STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

April 3, 2013 - 10:09 a.m.
Concord, New Hampshire

RE: **DG 12-242**
CONCORD STEAM CORPORATION:
Notice of Intent to File Rate Schedules.

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Robert R. Scott
Commissioner Michael D. Harrington

Sandy Deno, Clerk

APPEARANCES: **Reptg. Concord Steam Corporation:**
Peter G. Bloomfield
Mark Saltsman

Reptg. PUC Staff:
Alexander F. Speidel, Esq.
Stephen Frink, Asst. Dir./Gas & Water Div.
Robert Wyatt, Gas & Water Division

Court Reporter: Steven E. Patnaude, LCR No. 52

I N D E X

EXHIBITS

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P R O C E E D I N G

CHAIRMAN IGNATIUS: Good morning. I'd like to open the hearing in Docket DG 12-242, which is the Concord Steam Corporation's rate case, distribution rate case. And, as I understand it, we know we have receipt of a Settlement Agreement filed last week that we will be taking up.

So, let's first begin with appearances please.

MR. BLOOMFIELD: Good morning, Commissioners. Peter Bloomfield, with Concord Steam.

CHAIRMAN IGNATIUS: Good morning.

MR. SPEIDEL: Good morning. Alexander Speidel of the Staff of the Public Utilities Commission. And, I have with me Steve Frink and Bob Wyatt of the Gas and Water Division.

CHAIRMAN IGNATIUS: Good morning. Is there anything we need to address before --

MR. SALTSMAN: Good morning, Commissioners. My partner forgot to introduce me. Mark Saltsman.

CHAIRMAN IGNATIUS: We knew you were there. Good morning. Welcome. You're probably the only people not inconvenienced by the road construction, because you can walk.

MR. BLOOMFIELD: That's right.

CHAIRMAN IGNATIUS: Do we have anything to take up before the presentation of the Settlement?

MR. SPEIDEL: I don't believe so. I think everything could be taken care of in line, once our witnesses are called to the stand. And, I think we would have a combination Staff and Company panel.

CHAIRMAN IGNATIUS: All right. There is one thing I wanted to ask about. There is a Motion for Protective Order and Confidential Treatment having to do with attorneys' fees and billing rates, that sort of thing. Is there any objection on the part of the Staff to granting the motion?

MR. SPEIDEL: No. There is no objection.

CHAIRMAN IGNATIUS: All right. I found it was pretty straightforward. I think we're comfortable with granting it as filed. So that we will include in an ultimate order on this case that that's been granted. All right. Then, why don't we begin with the seating of the panel.

(Whereupon ***Peter G. Bloomfield*** and ***Stephen P. Frink*** were duly sworn by the

Court Reporter.)

PETER G. BLOOMFIELD, SWORN

STEPHEN P. FRINK, SWORN

DIRECT EXAMINATION

BY MR. SPEIDEL:

Q. Mr. Frink and Mr. Bloomfield, could you each provide your full name and business address.

A. (Bloomfield) Peter Bloomfield. Peter Bloomfield, Concord Steam, in Concord, New Hampshire.

A. (Frink) Stephen Frink, Commission Staff, Concord, New Hampshire.

Q. Mr. Frink, as part of your responsibilities at the Commission, have you been involved in this case?

A. (Frink) Yes, I have.

Q. Could you briefly state what your -- review what your responsibilities were for this case.

A. (Frink) I reviewed the filing. I issued discovery. I attended technical sessions. And, then did an analysis, reviewed the final audit report provided by the Commission Audit Staff, and made my recommendations based on the record.

Q. Mr. Frink, on March the 15th of 2013, did you prefile certain testimony in this docket?

A. (Frink) Yes, I did.

MR. SPEIDEL: I would like to request that that prefiled testimony submitted on March the 15th be marked as "Hearing Exhibit 5"?

CHAIRMAN IGNATIUS: So marked for identification.

(The document, as described, was herewith marked as **Exhibit 5** for identification.)

MR. SPEIDEL: Thank you.

BY MR. SPEIDEL:

Q. Mr. Frink, as part of this case, did Staff enter into and present a settlement with the Company regarding this rate request?

A. (Frink) Yes, it did.

MR. SPEIDEL: I would like to request that the Staff resubmitted testimony entered into the record on March the 20th of 2013 be marked as "Hearing Exhibit 6"?

CHAIRMAN IGNATIUS: And, that's a few pagination or numbering changes, but not substantive changes to the version that was submitted on March 18th?

MR. SPEIDEL: That's correct, Chairman. Ultimately, there were a couple missing labels for exhibit numbers in document production. So, Ms. McKeen presented a resubmitted version.

CHAIRMAN IGNATIUS: That's fine. So, we'll mark that as "Exhibit 6" for identification.

(The document, as described, was herewith marked as **Exhibit 6** for identification.)

MR. SPEIDEL: Thank you.

BY MR. SPEIDEL:

Q. Now, Mr. Frink, I would like to direct your attention to a couple potential corrections or additions to this Settlement. Could you please take a look at Settlement Provision 1.2 on Page 2 of 9 of the Settlement Agreement, in Hearing Exhibit 6.

A. (Frink) I'm there.

Q. Okay. I'll just read in a brief segment here. Reads that "On September 14th, 2012, the Commission issued Order Number 25,410 suspending the Company's proposed tariff revisions and scheduling a prehearing conference for June 16, 2011." Would you agree that that date should read "October 4th, 2012"?

A. (Frink) Yes, I would.

Q. Thank you. Under Section 3.1 of the Settlement Agreement, on Page 5 of 9, could you please turn to that, in Hearing Exhibit 6.

