

DG 04-156

CONCORD STEAM CORPORATION

Notice of Intent to File Rate Schedules

Order Approving Temporary Rates

ORDER NO. 24,421

January 7, 2005

APPEARANCES: Sarah B. Knowlton, Esq., of McLane, Graf, Raulerson and Middleton, for Concord Steam Corporation, and Edward N. Damon, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 10, 2004, Concord Steam Corporation (Concord Steam or the Company) filed with the New Hampshire Public Utilities Commission (Commission) a notice of intent to file rate schedules. Concord Steam is a public utility organized under the laws of the State of New Hampshire and supplying steam service to one residential customer and approximately 119 commercial and institutional customers, some of whom are landlords, in Concord, New Hampshire.

On November 1, 2004, Concord Steam filed its proposed rate schedules, pre-filed testimony of Peter G. Bloomfield and materials supporting a permanent base rate increase (Rate Filing). The Rate Filing requested an annual revenue increase of \$292,451, which represented a 6.4 percent increase over weather-normalized pro forma test year revenues. Also included in the Rate Filing was a petition for temporary rates in the same amount proposed for Concord Steam's permanent rates together with pre-filed testimony of Peter G. Bloomfield and supporting materials. The petition requested that temporary rates be effective pending the Commission's final decision on new permanent rates.

On November 16, 2004, the Commission issued Order No. 24,400, which suspended the proposed tariffs and scheduled a pre-hearing conference and technical session for December 2, 2004. The pre-hearing conference and technical session were held on December 2, 2004. The Company and Staff agreed on a procedural schedule and, on December 6, 2004, Staff filed the proposed procedural schedule with the Commission for approval. On December 7, 2004, the Commission issued a secretarial letter approving the proposed schedule, determining that the proposed procedural schedule was in the public interest.

On December, 10, 2004, Staff filed testimony of James J. Cunningham Jr., Utility Analyst III, pertaining to Concord Steam's petition for temporary rates.

On December 15, 2004, a hearing was held on temporary rates before Hearings Examiner, Amy Ignatius. On December 23, 2004, the Hearings Examiner filed her report with the Commission recommending approval of Concord Steam's temporary rate request.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam

Concord Steam filed for a revenue increase of \$292,451, or a 6.4 percent increase, to be collected through an increase in rates commencing on January 1, 2005 on a service rendered basis. As part of its filing, Concord Steam has asked that its unregulated cogeneration division ("Cogen") be transferred to the regulated steam division, along with all associated expenses and revenues, and become part of its regulated utility operations. In the past, Concord Steam has operated the Cogen as a non-regulated small power producer pursuant to a rate agreement with Public Service Company of New Hampshire, which expired in late December, 2004, and in accordance with *Concord Steam Corporation*, Order No. 17,261, 69 NH PUC 610 (1984) (allocating certain expenses pertaining to the Cogen assets). Issues related to the

permanent rate request and the Cogen transfer are in the discovery process and will be the subject of the hearing on May 4, 2005.

Concord Steam's filing also contains a petition for an increase in temporary rates allowing the Company an increase in the amount of \$292,451 in annual operating revenue, to be effective January 1, 2005, on a service rendered basis. Concord Steam contends that this increase is required because it is not earning a reasonable return. Specifically, Concord Steam asserts that its overall rate of return in 2003 is less than one percent, compared to the Commission authorized level, after giving effect to the revenue increase agreed upon in 2003, of approximately 6.81 percent.¹

At the hearing on December 15, 2004, Concord Steam testified that it has not achieved its authorized overall rate of return. The Company has started to burn wood for its primary fuel and there are increased operating costs involved with burning this fuel, including electricity, ash disposal, labor and maintenance costs. Concord Steam states that even with these increased operating costs, the inclusion of wood as a fuel source is in the overall best interests of customers, since the price of wood as a fuel is about half that of oil or natural gas.

Concord Steam contends that it could have requested a revenue increase of over \$390,000, or approximately 8.6 percent. However, in order to remain competitive, Concord Steam seeks a revenue increase of only 6.4 percent, with the increase allocated proportionately over the Company's three classes of block rates. According to figures provided by the Company, at the most recent cost of energy rate of \$10 per Mlb of steam, the Company estimates that the bill impact of Concord Steam's request would be a 7.97 percent increase in the annual usage and energy portions of the bill for small customers with annual usage of 250 Mlbs, 7.84

¹ See *Concord Steam Corporation*, Order No. 24,147, 88 NH PUC 157, 158-159 (2003).

percent for medium customers with annual usage of 1500 Mlbs and 7.65 percent for large customers with annual usage of 8000 Mlbs.

