

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

CONCORD STEAM CORPORATION

Docket DG 12-242

**Direct Testimony
Of
Stephen P. Frink**

Temporary Rate Proposal

October 19, 2012

1 **Q. Please state your name and business address.**

2 A. My name is Stephen P. Frink. I am employed by the New Hampshire Public
3 Utilities Commission as Assistant Director of the Gas & Water Division. My
4 business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

5 **Q. Please summarize your educational and professional experience.**

6 A. See *Attachment SPF-2*.

7 **Q. What is the purpose of your testimony?**

8 A. My testimony supports the settlement agreement on temporary rates filed October
9 18, 2012 and the Company's request to waive certain filing requirements. I also
10 present Staff's initial position regarding the Company's requested increase in
11 permanent rates and rate design.

12 **Q. What level of temporary rates did the Company propose?**

13 A. The Company has requested an increase in rates on both a temporary and
14 permanent basis designed to produce an additional \$862,584 in annual gross
15 operating revenue, to be effective with service rendered as of November 1, 2012.
16 The increase represents a 17.8% increase over 2011 test year revenue of
17 \$4,853,437 and a 35.5% increase in base revenue of \$2,431,211. See *Attachment*
18 *SPF-1*.

19 **Q. Has Staff calculated a revenue deficiency?**

20 A. Yes. Concord Steam's revenue deficiency, based on an unadjusted test year and
21 overall rate of return of 7.35%, would be \$694,958. The overall rate of return
22 reflects a 9.5% return on equity, as approved for Northern Utilities, Inc. earlier
23 this year. The increase represents a 14.3% increase over test year revenue and a
24 28.6% increase in base revenue. See *Attachment SPF-1*.

1 **Q. What is the increase in the annual revenue requirement that Staff and the**
2 **Company have agreed to for settlement purposes in setting temporary rates?**

3 A. The increase is \$582,412 and represents a 12.0% increase over test year revenue.

4 **Q. How will that increase be reflected in rates?**

5 A. The COE rate will include test year expenses of \$312,984 and delivery rates will
6 be increased to recover an additional \$269,428 of annual revenue.

7 **Q. Why has Staff and Company agreed to a temporary rate increase that will**
8 **not fully address the revenue deficiency?**

9 A. There are a number of reasons to limit the temporary rate increase.

10 First, the need for an expedited proceeding in order to implement a
11 temporary rate increase in time to capture as much of the heating season as
12 possible. While Staff's initial analysis indicates a greater increase may be merited,
13 because of the magnitude of the deficiency and potential bill impacts Staff was
14 unwilling to recommend implementation of the full increase without more
15 extensive discovery. Staff conferred with the Concord Steam and the Company
16 determined that it would be better able to meet operating needs and capital
17 requirements at the agreed upon temporary rate increase effective November 1
18 rather than the higher increase indicated by Staff's initial analysis effective
19 December 1.

20 Another consideration is that unadjusted test year revenues used in Staff's
21 calculation reflects depressed sales due to a much warmer than normal winter
22 during the test year. Even without a rate increase, a more normal winter would
23 help alleviate the under earnings Concord Steam experienced in 2011.

1 Also, the difference between temporary and permanent rates is
2 reconcilable so once a more complete record is developed and the Commission is
3 able to determine what constitutes fair and reasonable rates, any over or under
4 recovery during the temporary rate period can be addressed at that time.

5 And lastly, of critical importance is the need to limit bill impacts in order
6 to retain existing customers. The Company has a limited customer base and faces
7 stiff competition from alternative energy sources available to its customers,
8 primarily natural gas. A substantial increase in steam rates will make steam
9 service less competitive and may cause customers to leave the system. A
10 fundamental change in New Hampshire's steam industry is expected to take place
11 in 2014 as Concord Steam intends to purchase, rather than produce, its steam
12 requirements. That change is expected to result in a substantial reduction in
13 Concord Steam rates while providing the Company the cash flow to make system
14 improvements and earn a rate of return more in line with other New Hampshire
15 utilities. Rather than risk losing customers in the interim, rates should be kept as
16 low as possible but sufficient enough to fund safe and reliable operations. For
17 many customers there is a significant capital cost to convert from steam to natural
18 gas and once a customer makes that transition a return to steam service is
19 unlikely. Limiting the rate increase should help retain current customers, thereby
20 allowing customers that might otherwise leave the system to avoid the cost of
21 conversion and benefit from reduced rates expected in 2014. The more customers
22 that remain with Concord Steam, the greater the savings will be for all customers,
23 as Concord Steam's fixed costs will be spread over more sales, thereby reducing
24 the per unit cost.

1 **Q. What is Staff's initial position regarding Concord Steam's proposed**
2 **permanent rate increase?**

3 A. The proposal appears somewhat high but Staff will make its recommendation on
4 permanent rates following a thorough investigation of the facts. Furthermore, as
5 already noted, implementing such a substantial increase could have dire
6 consequences for Concord Steam and must be considered in setting the rates.

7 **Q. Did Concord Steam request a waiver of certain filing requirements?**

8 A. Yes. Concord Steam requested a waiver of certain portions of Puc 1604.01(a),
9 which require the filing of certain information by any utility applying for rate
10 relief. Concord Steam asserts that the required information for which it is seeking
11 a waiver is either not available or not applicable.

12 **Q. Does Staff support Concord Steam's request for a waiver of certain Puc**
13 **1604.01(a) filing requirements?**

14 A. Staff supports Concord Steam's request for a waiver of certain provisions of PUC
15 1604.01. Much of the information relates to current operations that are expected
16 to be discontinued in the near future and therefore is of limited relevance to the
17 Commission's review. Furthermore, the cost to satisfy the requirements can be
18 prohibitive for a company the size of Concord Steam, where the customer base is
19 limited and added expense could adversely impact rates, as rate case expenses are
20 typically recovered through a customer surcharge. The waiver will help limit rate
21 case expense.

22 **Q. Did Concord Steam request to recover certain costs through energy rates**
23 **rather than delivery rates?**

1 A. Yes. Concord Steam testified that the cost of water and sewer charges, boiler
2 water treatment chemicals, ash disposal and State air permit fees are attributable
3 to the direct cost of generating steam and are appropriately recovered through the
4 cost of energy charge. The Company stated that these expenses are commodity
5 related and rise and fall as the amount of steam sold by the Company rises and
6 falls. Concord Steam also noted that these cost under the steam purchase
7 agreement with Concord Power and Steam, LLC will be subsumed in the steam
8 charges Concord Steam will be paying.¹ Historically, those costs have been
9 recovered through delivery rates.

10 **Q. What is the amount of those costs and how were they treated in the rate**
11 **filing?**

12 A. Test year charges for those expenses total \$312,984 and Concord Steam reduced
13 test year expenses by that amount in its rate filing. Concord Steam included the
14 expected cost of those expenses for November 2012 through October 2013 in its
15 2012-2013 COE rate filing.

16 **Q. What is Staff's recommendation regarding the Company's request to recover**
17 **those costs through the COE rate rather than delivery rates?**

18 A. Staff agrees that the majority of those costs belong in the COE but believes a
19 relatively small percentage of those costs relate to system maintenance and should
20 be reflected in delivery rates. That said, as of yet Staff has been unable to
21 determine a reasonable approximation of what that percentage should be and
22 therefore recommends that the full amount of those test year expenses be
23 transferred to the 2012-2013 COE. The issue will be fully explored and resolved

¹ Prefiled Direct Testimony of Peter Bloomfield, p. 8

1 in determining permanent rates and the COE rate can be adjusted accordingly
2 when the permanent rates become effective.

3 **Q. How do those charges relate to system maintenance?**

4 **A.** Steam delivery pipes must be kept wet or breaks and leaks will develop. During
5 the summer months steam sales are insufficient to keep steam mains from drying
6 out and additional steam must be produced for that purpose. That incremental
7 steam produced to keep steam pipes from drying out do not rise and fall in
8 relation to customer sales, other than to the extent summer sales are able to meet
9 that maintenance requirement. Staff and Company are in the process of
10 determining a reasonable approximation of the annual amount of steam produced
11 for maintenance purposes.

12 **Q. Does this conclude your testimony?**

13 **A.** Yes.