

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

October 23, 2012 - 10:10 a.m.
Concord, New Hampshire

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RE: DG 12-242
CONCORD STEAM CORPORATION:
Notice of Intent to File Rate Schedules.
(Hearing regarding Temporary Rates)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Concord Steam Corporation:
Patrick H. Taylor, Esq. (McLane, Graf...)

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

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

ORIGINAL

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WITNESS: STEPHEN P. FRINK

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1 P R O C E E D I N G

2 CHAIRMAN IGNATIUS: So, we will open the
3 hearing in DW 12-242, Concord Steam Corporation's petition
4 for a permanent rate increase. On September 5th, 2012,
5 Concord Steam filed a petition for an increase in its
6 annual revenue requirement of 21 percent. The order of
7 notice scheduled both a prehearing conference and a
8 hearing on temporary rates for this morning at 10:00.

9 So, we'll begin with appearances
10 please.

11 MR. TAYLOR: Thank you. Patrick Taylor,
12 from the firm of McLane, Graf, Raulerson & Middleton,
13 today representing the Concord Steam Corporation. With me
14 are Peter Bloomfield and Mark Saltsman from Concord Steam.
15 Mr. Bloomfield will be our only witness today.

16 CHAIRMAN IGNATIUS: Thank you. Good
17 morning. And, Mr. Speidel.

18 MR. SPEIDEL: Yes. Good morning.
19 Alexander Speidel, for the Staff of the Public Utilities
20 Commission. And, I have with me Steve Frink and Robert
21 Wyatt of the Gas & Water Division.

22 CHAIRMAN IGNATIUS: All right. Do we
23 have matters before Mr. Bloomfield takes the stand?

24 MR. TAYLOR: None from us.

1 MR. SPEIDEL: None here as well. Thank
2 you.

3 CHAIRMAN IGNATIUS: Then, please, Mr.
4 Bloomfield. And, Mr. Patnaude.

5 (Whereupon **Peter G. Bloomfield** was duly
6 sworn by the Court Reporter.)

7 MR. TAYLOR: Before I begin my
8 examination, Mr. Bloomfield, I'd like to mark some
9 exhibits for identification. Exhibit 1 is the Prefiled
10 Testimony of Peter Bloomfield, and the supporting
11 schedules, that were filed -- well, the entirety of the
12 Company's rate case that was filed in September. Exhibit
13 2 is the Settlement Agreement between the Company and the
14 Staff that was filed on October -- October 19th. And
15 Exhibit 3 is a revised Schedule A to the Settlement
16 Agreement between the Company and the Staff.

17 CHAIRMAN IGNATIUS: Thank you. So,
18 marked for identification.

19 (The documents, as described, were
20 herewith marked as **Exhibit 1**, **Exhibit 2**,
21 and **Exhibit 3**, respectively, for
22 identification.)

23 **PETER G. BLOOMFIELD, SWORN**

24 **DIRECT EXAMINATION**

[WITNESS: Bloomfield]

1 BY MR. TAYLOR:

2 Q. Mr. Bloomfield, please state your name, employer, and
3 business address for the record.

4 A. I'm Peter Bloomfield, President of Concord Steam, at
5 123 Pleasant Street, Concord, New Hampshire.

6 Q. Mr. Bloomfield, what are your responsibilities as
7 President of Concord Steam?

8 A. General executive/administrative activities in the
9 business.

10 Q. And, what was your role in preparing the Company's
11 filing in this case, specifically with respect to
12 temporary rates?

13 A. It was either under my control or I did it.

14 Q. Mr. Bloomfield, the filing marked as "Exhibit 1"
15 contains testimony bearing your name. Was this
16 testimony prepared by you or under your direction?

17 A. Yes, it was.

18 Q. Do you have any corrections or changes that you'd like
19 to make to the filing in this case?

20 A. Yes.

21 Q. Could you please explain those for the Commission.

22 A. Yes. In the Temporary Rate Petition, there was
23 reference to, in Paragraph 3, there was reference to
24 "The Company's last authorized overall rate of return

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[WITNESS: Bloomfield]

1 was 7.19 percent."

