



**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 16-769

**In the Matter of:
Concord Steam Corporation
Petition for Emergency Rates and to Discontinue Service**

Direct Testimony

of

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Assistant Director – Gas & Water Division**

October 4, 2016

LINKED

1 **A.** The purpose of my testimony is to describe the terms of a Settlement (Settlement) that Staff,
2 Concord Steam Corporation (Concord Steam or Company) and the New Hampshire
3 Department of Administrative Services (State) have entered into and to explain why the
4 Settlement is in the public interest.

5 **Q.** **Please summarize the Settlement.**

6 **A.** The key terms of the Settlement are as follows:

- 7 • Concord Steam will terminate service on May 31, 2017
- 8 • \$1,400,000 increase in the revenue requirement (recovered through usage rates)
- 9 • A Usage Revenue Target of \$3,404,501 for Oct-16 through May-17
- 10 • Usage rate increase(s) if projected usage revenue less than 95% of Target
- 11 • Credit on final customer bills if projected usage revenue is greater than 105% of
12 Target
- 13 • Usage rate for Abbot-Downing and Christa McAuliffe schools will be \$3.08 per Mlb
- 14 • Rate Case Expense Surcharge of \$0.61 per Mlb
- 15 • Concord Steam to isolate downtown distribution loop for use by State
- 16 • Holding company to lease downtown distribution loop to State
- 17 • Concord Steam customers must be in good standing to convert to natural gas

18 **Q.** **Please explain how terminating service on May 31, 2017 is in the public interest.**

19 **A.** Concord Steam rates are not competitive with natural gas rates and the Company has been
20 experiencing customer losses for years resulting in reduced revenue. Decreasing revenue has
21 made it increasingly difficult for the Company to fund utility operations and maintenance and

1 has necessitated periodic rate increases. With steam rates four to five times greater than
2 natural gas rates and accelerating migration of customers from steam to natural gas, Concord
3 Steam will no longer have the customer base to support operations beyond this winter. If the
4 majority of customers terminate steam service next summer, as expected, it would require a
5 two to three-fold increase in steam rates to generate sufficient funds to operate. Not only
6 would operating costs need to be recovered from the few remaining customers, Concord
7 Steam would also lose the \$1.9 million payment from Liberty that is conditioned on
8 terminating steam service on May 31, 2017 and the risk of plant failure, loss of key personnel,
9 and leaks on the distribution system would increase.

10 **Q. Please explain the \$1,400,000 increase in revenue requirement.**

11 **A.** The increase is necessary to fund operations and decommissioning, retire debt and provide a
12 modest return on rate base. In its petition, Concord Steam requested a \$1,618,332 revenue
13 increase and, based on Company responses in discovery, would be seeking an even greater
14 increase if the Company were to update its filing.

15 Staff's calculation of the Concord Steam revenue deficiency supports a revenue
16 increase of \$1,400,000. **See Attachment SPF-1.**

17 Staff's calculation includes the majority of the Company's revenue and expense
18 adjustments but reduces the salary increases for the Company's officers, eliminates retention
19 bonuses for the President and Vice-President, reduces property taxes, eliminates income
20 taxes, reduces the shut-down period from six to five months and provides for a lower rate of
21 return. Staff's schedules also include updated cost estimates. The specifics of each
22 adjustment can be found in Attachment SPF-1.

1 **Q. Please explain Staff's adjustments in calculating the revenue requirement.**

2 **A.** The largest adjustment allows for Concord Steam to recover 50% of the rate base as of
3 December 31, 2015. Plant investments are normally funded through debt and equity and the
4 costs recovered through rates over the useful life of the asset. Debt is normally secured by the
5 utility assets and equity is not, with a 50/50 debt to equity ratio. Providing for the recovery of
6 50% of rate base will enable the Company to pay off its debts.

7 While Staff believes it is necessary and fair to increase employee wages 5% and pay a
8 retention bonus to ensure that the utility is adequately staffed during the termination period,
9 Staff has reduced the proposed pay increases for the officers and eliminated the retention
10 bonus for the President and Vice-President. Staff believes the proposed increases in
11 compensation are fair and will ensure that critical employees remain with the utility for as
12 long as necessary.

13 Staff's tax adjustments assume the Company will be granted an abatement on its
14 property taxes due to a drop in the assessed value of its real property and that the Company
15 will not have to pay income taxes since it has a \$970,000 net operating loss carryforward to
16 apply against future earnings and will be writing off capital investments.

17 Concord Steam's revenue requirement included renting office space and retaining
18 certain employees for 6 months after service termination to wrap up the utility business. Staff
19 believes 5 months is adequate and adjusted costs accordingly.

20 Staff's proposal provided for a lower rate of return, more in keeping with prior
21 Concord Steam rate requests, which included modest returns on equity in an effort to limit
22 customer bill impacts.

1 Staff also adjusted certain expenses to reflect updated cost projections provided by
2 Concord Steam through discovery, the most significant being an increase in decommissioning
3 costs to pay for an environmental site assessment. (The \$67,500 cost is the estimate provided
4 by the State in response to Concord Steam Data Request 1-2).

5 **Q. Please explain the usage rate adjustment mechanism.**

6 **A.** The monthly usage rate adjustment mechanism allows Concord Steam to adjust the revenue
7 usage rate on the first of each month if actual and projected usage revenue for the termination
8 period is less than 95% of Target Usage Revenue. The Target Usage Revenue is \$3,404,501
9 and is needed to fund operations and decommissioning, retire debt and provide a modest rate
10 of return. The Settlement rates were determined by dividing the cost to achieve those ends by
11 weather normalized sales to existing customers for October 2016 through May 2017. If
12 existing customers terminate service and/or weather is warmer than normal, Concord Steam
13 will need to adjust its usage rates in order to meet its revenue requirement. The Company has
14 no control over when customers terminate service (or weather conditions), and allowing
15 periodic rate increases to adjust for that will ensure the Company is able to raise the funds
16 necessary to fulfill its utility obligations during the termination and shut down periods. If
17 actual usage revenue exceeds Target Usage Revenue by more than 105%, the over recovery
18 will be refunded to customers on their final bills.

