

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

CONCORD STEAM CORPORATION

Docket DG 09-139

**Direct Testimony
Of
Stephen P. Frink
In Support of Temporary Rates**

October 13, 2009

Q. Please state your name and business addresses.

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

Q. Please summarize your educational and professional experience.

A. See *Attachment SPF-3*.

Q. What is the purpose of your testimony?

A. My testimony supports the Company's request for temporary rates and the waiver of filing requirements. My testimony will also provide Staff's initial position regarding the Company's requested increase in permanent rates.

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

A. The Company has requested an increase in rates on both a temporary and permanent basis designed to produce an additional \$341,940 in annual gross operating revenue, to be effective with service rendered as of November 1, 2009, or the date on which customers are notified, whichever is sooner. The increase represents a 7.15% increase over 2008 test year revenue of \$4,785,441 and a 13.65% increase in base revenue of \$2,504,313. See *Attachment SPF-1*.

Q. Are the proposed rates sufficient to ensure that Concord Steam will be able to continue providing safe and reliable service and provide a reasonable rate of return as shown by the reports of the Company filed with the Commission?

A. Yes. Although the Company's requested level of rates yields a rate of return below what is currently authorized, combined with cost saving measures the Company has undertaken, the rates should enable Concord Steam to continue providing safe and reliable service while earning a modest profit. Concord Steam

calculated a rate of return of 1.5% on an adjusted test year and Staff calculates a 1.98% rate of return based on an unadjusted test year. Normal weather would have resulted in slightly lower earnings, as the 2008 winter months were 0.7 percent colder than normal thereby increasing sales, but because the heating season was very close to normal the impact on earnings is not material (Concord Steam calculated that colder than normal winter weather increased test year revenue by \$7,881).

Q. Using the 9.54 percent return on equity the Commission found to be just and reasonable for National Grid NH earlier this year, what would Concord Steam's revenue deficiency and overall rate of return be?

A. Concord Steam's revenue deficiency, based on an unadjusted test year, would be \$766,679 based on an overall rate of return of 8.35 percent. See *Attachments SPF-1 and SPF-2*, respectively.

Q. What is a reasonable rate of return for Concord Steam?

A. That will be determined by the Commission but may be something less than what the Commission normally grants utilities given the nature of the service provided and its rates relative to those of National Grid NH, its primary competitor. In Concord Steam's prior requests for increases in delivery rates the Company recognized the risks associated with implementing a substantial rate increase and sought returns lower than those being granted other New Hampshire utilities.

Q. What cost saving measures has Concord Steam undertaken?

A. Concord Steam has laid-off five employees, frozen salaries and wages, and Bloomfield Associates is providing engineering services free of charge.

Q. How do those measures affect operations?

A. The layoffs were primarily maintenance employees that are not responsible for plant operations. Thus, plant operations should not be affected and the most of the maintenance work for this year has been completed. Most maintenance work takes place during the off-peak period and maintenance may be more limited next summer given the anticipated commencement of construction of the new plant and the date for closing the old plant becomes more certain. The Company anticipates an increase in overtime pay, which along with the cost saving measures is reflected in adjusted test year expenses.

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

A. The proposal appears to be reasonable but Staff will make its recommendation on permanent rates following a thorough investigation of the facts. Implementing a greater increase could have dire consequences for Concord Steam, as a more substantial increase would make Concord Steam less competitive and may cause customers to leave the system. A fundamental change in New Hampshire's steam industry is expected to take place in the next few years as Concord Steam intends to purchase, rather than produce, its steam requirements. That change is expected to result in a substantial reduction in Concord Steam rates while providing the Company the cash flow to make system improvements and earn a rate of return more in line with other New Hampshire utilities. Rather than risk losing customers during the transition period, Concord Steam is attempting to keep rates as low as possible while continuing to meet its customer's needs. There are significant capital costs for a customer to convert from steam to natural gas and once a customer makes that transition a return to steam service is unlikely. Limiting the rate increase will help retain current customers, thereby allowing

customers that might otherwise leave the system to avoid the cost of conversion and benefit from the reduced rate expected from the restructuring. And the more customers that remain with Concord Steam, the greater the savings as Concord Steam's fixed costs are spread over more volumes, reducing the per unit cost.

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

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

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

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

Q. What is Staff's recommendation regarding the effective date of temporary rates?

A. Rates should be effective November 1, 2009 on a service rendered basis. November 1 traditionally marks the start of the heating season and coincides with the effective date of the proposed decrease in the Cost of Energy rate. The projected decrease in the Cost of Energy is \$422,400 and implementing the

temporary rate increase of \$341,940 at the same time results in a net decrease of \$80,460, a 1.7% reduction in test year revenue.