B. Staff

Staff notes that both the permanent rate request and the request to transfer the Cogen division are currently under review and Staff will address these issues at a later date in accordance with the approved procedural schedule. Therefore, Staff's analysis and testimony pertains only to temporary rates. Staff states that its analysis of temporary rates does not depend on any assumptions about whether Concord Steam's proposal to transfer Cogen assets is approved by the Commission.

Staff agrees that Concord Steam's overall rate of return, for the test year ended December 31, 2003, is less than one percent,² approximately 700 basis points below the Commission's currently authorized overall rate of return of 8.0 percent.³ Also, Concord Steam's return on equity for the same period is approximately one percent or approximately 750 basis points below the Commission's authorized return on equity of 8.5 percent. In addition, Staff concurs that Concord Steam's costs are increasing due to general inflation and increases in operating costs attendant with burning wood as its primary fuel.⁴

Based on the above, Staff recommends a temporary rate increase of \$292,451. According to Staff, this increase is lower than the amount that would be allowed using the Commission's standard rate base rate of return methodology in setting temporary rates. That is, based on the test year 2003 rate base and the Commission's currently authorized rate of return on

² Based on records on file with the Commission, as follows: \$25,511 of net operating income / \$3,495,939 of rate base = .73 percent overall rate of return.

³ See Settlement Agreement approved by the Commission in *Concord Steam Corporation*, Order No. 24,147, *supra*.

⁴ See Rate Filing at page 12, lines 6-8. These non-fuel costs pertaining to wood burning were previously removed from Concord Steam's most recent cost of energy filing, see *Concord Steam Corporation*, Order No. 24,390 in DG 04-163, slip op. at 3 (October 29, 2004), and are included in this base rate filing.

equity, Staff calculates a potential revenue increase of \$332,861.⁵ However, consistent with Concord Steam's proposal, Staff is recommending an increase of only \$292,451 in order to maintain Concord Steam's rates levels believed by Concord Steam to be competitive with alternate sources of heat.⁶ Staff believes that its recommended increase of \$292,451 buffers Concord Steam's cost increases due to general inflation and higher indirect costs pertaining to wood burning. However, Staff notes that, regardless of the level of temporary rates approved at this time, such rates will ultimately be reconciled based on the permanent rate level approved by the Commission at the conclusion of this docket.

Based on the above, Staff concludes that a temporary rate increase of \$292,451 is reasonable and recommends that the Commission approve it.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, including the Rate Filing, Staff testimony and the Hearing Examiner's report, we find that the temporary revenue increase of 6.4 percent, or \$292,451, is reasonable and in the public interest.

As noted by Concord Steam and the Staff, Concord Steam's overall rate of return is lower than authorized by the Commission. The record reflects that this is due to recent capital improvements made by Concord Steam to allow two boilers to burn wood and the increased operating costs related to wood burning, neither of which are being recovered in cost of energy rates. Even with these increased costs, Concord Steam's ability to use wood as a primary fuel appears to be in the best interests of customers at this time, as the price of wood as a fuel is about half that of oil or natural gas. An additional benefit is likely to be realized through greater rate stability, as the price of wood has traditionally been less volatile than that of the commodities it

⁵ See Staff Testimony of James J. Cunningham Jr. filed on December 10, 2004, Attachment JJC-1.

⁶ See Rate Filing at page 13, lines 8-12.

will be replacing, *i.e.*, either natural gas or oil.⁷ Finally, we note that our ruling regarding temporary rates is independent of a ruling on the issue of the Company's transfer of Cogen assets. In our view, the increase in temporary rates recommended by the Hearings Examiner represents an acceptable balancing of ratepayer and Company interests under current economic circumstances.

Concord Steam has a declining block rate structure, with rates dropping with higher volumes. The bill impacts from the requested temporary rate increase appear to be reasonable. Based on the above, we adopt the Hearings Examiner's recommendation to approve Concord Steam's temporary rate request. We conclude that that requested temporary rate increase is just and reasonable and we will therefore approve it.

Based upon the foregoing, it is hereby

ORDERED, that the petition for temporary rates, allowing Concord Steam an increase in the amount of \$292,451 in annual operating revenue, is granted on a service rendered basis commencing on January 1, 2005; and it is

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

⁷ See *e.g.*, *Concord Steam Corporation*, Order No. 24,147, 88 NH PUC 157, 160 (2003); *Concord Steam Corporation*, Order No. 24,234, 88 NH PUC 561, 563 (2003).

By order of the Public Utilities Commission of New Hampshire this seventh day
of January, 2005.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Michael D. Harrington
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary