OVERVIEW OF TESTIMONY**

4

5 **Q: Please state your name and address.**

6 A: My name is Peter G. Bloomfield. My business address is P.O. Box 2520, Concord,
7 New Hampshire 03302.

8 **Q: Where are you employed and what position do you hold?**

9 A: I am President of Concord Steam Corporation (the "Company" or "Concord
10 Steam").

11 **Q: Please describe your education and professional background.**

12 A: I graduated from Union College in 1976 with a B.S. in Mechanical Engineering. I
13 am a registered Professional Engineer in New Hampshire, New York, and
14 Colorado. I have been employed as an engineer in the steam and power industry
15 since I graduated from college. I became president of the Company in the fall of
16 1986.

17 **Q: Have you previously testified before this Commission?**

18 A: Yes. I have provided testimony in support of the Company's past filings,
19 including its last usage rate case, DG 12-242.

20 **Q: Are you familiar with the Company's operational and financial information,**
21 **including its books and records?**

22 A: Yes.

23 **Q: What is the purpose of your testimony?**

24 A: The purpose of my testimony is to explain the Company's need for emergency
25 rates as well as its proposal to shut down the Company and discontinue service
26 to all customers. The termination plan involves Liberty Utilities (Energy North
27 Natural Gas) converting all of the Company's customers to natural gas on a
28 controlled schedule, and purchasing certain of the Company's assets. I will
29 present documents and other information in support of the Company's rate

1 request, and explain the development of the revenue requirement and the
2 calculation of proposed rates. In addition, I will explain the schedules that are
3 attached to my testimony.
4

5 **II. THE COMPANY'S NEED FOR RATE RELIEF**

6 **Q: Please describe the Company and its customers.**

7 **A:** Concord Steam provides district steam service from its facility at Pleasant Street
8 in Concord, New Hampshire, and is the only steam utility in New Hampshire. It
9 has 85 customers, all of which are located in the City of Concord. The Company
10 has one residential customer; the remainder are all commercial or institutional
11 customers.

12 **Q: Why is the Company seeking emergency rates?**

13 **A:** The Company's rate filing and its request to discontinue service are interrelated.
14 The Company's single largest customer - the State of New Hampshire, through
15 its Department of Administrative Services - has re-issued a request for proposals
16 (RFP) to convert all of the State buildings currently served by Concord Steam to
17 natural gas service within the next few years. The desire of the State to
18 discontinue taking steam service and the coverage in the local news concerning
19 the State's intent has created concern among our customers. This has caused
20 some customers to leave the system, and in all likelihood, will cause many more
21 customers to migrate to another source of energy service in the near future. The
22 eventual loss of revenue from the State would require significant rate increases
23 for remaining customers, such that they would likely migrate. This "death
24 spiral" could cause the Company to experience unacceptable financial loss due to
25 loss of customers as a result of increasingly higher steam rates. There has
26 already been a decrease in the amount of steam sold due to migration of other
27 customers off of the system. We will have lost 12% of our steam load by the end
28 of 2016, which reduces our usage rate income. The Company's last usage rate

1 case was in 2012 (DG 12-242); the rates established in that proceeding became
2 effective May 1, 2013, pursuant to Order No. 25,499. There have been no changes
3 in the Company's usage rates since then.

4 The continued interest in the State to convert from steam and their refusal
5 to enter into a long term contract for steam, has made it impossible to finance the
6 Company's project to renovate and improve the existing steam plant. As a
7 result, we are not able to install the improvements at the steam plant that would
8 enable us to reduce our costs and become more competitive. Therefore, we have
9 chosen to close in order to provide customers with an orderly conversion to
10 another service provider and to avoid the classic "death spiral" that would occur
11 otherwise. Closing in this manner (i.e. with an orderly transition of customers to
12 another service provider in the near term) will avoid excessive tariff rates and the
13 resulting financial hardship on customers. The Company has entered into an
14 agreement with Liberty Utilities for the purchase of some of the Company's
15 assets¹. As part of the closure plan, Liberty Utilities has agreed to assist in the
16 conversion of the Company's customers to natural gas in a controlled and
17 orderly fashion. This will result in an efficient transition for all customers from
18 steam to gas. We expect this transition to be completed by May 31, 2017.

19 The Company is seeking emergency rates under RSA 378:9 after
20 consulting with the Commission's Staff about the Company's financial condition
21 and its intent to discontinue service in the near future. Given the short time
22 period within which the Company intends to operate, as well as the Company's
23 current financial condition, the Company believes that an emergency rate
24 increase is more appropriate than filing a traditional permanent rate case - a
25 time-consuming process that could extend well beyond the time the Company
26 intends to cease operations.

27 **Q:** Please describe the Company's financial history over the past decade.

