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4 **STATE OF NEW HAMPSHIRE**
5 **BEFORE THE**
6 **NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

7
8 **RE: CONCORD STEAM CORPORATION**

9
10 **DG 12 - 242**

11
12 **PREFILED DIRECT TESTIMONY**

13 **OF**

14 **PETER BLOOMFIELD, P.E.**

15
16
17 **September 5, 2012**

1 **I. INTRODUCTION AND OVERVIEW OF TESTIMONY**
2

3 Q: Please state your name and address.

4 A: My name is Peter G. Bloomfield. My business address is P.O. Box 2520, Concord,
5 New Hampshire 03302.

6 Q: How are you associated with Concord Steam Corporation?

7 A: I am President of Concord Steam Corporation (the "Company").

8 Q: Are your education and professional background set forth in the temporary rate
9 testimony that you filed in this proceeding?

10 A: Yes.

11 Q: Are you familiar with the books and records of the Company?

12 A: Yes.

13 Q: Has the Company's rate filing been prepared by you or under your supervision?

14 A: Yes.

15 Q: What is the purpose of your testimony?

16 A: The purpose of my testimony is to provide support for the Company's request
17 for an increase in its permanent rates in this case. I will present documents and
18 other information in support of the Company's rate request, and explain the
19 development of the revenue requirement and the calculation of proposed rates.
20 In addition, I will explain Schedule A and Schedules 1 through 6, which are
21 attached to my testimony.

22 **II. THE COMPANY'S NEED FOR RATE RELIEF**

23 Q: Please describe the Company and its customers.

24 A: Concord Steam provides district steam service from its facility at Pleasant Street
25 in Concord, New Hampshire, and is the only steam utility in New Hampshire. It
26 has 102 customers, all of which are located in the City of Concord. The Company
27 has one residential customer, the remainder are all commercial or institutional
28 customers.

29 Q: When did the Company last change its usage rates?

1 A: The Company's last base usage rate case was in 2009 (DG 09-139); the rates
2 established in that proceeding became effective June 1, 2010, pursuant to Order
3 No. 25,100. There have been no changes in the Company's base usage rates since
4 then.

5 Q: Why is the Company filing this rate case?

6 A: The Company is filing this rate case because it did not earn a reasonable rate of
7 return during the test year ending December 31, 2011. Instead, the Company
8 earned approximately a negative 6% rate of return for the test year based on
9 weather normalized revenues.

10 Q: What has caused the Company to under earn?

11 A: The general effects of inflation on the Company's operation and maintenance
12 costs are a major cause of the Company's inability to earn a reasonable rate of
13 return. The Company's test year operating expenses are summarized in
14 Schedule 1. There has also been a decrease in the amount of steam sold, even
15 after allowing for weather normalization, which reduces the Company's usage
16 rate revenues.

17
18 Q: Have there been any changes in operation at the Company's facility?

19 A: No. Prior to 2008, the Company had converted two boilers to be able to burn
20 wood chips as fuel. Wood waste has been be the primary fuel source for
21 Concord Steam since 2003.

22 Q: Please summarize your computation of the Company's revenue deficiency.

23 A: Schedule A summarizes the computation of revenue deficiency. The Company's
24 thirteen month average rate base is \$4,542,272. The rate base has been multiplied
25 by a proposed overall rate of return of 8.41% which results in a required test year
26 net income of \$381,791. The Company's adjusted actual net operating income for
27 the proformed test year (on a weather normalized basis) was a loss of \$411,290.
28 The sum of the required income, the adjustment for tax effect, and the adjusted
29 net operating income results in a total revenue deficiency of \$1,043,499. The

1 Company is requesting a permanent usage rate increase resulting in increased
2 annual revenues of only \$549,600 for reasons described later in this testimony.
3 The Company will also seek to recover \$312,984 in certain costs through its cost
4 of energy charge in a filing to be submitted on or before September 14, 2012. To
5 the extent that the Commission, upon reviewing these costs, determines that they
6 are not appropriately included in the cost of energy charge at this time, the
7 Company requests that they be included in the base rate increase sought in this
8 proceeding.

9 Q. What would be the percentage increase in rates based on this revenue increase?

10 A. The requested increase in usage rates, in combination with the costs that the
11 Company proposes to recover through the cost of energy charge, will result in a
12 20.6% overall increase over Concord Steam's current operating revenues for the
13 test year ending December 31, 2011.

14 III. REVENUE AND EXPENSES

15 Q: Please describe the test year utility operating income of the Company.

16 A: Schedule 1, Operating Income Statement, provides information as to the income
17 for the test year ended December 31, 2011 as proformed. The first column is a
18 representation of the twelve months ended December 31, 2011 as reflected in the
19 Company's annual report to the Commission. The second column details the
20 proforma adjustments to the test period. The third column reflects the test year
21 as proformed, or as adjusted. The fourth and fifth columns provide historical
22 data for the prior two years. The proforma adjustments made to the Operating
23 Income Statement are described in Attachments 1 and 2 to Schedule 1. Schedule
24 1, Attachment 1 describes the proforma adjustments to the Company's revenues,
25 and Schedule 1, Attachment 2 describes the proforma adjustments to the
26 Company's expenses, including non-fuel costs for generating additional
27 proformed steam sales.

28 Q. What adjustments were made to the Company's test year revenues?

29 A. As set forth in Schedule 1, Attachment 1, the Company made the following
30 adjustments:

1 1.) Corrections in projected steam sales for known decreases in customer base for
2 2011; and

3 2.) Allowance for adjustment of the test year steam sales for weather
4 normalization (See Schedule 1C).

5 These adjustments are consistent with those applied by the Company in its
6 previous rate case. Additional proforma adjustments are reflected in the
7 following schedules and attachments:

8 Schedule 1, Attachment 2 details the adjustments made to expenses for the test
9 year. The non-fuel costs for generating additional proformed steam sales are
10 listed.

11 Schedule 1, Attachment 3 is a supporting exhibit for administrative and general
12 expenses. Schedule 1, Attachment 4 calculates the variable production cost of
13 steam.

14 Schedules 1A and 1B detail test year property taxes and payroll expenses
15 respectively.

16 Schedule 1C is the correction for degree days (see below).

17 Schedule 1D defines the test year income taxes.

18 Q: Have you adjusted test year revenues as a result of warmer than average
19 temperatures during the test year?

20 A: Yes.

21 Q: Please describe this weather adjustment.

22 A: The test year of 2011 was 5.25% warmer than average. In order to adjust the
23 steam sales of 2011 to reflect those of an average year, the Company first
24 subtracted from each month's total the steam sold that was not used for heating
25 (e.g., laundry, hot water) to determine the corrected steam sales figure.¹ The
26 Company then multiplied the monthly steam heating sales by the ratio of the 30
27 year degree day average for that month to the actual heating degree days of that

¹ The Company's heating season is defined as all months except June, July and August. May and September are "shoulder months", where there may or may not be heat sold in these months due to variations in the weather

1 month in 2011. The resulting degree day adjustment in annual steam sales for
2 2011 is an increase of 3,307 Mlbs. This calculation is set forth in Schedule 1C.
3 This methodology is consistent with that which the Company applied in its
4 previous rate case.

5 Q: Did the Company make any other adjustments to steam sales for the proformed
6 year?

7 A: Yes.

8 Q: Please explain these adjustments.

9 A: As the cost of steam has increased, certain customers have converted to gas. The
10 resulting adjustment attributable to these known losses in customer base is a
11 decrease in annual steam sales of 2,307 Mlbs. See Schedules 1.1 and 1C attached
12 hereto. The net adjustment to annual steam sales from reductions in customer
13 base and the degree day increase is an increase in 1,000 Mlbs/yr.

14 Q: Has the Company requested the full amount of revenue increase that would be
15 supported by traditional rate making methodology?

16 A: No. Though the Company has calculated a total revenue deficiency of
17 \$1,043,499, it is only requesting an increase of \$549,600 in its revenues from
18 usage. Though the Company proposes to make up some portion of the
19 difference through its Cost of Energy charge, as described below in Section VI, its
20 requested increase in revenues is still well below the calculated deficiency. Once
21 the new Concord Power and Steam plant is constructed, the Company expects to
22 be able to reduce its costs and lower its rates, which should also have a positive
23 impact on sales.

24
25 **IV. RATE BASE**

26 Q: Please describe the rate base calculation.

27 A: The rate base used in the computation of the revenue deficiency is calculated in
28 Schedule 3 to this testimony. It is based upon the average of the investment in
29 plant in service less accumulated depreciation over the 12-month period ended
30 December 31, 2011, using thirteen points in time, as detailed in Schedule 3B. The

1 cash working capital component of the rate base is calculated in Schedule 3A,
2 based upon a 12.5% (1 1/2 month) level of recurring operation and maintenance
3 expense; this approach was recommended by Commission Staff and has been
4 adopted by the Commission in the Company's usage rate cases since 1985. All of
5 the plant included in rate base is used and useful in providing service to the
6 Company's customers.

7 V. RATE OF RETURN

8 Q: How did you determine a rate of return?

9 A: The Company's capital structure during the test year consisted of equity
10 (69.42%), short term debt (20.38%), and long term debt (10.20%) as shown on
11 Schedule 6. The Company's proposed allowed rate of return, as calculated on
12 Schedule 6, is 8.41%. The cost of equity used in the computation, 9.75%, is
13 reasonable based on what has been approved by the Commission in recent
14 rulings.

15 Q: Is the Company requesting an actual rate of return that is lower than the
16 proposed allowed rate of return it believes is justifiable under the standard rate
17 making methodology?

18 A: Yes. The Company is requesting an actual overall rate of return of 6.0%.

19 Q: Why?

20 A: As explained in Section IV, the Company expects to be able to reduce its costs
21 and lower its rates once the new Concord Power and Steam plant is constructed,
22 which should also have a positive impact on sales.

23 VI. RATE DESIGN

24 Q: Please describe the Company's rate structure.

25 A: Presently, the Company has a declining block usage rate, a meter charge, and an
26 energy charge for all customers.

27 Q: How would these rates be changed by the Company's proposed revenue
28 increase?

29 A: The increase will be spread proportionally over all three classes of block rates. If
30 the proposed rate increase is approved as filed, the usage rates would be: \$22.86

1 per Mlb (1,000 pounds) for the first 500 Mlbs per month, \$20.59 per Mlb for 500-
2 2,000 Mlb per month and \$17.80 per Mlb for all steam over 2,000 Mlbs per month.

3 Q. Is the Company requesting a change to its meter charge?

4 A. No.

5 Q. Is the Company requesting a change in the structure of its usage rate and cost of
6 energy charges?

7 A. Yes. There are certain ongoing expenses that are attributable to the direct cost of
8 generating steam that are more appropriately recovered in the cost of energy
9 charge. These expenses include City water and sewer charges, the cost of boiler
10 water treatment chemicals, ash disposal, and State air permit fees. These costs
11 have been identified on lines 21-25 of Schedule 1, Attachment 1 of the
12 Company's filing for the Commission's reference.

13 Q. Why are these expenses more appropriately recovered through the Company's
14 cost of energy charge?

15 A. All of these expenses are directly related to the amount of steam that the
16 Company produces, and therefore they rise and fall as the amount of steam sold
17 by the Company rises and falls. Because these costs are all commodity-related,
18 including them in the cost of energy will send a better pricing signal to
19 customers because these costs are connected with their usage of steam, not the
20 provision of delivery service. In addition, when the Company eventually
21 changes over to purchasing steam from Concord Power and Steam, LLC under
22 the steam purchase agreement that has been conditionally approved by the
23 Commission, these costs will no longer be incurred at all by the Company, but
24 rather will be subsumed in the price paid for steam under that agreement.

25 Q. What is the total amount of these specific expenses in the test year?

26 A. The total amount of these expenses included in usage rates in the 2011 test year
27 was \$312,984. The Company plans to seek recovery of these expenses in its 2012
28 cost of energy filing. To the extent that the Commission, upon reviewing these
29 costs, determines that they are not appropriately included in the cost of energy

1 charge at this time, the Company requests that they be included in the base rate
2 increase sought in this proceeding.

3 Q. In your opinion, are the Company's proposed rates just and reasonable?

4 A. Yes. All of the costs incurred by the Company that are included in this rate filing
5 are prudent and should be included in permanent rates.

6 Q. On what basis will the proposed rate increase become effective?

7 A. The Company is requesting that the rate increase be effective on a service
8 rendered basis.

9 **VII. CONCORD POWER AND STEAM PLANT**

10 Q. What is the status of the new Concord Power and Steam plant?

11 A. The Company is finalizing financing and construction contracts. The plant is
12 expected to come on line at the end of 2013.

13 Q. What is the status of the Company's lease with the State of New Hampshire for
14 of its Pleasant Street facility?

15 A. The State has agreed to an extension of the lease to the end of 2013, when the
16 new plant is expected to come on line and the existing plant will be shut down.

17 Q. Will the Company be filing for new rates when the new plant is on line?

18 A. Yes. The Company will no longer be operating the Pleasant St. plant and will
19 purchase all of its steam needs from the new plant. As a result, any remaining
20 costs related to steam production that are still included in usage rates will need
21 to be removed from usage rates and included in the cost of energy. The usage
22 rate will only cover the maintenance and operation of the underground steam
23 pipes and is expected to be reduced significantly.

24 Q: Does this conclude your direct testimony?

25 A: Yes, it does.

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