2 CMSR. HARRINGTON: Excuse me. What page
3 are you on?

4 WITNESS BLOOMFIELD: I'm sorry. I'm on
5 page marked "16", which is the second page of the
6 Temporary Rate Petition.

7 MR. SPEIDEL: And, Commissioners, this
8 would be in, among these two folios, it's the one that's
9 marked "Rate Filing 1 of 2", and it's towards the center.
10 And, there's a -- it's towards the center of the folio
11 marked "Rate Filing 1 of 2", and there's a handwritten
12 page "15" on the lower right-hand corner.

13 CMSR. HARRINGTON: We're on Page 16,
14 though?

15 WITNESS BLOOMFIELD: We're on Page 16,
16 that's right. The Petition starts on 15.

17 MR. SPEIDEL: Yes.

18 **BY THE WITNESS:**

19 A. And, in Paragraph 3, I referenced an "authorized
20 overall rate of return [at] 7.19 percent", and that was
21 misstated. We had filed a -- well, the original
22 filings we made in that case were based on a overall
23 rate of return that would have been -- that should have
24 been authorized by Puc Rule of that 7.19 percent.

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[WITNESS: Bloomfield]

1 However, we had requested rates, following regular
2 rulemaking principles, that reflect a significantly
3 lower overall rate of return that was actually
4 approved. So, that was just kind of a misstatement
5 that we had -- we just wanted to clarify that.

6 CMSR. HARRINGTON: So, what's the
7 correct number?

8 WITNESS BLOOMFIELD: Well, what we had
9 actually been -- that we actually requested during the
10 last rate case and that was approved was in the
11 neighborhood of 3 percent, I believe.

12 BY MR. TAYLOR:

13 Q. And, Mr. Bloomfield, when you say "approved", there was
14 a settlement agreement in that case?

15 A. In the 2009 -- you're talking about the 2009 rate case
16 you're talking about?

17 Q. Yes.

18 A. Yes. There is usually a settlement agreement, yes.

19 Q. Okay. Thank you. Mr. Bloomfield, subject to that
20 correction, is the testimony in the filing in this case
21 true and correct to the best of your knowledge and
22 belief?

23 A. Yes, it is.

24 Q. Mr. Bloomfield, could you please start by giving the

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[WITNESS: Bloomfield]

1 Commission a brief overview of the Company's request
2 for permanent relief in this docket.

3 A. We have filed testimony asking for a total increase in
4 our usage rates, our base rates, of \$862,584. We're
5 asking that be -- that actually our usage rates be
6 increased by \$549,600, and that \$312,000 of costs, that
7 is typically covered in our base rates or usage rates,
8 be transferred to Cost of Energy. So that our -- in
9 the end game, we would -- we're asking for a total
10 increase of 860,000, but actually our usage rates would
11 increase only by 550,000, roughly.

12 Q. And, Mr. Bloomfield, what categories of cost does the
13 Company propose to transfer to the Cost of Energy
14 charge?

15 A. We're asking that certain costs, operating costs that
16 are directly related to the production of steam, the
17 purchase of water, our sewage disposal costs of our
18 condensate, our ash disposal costs, our chemical
19 treatment costs, and our air permit fees from the
20 state, are all directly related to how much fuel we
21 burn and how much steam we produce each and every year.

22 Q. And, why has the Company requested that these costs be
23 transferred to the Cost of Energy charge?

24 A. These are, as I said, they're kind of directly related

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[WITNESS: Bloomfield]

1 to our production costs. And, we expect that, once the
2 new plant comes on line, that all of -- 100 percent of
3 our production costs will be coming through in the form
4 of Cost of Energy, and looking to try and start to
5 transfer some of those costs over.

