

STATE OF NEW HAMPSHIRE

Inter-Department Communication

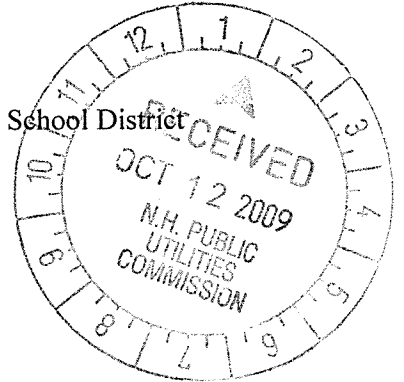
DATE: October 12, 2009

AT (OFFICE): NHPUC

FROM: Robert J. Wyatt *RJW*
Utility Analyst IV, Gas & Water Division

SUBJECT: DG 09-154
Concord Steam Corporation
Petition for Approval of a Special Contract with Concord School District

TO: Commissioners
Docket File
Service List



BACKGROUND

On August 25, 2009, the petitioner, Concord Steam Corporation (Concord Steam or Company), filed with the New Hampshire Public Utilities Commission (Commission) a petition for approval of a special contract with Concord School District, on behalf of Rundlett Middle School (Rundlett School), which is located at 144 South Street in Concord, New Hampshire.

Concord Steam has been providing retail steam service to the Concord School District at various locations in Concord for over thirty years. In the summer of 2009 the Rundlett School was in need of costly new boilers and HVAC to replace an existing no. 2 fuel oil and HVAC system. In the context of this upgrade, Concord School District and Concord Steam discussed the possible alternative of connecting the school to the local steam distribution system. Terms of the final agreement were worked out, and included a Concord School District contribution of approximately \$550,000 to cover the entire cost of a steam distribution main extension to the school.

Included with the petition is a statement of special circumstances in which Concord Steam asserts that the proposed special contract has been designed to meet the specific needs of Concord School District and Rundlett School while at the same time providing benefits for Concord Steam and its other customers. Concord Steam and Concord School District agree that steam supply is important to Rundlett School and to the school district, in that it will provide reliable heat from a renewable resource with what they expect will be less price volatility. Concord Steam states that the addition of the Rundlett School steam load to their system will benefit all of its customers by spreading the Company's fixed costs over a larger base without the requirement of additional capital investment by Concord Steam to serve the school.

STAFF INVESTIGATION

Staff sent out data requests related to the petition. In its investigation of this petition, Staff referred back to DR 91-172, a generic discounted rate docket, and NHPUC Order No. 20,633, 77 NH PUC 650, 654-55 (1992), which identified the types of issues that will be seriously considered with regard to special contracts and discounted rates. Staff also referenced the recent special contract approval in Docket No. DG 08-141 for Denev Realty, LLC. *See Concord Steam Corp.*, Order No. 25,009 (Sept. 4, 2009). Using the issues identified in NHPUC Order No. 20,663, Staff had the Company address the following checklist of issues related to the special contract request:

1. *Finite Term, dependent on circumstances.* The term of the agreement, as presented with the petition, is for ten years, effective October 1, 2009. In response to data request 1-8 (see Attachment RJW-2) Concord Steam confirmed the correct effective start date will be November 1, 2009 for the agreement. In Mr. Saltsman's testimony he asserts the school district will reimburse Concord Steam for the cost of the new steam line in exchange for the discounted steam delivery rate during the ten year term of the special contract. At the end of the ten year term, the Company anticipates that the Rundlett School will return to normal tariff rates (see data response 1-6 in Attachment RJW-3).
2. *The Contract rate is greater than the long run marginal cost.* In Mr. Saltsman's testimony he states that the existing steam plant and distribution system are sized to adequately serve the Rundlett School steam load requirements. Likewise, the Company's proposed steam plant, *see Concord Steam Corp.*, Order No. 24,969 (May 22, 2009), will be adequate to serve the Company's steam load. The Company confirmed in Docket No. DG 08-141 that it expects to increase its steam production and distribution capacity during the projected ten year term of that special contract as a result of its restructuring, but it also expects the long run marginal cost to be lower than current rates because of the steam production cost sharing between the power division (approximately 85%) and the steam division (approximately 15%). In Exhibit 2 of the current petition, Concord Steam calculates the incremental operating cost of steam sold to be \$1.30 per Mlb, well below the proposed special contract delivery rate of \$5.00 per Mlb.
3. *The request has been thoroughly scrutinized by the utility.* The Company provided in its petition a *Statement of Special Circumstances* and direct testimony of Mr. Saltsman describing the reasons why this special contract is necessary. The discounted rate in this case enables the school district to repay the bond used to reimburse Concord Steam for the cost of extending the steam line to Rundlett School. Once the term of the special contract expires, Rundlett School will be expected to revert to normal steam tariff rates. Therefore, the special contract request has been thoroughly scrutinized and will allow Concord Steam to grow its firm customer base to the benefit of all of its ratepayers without the expenditure of additional capital investment.