A. (Frink) I'm there.

Q. There's a segment that reads "meter charge". And, it reads as follows: "Concord Steam will implement a monthly" -- "winter monthly meter charge for small, medium and large meters, October through May, and a summer monthly meter charge June through October, effective May 1st, 2013". Is it fair to say that the Settling Parties intended to mean that the summer monthly meter charge was applicable for June through September inclusive, and that it would terminate at the end of September?

A. (Frink) That's correct. And, that's the way it's reflected on the table below.

Q. Thank you very much. Mr. Bloomfield, could you just give independent confirmation of that fact, too?

A. (Bloomfield) Yes. I agree.

Q. Excellent. Thank you. Mr. Frink, could you please briefly summarize the Settlement Agreement.

A. (Frink) Yes, I will. The Settlement provides for 732,000 increase over test year revenues of approximately $5 million. That provides a 5.7 percent overall rate of return. And, it's roughly $150,000 more than the revenue increase that was granted for temporary rates. Temporary rates were set at an increase of 582,000.

The Settlement provides for the inclusion of certain costs for recovery through the Cost of Energy that, prior to November 1st of 2012, had been included when setting delivery rates. The Settlement provides for a seasonal meter charge. As just discussed, there will be a winter -- there will be winter meter charges through from October through May, and there will be a summer charge June through September. And, the winter rates -- meter charge will be $20 for the small customers, $50 for medium customers, and 110 for the large meters. And, in June through September, it's simply $16, regardless of the size of the meter.

The $732,000 increase in annual revenues will be recovered through a rate design that of which $312,984 will be recovered through the Cost of Energy, as a result of that change in -- change in costs that have been transferred to the Cost of Energy. And, those actually took place -- that transfer actually took place effective with this year's Cost of Energy rates, so, on November 1st. There's a 20,000 -- a $27,851 increase in meter charge revenues as a result of the change in the meter charges, the seasonal rates.

And, there will be a increase in the usage rates or delivery rates of $391,165. So, the cumulative effect of those three increases, one in the Cost of Energy charge, one in the usage rate, and one in the meter charges, adds up to the $732,000.

The delivery and usage block rates were adjusted, such that the average customer within each class will experience a similar impact. So, whether you're a small customer or a large customer, you'll see a -- your rates will go up between 18 and 19 percent, once these rates take effect, compared to what they were in 2011.

And, the $732,000 increase in test year revenues, that's test year revenues at 5 million, which means it's about a 15 percent increase. Customer impacts are between 18 and 19 percent, but that's because there were some one-time revenues in 2011 that will not be -- they're one-time revenues that won't be collected going forward. And, also, there are some revenues, such as rental space on the smokestack. And, those won't be changing as a result of this rate increase. So, customers will experience something higher than the 15 percent.

The Settlement provides for Concord

Steam to recover $19,536 of rate case expenses through a 12-month surcharge of 16 cents per Mlb. That covers the rate case expenses incurred prior to the filing of the Settlement. It doesn't include the costs related to this hearing or any subsequent costs. And, as part of the Settlement, Concord Steam will not seek to recoup the difference between temporary and permanent rates. And, I would just add, the permanent rates under the Settlement are to be effective May 1st.

Q. Thank you, Mr. Frink. Would you be able to generally summarize your testimony --

A. (Frink) Yes.

Q. -- that was presented in Hearing Exhibit 5?

A. (Frink) In my testimony, I did a analysis of the Company's filing, made some adjustments using traditional ratemaking methodology. And, between that and the Audit Staff's findings, I determined that the Company was entitled to $876,506 in increased revenues. Because of the competitive price disadvantage Concord Steam is currently experiencing, compared to natural gas, both the Company and Staff felt that something less than what traditional ratemaking would yield would be in the best interests of the Company and their customers. So, the Company had proposed something a little less than what they were entitled to. And, as part of the Settlement, we agreed to something quite a bit below that, but sufficient to meet the Company's needs.

Another consideration of, in an effort to retain customers, the Company is foregoing recovery of the temporary and permanent rate reconciliation, which that there is a difference of about $150,000 between the permanent rates in the Settlement and what were granted for temporary rates, essentially, the Company is foregoing almost that entire 150,000, because that most of their revenues are recovered through the winter period.

The 732,000 is also a little more than the -- is more than the temporary rates. The temporary rates were designed to -- were sufficient to get the Company through till when permanent rates were granted. And, the high -- going up another $150,000 was with the intent that, during the process, the construction of the new plant was slipping. So, in the original filing, the Company had intended to -- was planning to file for lower rates effective January 1, once the new plant came into service. So, the 532,000 was thought to be sufficient or hoped to be sufficient to get the

Company to the opening of the new plant, when their cost of service would go down. Given that's been -- that's been pushed back some, the 732 hopefully will allow them to get to when a new plant is built or some other alternative is implemented, that would allow them to either come in for a rate reduction or set new rates accordingly.

Meter charges were adjusted, because they haven't been changed since 2003. And, they don't reflect the Company's actual costs for those meters, mainly, depreciation costs and maintenance costs, testing, and so forth. The Company, looking at those costs, the proposed rate is something less than what the full cost is for those. We went to a winter and summer rate, because there are very few customers that remain on over the summer period. Out of 179 meters that are in service during the winter, only 24 remain in service during the summer. And, so, consequently, by having an even 12-month meter charge, the vast majority of the customers weren't paying for four months of the year on those charges. So, to be fair, and to recover the capital costs, these -- the winter summer rates are designed that all customers will pay the capital costs for the meters serving them. And, then, during the summer, everybody will pay a labor cost. The labor costs are the same, whether it's a large meter or a small meter. So, that's a flat charge. Obviously, the capital costs, depending on the size of the meters, it's greater for the larger meters. So, that's why we've proposed an increase in the meter charge, and why we've implemented a winter and summer meter charge rate.

