

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 09-154

CONCORD STEAM CORPORATION

Petition for Approval of Special Contract with Concord School District

Order *Nisi* Approving Special Contract

ORDER NO. 25,030

October 27, 2009

On August 25, 2009, the petitioner, Concord Steam Corporation (Concord Steam or Company) filed a petition with the Commission for the approval of a special steam supply contract with the Concord School District (the District) on behalf of the Rundlett Middle School (Rundlett). Concord Steam asserts that special circumstances render a departure from its general tariff schedules just and consistent with the public interest.

According to the Company, the proposed special contract was designed to meet the specific needs of Rundlett's building while providing benefits for Concord Steam and its other customers. Concord Steam and the District agree that steam supply is important to Rundlett and the Company, and Concord Steam asserts that the District relied on the special contract in making long-term decisions concerning the source of heat and steam for Rundlett.

Concord Steam has been providing retail steam service to the District at various locations in Concord for over thirty years. In the summer of 2009, when Rundlett was in need of a costly new HVAC system and new boilers to replace an existing no. 2 fuel oil boiler and HVAC system, the District and Concord Steam discussed the possibility of connecting the school to the local steam distribution system. The Company states that the District expressed a preference for

the renewable energy source offered by Concord Steam. Terms of the final agreement were worked out and included the District's contribution of approximately \$550,000 to cover the entire cost of a steam distribution main extension to the school. Effectively, the District's contribution for the construction of the steam line was the basis for the special rate offered by Concord Steam. In fact, at the end of the contract term once the contribution will, it is presumed, be repaid, Rundlett will return to the normal steam tariff rates.

On October 12, 2009, following discovery, Staff filed a memorandum recommending approval of the special contract subject to certain conditions. In support of the special contract, Staff noted that, given the District's contribution, the addition of Rundlett's steam load will benefit all 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. In addition, it would reduce some of the existing excess steam production and distribution system capacity related to steam system load losses experienced by Concord Steam during the past decade. Also, Staff specifically noted that once the Company restructures and is operating under the terms of a steam purchase agreement, *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.

Under the terms of the special contract, which has a term of ten years beginning November 1, 2009, the District will pay the effective cost of energy (COE) rate plus a delivery rate of \$5.00 per Mlb. This discounted delivery rate may be increased annually by an inflation factor equal to the Consumer Price Index, or some other inflation index mutually agreeable to both parties. In addition, the District will pay Concord Steam the standard monthly meter charge of \$40.00. According to Staff's memorandum, Rundlett's steam usage will be only about 9,000

Mlbs. for the first year, but will increase to about 12,000 Mlbs. by year three of the contract, once the school's new HVAC system is fully integrated.

RSA 378:18 authorizes the Commission to approve a special contract when "special circumstances exist which render such departure from the general schedules just and consistent with the public interest." We review the Company's filing with this in mind, giving consideration to the policy precepts established in *Generic Discount Rates*, 77 NH PUC 650, 654-55 (1992) and *Generic Discounted Rates Docket*, 78 NH PUC 316,316-17 (1993). *See also, Concord Steam Corporation*, Order No. 24,776 (July 12, 2007) and *Concord Steam Corporation*, Order No. 25,009 (Sept. 4, 2009).

As we noted recently in Concord Steam's petition for a special contract with Denev Realty, load retention is important to the Company. *See* Order No. 25,009. Through this special contract with the District, Concord Steam would add load to its system without requiring new capital investment, other than what will be paid for by the District. Given the District's contribution for construction of the steam line main extension, the only costs Concord Steam will incur at this time are the closing costs and interest payments on a short term loan to finance the construction costs pending reimbursement by the District, financing costs for which Concord Steam has petitioned the Commission for approval in Docket No. DG 09-146. According to Staff, since the District will pay both the effective COE rate and meter charges, the only on-going incremental costs are for water and sewer, boiler chemicals, electricity, air permit fees and ash disposal. Based upon the Company's 2008 costs, Staff estimates that Concord Steam will be responsible for an additional \$1.30 per Mlb. to serve Rundlett, well below the initial discounted delivery rate of \$5.00 per Mlb. As we also noted in our recent order on the special contract with

Denev Realty, the proposed restructuring of Concord Steam, *see Concord Steam Corp.*, Order No. 24,969 (May 22, 2009), will provide further economies to the utility. *See Concord Steam Corporation*, Order No. 25,009 (Sept. 4, 2009). In fact, Concord Steam contends that it will increase its steam production and distribution capacity, while decreasing steam costs due to steam production cost sharing between the power division and the steam division of the restructured entity. *See Order No. 24,969.* These economies will further aid Concord Steam in keeping its costs to serve Rundlett below the discounted delivery rate.