6 Q. Did the Company request an alternative treatment of
7 these costs, in the event that the transfer to the Cost
8 of Energy charge is not approved?

9 A. Yes. If the costs are not approved as part of the Cost
10 of Energy, then we would ask that those costs be
11 wrapped in and included in the increase in our base
12 rates.

13 Q. As part of the September filing -- as part of the
14 September filing, the Company also requested temporary
15 rate relief. Could you please describe the level of
16 temporary rate relief requested.

17 A. We had requested -- the temporary rate relief, we
18 requested the full amount. It's what we typically do,
19 in part, because we are -- we're a very seasonal
20 operation. And, if our -- when our -- if the rates are
21 not applied at the beginning of our heating season, we
22 have about four months where we sell the great majority
23 of our product. And, if they're -- our rates, our
24 permanent rates come into effect with a surcharge, then

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[WITNESS: Bloomfield]

1 that surcharge would really -- not really have much
2 effect on our cash flow almost until the fall and
3 heating season. So, as a matter of mitigating the
4 amount of additional surcharge that our customers would
5 see in the following year, it's just kind of better for
6 the Company for controlling cash flow, and because of
7 our seasonal issues, that's why we have typically
8 requested that in our previous rate case, and that's
9 why we did it in this one.

10 Q. So, Mr. Bloomfield, please summarize the testimony that
11 you provided in support of the Company's request for a
12 temporary rate increase?

13 A. It's been three years now since we've gone through a
14 rate case. We had a negative rate of return, we lost
15 money last year. And, it's -- we had been putting off
16 coming back for a base rate case, expecting the new
17 plant to be on line by now, actually. And, due to
18 delays and issues that were beyond everyone's control,
19 we have -- we're where we are now, we're only just now
20 actually getting this thing off the ground. So, we've
21 delayed longer than we expected, in terms of asking for
22 a new rate case. So, we have -- that's why we're
23 coming in now, because it's just time to do it.

24 Q. And, Mr. Bloomfield, specifically, during the test

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[WITNESS: Bloomfield]

1 year, you said that you were earning a "negative
2 return". What was the amount of the negative return?

3 A. Approximately, a negative 6 percent. We've lost money.

4 Q. And, to what do you attribute the Company's inability
5 to earn a reasonable rate of return?

6 A. It's a combination of a general increase in operational
7 costs, personnel, operating and maintenance costs,
8 those types of things. And, as well as the effect of a
9 decrease in some of our sales.

10 Q. Okay. And, what does the Company view as reasons for
11 the decrease in sales volumes?

12 A. It's the -- the easy target are the buildings that
13 simply come off our system and go to natural gas, and
14 there are some of those. And, the rest of it, it's --
15 as whether it's conservation effect or whether it is
16 the fact that we've had some warm winters, there's no
17 real -- no way, no easy way of determining how much of
18 that effect is just strictly warm winters, how much is
19 conservation. So, there's definitely a combination of
20 that. But is it -- it's that, natural gas, and just
21 kind of general reduction in sales.

22 Q. Mr. Bloomfield, what is the status of the new Concord &
23 Steam -- Concord Power & Steam plant, sorry?

24 A. That we have begun construction, the major equipment

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[WITNESS: Bloomfield]

1 has been ordered. The financing is being finalized in
2 the next month or so. And, we are underway. We expect
3 to be operational the Winter of 2013-14. Hoping to
4 synchronize the machine in December of 2013, but not
5 expecting reliable operation from the facility until
6 later in the early Winter of 2014.

7 Q. Moving onto the Settlement Agreement. Mr. Bloomfield,
8 are you familiar with the Settlement Agreement that is
9 marked as "Exhibit 2"?

10 A. Yes, I am.

11 Q. And, did you participate in the process that resulted
12 in that Settlement Agreement?

13 A. Yes.

14 Q. Mr. Bloomfield, could you please walk through the terms
15 of that agreement for the Commission.

16 A. It is a two-part settlement. It is giving us a total
17 of approximately \$580,000 increase in our base or usage
18 rates -- I'm sorry, \$580,000 in our revenue. \$269,428
19 would be in our base rates, and the Settlement
20 Agreement has agreed to transfer the \$312,984 from our
21 base rate costs into our Cost of Energy.