¹ The agreement has been submitted to the Commission in a joint filing made by Liberty and Concord Steam.

1 A: As is shown in Exhibit A to this testimony, the Company has lost money in six of
2 the past ten years, and the total net income over the ten years has been a loss of
3 over \$500,000. As a result of under-performing returns year after year and the
4 required investment in capital (Schedule 1-6), salaries of the officers of the
5 Company (in the amount of over \$640,000) have been deferred and the line of
6 credit with the bank has been extended. For the past nine years, the Company
7 has been working on trying to finance the expansion and upgrading of the steam
8 plant by replacing the existing facility with a new efficient cogeneration plant.
9 Each year, the project was scheduled to happen within the next two years, and so
10 management salary was reduced or deferred in order to keep rates low in an
11 effort to retain customers during the intervening period. During this time,
12 extensive capital improvements were made to keep the facility operational and in
13 compliance with State and Federal regulations, and as a result, there was
14 insufficient cash flow to make good on the deferred and reduced salary. The
15 Company's president has not been paid a salary for 5 years and its vice president
16 has had reduced salary for over 8 years. This was done for the benefit of the
17 ratepayers in order to keep rates as low as possible while the Company tried to
18 move the plant renovation project forward. The Company has never paid a
19 dividend to the present stockholders (who are Company employees), and their
20 salaries were reduced or deferred for the benefit of the ratepayers.

21 Q: Please summarize your computation of the Company's revenue deficiency.

22 A: Schedule A summarizes the computation of revenue deficiency. The Company's
23 test year average proformed rate base is \$5,525,955. The rate base has been
24 multiplied by a proposed rate of return of 7.58%. This results in a required test
25 year net income of \$418,972. The Company's adjusted actual net operating
26 income for the proformed test year was \$150,516. The proformed adjustment to
27 the Adjusted Net Operating Income is -\$1,075,071. The sum of the required

1 income, the adjustment for tax effect, less the proformed income, results in a total
2 revenue deficiency of \$1,618,332.

3 **Q: What is the breakdown of this increase?**

4 A: Approximately \$240,000 is projected lost revenue as a result of lost steam sales
5 and resulting reduced electrical income.; \$45,000 is the cost of additional
6 purchased electricity (due to less power generation); closure of the oil tanks and
7 repair of the roof is \$131,000; and \$150,000 is the cost of closing the facility and
8 disconnecting customers. Additional cost of office expenses and rent through
9 November is \$22,000. The total projected cost of keeping essential staff until
10 company dissolution is \$370,000, and the estimated cost of additional
11 professional legal and accounting help is \$40,000. The requested increase in
12 depreciation, which will assist in paying off outstanding debt, is \$300,000. This
13 debt, primarily the line of credit, was due to capital investments in the plant and
14 distribution system that were absolutely necessary in order to keep the plant
15 safe, in compliance with permits and regulations, and operational.

16 **Q: Does this rate filing take into account the payment from Liberty for the**
17 **purchase some of the Company's assets?**

18 A; Yes, it does. The payment of \$1.9 million is shown in Schedule 1 as revenue
19 /sale of assets. Offsetting this revenue are the costs of closure shown on
20 Schedule 1-7 which include the payment of outstanding debt.

21 **Q. What would be the percentage increase in rates based on this revenue**
22 **increase?**

23 A. The requested increase in rates is approximately a 23% overall increase over
24 Concord Steam's current rates. This includes an estimated Cost of Energy of
25 \$25.43/Mlb, which is a reduction of \$2.82/Mlb from the current COE. See
26 Schedule 8 for the COE calculation.

1 **Q:** How does the Company's requested rate increase compare with the rate
2 increase that would be needed if the Commission does not approve the asset
3 purchase agreement and the Company's request to discontinue service?

4 **A:** The requested rate increase, which is premised on approval of the asset purchase
5 agreement with Liberty and the Company's discontinuation of service in 2017,
6 compares favorably with the anticipated rate increases that would be needed if
7 the Company continued to operate beyond next year. If the Company's asset
8 purchase agreement with Liberty and this emergency rate petition are not
9 approved, the Company would continue to operate for at least the next several
10 years, but would need higher rates to do so. Schedule 7 shows an Alternate
11 schedule set that projects the Company's financial situation if it did not cease
12 operating next year. Alt Schedule A, Alt Schedules 1-1, 1-2, 1-3, 1-B, 1-C, and Alt
13 Schedule 3, show that the projected rate increase for the next operating year
14 would be over 32%. It should be noted that this rate would only apply to next
15 year; we would need to reassess steam sale projections and file for another rate
16 increase for the following year. We expect that the rate increase needed in the
17 following year would be even higher, i.e. as much as an additional 50%, as steam
18 sales will decline and our usage rate revenue requirement will stay very close to
19 the same. We have assumed, for the next year of operation under the scenario in
20 which this petition is not approved, an increase in lost customers and an
21 allowance for \$200,000 of uncollectible accounts. We have removed all of the
22 closing costs, but also included estimated costs to upgrade the steam plant based
23 on projected requirements from the State Fire Marshal.