4. *The special contract process does not provide the utility an unfair advantage over a competitor.* The Company asserts that it is not being given an unfair advantage over its competitor. The Company has previously reported that it has lost some of its larger loads to the local gas utility. In this case, its competition was a no. 2 fuel oil supplier. The local gas utility was not providing gas supply for the school's heating system. Rundlett School chose to switch from an old, less efficient number 2 fuel oil heating system to a new, more efficient HVAC hydronics system heated with steam energy provided by Concord Steam. The Company also asserts that it is the school district's desire to use a renewable energy source (see data response 1-9 in Attachment RJW-4). Thus, any advantage arises out of the school district's desire for a more efficient system, and its fuel preference, and not an unfair pricing scheme.

5. *The discounted rate will not increase the rates paid by the State of New Hampshire or other customers.* As previously stated, the Concord School District will pay for the line extension to serve Rundlett School and the special contract delivery rate exceeds long run marginal costs. The special contract delivery rate produces revenue in excess of the cost to serve the increased load and that additional revenue will reduce the amount of the revenue requirement to be recovered from other customers in future rate proceedings. Furthermore, the additional load is expected to continue well beyond the ten year term of the contract and will meet an even greater share of the revenue requirement during those years. If it is determined in a future rate proceeding that the revenue generated under the terms of the special contract does not cover Concord Steam's cost to serve that load, Concord Steam has agreed not to recoup the revenue loss associated with the discounted rate from other ratepayers.

6. *Prior to requesting a discounted rate, the customer took actions to decrease its consumption and to use its steam energy more efficiently.* The Company reports that the school district is in the process of making major HVAC heating system improvements as part of this conversion to steam energy. The old steam radiators are being replaced with a new HVAC system that will use hydronics as the heating medium (see data response 1-2 in Attachment RJW-5). The Company also states that the school district is doing an energy audit and has made additional building envelope improvements that will further aid the energy efficiency of the building (see data response 1-10 in Attachment RJW-6).

7. *The Company is prepared to address requests for discounted rates from other customers that may have similar circumstances.* The potential for Concord Steam to pick up substantial new load at no cost is limited and the Company would be willing to offer, for a finite term, an appropriate discount in order to serve such a customer if the opportunity were to present itself, as was the case with Rundlett School.

STAFF ANALYSIS

The following summarizes Staff's analysis and is the basis for Staff's recommendation in the case.

Long Run Marginal Costs:

Staff notes that the Commission has indicated in the past that it will not approve special contract rates that are set below the estimated long run marginal cost. Staff makes the following observations in support of this special contract request:

- Concord Steam is on record as asserting that as a result of its system load losses in recent years it has excess steam production and distribution capacity. The *long run marginal cost* includes the costs associated with steam production capacity, steam distribution capacity and operations and maintenance costs, none of which will need to increase as a result of the Concord School District special contract with Concord Steam. It is reasonable, therefore, to assume that the Company's claim that the special contract rate is sufficiently high to be greater than the long run marginal cost is accurate.
- The Concord School District was required to cover the capital investments for the steam line extension made to serve this load and the existing steam system will require no additional capital investments by the Company as a result of the special contract.
- Excluding the main extension costs addressed above, the fixed costs associated with serving this load, including the existing steam boiler plant and distribution capacity have been in rate base for a considerable period of time and are adequately sized without requiring new capital investment. Thus, all ratepayers will benefit from the incremental load and revenue as a result of this special contract.
- Under the terms of the special contract, the effective Cost of Energy (COE) unit rate to Rundlett School for all metered steam commodity will be the same COE rate as all other steam customers will pay. The special contract also requires Rundlett School to pay the appropriate tariff monthly meter charge.
- The Company reports that the only incremental costs it incurs at this time include purchases for water and sewer, boiler chemicals, electricity, air permit fees and ash disposal, which, based on 2008 costs, would amount to \$1.30 per Mlb of steam sold, well below the discounted rate.
- Revenue losses associated with this discount will not be passed on to the other rate payers in future rate cases.

- Concord Steam is a small company that does not have the in-house expertise or resources to hire an outside expert to perform a detailed marginal cost study for a case such as this, nor would it be cost effective for the Company to do so.

At the point that the Company is restructured and operating under the terms of the steam purchase agreement with Concord Power, *see Concord Steam Corp.*, Order No. 24,969 (May 22, 2009), any new or renewed special contract petition should include a long run marginal cost study. The Company has indicated it would not sell steam to any of its customers at rates below its marginal cost and is willing to include such language in this special contract (see Docket No. DG 08-141). In future petitions for special contracts, the Company should provide some form of a long run marginal cost study which will show the incremental unit cost of an additional unit of steam production and distribution capacity, and associated O & M costs, if such additions are anticipated for any load additions during the term of the proposed special contract. If no incremental steam production or distribution capacity will be needed during the term of a proposed special contract, the Company should provide sufficient analysis supporting that assertion. Staff will then be able to review the provided analyses and make appropriate recommendations to the Commission.

STAFF RECOMMENDATION

Staff recommends that the Commission approve the special contract with the Concord School District with the following requirements:

- With respect to the *long run marginal cost*, Staff took into consideration the existing excess steam plant and distribution capacities and the planned restructured capacity in the next few years. The Company has acknowledged that its proposed restructured entities will be adding both steam production and distribution capacity as part of its restructuring plans but expects the long run marginal cost to decrease, not increase, as a result of the restructuring. Up to that point in time, Staff assumes that the circumstances related to this special contract, as spelled out by the Company in its petition, as well as what was learned in the previous special contract investigation (see Docket No. DG 08-141) allow for consideration without undergoing a long run marginal cost study typically required under Commission guidelines.
- With respect to the *ten-year term* of the special contract, Staff believes that the term is appropriate in this case as it allows the Concord School District to recover the cost of its investment for the main extension. At the end of the ten year term it is anticipated that the Rundlett School will revert back to normal tariff rates and that the bond for its capital expenditure of the main extension will be paid in full.
- The monthly bill to Concord School District for the Rundlett School under the provisions of the steam special contract was initially set to consist of the effective Cost of Energy rate and the discounted delivery rate of \$5.00 per Mlb, each of

which would be multiplied times the metered monthly steam volume. During the discovery process, the Company acknowledged in response to a data request (see data response 1-5 in Attachment RJW-7), two additional provisions that will be incorporated into the final agreement. First, the Concord School District will be subject to the appropriate tariff meter charge of \$40 per month, and second, the \$5.00 per Mlb base steam delivery rate may be increased annually by an inflation factor equal to the CPI index (or some other inflation index mutually agreeable to both parties). At no time during the term of the agreement will the base steam delivery rate be less than \$5.00 per Mlb.

- Each year under the special contract begins on November 1 and ends on October 31, coinciding with each cost of energy year.
- The initial annual usage for the Rundlett School is expected to be 9,000 Mlbs. The annual usage is expected to increase to 12,000 Mlbs in year-3 of the agreement (2011), once the new HVAC system is fully integrated. Attachment RJW-1 provides a template that illustrates the year-1 expected discount when compared to proposed base delivery rates from the Company's rate filing in docket number DG 09-139.
- Staff requests that consideration for the approval of this special contract be based on the research and analysis provided and for the reasons stated above.

Staff notes that the term of this agreement is scheduled to begin on November 1, 2009. Although the contract is effective on the above referenced date, everything in the agreement is subject to Commission approval. The Company has stated previously that no fixed costs will be shifted to other customers as a result of the revenue losses associated with discounted rate agreements, even if Concord Steam files a new base rate case which indicates the cost to serve this customer has increased above the special contract discounted base delivery rate. Staff recommends this be a condition of the approval.