Based upon our review of the record and for the reasons described above, we find that special circumstances exist that justify the departure from standard tariff rates and render the special contract just and reasonable and consistent with the public interest. Moreover, because the school's old system was based upon fuel oil, in order to move to any other fuel source, substantial capital investments were required, *i.e.*, the extension of a new natural gas or steam line to the school was needed. Given that substantial investment was required regardless of the District's ultimate decision, it benefits both Concord Steam and the District to serve Rundlett by allowing the school the opportunity to switch from an outdated and inefficient oil-based system to one based on a renewable source, while also helping to improve Concord Steam's load profile. In light of these benefits, we will approve a special contract that incorporates the requirements set forth in Staff's recommendation.

With regard to its costs, as noted previously, Concord Steam will not incur any additional capital costs to serve Rundlett because the District will cover the costs of the line extension to the school. As such, there is minimal cost for the Company to begin serving the school. Also,

since the capital costs are effectively zero, the only costs of concern are those incremental costs associated with the new load, which Staff estimates are well below the discounted delivery rate.

Regarding the ten year term of the contract, we find the length appropriate. The term of the contract was designed to allow the District to recoup, over time, its contribution for the line extension to the school. After the contribution is repaid at the end of the contract term, Rundlett will be placed on normal tariff rates. As such, the contract is only as long as is necessary to ensure the addition and retention of the school load.

The monthly rate under the contract is calculated by multiplying both the discounted delivery rate, initially set at \$5.00 per Mlb., and the effective COE rate, by Rundlett's monthly usage. The District will also pay the standard monthly meter charge. The \$5.00 delivery rate is the floor of the rate, which may be increased annually to reflect general price increases in the marketplace. While this rate is low, based on the record it appears sufficient to cover Concord Steam's long-run marginal costs to serve the school. Moreover, Concord Steam will not attempt to recover any shortfall from this contract from other customers in future rate cases, and we specifically condition our approval of this contract on that limitation.

With regard to long-run marginal costs, once the Company restructures into a power division and a steam division, *see* Order No. 24,969, we agree with Staff that future petitions for special contracts should provide some form of marginal cost study. Such a study should, at a minimum, include the incremental unit cost of an additional unit of steam production and distribution capacity, and associated operation and maintenance 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 to support that assertion.

Based upon the foregoing, it is hereby

ORDERED *NISI*, that subject to the effective date below, the proposed special contract is APPROVED subject to the terms and conditions set forth herein; and it is

FURTHER ORDERED, that the Company shall file a contract whose terms comply with the requirements of this order on or before November 15, 2009; and it is

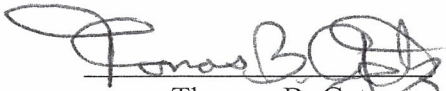
FURTHER ORDERED, that the Company shall cause a copy of this Order *Nisi* to be published once in a statewide newspaper of general circulation or of circulation in those portions of the state where operations are conducted, such publication to be no later than November 2, 2009 and to be documented by affidavit with this office on or before November 15, 2009; and it is

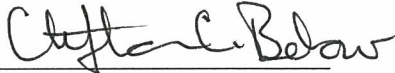
FURTHER ORDERED, that all persons interested in responding to this Order *Nisi* be notified that they may submit their comments or file a written request for a hearing which states the reason and basis for a hearing no later than November 9, 2009 for the Commission's consideration; and it is

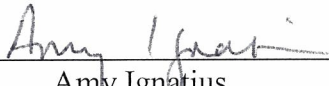
FURTHER ORDERED, that any party interested in responding to such comments or request for hearing shall do so no later than November 12, 2009; and it is

FURTHER ORDERED, that this Order *Nisi* shall be effective November 15, 2009, unless the Company fails to satisfy the publication obligation set forth above or the Commission provides otherwise in a supplemental order issued prior to the effective date.

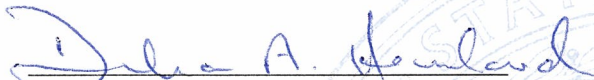
By order of the Public Utilities Commission of New Hampshire this twenty-seventh day
of October, 2009.


Thomas B. Getz
Chairman


Clifton C. Below
Commissioner


Amy Ignatius
Commissioner

Attested by:


Debra A. Howland
Executive Director



PETER BLOOMFIELD
CONCORD STEAM CORPORATION
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CONCORD NH 03302

10/27/09 Order No. 25,030 issued and forwarded to all parties.
Copies given to PUC Staff.

Docket #: 09-154 Printed: October 26, 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