19 Because the usage revenue rates in effect for October are higher than the Settlement
20 usage rates to be implemented on November 1, 2016, there is a good possibility that actual
21 usage revenues for October will exceed projections and, when combined with the requirement
22 that rate increases can only be implemented when projected usage revenue is less than 95% of

1 Target revenue, monthly usage rate increases may be infrequent, limited or not needed at all.

2 The monthly reporting requirement will allow for review and audit of Concord
3 Steam's usage revenue and rate adjustments.

4 **Q. Way isn't there a rate adjustment mechanism to address difference between actual and**
5 **projected expenses?**

6 **A.** Unlike usage revenues, the Company does have some control over expenses and not allowing
7 for automatic rate adjustments related to expenses acts as an added incentive for the Company
8 to minimize expenses.

9 **Q. Please explain why a discounted rate for Abbot-Downing and Christa McAuliffe schools**
10 **is in the public interest.**

11 **A.** Although a special contract was never filed with the Commission, Concord Steam and the
12 CSD entered into an agreement whereby the CSD would make a contribution-in-aid-of-
13 construction to fully cover Concord Steam's cost to serve those schools in exchange for five
14 year fixed usage rate of \$3.08 per Mlb for sales to those schools. All other tariff charges and
15 rates to apply. Concord Steam has been providing service to those schools under the terms of
16 the agreement.

17 The terms of the special contract are very similar to the special contract approved for
18 the Rundlett School and if Concord Steam had petitioned the Commission for approval, it
19 would most likely have been granted, as there are little or no marginal costs associated with
20 serving those schools and the revenue generated from those sales reduces the revenue
21 requirement to be recovered Concord Steam's other customers.

22 On June 8, 2016, Concord Steam and the CSD entered into a Memorandum of

1 Understanding regarding the special contracts for Abbot-Downing/Christa McAuliffe schools
2 and proposed contract providing for a discounted rate for Concord High usage and a long term
3 commitment to take steam service (in Docket No. DG 16-016). The memorandum states that
4 to the extent that Concord Steam seeks Commission approval for the past and future
5 discounted rates for Abbot-Downing and Christa McAuliffe schools, SCD agrees to support
6 CSC's request for approval. **See Attachment SPF-2.**

7 The Settlement usage rate is the rate the CSD agreed to in exchange for paying the
8 Company's cost to provide service to those schools and take steam service. If Concord Steam
9 failed to honor that agreement, the CSD could pursue legal action against the Company for
10 breach of contract.

11 The Settlement fixed usage rate for those schools is fair to both the CSD and Company
12 and eliminates that risk of a protracted and expensive legal proceeding, as the Settlement rate
13 for the Abbot-Downing and Christa McAuliffe schools are consistent with the Memorandum
14 of Understanding between the Company and CSD.

15 **Q. Please explain the Rate Case Expense Surcharge.**

16 **A.** The filing is both complex and unique and Concord Steam has engaged a qualified rate
17 specialist and legal counsel for its preparation and presentation. Those expenses are not
18 reflected in the revenue requirement and the Settlement Rate Case Expense Surcharge of
19 \$0.61 per Mlb is designed to recover rate case expenses of \$57,000 over the projected sales
20 for the months of November 2016 through May 2017. The reconciliation of rate case
21 expenses and actual and projected rate case surcharge revenue to be filed in February 2017
22 will allow for Commission review of the costs and adjusted surcharge rate to ensure the rate

1 case expense and Rate Case Expense Surcharge revenue will be roughly equal when Concord
2 Steam terminates service in May 2017.

3 **Q. Would you please explain why Concord Steam isolating the downtown loop and leasing**
4 **it to the State is in the public interest?**

5 **A.** Due to both financial and physical constraints the State, far and away Concord Steam's largest
6 customer, is unable to convert all of its buildings from steam service to an alternative energy
7 source. Having Concord Steam isolate the downtown loop and lease it to the State allows
8 Concord Steam to terminate service on May 31, 2017 and for the State to provide steam to its
9 downtown buildings until a determination is made as to its the best course of action going
10 forward.

11 **Q. Please explain why prohibiting Liberty from adding customers that are not in good**
12 **standing with Concord Steam is in the public interest.**

13 **A.** It is expected that most customers terminating service will be converting to natural gas and by
14 requiring those customers to be paid in full before converting helps ensure that Concord
15 Steam will have the funds to meet its utility obligations and that Liberty will not being adding
16 customers that pose a significant credit risk.

17 **Q. Do you have anything else to add regarding the Settlement?**

18 **A.** Yes. This is a unique and complicated proceeding that requires an expedited resolution. The
19 Settlement accomplishes that. It is noteworthy that the State represents over 40% of Concord
20 Steam's load requirement and that the CSD, although not a signature, represents 20% of the
21 load requirement and is expected to support the Settlement at hearing.

22 Staff appreciates that Concord Steam's terminating service and rate increase poses a

1 significant hardship on many of its customers, but failing to act now would only delay the
2 inevitable and customers would be far worse off if Concord Steam had not petitioned the
3 Commission to terminate service and the request granted under the terms of the Settlement.

4 **Q.** **Does that conclude your testimony?**

5 **A.** Yes.