24 **Q:** How long will the rates requested in this petition be in effect?

25 **A:** The Company is requesting that these rates be put into effect as soon as possible
26 but no later than October 1, 2016. We expect, based on input from Liberty
27 Utilities, that all of the customers will be able to be converted from steam to gas
28 by the end of the summer of 2017. As a result, steam service as provided by the

1 Company is planned to be discontinued on May 31, 2017, so the requested rates
2 will remain in effect through the last date on which service is rendered.

3
4 **III. REVENUE AND EXPENSES**

5 **Q: Please describe the test year utility operating income of the Company.**

6 **A:** Schedule 1, Operating Income Statement, provides information as to the income
7 for the test year ended December 31, 2015 as proformed. The first column is a
8 representation of the twelve months ended December 31, 2015 as reflected in the
9 Company's annual report to the Commission. The second column details the
10 proforma adjustments to the test period. The third column reflects the test year
11 as proformed, or as adjusted. The fourth and fifth column provide historical data
12 for the prior two years. The proforma adjustments made to the Operating
13 Income Statement are described in Schedules 1-1 and 1-2. Schedule 1-1 describes
14 the proforma adjustments to the Company's revenues, and Schedule 1-2
15 describes the proforma adjustments to the Company's expenses, including non-
16 fuel costs for generating additional proformed steam sales.

17 **Q. What adjustments were made to the Company's test year revenues?**

18 **A.** As set forth in Schedule 1-1, the Company made the following adjustments:

19 1.) Corrections in projected steam sales for known increases and decreases in
20 customer base for 2015;

21 2.) Allowance for adjustment of the test year steam sales for weather
22 normalization (See Schedule 1C); and

23 3.) Adjustment in usage rate revenue to correct for Concord High School
24 being billed on normal tariff rates. Concord School District and the Company
25 had entered into a special contract for a discounted rate for service to Concord
26 High School. The special contract was negotiated in 2014 and submitted to the
27 Commission in January of 2016. The Company has been billing Concord High
28 School at the tariff rate, but Concord School District has been paying the

1 proposed discounted rates for Concord High School usage since November 1,
2 2014. In a memo dated April 1, 2016, Commission Staff recommended to the
3 Commission that the special contract not be approved and that the discounts not
4 be allowed retroactively. Concord School District and the Company have agreed
5 that the School District will repay the discounts and begin paying the full tariff
6 rate. As of June 28, 2016, the School District has paid the Company \$377,567.

7 4.) Adjustment to correct for operations to only run from October through
8 May, resulting in an 8 month year. This eliminates the costly operation through
9 the summer with very little steam sales. There is a savings of approximately
10 \$270,000 of avoided operating expenses, plus the reduction in energy costs² over
11 the summer. There are no labor expense savings, because we must retain
12 employees until closure of the plant. To incent our employees to stay until plant
13 closure, we are offering them a retention bonus of 3 months' pay which creates
14 an additional expense.

15 **Q. Please explain the retention bonus and other labor expenses.**

16 **A.** The operation of this steam plant requires specialized knowledge and skills that
17 are not quickly and easily acquired. Training of a new boiler plant operator,
18 even an experienced one, typically requires 4 -6 weeks of on the job training
19 consisting of working operating shifts with an experienced operator.
20 We have 4 boiler operators and one operations supervisor who covers during
21 vacations and sick days as well as handles some administrative paperwork and
22 personnel and maintenance scheduling. There is a wood handler, a yard
23 operator/driver, and a cleaner that are all involved with the storage, transport
24 and receiving of the wood fuel. The maintenance of the plant is done by the
25 boiler operators, the in house mechanic, and outside contracted services as
26 needed. Administration, safety, plant engineering, environmental monitoring
27 and reporting, bookkeeping, and billing is handled by the administrative staff

1 consisting of four people. The maintenance and operation of the distribution
2 system is handled by 3 men, who maintain the system and read meters. In order
3 to continue safe and reliable operations, we need to retain all of our critical
4 employees until the facility is closed. To try to ensure this, we will give all
5 employees a raise to meet industry standard prevailing wages, and will give each
6 employee that stays until the end a retention bonus of 3 months pay, plus
7 continuation of health insurance for the same 3 months.