It was also determined, in my testimony I discussed the fact that the charges that were being transferred to the Cost of Energy are, in fact, energy charges, energy costs. It was pointed out that -- that maybe electric costs could also fall in that category, but there's some maintenance costs that maybe should be pulled out and put in the delivery charge, but they pretty much balance out.

A lot of that should and needs to be addressed in a cost of service study. Given this likelihood of a major change in the underlying costs of this company in the not-too-distant future, it felt -- we didn't propose doing that in this one. We expect there will be another rate case within a few years in which that will be done. And, at that point in time, it will give us a good basis and more information on determining the exact costs that belong in the Cost of Energy versus delivery, what the metering charges should be, if, in fact, we should have a customer charge. A metering charge is not a customer charge, it doesn't recover all of the Company's fixed costs. But, again, that wasn't done in this proceeding. The cost to do that, we don't want to add any additional costs. The underlying expenses are going to change. So, we've put that off. But we do intend to do that in the next rate case.

And, so, with that -- oh, one other piece is, on the usage rates, we did, for temporary rates, do a pro rata increase of 12.8 percent on the existing usage rates, but that wasn't spreading the impact evenly between the classes. So, we did decide to go with something that was more equitable, as far as what customers would experience for a rate increase. And, so, the usage rates, the first block, which is the highest rate, increased by 16 percent. The Block 2 and Block 3, as a declining block rate, went up by 25 percent each. And, that was so that, when factoring in the energy, the change in the energy rate, the change in the meter rate, and the change in the usage rates, everybody would see a similar impact.

And, that completes my summary of my testimony.

Q. Thank you, Mr. Frink. I believe that you have before you, and I've distributed around the hearing room, a document that is dated February the 14th of 2013, is that correct?

A. (Frink) Yes. That is correct.

Q. And, that is marked as the "Final Staff Audit Report" for Concord Steam Corporation?

A. (Frink) Yes.

Q. And, it bears the docket number "DG 12-242"?

A. (Frink) It does.

MR. SPEIDEL: I would like to request that this be marked as "Hearing Exhibit Number 7"?

CHAIRMAN IGNATIUS: So marked.

(The document, as described, was herewith marked as **Exhibit 7** for identification.)

BY MR. SPEIDEL:

Q. Mr. Frink, it's not strictly necessary that you give us an overview of this Audit Report. But are there any points that you'd like to touch on?

A. (Frink) I do believe the Audit Report points out that there is a special contract that is in effect that hasn't been filed with the Commission to date. So, that was a discovery that needs to be rectified. And, Concord Steam has said they will be making that filing. So, that's an important find.

There was one other substantial finding, which the Company, in their filing, had inadvertently double counted some revenues in the Cost of Energy and in the -- and hadn't removed them from the delivery rates in the filing. That was about $150,000 in revenues that had been double counted.

That was -- those are really the only two substantive finds that they had. There were a number of smaller corrections and the typical things that get picked up in an audit. But, with the exception of those two, the audit was -- it was a pretty clean audit.

Q. Okay. Thank you, Mr. Frink. Also, I have distributed, and I believe that you have in your hand, a Concord Monitor article dated Saturday, March the 30th, 2013, by Laura McCrystal?

A. (Frink) Yes, I have that.

MR. SPEIDEL: It's titled "Still without financing, Concord Steam makes backup plan to stay put." And, I believe that the Company also has that in hand.

And, I would request that that be marked as "Hearing Exhibit Number 8".

(The document, as described, was herewith marked as **Exhibit 8** for identification.)

MR. SPEIDEL: And, I'll make a small offer of proof as part of that. This is for informational purposes only. And, I'll have the witnesses give additional explanation of some discrepancies between the article and what Staff and the Company are aware of, just to make sure, for the record, that what's in the press does not necessarily fully reflect the facts on the ground.

BY MR. SPEIDEL:

Q. So, Mr. Frink, you have seen this article. And, does the information presented in this article affect the recommendations and conclusions presented in your testimony?

A. (Frink) It does not. The recommendation that the Settlement -- the Commission should approve the Settlement stands. The Settlement was -- the attempt by Staff, what I believe the Settlement does, is it increases revenues to the point where the Company is able to meet its capital and operating needs for the near term. It is critical to the Company that it retains existing customers. And, whether the plant, a new plant were to open on January 1st of 2014, or if there's some other alternative plan that is eventually implemented and done, this is still the least -- the smallest increase that I think Concord Steam needs to be able to operate over the next couple of years. So, that doesn't change. And, I mean, I'm sure it's disappointing for the Company and for customers. But they're working on other plans. This will give them a chance to do what they need to do to determine how they're going forward. And, again, I do think it's the smallest increase that's necessary to meet their needs over -- while they're doing that. And, hopefully, there won't be another -- and I don't expect there will be another rate case until there's a solid plan in place, and we have a better understanding of what their costs will be going forward.

Q. Thank you, Mr. Frink. Mr. Bloomfield, do you have any general comments you'd like to make regarding the Settlement?

A. (Bloomfield) No. No. We've worked with Staff and come to a point that we're both satisfied with, that it will meet our needs of the Company.

Q. Thank you. Do you happen to have a copy of the _Concord Monitor_ article in hand?

A. (Bloomfield) I do.

Q. Okay. I'll give you a chance to make general comments or express your thoughts about this. But there is one thing I wanted to ask about, and that would be on the reverse page of Hearing Exhibit 8. The very first paragraph, the second line reads: "The utility says it would lower the cost of the steam heat it provides to more than 130 downtown buildings", that would be the new plant. And, then, it reads: "Construction for the $70 million plant has been long delayed while the company sought customers". Is it fair to say, Mr. Bloomfield, that the most recent estimate for the cost of the plant that's been provided to Staff is in the 100 to 110 million dollar range?

A. (Bloomfield) Yes, that's right.

Q. Thank you. Do you have any further comments you'd like to make about the article or do clarifications?

A. (Bloomfield) Well, there's any number of things. I mean, for instance, Concord Steam actually didn't buy the land. We bought it personally, because it's not a Concord Steam issue. But the flavor of it is generally right. Where we've, as it's been obvious, painfully obvious, with the delays we've had in the financing and working the details out on this main project, it just -- it continues. We are having some very positive discussions now with some large investing groups that will be able to take advantage of the investment tax credits and the accelerated depreciation that are still in place. The tax rules changed over the past year. And, so, we've had to kind of refigure the best way to finance the project. And, we're talking to some large entities about being able to finance it.

However, we're also -- we've got to fish or cut bait at some point. And, so, we just can't continue down this road of trying to make the big project happen. So, we're looking at the alternative of investing in our existing plant, putting in a new boiler, new pollution control equipment, a turbine generator set. The New Hampshire Electric Co-op has indicated that they would be willing to consider transferring the purchase power contract we have from -- from the large project and downsize it and transfer it to the smaller project. So, we're in that process. We're trying to get capital cost estimates. We're seeing how it can be structured, in terms of financing. But it is -- it is still a second string to our bow.

It's not the primary path we're moving down, but that fork in the road is going to come pretty quick. And, probably within a month or two, we're going to have to make a decision to go one way or the other.

MR. SPEIDEL: Thank you. I appreciate that. Staff has no further direct questions for the witnesses.

CHAIRMAN IGNATIUS: Thank you. Mr. Saltsman, any questions?

BY MR. SALTSMAN:

Q. Mr. Bloomfield, is there -- what is the potential for rate reductions with the second string at the existing facility?

A. (Bloomfield) In both cases, the ultimate rates to the customers should be in the same general area. That we expect from our -- from where the rates are, as proposed here, the revised rates, whether it's the large project or the smaller, downsized one on the existing site, we would expect rate reductions in the neighborhood of 40 percent from what the present proposed rate structure is now.

MR. SALTSMAN: No further questions.

CHAIRMAN IGNATIUS: Thank you. Questions from the Commissioners? Commissioner

Harrington.

CMSR. HARRINGTON: Good morning.

BY CMSR. HARRINGTON:

Q. Just in the -- not too many questions. The first one, you had mentioned that you didn't expect any new rate increase until either the larger project or I guess we're calling the "backup project", is going to actually be built and go into effect. Am I interpreting that correctly?

A. (Bloomfield) That's correct. Yes.

Q. Okay. And, that's going to be fairly short term. So, whatever is going to happen, with either of these projects, what's the amount of time, you said you're going to meet that crossroads in a month or two, then, once that happens and you pick your route, are we looking at a year? Two years?

A. (Bloomfield) It's somewhere in between there, yes. It's about a year and a half construction schedule on the big project. It's actually less time than that to actually do the construction at the existing facility, but it might stretch a little longer, because we have to keep operating while we're working, while we're building that.

Q. That was going to be my next question. So, you can operate and refurbish at the same time?

A. (Bloomfield) Yes. Yes. Yes, we're still working out the details on that, but we've got a concept.

Q. And, of the overall cost of, I guess, a 15 percent increase, what's the main driver of the cost increase?

A. (Bloomfield) As much of anything has been some -- probably, as much of anything it's been loss of customers, is probably the biggest single effect that we've had. Although, it's really just a combine -- a series of miscellaneous items, everything from, you know, insurance and general cost of operations, and salaries and that kind of thing.

I mean, really, the last time we had a rate case was 2007, I think. So, it's been a while. We kept putting off this rate case, thinking that the new project was going to happen, and it was going to happen, and so we kept putting it off. And, finally, we just had to -- had to move forward.

A. (Frink) I'd just like to add, too. The last rate case, again, they have been limited increases. So, it's not like they -- there's a big increase that meets their requirements. It was always intended as short-term fixes, just as this one is. So, there wasn't a big margin to absorb a lot of additional costs.

Q. And, most of the loss of customers was due to the decrease in the cost of natural gas?

A. (Bloomfield) Yes.

Q. And, would you expect, now that the natural gas futures are looking about 20 percent higher than they were last year, that you might see some return of these customers or --

A. (Bloomfield) I don't know that they're going to return, because, once they convert, they have invested some capital in it. But there is a couple of things. One is, the price of gas is still and going to continue to be a real rollercoaster, I think. But all of the customers that were an easy conversion have converted. And, so, the ones that are left are ones that are much more complicated and much more capital-intensive.

Q. And, I would assume that the prospect of 40 percent lower rates in a couple years may be something that might make them stay around for a little longer?

A. (Bloomfield) Exactly.

Q. And, what's the biggest variable with your costs? Is it the cost of fuel? Is it the wood?

A. (Bloomfield) They are certainly the biggest single component. It's still a very stable price, but that's the largest component of it.

Q. And, just a couple other quick questions. Mr. Frink, in your testimony, it's Exhibit 4, on Page 5, there was some discussion on the bottom of that page, it says "Staff agrees that the majority of the costs belonging in the Cost of Energy, but believes a relatively small percentage of those costs relate to system maintenance and should be reflected in delivery costs." And, it says "Staff has been unable to determine a reasonable approximation of what that percentage should be and therefore recommends the full amount of these test year expenses be transferred to the 2012-2013 Cost of Energy." Is that what was done in the Settlement Agreement?

A. (Frink) Yes. We think these costs are reasonably representative, where they belong, absent a cost of service study, fine-tuning it, we didn't see a need to go there. So, that's -- we agreed that this was appropriate.

Q. Okay. Thank you. And, one last question. On the meters, was this concept of having a meter charge new or is it just an increase from what you had in the past?

A. (Frink) The meter charge has been around about -- since 2003, and well before that. So, they were in existence. And, I think it was probably an oversight on everybody's part that, when we're doing pro rata increases in the usage rates, we weren't also doing that with the metering rates. If we had done that all along, I think they'd probably be a lot -- they would be a lot closer to where they -- where we're putting them now.

Q. Okay.

A. (Frink) So, I believe, back in the early '90s, George McCluskey with the Staff worked on the rate design and came up with the declining block rate and the metering charge. So, I think that's when it -- it's been around at least since then.

CMSR. HARRINGTON: Okay. Thank you. That's all the questions I had.

CHAIRMAN IGNATIUS: Thank you. Commissioner Scott.

CMSR. SCOTT: Good morning.

WITNESS BLOOMFIELD: Good morning.

BY CMSR. SCOTT:

Q. I'm just curious if you could help us a little bit. Your current lease of the property you're on expires this August, correct?

A. (Bloomfield) Yes.

Q. So, that's -- and I know I'm not telling you anything you don't already know.

A. (Bloomfield) That's right. Yeah.

Q. What's the status of that? That doesn't seem to give you a lot of time to move forward.

A. (Bloomfield) Our original 30 year lease expired three years ago, I think. Yes, three years ago. And, at that time, we sat down with Mike Connor and the State, folks from the State. And, they said "How much do you need? How much time do you need?" And, we said "well, I think three years ought to be plenty." Well, here we are, three years. And, so, it was -- and I think it will be that same kind of sitdown again with them. That they're not about to kick us out. That they have been very cooperative and interested in working out something that's good for both parties. So, I don't know if it will be another two or three-year extension or a 30-year extension, but that will -- we'll figure that out in the next few months.

Q. And, your response kind of anticipates, obviously, the Concord Monitor article seemed to indicate that there was some angst between the Staff and the City, are which I think your larger steam customers of --

A. (Bloomfield) Yes.

Q. And, at what point is -- are we going to do something different?

A. (Bloomfield) That's right. That's right. And, a lot -- some, a lot of their angst is tied into the fact that we're supposed to be supplying electricity to them as of January 1 of 2014. And, you know, what's going to happen with that contract? And, that's where some of the angst is. Also, the City is getting very heavily invested in this downtown snowmelt system. And, they want to make sure that we're around to be able to deal with that.

Q. So, again, maybe to solve my angst a little bit, so, in the article you talk about a "contingency plan", and you talk about that a little bit.

A. (Bloomfield) Uh-huh.

Q. Obviously, contingent upon that would be getting the renewed lease, obviously, --

A. (Bloomfield) Yes.

Q. -- if you're going to stay there. And, if I understand you correctly, you don't really anticipate a problem getting that?

A. (Bloomfield) Right. That's correct.

Q. So, what you're really talking about is, if I heard you right is, if you need to stay on the existing facility, downscaling the size, but still repowering and retooling?

A. (Bloomfield) That's right. Yes. Especially to rebuild the boiler, some of the boilers that we have, remove one altogether, put a brand-new boiler in, new pollution control equipment that would cover the two solid fuel boilers, go to natural gas completely, probably eliminate heavy oil completely. Those are the -- that's the overall picture that we're looking at.

Q. And, do you have a feel at this point, correct me if I'm wrong, the current boilers, the facilities are owned by the State. In that construct you just outlined, who would own those facilities?

A. (Bloomfield) Well, some of the equipment is owned by the State and some is owned by us. So that, over the past 30 years, we have put some equipment in, and we have maintained and improved some of the other boilers there. So, the boilers that are there that we're going to basically rebuild, those are the State's property. And, we're doing -- we'll be doing nothing more than we've done over the past 30 years, basically, is, you know, keeping those boilers operational. And, putting new burners on and doing things like that to do what we need to do with air regulations.

Q. And, I'm, as you're probably aware, I'm aware of the balance that you have strike. Obviously, you're hoping to build a new facility, but yet you need to maintain the current facility to meet environmental and other requirements.
A. (Bloomfield) Uh-huh.
Q. How is the current facility compliancewise for environmental regulation?
A. (Bloomfield) We are in compliance. We -- something with the older equipment there that we struggle with every day. But we have it under control and we've kept our -- kept our record fairly clean. You know, every once in a while, there's an upset or a problem. But they're few and far between, and we're actually in pretty good shape.
Q. And, do you have -- I was curious, with the delay, that can cause issues with your construction permit, your temporary air permit. What's the status of that?
A. (Bloomfield) The temporary air permit, jeez, it was issued 2008 or '09, I think. But we actually did start some construction on the site last year. We poured some foundations, we built a road, we started clearing and clearing the site. And, so, the Department was satisfied that, in fact, construction had started.

However, if we don't -- if we don't continue construction and have some more significant activities taking place before the end of August, then we're going to have to reapply.

Q. And, finally, my other issue, I was just curious, assuming you are able to -- well, one way or another it sounds like you need to do facility changes, no matter what, it sounds like?

A. (Bloomfield) Uh-huh.

Q. Both Plan A and Plan B requires it.

A. (Bloomfield) Yes.

Q. So, on your -- looking at your Settlement, you'll be charging a meter charge in the summer, and the basis for that, which I understand, is that it makes more sense to keep heat on the pipes to keep them maintained.

A. (Bloomfield) Uh-huh.

Q. Will that still be the case during construction? I assume, at some point, you'll have to break those connections?

A. (Bloomfield) That's right. Yeah. At some time, just as a for instance, some time, hopefully, this summer, we're going to have to shut down the whole system for a weekend, because we've got some repairs to do on the main line. But it will just be that. It will just be shut down for a couple of days, hopefully, less than that but -- and, that's what we'd do for tying in with the new system as well, we'd have to shut down for a day or so, do that tie-in, and then bring it back up again.

Q. Okay. That helps. So, even during -- when you do construction, you'll still plan on, obviously, you need to maintain the lines, so --

A. (Bloomfield) Yes. We'll maintain the lines.

CMSR. SCOTT: Thank you.

WITNESS BLOOMFIELD: Yes.

CHAIRMAN IGNATIUS: I have a couple of other questions.

BY CHAIRMAN IGNATIUS:

Q. The Concord Monitor article refers to "130 downtown buildings being served". Is that an accurate identification of your customers?

A. (Bloomfield) No. No, I'm not quite sure where she got that number. We have 179 meters. So, there's basically one or two buildings have more than one meter. So, we have in the neighborhood of 175 buildings that we heat.

Q. And, customer count is more like 103 or something?

A. (Bloomfield) That's right.
Q. And, do you have any prospects for any new customers who were thinking of converting to your system?
A. (Bloomfield) Not in the -- not in the queue at the moment.
Q. Do you have any that have made known to you that they intend to get off the system?
A. (Bloomfield) No, we haven't heard that either. We do have some that we're continuing a discussion with to get back on the system, because of their expansion and issues of their existing mechanical equipment. That there is some interest to get back on the system that, once we get the new plant started and have a reduced steam rate in our future, that -- which will help to get some of those back on.
Q. And, the reduction in rates that you said would come from either the larger new plant or refurbishing the existing plant, how is it that the existing plant could produce a 40 percent reduction in rates?
A. (Bloomfield) There's two pieces to that. One is, by putting in a turbine generator set, we can -- we can more baseload the facility and sell -- sell steam or electricity year-round. I mean, right now, we're running, really, four months out of the year is where

we're running at fairly full load, and the rest of the time it's at a much reduced load. So that we're carrying those operating costs year-round, and have to recover all those costs during the four months of the heating season.

The other thing that allows us to make those reductions is the thermal renewable energy credits that we would expect to qualify for.

Q. And, is the new boiler you're thinking of putting in, would that increase the efficiency significantly?

A. (Bloomfield) It would also do that as well, yes. Yes.

Q. But it's really those other two factors --

A. (Bloomfield) Right.

Q. -- that drive the price down?

A. (Bloomfield) Yes.

Q. I have a couple of questions about the components of the rates for Mr. Frink. I'm looking at the Settlement Agreement, it's Exhibit 1, the final Page 7 of 7, and it's the rate of return calculation. Do you have that?

A. (Frink) Exhibit 6 you mean?

Q. Within Exhibit 6.

A. (Frink) Oh, right.

Q. The attachment, Exhibit 1.

A. (Frink) I'm there.

CHAIRMAN IGNATIUS: And, in the future, numbering sequentially, from beginning to end, with all of the attachments, is always easier for everybody to be able to just --

CMSR. HARRINGTON: What page number are we on?

CHAIRMAN IGNATIUS: Well, there is no page number, so --

CMSR. HARRINGTON: 7 of 7 of that document?

CHAIRMAN IGNATIUS: Yes.

BY CHAIRMAN IGNATIUS:

Q. So, the overall rate of return is 5.7?

A. (Frink) Yes.

Q. And, that -- how does that compare to the currently authorized return?

A. (Frink) The currently authorized return is 3.91.

Q. What is the current actual --

A. (Frink) Actually, let me correct that. That was a -- that's an imputed return. That was never actually explicitly approved in the prior order, but that was the imputed return.

Q. So, is there an authorized return from a prior order that you can look to?

A. (Frink) The order prior to the last rate increase approved a return, an overall rate of return of 3.22.

Q. And, the reason that that was set so low was because of the fear that, by building in a return that was in a more normal range would drive the price up and lose customers?

A. (Bloomfield) Yes.

A. (Frink) Yes. Well, typically, what was done is, the Company proposed, in both instances, the Company proposed rates well below -- a rate increase well below what we'd typically grant. And, it wasn't a matter of setting a return and then coming up with a dollar amount, it was more of a dollar amount, and saying "okay, what kind of a return does that produce?"

I'm just checking my testimony to verify those two return rates. And, yes, in the last two rate filings, it was 3.22 percent in 2008 and a 3.91 imputed in 2010.

Q. All right. Also, within that exhibit, it shows short-term debt of "24 percent". That's extremely high. Mr. Frink, do you have a sense of whether that's going to continue to be that high? And, if so, do you have concerns about it?

A. (Frink) The capital structure is going to change when the -- whether Alternative A or B or whatever going forward should be quite different. The common -- the equity piece is not what we normally see either. And, that's "64 percent". So, I imagine, when the new plant is built, there will be more common -- there will be more long-term debt, and I expect the common stock will go down.

A. (Bloomfield) And, the other point on that short term is that we're so seasonal, that's our line of credit. And, when we get to the end of December, that's just about as deep as we go into our line of credit. You know, because we pay for the fuel that we put in storage for the wood yard, we've paid for all the fuel we've burned, we've billed for November, and we're just -- we're paying for all the expenses in December, and just starting to get revenue from November. And, so, that's our lowest point of cash flow. And, so, it always looks bad, because it's December 31st. But we usually climb up out of that by April/May, and it gets down to a much more reasonable level of short-term.

Q. So, do you know where it is currently, now that we've just gone into April?

A. (Bloomfield) Currently, I believe it is closer to $600,000, as opposed to that million, whatever it is.

Q. So, about half?
A. (Frink) The 1.1.
A. (Bloomfield) Yes.
Q. Has the Company sought a waiver of our requirement of a maximum 10 percent short-term debt?
A. (Bloomfield) We have. We had approvals on that line of credit, because we had -- have been over that.
A. (Frink) Yes. There was, there have been requests for that. There have been an increase in it from time to time. The rate base is something higher than the capital structure. There have been losses for a number of years. So, that doesn't -- that 24 percent isn't necessarily representative of the rate base. I believe the rate base is 5. -- almost 5.3 million, and the capital structure shows a total of 4.5. So, if it's 600,000 on 5 million, you're looking at about a 10 percent.
Q. You're right. I was mixing my -- I should never try to do math. This is 20 percent of the total components of the rate of return calculation?
A. (Frink) Yes.
Q. It's not the -- the short-term debt limit is 10 percent of the plant?
A. (Frink) Net plant.

Q. Of the assets. Okay. And, that's not 24 percent?
A. (Frink) No.
Q. A couple of questions about the audit. The final three pages with the more significant findings, and, Mr. Frink, you had -- no, I'm sorry. That was a different one. The one on Page 57, the special contract with McLeod Florist, I assume that is?
A. (Bloomfield) Yes.
Q. And, that the Company has never sought approval of that contract. How long has that been in effect?
A. (Bloomfield) About a year. It was -- they wanted to come on. There was negotiations back and forth as to whether they would pay for the service connection or we would pay for it. If we paid for it, then there was going to be -- there was, under one situation, there would be just a standard tariff rates, under another situation it would be a special contract. We went back and forth, it was going to be -- we thought we settled in that it was going to be just a regular tariff rate. And, then, they changed their mind at the last minute, and we forgot to file for approval. So, --
Q. Was this a new company -- a new customer?
A. (Bloomfield) A new customer, yes.
Q. And, when do you anticipate the petition being filed?

A. (Bloomfield) Sometime in the next month or two, fairly soon.

Q. Let's get it in, not in the next month or two, but --

A. (Bloomfield) Okay.

Q. -- in April, if you can.

A. (Bloomfield) Okay.

Q. And, obviously, you've had special contracts with other customers, so, you know the requirement, you know how that works, and the kinds of information that's required for review by the Commission Staff?

A. (Bloomfield) Yes.

Q. On the Audit Issue Number 7, which is on Page 58, the description was of a -- just an overlooking an increase in 2011. But, then, there also was not an increase in 2012 -- I'm sorry. That the base on which the 2012 increase was calculated was actually lower than it should have been. Is there any intention to sort of get caught up to where it should have been or is that simply forgone?

A. (Bloomfield) It was -- It's forgone. But it was a very, very minor difference, because it was an inflation adjustment, and inflation in those years were very small.

Q. All right. And, is there a system in place to be sure that you're catching up with all of these different customers, --

A. (Bloomfield) Yes. Yes.

Q. -- with different adjustments that are needed?

A. (Bloomfield) Yes.

Q. And, the Audit Issue Number 8, on Page 59, again, was something that was discovered in 2011 of an incorrect usage rate being used, but then that continued through all of 2012, is that right?

A. (Bloomfield) Yes.

Q. Is this the $150,000 issue that Mr. Frink referred to earlier?

A. (Bloomfield) No. No, this is a special contract with the Y, that is they pay an estimated payment each month, and then, depending on their usage, if they use more than a target level, their discount reduces. So that there was a target level where they said they were going to use a certain amount of steam, if they use more than that, then they have to pay more on a unit charge for that additional stuff, for the additional product that they buy. And, it was part of that calculation that was -- that had been done wrong, and it was corrected.

A. (Frink) The $150,000 adjustment relates to the -- I believe it's the wood yard plant rental. So, Concord Steam pays approximately $150,000 a year for that, for the lease of that property. That expense was reflected in the delivery side and on the Cost of Energy side. So, they had revenues on the Cost of Energy side, and that's where it belongs, but they hadn't removed it from the expense side on the delivery.

Q. So, getting back to the YMCA issue, the adjustments, a credit has been made for what was owed back to Concord -- to the YMCA?

A. (Bloomfield) Yes.

Q. And, the usage rate is now corrected to be what it should be?

A. (Bloomfield) Yes.

Q. All right. And, you have a mechanism in place, so that it will stay where, as it needs to adjust, it will happen and not be overlooked?