22 Q. Mr. Bloomfield, Exhibit 3 is a revised Schedule A to
23 the Settlement Agreement. Could you please explain for
24 the Commission what the revisions to the Schedule A

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[WITNESS: Bloomfield]

1 are?

2 A. Yes. Schedule A was just to set out what our declining
3 block rate structure would be under the proposed
4 temporary rates. And, there was a minor change, where
5 the original schedule had been calculated by adding a
6 fixed \$2.11 per Mlb to each rate case. And, the intent
7 was, instead of that, was to increase each rate by
8 12.6 percent. So, the total dollar is the same, it's
9 just that the revised one, the dollars per Mlb numbers
10 are slightly different because of that different method
11 of calculation.

12 Q. Mr. Bloomfield, based upon the Settlement Agreement,
13 when would temporary rates take effect?

14 A. We're requesting that temporary rates take effect for
15 our service rendered November 1st date. We do read
16 meters at the first of each month. And, so that we'll
17 be reading meters next week for billing. We usually
18 read all of our meters in two or three days. And, so,
19 we read all of our meters around the 1st, the end of
20 the month and the beginning of the month, bill that
21 out. And, so, if it's -- we're asking that, if that be
22 effective November 1st, it would apply to all of the
23 meters -- all of the steam sold from November 1 to the
24 end of November, although we won't be reading those

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[WITNESS: Bloomfield]

1 meters and sending those bills out until the first of
2 December.

3 Q. Assuming that the Commission were to approve temporary
4 rates as contemplated in the Settlement Agreement, and
5 further assuming that the Commission were to ultimately
6 approve permanent rates at a higher level, how would
7 the difference between the two rates be reconciled?

8 A. We're assuming that there would be a reconciliation of
9 the two rates through negotiations with the Staff, and
10 that we would apply some kind of surcharge that would
11 apply for the following year.

12 Q. Would the reconciliation -- I'm sorry. Would the
13 difference be reconciled back to November 1st?

14 A. Yes. Yes. Sorry.

15 Q. Mr. Bloomfield, will the Settlement Agreement, as
16 proposed, result in, in your opinion, result in just
17 and reasonable rates?

18 A. Yes, it will.

19 Q. And, do you believe that the Settlement Agreement is in
20 the public interest?

21 A. I do.

22 MR. TAYLOR: I have no further
23 questions.

24 CHAIRMAN IGNATIUS: Thank you.

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[WITNESS: Bloomfield]

1 Mr. Speidel.

2 MR. SPEIDEL: Thank you, Chairman.

3 **CROSS-EXAMINATION**

4 BY MR. SPEIDEL:

5 Q. Mr. Bloomfield, in your last request for an increase in
6 base rates, an increase of approximately \$340,000, or
7 6.5 percent, which was approved, you expressed the need
8 to keep rates low in order to retain customers. How
9 many customers have left the system since those rates
10 went into effect?

11 A. That has been three years now. There's probably been
12 -- probably been six or eight customers maybe, have
13 gone off for one reason or another.

14 Q. Was the Winter of 2011-2012 warmer than normal?

15 A. Yes. Yeah, something in the neighborhood of 15 percent
16 warmer than normal.

17 Q. The proposed increase in this temporary rate proceeding
18 is approximately \$580,000, or 12 percent. Might one
19 expect a corresponding loss of customers as a result of
20 this increase? And, what steps has the Company taken
21 to prevent that?

22 A. We have been keeping the communications open with our
23 customers. Now that the new project is on, expecting
24 people to see a light at the end of the tunnel, and

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[WITNESS: Bloomfield]

1 hoping to retain customers on that basis. That getting
2 them to understand that our rates will drop
3 significantly, once the new plant comes on line. And,
4 along those same lines, going back to some of the
5 customers that we have lost over the years, and
6 reconnecting with them and seeing if we can recover
7 some of those customers.