8 The steam plant is scheduled to stop operation on May 31, 2017. We
9 expect that we will need at least two weeks of staff time to safely close up and
10 shut down the facility. Once the steam plant has stopped operation, the steam
11 connections in the customer's buildings need to be disconnected and the 16
12 steam manholes around town will be filled and closed. This is likely to require 6
13 weeks to complete, which puts the last regular maintenance and operational
14 employees working until the end of July. The General manager and bookkeeper
15 will stay on for another three months, in clearing out accounts payable and
16 working to recover all accounts receivable. We do not expect to receive the last
17 payments for steam until October when, in order to have their gas turned on,
18 customers will have to pay their outstanding steam bills. The Company requests
19 that any order authorizing the Company to discontinue service include a
20 requirement that customers must pay their outstanding steam bills before taking
21 service from Liberty.

22 **Q. Please describe any additional proforma adjustments to the test year.**

23 **A.** Additional proforma adjustments are reflected in the following schedules:
24 Schedule 1-2 details the adjustments made to production expenses for the test
25 year. The non-fuel costs for generating additional proformed steam sales are
26 listed, as is the increase in production labor. Also shown are additional expenses
27 that are required to be incurred this coming year.

² The Cost of Energy ("COE") is not addressed in this docket, as a COE petition will be submitted at the

Schedule 1-3 is a supporting exhibit for administrative and general expenses. Schedule 1-4 calculates the variable production cost of steam. Schedule 1-5 presents the Cost of Energy expenses and revenue received during the test year. As part of its agreement with Liberty, the Company is proposing to burn gas when it is least expensive (i.e. during the Fall and Spring shoulder seasons) and burn wood and gas during the winter. Schedule 1-6 has been assembled with assistance from Stephen St Cyr, a utility analyst from St Cyr and Associates, Biddeford, Maine. It presents capital investments made in the steam plant and the distribution system over the past three years. The book value of all of the capitalized costs incurred in 2015, which totals \$272,165, have been removed from Rate Base and added as a correction to the 2015 test year maintenance expenses. The detail is listed on schedule 1-6, page 2. We have also removed from Rate Base investments from previous years that in hindsight, should have been expensed rather than capitalized. We are now asking for recovery of those expenses. These investments enabled the Company to maintain its plant rather than add to the existing life. The investments also enabled the Company to restore certain equipment to its original condition to allow it to operate as it was intended. As a going concern, the Company found such capitalization acceptable because it expected long service life to recover such investments. The Company was also trying to keep rates low to become more efficient and more competitive. Given that the Company is now discontinuing service and no longer will have the opportunity to recover such investments over a long period of time, the Company proposes to expense \$432,006 of these previously capitalized investments as follows:

<u>Description of Investments</u>	<u>Net Book Value</u>
#2 Silo Overhaul	\$ 69,842
Stack Repair	\$ 90,662
Misc wood system repairs	\$ 12,975
Misc boiler repairs	\$ 59,585

normal time in September.

Misc boiler feed pump repairs	\$ 16,032
Underground pipe repairs	\$ 118,873
CEM System repair	\$ <u>64,037</u>
Total	<u>\$432,006</u>

Schedules 1A and 1B detail test year property taxes and payroll expenses respectively.

Schedule 1C is the correction for degree days discussed in greater detail below.

Schedule 1D defines the test year income taxes.

Schedule 1-E identifies costs associated with an unexpired lease-purchase agreement for heating equipment obtained by the Company for the benefit of CATCH at the Endicott Hotel property as part of a special contract between CATCH and the Company for steam service. The Commission approved the special contract on August 2, 2013 in Order No. 25, 558 in Docket No. DG 13-152.

Q. Was the equipment lease expressly approved by the Commission?

A. No. Although the special contract filing was approved, the equipment lease was not expressly approved, although information about it was contained in the special contract. The special contract contains a statement of special circumstances justifying departure from the Company's general tariff rate. The statement indicates that the Company will contribute equipment and controls for the benefit of CATCH per Attachment A of the special contract, and Attachment A contains a detailed description of the equipment. Because the leased equipment was listed as an attachment to and referenced in the special contract, the Company did not believe that it was required to seek separate approval of the lease. To the extent that Commission approval is needed, the Company respectfully requests such approval at this time.

Q. Why is the Company seeking recovery of the equipment lease expenses in this rate case?

A. Because the equipment lease does not expire until 2020 - which is after the Company expects to cease operating - the Company must recover the lease

1 expense in order avoid future liability for a cost associated with providing
2 service to a customer. The Company entered into the special contract with
3 CATCH on the assumption that the Company would fully recover the
4 equipment costs from steam sales to CATCH through 2020. The special contract
5 specifically referenced the equipment and was designed in a manner that
6 contemplated cost recovery of the lease payments that the Company would owe
7 to the equipment lessor. Because the special contract allowed the Company to
8 retain a significant customer, all steam customers benefitted through CATCH's
9 contribution to the Company's fixed costs, and did not unduly subsidize CATCH
10 because the special contract rate exceeded the Company's marginal cost to
11 provide service. In these circumstances, the Company believes it would be
12 appropriate to recover the lease expenses in the usage rate that would apply to
13 all customers.