DG 09-154 Concord Steam Corp.
 Special Contract with Concord School District (Rundlett School)
 Normalized Mlb per Month for Rundlett School Special Contract:

Attachment RJW-1

Concord Steam Proposed Base Tariff Rates (DG 09-139) Effective November 1, 2009

| | | Rate | (Rate + Meter Chg)/Mlb |
|--|-----------|-----------------|--|
| Usage Rates: | | | |
| First 500 Mlbs per month | | \$18.54 per Mlb | \$18.59 |
| All > 500 Mlbs and < 2,000 Mlbs/month | | \$16.27 per Mlb | \$16.32 |
| All over 2,000 Mlbs per month | | \$13.48 per Mlb | \$13.53 |
| Meter Charge | | | |
| | Per month | | Meter Chg/Mlb |
| Type A or B | \$10.00 | per month/meter | |
| Type C, D or E | \$25.00 | per month/meter | |
| Type F, G or Steam Flow | \$40.00 | per month/meter | \$0.053 |
| Proposed Cost of Energy Rate (DG 09-169) | | \$17.30 | Projected effective Cost of Energy rate per Mlb for November 1, 2009 |

Rundlett School Delivery Rate Analysis

| Month | Year | Estimated Monthly Mlb DR 1-3 | Meter Charge | Normal Tariff Rates Delivery Charge | Cost of Energy Charge | Normal Total Charge | Discounted Delivery Charge (\$5/Mlb) | Discounted Total Charge | Special Contract Savings |
|-------|------|------------------------------|--------------|-------------------------------------|-----------------------|---------------------|--------------------------------------|-------------------------|--------------------------|
| Nov | 2009 | 1,125.0 | \$ 40.00 | \$ 19,438.75 | \$ 19,462.50 | \$ 38,941.25 | \$ 5,625.00 | \$ 25,127.50 | \$ 13,813.75 |
| Dec | 2009 | 1,500.0 | \$ 40.00 | \$ 25,540.00 | \$ 25,950.00 | \$ 51,530.00 | \$ 7,500.00 | \$ 33,490.00 | \$ 18,040.00 |
| Jan | 2010 | 1,500.0 | \$ 40.00 | \$ 25,540.00 | \$ 25,950.00 | \$ 51,530.00 | \$ 7,500.00 | \$ 33,490.00 | \$ 18,040.00 |
| Feb | 2010 | 1,500.0 | \$ 40.00 | \$ 25,540.00 | \$ 25,950.00 | \$ 51,530.00 | \$ 7,500.00 | \$ 33,490.00 | \$ 18,040.00 |
| Mar | 2010 | 1,350.0 | \$ 40.00 | \$ 23,099.50 | \$ 23,355.00 | \$ 46,494.50 | \$ 6,750.00 | \$ 30,145.00 | \$ 16,349.50 |
| Apr | 2010 | 600.0 | \$ 40.00 | \$ 10,897.00 | \$ 10,380.00 | \$ 21,317.00 | \$ 3,000.00 | \$ 13,420.00 | \$ 7,897.00 |
| May | 2010 | 450.0 | \$ 40.00 | \$ 8,343.00 | \$ 7,785.00 | \$ 16,168.00 | \$ 2,250.00 | \$ 10,075.00 | \$ 6,093.00 |
| Jun | 2010 | 30.0 | \$ 40.00 | \$ 556.20 | \$ 519.00 | \$ 1,115.20 | \$ 150.00 | \$ 709.00 | \$ 406.20 |
| Jul | 2010 | 22.5 | \$ 40.00 | \$ 417.15 | \$ 389.25 | \$ 846.40 | \$ 112.50 | \$ 541.75 | \$ 304.65 |
| Aug | 2010 | 22.5 | \$ 40.00 | \$ 417.15 | \$ 389.25 | \$ 846.40 | \$ 112.50 | \$ 541.75 | \$ 304.65 |
| Sep | 2010 | 300.0 | \$ 40.00 | \$ 5,562.00 | \$ 5,190.00 | \$ 10,792.00 | \$ 1,500.00 | \$ 6,730.00 | \$ 4,062.00 |
| Oct | 2010 | 600.0 | \$ 40.00 | \$ 10,897.00 | \$ 10,380.00 | \$ 21,317.00 | \$ 3,000.00 | \$ 13,420.00 | \$ 7,897.00 |
| | | 9,000.0 | \$ 480.00 | \$ 156,247.75 | \$ 155,700.00 | \$ 312,427.75 | \$ 45,000.00 | \$ 201,180.00 | \$ 111,247.75 |