8 Q. You have lost several customers to natural gas, Mr.
9 Bloomfield. How costly is it for a customer to convert
10 from steam to natural gas? And, are there any non-cost
11 advantages to steam service compared to gas service
12 that you can describe?

13 A. There's a -- the cost of converting to gas is very
14 dependent upon the individual buildings themselves.
15 Some buildings are old enough that, you know, when we
16 first connected to them in 1938, and trying to convert
17 those systems to natural gas would be a challenge.
18 They don't have space for boilers. They would have to
19 put a whole addition on, they would have to put a
20 chimney on, because it's an old steam system. So, some
21 of the customers, it could be very, very complicated.

22 Some of the other ones that we've lost
23 earlier -- or, in the past few years, are ones that
24 were a forced hot water system that was -- even,

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[WITNESS: Bloomfield]

1 perhaps, had been gas or oil at one point, and they
2 simply converted back.

3 So, it's very difficult to say how much
4 -- what's the cost for any one customer to convert.
5 But it can be very, very costly for those customers
6 that are older customers. That it could be, you know,
7 for instance, the state buildings and the city
8 buildings, most of the major buildings downtown could
9 be very expensive for them to convert.

10 Q. But it would be fair to say that, for a oil or
11 gas-fired boiler installation, you're talking at least
12 several thousand dollars, --

13 A. Oh, yes.

14 Q. -- as sort of as a floor in cost?

15 A. Yes. Exactly. That's right.

16 Q. And, any advantages to steam service?

17 A. Oh, yes. Any other advantages. The primary advantage
18 that we provide to, over and above gas or oil or other
19 competitors, is that we provide a complete service and
20 we provide a complete product. So, we have -- steam
21 comes into their building, they have a control valve,
22 and that's it. As opposed to having a boiler or other
23 -- or, natural gas coming in, and having to have a
24 chimney. And, there tends to be a lot more maintenance

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[WITNESS: Bloomfield]

1 and operational costs involved for customers that are
2 not directly fuel related with fuel versus steam. But
3 we -- we like to say "we provide them a finished
4 product."

5 And, not only that, if they have a
6 problem, we are manned 24 hours a day/seven days a
7 week. And, if there's a problem, they call us, and we
8 respond immediately. And, so, it's kind of that we're
9 providing them as much of a service as a product.

10 Q. Thank you. Mr. Bloomfield, how do operating costs
11 compare to those in the last rate case? And, what
12 steps have been taken to reduce or control those costs?

13 A. They have not changed significantly. We did try and
14 reduce staff significantly three years ago. And, we
15 found we were not able to operate efficiently and
16 safely with the significantly reduced staff that we
17 had, so we had to bring some back on.

18 Q. If granted, Mr. Bloomfield, will the temporary rate
19 increase allow the Company to meet its capital and
20 operating requirements for the rest of this year and
21 for 2013?

22 A. Yes, it will.

23 Q. Does the Company expect to have a positive rate of
24 return for that period if the temporary rate increase

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[WITNESS: Bloomfield]

1 is approved?

2 A. Yes, we do. With the caveat that we have a little bit
3 colder winter than we did last year.

4 Q. You testified that the new Concord Power & Steam plant
5 is expected to come on line at the end of 2013. And,
6 when that happens, the Company expects to be able to
7 reduce its costs and lower its rates. Is the end of
8 2013 still the expected in-service date of the new
9 plant? And, what is the expected rate impact, that is
10 the impact on customer bills, compared to bills at
11 current rates? And, you can give an answer in general
12 terms.

13 A. Okay. We're hoping to synchronize the equipment,
14 meaning bring the boiler and the turbine up, and
15 actually make our first electricity by the end of --
16 end of the year of 2013. But we don't expect to be
17 providing steam or electricity on a reliable basis
18 until, oh, it's February or March, probably, of 2014.