14 **Q:** What other proforma adjustments were made?

15 **A:** An increase in depreciation was included. In the past four years of operation, the
16 Company made approximately \$1,500,000 in capital investments in the plant and
17 distribution system that were absolutely necessary in order to keep the plant
18 safe, in compliance with permits and regulations, and operational. These
19 investments were all made with the understanding that the State was still
20 considering remaining on steam. These additions to fixed capital are detailed on
21 Schedule 1-6. As these investments were made in order to continue to serve the
22 ratepayers, we believe that accelerated depreciation is justified to recover a
23 portion of these costs. With a Company closure, we will also have no future
24 years in which to recover this depreciation expense. We are only requesting an
25 increase of \$300,000 in allowed depreciation expense for this upcoming year.
26 We have also adjusted the maintenance expenses of the test year by adding in the
27 remaining book value of all of the capitalized expenses that were made that year.
28 We will have to continue to repair and maintain the facility during the upcoming

1 operating year, and these costs are what we might expect. We will not be able to
2 capitalize these costs as the company will be closing.

3 **Q: Have you adjusted test year revenues as a result of warmer than average**
4 **temperatures during the test year?**

5 **A:** Yes.

6 **Q: Please describe this weather adjustment.**

7 **A:** There is a reduction from the 2015 test year sales after allowing for weather
8 normalization. The test year of 2015 was overall 5.7 % warmer than average.
9 However, there were fewer heating degree days during the summer months, and
10 a greater number of heating degree days during the peak heating months. In
11 order to adjust the steam sales of 2015 to reflect those of an average year, the
12 Company first subtracted from each month's total the steam sold that was not
13 used for heating (e.g., laundry, hot water) to determine the corrected steam sales
14 figure.³ The Company then multiplied the monthly steam heating sales by the
15 ratio of the 30 year degree day average for that month to the actual heating
16 degree days of that month in 2015. Because of the extremely cold months on
17 January and February, and a very mild Fall, the resulting degree day adjustment
18 in annual steam sales for 2015 is actually a decrease of 3,725 Mlbs. This
19 calculation is set forth in Schedule 1C. This methodology is consistent with that
20 which the Company applied in its previous rate case.

21 **Q: Did the Company make any other adjustments to steam sales for the**
22 **proformed year?**

23 **A:** Yes.

24 **Q: Please explain these adjustments.**

25 **A:** As the cost of steam has increased, customers are reducing use and conserving
26 energy, and some customers have converted to gas. The net effect to the

³ The Company's heating season is defined as all months except June, July and August. May and September are "shoulder months", where there may or may not be heat sold in these months due to variations in the weather

1 proformed year, including customer changes and degree day corrections, is a
2 decrease in sales of 9,523 Mlbs. We have also taken into account that some
3 additional customers will either leave the system over the next 12 months or
4 institute conservation measures. The Company plans to discontinue all service at
5 the end of May 2017 and therefore there will not be a full 12 months of steam
6 sales. The elimination of June, July, August and September sales results in a
7 further reduction of sales of 3,743 Mlbs. See Schedules 1-1 and 1C attached
8 hereto. The adjustments attributable to sales reductions and degree day
9 increases is a net decrease in sales of 19,504 Mlbs/yr.

10 **Q: Has the Company made an increased allowance for unpaid receivables and**
11 **bad debt?**

12 **A:** No. No allowance has been made over and above what has been the Company's
13 historical losses. The Company is relying on the Commission to allow Liberty
14 Utilities to not connect and turn on gas if there is outstanding debt owed to
15 Concord Steam. Without this safeguard, we expect that a significant portion of
16 the commercial customers would not pay for the last two to three months of
17 service.

18 **Q: Has the Company requested the full amount of revenue increase that would be**
19 **supported by standard rate making methodology?**

20 **A:** Yes. The Company is seeking an increase that results in just and reasonable rates
21 and that provides the Company with the opportunity to earn a sufficient return if
22 the Company is also allowed to recover the costs of closure that are included in
23 the requested revenue. However, the Company has not made any allowance for
24 capital costs for additional upgrades that may be required by the State or the
25 State Fire Marshal's office which is the subject of Docket IR 16-202. If there are
26 new repairs or improvements required by the State that are not known at this
27 time, an adjustment to the usage rate may have to be made during the year.

1 Q. Please describe the status of the Company's efforts to address the issues raised
2 by the State Fire Marshal in Docket IR 16-202.

3 A. The Fire Marshal requested that engineering studies be performed in three areas
4 of the plant; fire safety, structural, and electric. The fire safety and structural
5 investigations were made as requested in the Fire Marshal's written report and
6 the reports were filed with the Fire Marshal's office. The Fire Marshal has
7 responded that the reports were not complete and has asked that a more in depth
8 study be done. We are working on that now. The electrical investigation is still
9 ongoing and we are in the process of reviewing a draft report from the engineer.
10 We hope to file this in a couple of weeks, once final data is collected and
11 analyzed.
12

13 IV. RATE BASE

14 Q. Please describe the rate base calculation.

15 A. The rate base used in the computation of the revenue deficiency is calculated in
16 Schedule 3 to this testimony. It is based upon the average of the investment in
17 plant in service less accumulated depreciation over the 12-month period ended
18 December 31, 2015, as detailed in Schedule 3B. The cash working capital
19 component of the rate base is calculated in Schedule 3A, based upon a 12.5% (1
20 1/2 month) level of recurring operation and maintenance expense; this approach
21 was recommended by Commission Staff and has been adopted by the
22 Commission in the Company's usage rate cases since 1985.
23 The book value of all of the capitalized costs incurred in 2015, which totals
24 \$272,165, has been removed from Rate Base and added as a correction to the 2015
25 test year maintenance expenses. The detail is listed on schedule 1-6, page 2. We
26 have also removed from Rate Base selected investments from previous years that
27 could have and probably should have been expensed rather than capitalized.
28 The investments enabled the Company to maintain its plant rather than add to

the existing life. The investments also enabled the Company to restore certain equipment to its original condition to allow it to operate as it was intended. The Company accepted such capitalization as a going concern and expected a long life to recover such investments. The Company was also trying to keep rates low to become more efficient and more competitive. Given that the Company is now discontinuing service and no longer will have the opportunity to recover such investments over a long period of time, the Company proposes to expense \$432,006 of these previously capitalized investments as described earlier in this testimony.

V. RATE OF RETURN

Q: How did the Company determine a rate of return?

A: The Company's capital structure during the test year consisted of equity (67.77%), short term debt (17.47%), and long term debt (3.01%) as shown on Schedule 6-1. The Company's cost of debt and proposed cost of equity are shown on Schedule 6-1, and result in an overall weighted cost of capital of 7.58%. We believe that the cost of equity used in the computation, 9.5%, is reasonable, based on the allowed return in previous rate cases for gas and electric Utilities. For example, the Commission approved a return on equity of: 9.5% for Northern Utilities in DG 13-086, Order No. 25, 653 (April 21, 2014); 9.55% for Granite State Electric Company in DG 13-063, Order No. 25, 638 (March 17, 2014); and 9.25% for Liberty's (Energy North's) cast iron bare steel program in DG 14-180, Order No. 25, 797 (June 26, 2015).

VI. RATE DESIGN

Q: Please describe the Company's rate structure.

A: Presently, the Company has a declining block usage rate, a meter charge, and an energy charge for all customers.

1 Q: Will this rate structure be changed by the Company's proposed revenue
2 increase?

3 A: No. The rate structure will remain the same. However, we are requesting that
4 the usage rate in the tariff be allowed to be adjusted by $\pm 50\%$ during the year.
5 The reason for requesting such a large range for adjustment is that there are only
6 5 months of heating season, and if for example, December is as warm as it was
7 last year (30% warmer than normal), we will not have an opportunity to correct
8 the steam rates for that until February.

9 Q: What is the purpose of this adjustment?

10 A: Because the Company will not be able to reconcile actual final costs and revenues
11 with estimates, the adjustment mechanism will allow the Company to correct for
12 mid heating season variations (e.g., warmer or colder weather than normal,
13 increases or decreases in the costs of plant closure, loss of customers during the
14 year, etc.) as needed. This is similar to the $\pm 20\%$ adjustment collar we have on
15 our cost of energy charge. The Commission would be notified of any rate
16 adjustments made via this mechanism.

17 Q. On Schedule 1-8, the Abbott-Downing and Christa McAuliffe Schools are
18 shown as receiving discounted rates. Please explain the reason for these
19 discounted rates.

20 A. These are new schools that were constructed on the sites of the former Conant
21 School (Conant) and the Kimball School (Kimball), respectively. Because Conant
22 and Kimball were going to be torn down, the Company and the Concord School
23 District negotiated a special contract for steam service to the new schools. The
24 Company offered to provide steam service to the schools at a discounted usage
25 rate on the condition that the Concord School District pay for the installation of
26 the steam lines. The discounted rate would allow the Concord School District to
27 fully recover the cost of the steam lines.

28 Q. Does the special contract include a discounted energy rate?

1 A. No. The Concord School District is charged for energy at the same rate as all of
2 the Company's other tariff rate customers.

3 Q. Does the special contract arrangement provide benefits to other customers?

4 A. Yes. It provides new, additional steam sales revenues from Abbott-Downing
5 School which was not previously a steam customer. Also, because the Company
6 previously served Kimball, the special contract insured that the Christa
7 McAuliffe Elementary School would remain on the system. Additionally, the
8 special contract provided a positive benefit to the Company's other ratepayers
9 because the Concord School District paid the full expense of installing the steam
10 mains to the both schools.

11 Q. Are the Company's tariff rate customers harmed by providing a discount to the
12 Concord School District for the Abbott-Downing and Christa McAuliffe
13 Schools?

14 A. No. The rate charged to both schools is above the incremental costs for
15 producing and delivering the steam, as indicated on Schedule 1-8. Also, as
16 previously mentioned, the schools are charged an energy rate that is equal to the
17 rate charged to all of the Company's tariff customers.

18 Q. Has the Commission approved these rate discounts?

19 A. No. Due to an unintentional oversight, the special contract was not submitted to
20 the Commission for approval. The School District and the Company submitted
21 the contract to their then-attorneys for review and a petition for approval was
22 drafted. At the time in 2010, both the Company and the School District were in
23 the midst of significant events that included major administrative staff and legal
24 counsel changes at the School District, and legal counsel changes by the
25 Company. Because the contract documents were on file at both the School
26 District's and the Company's financial departments, the invoices for steam
27 service were automatically billed at the discounted rate. Until recently, neither

1 party was aware that a fully executed contract had not been filed with the
2 Commission for approval.

3 **Q. How does the Company propose to address the fact that the Abbott-Downing**
4 **and Christa McAuliffe Schools have been receiving discounted rates in the**
5 **absence of a Commission-approved special contract?**

6 **A.** The Company respectfully requests in this proceeding that the Commission
7 approve the discounted rates that have already been provided to the schools and
8 that it approve the continuation of the discounts for the short period that the
9 Company will be providing service to the schools. Because the Concord School
10 District has not yet fully recovered the costs associated with installing the steam
11 mains to service its buildings, the Company believes it is appropriate to honor
12 the intent of the special contract and continue providing the School District with
13 the discounted usage rate.

14 **Q. Would the School District be harmed if the Commission did not approve the**
15 **discounted rate?**

16 **A.** Absent the discounted rate, the School District would be financially harmed as it
17 would not fully recover the costs associated with installing the steam mains. The
18 Company has reached an agreement with the School District that provides for
19 the continuation of the discount and that the Company will not seek
20 reimbursement for past discounts. The Company believes this agreement is
21 reasonable in that it will avoid potential and costly litigation.

22 **Q. Are there any other reasons why the discounted school usage rate is**
23 **appropriate?**

24 **A.** Yes. The arrangement with the schools is very similar to a special contract with
25 Rundlett Middle School which allowed the Company to add significant load by
26 offering a discounted rate for a set term. The Commission approved the
27 Rundlett special contract in docket DG - 09-154.

28 **Q. Is the Company requesting a change to its meter charge?**

(

1 A. No.

2

3 Q. In your opinion, are the Company's proposed rates just and reasonable?

4 A. Yes. All of the costs incurred by the Company that are included in this rate filing
5 are prudent and should be included in emergency rate requested. The rate
6 increase is made in connection with a sale and controlled closure of the business,
7 and as such, the Company should be allowed a reasonable recovery of its
8 investment. We believe that a return of and on the Company's investments is
9 justified under all of the circumstances discussed above. This is not a situation
10 where the Company is failing and has no other options. The Company could
11 carry on and continue to seek higher and higher rate increases, thereby placing
12 greater economic burdens on its customers. Instead, the Company has opted for
13 a reasonable solution for its customers and its stockholders. The Company's sale
14 and controlled closure is in lieu of a slow decline in business over the next
15 several years and is therefore in the best interests of the ratepayers, the Company
16 and the stockholders, if the petition as presented is approved.

17

18 Q. On what basis will the proposed rate increase become effective?

19 A. The Company is requesting that the rate increase be effective on a service
20 rendered basis no later than October 1, 2016.

21

22 VII. DISCONTINUATION OF SERVICE

23 Q. Please explain the circumstances underlying the Company's decision to close
24 and discontinue service to its customers?