A. (Bloomfield) Yes.

Q. Mr. Bloomfield, do you have a view on why the new plant process has been so difficult?

A. (Bloomfield) It was -- it's been a series of different reasons and different entities involved. The biggest issue started, you know, back in 2008, when we had all the -- we had 100 percent of the power sold, we had a term sheet from a bank. Come 2008, the bank pulled the plug and said "no, we're not going to honor the term sheet." The PPAs fell apart. So, we had to kind of re-go again. We finally signed our last -- the last bit of power up with the State and the City in September of 2011. At that point, the major component of the financing of the facility was based on the cash grant that was coming through as part of -- instead of -- in place of a investment tax credit, there was a cash grant that was available. But the project had to be on line by date certain, by the end of 2013. And, the financing, the banks and the equity players, were not -- were not comfortable with the idea that, if we didn't make it, they lost $30 million. I mean, it was not just, you know, it had to be on by that day. And, if it's the next day, it's a significant loss. So, it was back and forth with different contractors to what kind of guarantees could be made, and the contractors weren't willing to make that kind of guarantee. So, it was a lot of back-and-forth and back-and-forth. And, that was really kind of the issue. It was timing, and we just couldn't get the mix, combination of the investors and contractors and banking/financing entities all together. So, that -- that cash grant expired, but they re-upped on the 30 percent investment tax credit. And, so, now we're restructuring the financing based on that.

Q. Is it your view that just timing has been wrong with changes in the economy and, you know, ARRA terms and that sort of thing?

A. (Bloomfield) Yes. That's been the biggest problem -- probably the single problem. And, we had, in trying to get a PPA for the project, we had Redding Municipal Light Department and New Hampshire Electric Co-op signed up for 75 percent of the electricity. And, we went to virtually every utility in New England trying to -- trying to get them interested in buying that, a piece or that last piece of power. It was all of 4 megawatts. And, because of unknowns in what the renewable energy credit market was going to be, and what was going to happen with that, with the issues of Massachusetts and its rules on biomass and its renewable energy credit market and how that impacts the whole thing. So, you know, we talked to municipals, we talked to all the major players. We talked to, as I say, every utility and struck out. So, we -- That's when we went to the City and the State, and said "Look, you know, we can provide you with power." And, they were interested, but it took a year for that to happen. So, you know, it's just been a long road.

Q. Do you think there's any lack of interest for a steam utility, and you had a harder road than others might have had because it's a steam facility?

A. (Bloomfield) I -- That's a piece of it. But we tried to structure the arrangement so that the electrical off-takers were basically a percentage of our output. So, if the steam -- if we sold less steam and generated less steam, we would sell more electricity. So, it would be offset in that fashion. So, it could have been the kind of -- people had in the back of their mind, but no one specifically said that. I mean, generally, the feedback we got was more positive, because it was a combined heat and power plant and more efficient, effectively.

CHAIRMAN IGNATIUS: Thank you. Another question from Commissioner Scott.

BY CMSR. SCOTT:

Q. On the Plan B, is that also -- is it somewhat notional, in that that also is dependent on getting an investor that you don't currently have?

A. (Bloomfield) That's right. Yes.

CMSR. SCOTT: Thank you.

CHAIRMAN IGNATIUS: All right. The witnesses -- oh, I'm sorry. Is there any redirect, Mr. Speidel?

MR. SPEIDEL: I don't think so, Chairman. Thank you.

CHAIRMAN IGNATIUS: All right. Mr. Saltsman, anything else?

MR. SALTSMAN: No. Thank you.

CHAIRMAN IGNATIUS: Then, you're excused, but why don't you stay seated. Do we have any other -- there are no other witnesses, I take it?

MR. SPEIDEL: No.

CHAIRMAN IGNATIUS: And, is there any opposition to striking identification and making the exhibits full exhibits?

MR. SPEIDEL: None.

CHAIRMAN IGNATIUS: Seeing none, we will do that. Anything, other than closing arguments?

(No verbal response)

CHAIRMAN IGNATIUS: All right. Then, Mr. Speidel, why don't you begin, and then we'll turn to Mr. Saltsman.

MR. SPEIDEL: Thank you, Chairman. Staff supports the Commission's approval of the Settlement

Agreement presented in this case. As discussed in Assistance Director Frink's testimony, and both prefiled and here at hearing, it offers the Company a way forward for the short to medium term future, in terms of maintaining its cash flow, maintaining a rate of return that is commensurate with risk, and also offering it a transitional period and a transitional breathing space between the current situation and its expected opening of a new plant or, in the alternative, the renovation of its current plant.

We are well aware of the Company's challenges related to retaining and attracting new customers, high fixed costs and other problems. But the Staff is pleased to have had the chance to work collaboratively with the Company to develop a solution to meet its short to medium term needs. That also offers the best prospect possible, in the view of Staff, for retaining customers and not subjecting them to rate shock.

Also, we thank the Company for its efforts in working collaboratively with us, and making sure that rate case expenses were at the minimum, which is especially important, given the small size of the Company and its small customer base. We were trying very hard informally and on a collaborative level to avoid excessive rate case expenses, including the retention of outside counsel, and to make sure that the Company took a sharp pencil to its expenses, and we appreciate that.

So, in general terms, we ask that the Commission give the Settlement careful consideration and its approval. Thank you.

CHAIRMAN IGNATIUS: Thank you. Mr. Bloomfield.

MR. BLOOMFIELD: Thank you, Commissioners. We also feel that the rates are adequate and fair, and will allow us to move forward and do what we need to do in the next couple of years. We do, as we said earlier, we do intend to refile for another rate restructure, once we know for certain which direction we're going in, what our final plans are going to be with whether it's the large, new facility or rebuilding the existing facility. But there will be another rate case at that point, at some point in the next year or 18 months probably.

We'd also like to thank Staff. As usual, they have been very helpful and cooperative, and it's been a pleasure.

CHAIRMAN IGNATIUS: Never heard that before. All right, thank you. We understand you have asked for a May 1st implementation date, if the Settlement is approved. And, so, we will keep that in mind as we review it. We'll take all of this under advisement, and stand adjourned. Thank you.

(Whereupon the hearing ended at 11:17 a.m.)