| Table 1 | | Cost Comparison | | |
|--|--|---------------------------------------|---------------|-----------------|
| Proposed Rates Effective November 1, 2009 through October 31, 2010 | | Before and After the Special Contract | | |
| | | Before | After | Change |
| <i>Cost of Energy (11/1/09)</i> | | | | |
| Volume (Mlbs, pro-rated, normalized) | | 9000.0 | 9000.0 | 0.0 |
| Cost of Energy rate | | \$17.30 | \$ 17.30 | - |
| Revenue Requirement | | \$ 155,700.00 | \$ 155,700.00 | \$ - |
| <i>All Other Costs (Base Rates, Meter Charge)</i> | | | | |
| Volume (Mlbs, normalized) | | 9000.0 | 9000.0 | 0.0 |
| Rate per Mlb (Weighted or Discounted + Meter Charge) | | \$ 17.41 | \$ 5.05 | \$ (12.36) |
| Revenue | | \$ 156,727.75 | \$ 45,480.00 | \$ (111,247.75) |
| Total Costs | | \$ 312,427.75 | \$ 201,180.00 | \$ (111,247.75) |

* Tariff delivery rates expected to decline in year 2013 as a result of the anticipated new steam plant and restructuring.

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District

Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-8

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

Re. page 3, section 2 of the contract. The Company projects the initial cost of energy rate to be \$17.30/Mlb and the term of the agreement begins on October 1, 2009 rate. Provide support for the projected COE rate of \$17.30/Mlb for October 1, 2009 or explain when it expects the rate to be \$17.30/Mlb.

Response:

The date is actually meant to be November 1, 2009 and we will not be providing steam until after that date. The energy rate is what has been filed for the annual COE.

Attachment RJW-3

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District
Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-6

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

At the end of the ten year term of the special contract with the Rundlett Middle School does the Company anticipate the school will be normal steam tariff rates'?

Response:

Yes

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District

Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-9

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

Does the Company believe that the proposed special contract will not create an unfair advantage over its primary competitor, the local natural gas utility? Explain why or why not.

Response:

We didn't do any comparison to make that judgment. The source of fuel available to the district at that school is #2 F.O. and we based all our cost comparison and other judgments based on that fuel source.

Another factor that entered into the School Boards decision was that the energy we supply is from a renewable source.

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District
Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-2

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

Describe the type of steam energy heating system that will be used at Rundlett School. Will the school be able to use existing piping, radiators, etc., or will the heating system be new throughout the building?

Response:

The system is going through an entire upgrade. The old steam radiators are being replaced with a new HVAC system that will use hydronics as the heating medium. The system upgrade including the cost of the steam line is approximately \$3.68 million.

Attachment RJW-6

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District
Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-10

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

Has the customer taken any actions to decrease its steam energy consumption'?

Response:

Yes. They are doing an energy audit that includes installing the newer more efficient HVAC system as well as some building envelope items.

DG 09-154
Concord Steam
Petition for Special Contract with Concord School District
Response to Data Requests from Commission Staff – Set #1

Data request received 09/17/09
Request # Staff 1-5

Date of Response 09/25/09
Witness: Mark Saltsman

Request:

Re. page 3, lines 21-24 of Mr. Saltsman's testimony. Does the special contract also require Rundlett Middle School to pay the appropriate monthly meter charge? If not, explain why the meter charges are excluded.

Response:

Yes, the contract as it is in its final negotiated form will include the requirement to pay meter charges. Additionally another unintentional exclusion was that of a yearly inflator clause that should have been included in section 1. (Rate and Usage) of the special contract. That language, in effect, is to say that “the \$5 dollar base steam delivery rate shall be increased annually by a factor equal to the CPI index” (or some other inflation index mutually agreeable to both parties).

PETER BLOOMFIELD
CONCORD STEAM CORPORATION
PO BOX 2520
CONCORD NH 03302

Docket #: 09-154 Printed: October 12, 2009

**FILING INSTRUCTIONS: PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),
WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:**
DEBRA A HOWLAND
EXEC DIRECTOR & SECRETARY
NHPUC
21 SOUTH FRUIT STREET, SUITE 10
CONCORD NH 03301-2429

PURSUANT TO N.H. ADMIN RULE 203.09 (d), FILE DISCOVERY

DIRECTLY WITH THE FOLLOWING STAFF

RATHER THAN WITH THE EXECUTIVE DIRECTOR

LIBRARIAN
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

BULK MATERIALS:

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

MATTHEW FOSSUM
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

STEPHEN FRINK
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

ROBERT WYATT
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

AMANDA NOONAN
CONSUMER AFFAIRS DIRECTOR
NHPUC
21 SOUTH FRUIT ST, SUITE 10
CONCORD NH 03301-2429