Q. Does this conclude your testimony?

A. Yes.

CONCORD STEAM CORPORATION
Revenue Requirement

	<u>Reference</u>	CSC <u>Revenue Request</u>	<u>ROE - 9.54%</u>
Rate Base Proposed	p. 2	5,056,749	5,056,749
Rate of Return	SPF-4	<u>1.98%</u>	<u>8.35%</u>
Income Required		100,220	422,164
Net Operating Income	p. 4	<u>(173,433)</u>	<u>(173,433)</u>
Revenue Deficiency before Taxes		273,653	595,597
State & Federal Tax	p. 5	<u>68,287</u>	<u>171,082</u>
Revenue Deficiency		<u><u>341,940</u></u>	<u><u>766,679</u></u>

Percent Increase - Base Revenues

Revenue Deficiency	341,940	766,679
Test Year Base Revenues	<u>2,504,313</u>	<u>2,504,313</u>
Percent Increase	<u><u>13.65%</u></u>	<u><u>30.61%</u></u>

Percent Increase - Total Revenues

Revenue Deficiency	341,940	766,679
Test Year Revenues	<u>4,785,441</u>	<u>4,785,441</u>
Percent Increase	<u><u>7.15%</u></u>	<u><u>16.02%</u></u>

CONCORD STEAM CORPORATION
Rate Base

	Total Gas Plant In Service	Accumulated Depreciation	Utility Materials & Supplies A/C 151-154	Prepayments	Deferred Taxes	Customer Deposits	Net CIAC	(Total) Net Utility Plant Service
December-07	10,542,734	(5,110,844)	326,339	70,278	(1,125,281)	(7,755)	(107,968)	4,695,471
January-08	10,543,249	(5,123,463)	286,633	74,666	(1,045,454)	(7,755)	(113,752)	4,727,876
February-08	10,546,750	(5,136,082)	233,748	74,666	(1,048,503)	(7,755)	(113,500)	4,662,824
March-08	10,552,750	(5,148,701)	246,143	74,666	(1,051,552)	(7,755)	(113,248)	4,665,551
April-08	10,558,727	(5,161,320)	179,583	74,666	(1,054,601)	(7,755)	(112,996)	4,589,300
May-08	10,581,137	(5,173,939)	138,737	74,666	(1,057,650)	(7,755)	(112,744)	4,555,196
June-08	10,584,637	(5,186,558)	138,454	74,666	(1,060,699)	(7,755)	(112,492)	4,542,745
July-08	10,589,337	(5,199,177)	126,866	58,896	(1,063,748)	(7,755)	(112,240)	4,504,419
August-08	10,609,363	(5,211,796)	132,395	58,896	(1,066,797)	(7,755)	(111,988)	4,514,306
September-08	10,559,070	(5,227,415)	171,596	58,896	(1,069,846)	(7,755)	(111,736)	4,484,546
October-08	10,562,570	(5,240,034)	275,838	58,896	(1,072,895)	(14,044)	(111,484)	4,570,331
November-08	10,562,622	(5,252,653)	334,945	58,896	(1,075,944)	(14,044)	(111,232)	4,613,822
December-08	10,568,684	(5,274,897)	367,707	40,296	(1,135,035)	(14,044)	(104,950)	4,552,711
Subtotal	137,361,630	(67,446,879)	2,958,984	853,050	(13,928,005)	(119,682)	(1,450,330)	59,679,098
13 month average	10,566,279	(5,188,221)	227,614	65,619	(1,071,385)	(9,206)	(111,564)	4,590,700
Test Year average (12 months)	10,568,241	(5,194,670)	219,387	65,231	(1,066,894)	(9,327)	(111,864)	4,581,969
			Utility Plant in Service - 13 month average					10,566,279
			Less: Accumulated Depreciation - 13 month average					(5,188,221)
			Net Utility Plant					5,378,058
			Plus: Working Capital - p. 3					577,613
			Materials and Supplies - 13 month average					227,614
			Prepayments - 13 month average					65,619
			Less: Customer Deposits - 13 month average					(9,206)
			Deferred Taxes - 13 month average					(1,071,385)
			Contributions In Aid of Construction (CIAC) - 13 month average					(111,564)
			Rate Base - 13 month average					5,056,749

CONCORD STEAM CORPORATION
Working Capital

	<u>Amount</u>
Total O&M - test year	4,866,939
Less: Depreciation & Amortization	<u>(246,038)</u>
Net O&M	4,620,901
45 day average O&M balance (1/8th annual amount)	12.5%
Total Working Capital	<u><u>577,613</u></u>

CONCORD STEAM CORPORATION
Revenue & Expense

	CSC
	Test Year
Revenues	
Base Rate	2,053,949
Fuel Charge	2,281,128
Meter Charge	31,900
Electricity Sales	150,827
Other	<u>267,637</u>
Total Operating Revenues	<u>4,785,441</u>
Expenses	
Production - Fuel Costs	2,220,872
Production - Other (sewer, loader, elec, etc.)	1,412,090
Distribution O&M	215,660
Customer Accounts Expense	53,977
Sales & New Business	4,933
Admin & General Expenses	624,991
Write off uncollectable expense	<u>722</u>
	4,533,245
Depreciation	245,336
Amortization	(3,018)
Operating Rents, net	225,555
Taxes Other Than Income Taxes - Property	152,508
Total Operating Expenses	<u>5,153,626</u>
Operating Income Before Federal Income Taxes	<u>(368,185)</u>
State Income Taxes	-
Federal Income Taxes	9,111
Deferred State Income Tax	-
Deferred Federal Income Tax	(203,863)
Total Income Taxes	<u>(194,752)</u>
Operating Income After Federal & State Income Taxes	<u>(173,433)</u>

CONCORD STEAM CORPORATION
State & Federal Income Tax Computation - Utility Operations

Calculation of State Income Tax	CSC Request	9.54% ROE
Revenue Deficiency	341,940	595,597
Less: Test Year Loss	<u>(173,433)</u>	<u>(173,433)</u>
Operating Income Before Taxes	168,507	422,164
State Income Tax (tax rate 8.5%)	<u>14,323</u>	<u>35,884</u>
Income Subject to Federal Income Tax (income less state tax)	154,184	386,280
Federal Income Tax (tax rate 35%)	<u>53,964</u>	<u>135,198</u>
Total Federal & State Taxes	<u>68,287</u>	<u>171,082</u>

CONCORD STEAM CORPORATION
Overall Rate of Return
For Ratemaking Purposes

<u>Item</u>	<u>Amount</u>	<u>Component Ratio (%)</u>	<u>Component Cost Rate(%)</u>	<u>Weighted Average Cost Rate (%)</u>
Common Stock	\$3,763,070	72%	9.54%	6.88%
Long Term Debt	\$851,001	16%	5.29%	0.86%
Short Term Debt	\$607,000	12%	5.25%	0.61%
Total	\$5,221,071	100%		8.35%
	Rate of Return			8.35%

Stephen P. Frink

Educational & Professional Experience

Mr. Frink graduated from the University of New Hampshire with a Bachelor of Arts degree in Sociology in 1977 and a Masters in Business Administration in 1980. He attended and completed Depreciation Programs sponsored by Depreciation Programs, Inc. at Grand Rapids, Michigan in 1992, 1993, 1994 and is a member in good standing of the Society of Depreciation Professionals since 1994.

In 1981, Mr. Frink worked as a High School Math Teacher in Manchester, New Hampshire.

In 1982, Mr. Frink relocated to Texas and worked as an Auditor for Dallas County. He audited various county departments and performed monthly reconciliations of various fund accounts.

In 1985, Mr. Frink went to work for Schenley Industries, Inc., a wholesale liquor distributor located in Dallas, Texas, where he audited national and international manufacturing plants.

In 1986, Mr. Frink left Schenley to work for the City of Dallas as a Budget/Financial Analyst, where he prepared and monitored budgets, prepared pro forma statements, amortization schedules and performed cash flow analysis. He was promoted to Senior Analyst in 1987.

In 1988, Mr. Frink left the City of Dallas to work for the City of Austin as a Financial Analyst. There he prepared budgets and fiscal impact statements, developed a capital projects tracking and monitoring system, and provided training and technical assistance in the implementation of a new accounting system.

In 1990, Mr. Frink joined the Finance staff of the New Hampshire Public Utilities Commission. Working as a member of the PUC Audit Team, he conducted or participated in audits of the books and records of public utilities. He performed desk audits and determined rates of returns. He prepared schedules and exhibits supporting testimony in dockets involving rate increases and participated in settlement conferences. In 1995, Mr. Frink became a full time Analyst for the Finance Department and in 1996 was promoted to a Senior Analyst position, primarily responsible for analyzing and advising the Commission on issues of depreciation, cost of gas adjustment filings, special contracts, and finance and rate increase petitions. In 1998, Mr. Frink was promoted to Assistant Finance Director. As Assistant Finance Director, he assisted in the direction of all aspects of a department responsible for the audit, analysis and review of public utility financial operations, including financing, rate cases and various utility studies filings related to public utility regulation. In 2001, New Hampshire Public Utilities Commission operations were restructured and Mr. Frink became Assistant Director of the Gas & Water Division and now administers all aspects of regulation of gas utilities.

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