25 A. The decision to discontinue service is based largely on the fact that the Company
26 may lose its largest customer, the State of New Hampshire. In 2015, the State
27 issued an RFP for third parties to convert all of the States buildings from steam to
28 natural gas. The State canceled the RFP in April 2016, after a year of work on it

1 and has issued a similar RFP on May 27, 2016 to accomplish the same conversion.
2 Commissioner Vicki Quiram of the Department of Administrative Services told
3 Concord Steam on May 18, 2016 that the State, through the RFP process with
4 support from the Governor's office, is intending to convert all of its building by
5 the heating season 2019/2020, provided that it gets Executive Council approval
6 this year. The continued interest in the State to convert from steam and their
7 refusal to enter into a long term contract for steam, has made it impossible to
8 finance the steam plant renovation project. As a result, we are not able to install
9 the improvements at the steam plant that enable us to reduce our costs and
10 become more competitive. With the loss of the significant revenue from the
11 State, rates charged to other customers would have to be raised to a level that
12 would undoubtedly cause the remaining customers to switch to a less expensive
13 energy source, thereby eliminating the need for the Company's services. The
14 remainder of the customers realize this, and more and more buildings have gone
15 off steam or are planning to do so. The Company is choosing to close and sell its
16 assets because it believes that this is the most economical and responsible path
17 for all of its customers. The Company could continue to operate indefinitely, at
18 higher and higher rates, causing most customers to leave the system, with the
19 possible exceptions of the State and the Federal Buildings. Although
20 Administrative Services has made clear that they would like to convert the State
21 buildings from steam to gas, the ability to do so is not certain. The most recent
22 RFP for gas conversion was canceled after a year of work on it, and
23 Administrative Services has previously attempted to convert its buildings off of
24 steam, however the plans were rejected by the Executive Council due to high
25 capital costs required for conversion. The schedule in the RFP for the conversion
26 of State buildings was set for completion in 2019, but this will need to be done
27 sooner with the closure of the Company expected on or about May 31, 2017. We

1 will work with the State to ensure that they continue to have a reliable source of
2 heat during the conversion process.

3 **Q: Have the Company's customers been notified of the Company's intention to**
4 **discontinue providing steam service?**

5 **A:** No. However, we have contacted a few of the major customers. All customers
6 will be notified by mail once this petition to discontinue service is submitted to
7 the Commission. A proposed copy of the notice is attached to this prefiled
8 testimony as Exhibit C. We will be working with all of our customers to ensure
9 that they will have heat in the Fall of 2017. We will also publish a notice in the
10 Concord Monitor, and take any other steps that the Commission may deem
11 appropriate to inform our customers about the proposed plan to convert them
12 from steam to natural gas service.

13 **Q. Please explain what the Company intends to do with the existing underground**
14 **steam piping system that is currently used to serve customers?**

15 **A.** In connection with its request to discontinue service, the Company requests
16 permission to abandon all of the direct buried piping that is not on the Hugh
17 Gallen State Office Park South Campus in Concord. The piping that is on the
18 campus will be returned to the State of New Hampshire, as it is their property
19 which, along with the steam plant, has been leased to the Company. The
20 remainder of the underground steam piping system will be abandoned. This
21 part of the system is located in the immediate downtown Concord area as
22 follows: East to West- From Storrs Street to Spring Street and along Pleasant
23 Street to the Concord Hospital; North to South - From Court Street to Theater
24 Street and from Fruit Street down Cornell Street to Rundlett Middle School. The
25 16 manholes scattered throughout the system will be filled with flowable fill,
26 which is a light concrete, to eliminate the possibility of collapse in the future.

27 **Q: What is to be done with the steam plant?**

1 A: The Company's lease with the State calls for the return of an operational steam
2 plant at the end of the lease term. The Company's lease with the State expires on
3 August 31, 2016. Because the Company intends to continue to operate for a brief
4 period after the expiration of the existing lease, the Company intends to
5 negotiate with the State for a lease extension that will permit the Company to use
6 the steam plant until it completely discontinues service. The complete plant, as it
7 is now, will be turned over to the State at the expiration of the extended lease
8 arrangement. It is anticipated that the State of New Hampshire may have some
9 requirements for steam service for a period of time after May 31, 2017, i.e. until
10 the State converts from steam at its Hugh Gallen complex to another
11 provider pursuant to the above-referenced RFP process. Concord Steam does
12 not anticipate continuing those operations under its current corporate structure
13 nor as a regulated utility. We anticipate that a separate entity will contract with
14 the State for steam services if the State so desires. A wind down plan including a
15 projected schedule of events is attached to this testimony as Exhibit B.

16 Q: Are there any other equipment or facilities that the Company must take care of
17 prior to closure?

18 A: Yes. We will clean and take out of service the #6 oil tanks that have not been
19 used for several years. These costs are included in the proposed emergency
20 rates.

21 Q: Does this conclude your direct testimony?

22 A: Yes, it does.

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