19 In terms of our cost of our product,
20 we're projecting that our costs to our customers,
21 all-in cost of energy and usage base rates, should be
22 in the neighborhood of \$25 or \$26 an Mlb, compared to
23 the \$36 or \$37 that it is now, and the 40 some odd
24 dollars it would be with these requested rates.

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[WITNESS: Bloomfield]

1 Q. Thank you. Do you expect that Concord Steam will make
2 a filing with the Commission regarding its agreement
3 for a steam purchase between Concord Power & Steam and
4 Concord Steam, the utility, from steam from the new
5 plant?

6 A. Yes, we do. In fact, I hope to get that in in the next
7 few weeks, actually. That was a contract that has been
8 submitted to the Commission, and tentatively approved.
9 But it was not completely approved, because there were
10 -- there were blanks in there as to what the true
11 capital cost of the facility was going to be and what
12 the actual end cost of the steam would be, because it
13 was tied to the capital and operating costs. So, we
14 would get those, we'll have those costs defined, and
15 then resubmit this to the Commission for their
16 approval.

17 Q. And, Mr. Bloomfield, if any change in the ownership of
18 Concord Steam Corporation, the utility, results from
19 the new project, or if Concord Steam were to issue
20 short or long-term debt in connection with the new
21 project, you would seek Commission approval as well for
22 that?

23 A. Yes, we would.

24 MR. SPEIDEL: Thank you. Staff has no

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[WITNESS: Bloomfield]

1 further questions.

2 CHAIRMAN IGNATIUS: Thank you.

3 Questions? Commissioner Harrington.

4 CMSR. HARRINGTON: Good morning again.

5 Just a few questions.

6 BY CMSR. HARRINGTON:

7 Q. Just one question, more of a curiosity question than
8 anything else. In the shoulder months, --

9 A. Uh-huh.

10 Q. -- when we get days in October, or wherever, where it
11 gets chilly enough that people require heat, but they
12 only need for maybe a couple of hours in the morning or
13 maybe a few hours late at night, how do you provide
14 that?

15 A. It's simpler than you might think. Come the shoulder
16 months, people are starting to get cold. They call us
17 up, we turn the steam on. And, you're right, in the --
18 you know, we'll see an increase in steam load first
19 thing in the morning, and then it tapers right off
20 again in the afternoon. And, we just maintain steam
21 pressure. So, as they -- as they draw on the steam,
22 and we maintain it typically at around 90 pounds per
23 square inch, and so their heat comes on in their
24 buildings, the pressure starts to drop, so we fire the

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[WITNESS: Bloomfield]

1 boilers harder to maintain that pressure.

2 Q. So, that during those times, you're fairly inefficient
3 then at providing this --

4 A. Yes. Right. Exactly. You know, there's times when
5 we're not doing much, other than, you know, on days
6 like the past few days, where it's been cool in the
7 morning, and then warms up and it's nice and sunny in
8 the afternoon, it -- that's exactly right.

9 Q. Okay. Just a couple of other questions. In your
10 testimony, on Page 10, the lower right-hand corner
11 "10", --

12 A. Yes.

13 Q. Where it's handwritten in. It says -- you're talking
14 about the "warmer than average temperatures", and you
15 said test year of 2011 was "5.25 percent warmer", then
16 I thought you said it was "15 percent warmer". So, --

17 A. Well, because we have our -- I'm mixing my dockets.

18 Q. Okay.

19 A. This was based on the test year of the calendar year of
20 2011. But the heating season that we really focused on
21 from, basically, from November to October, so that the
22 heating season of last year was 15 percent warmer.

23 Q. Okay. So, you're talking about November of 2011 --

24 A. Yes.

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[WITNESS: Bloomfield]

1 Q. -- through the Spring of 2012?

2 A. Yes.

3 Q. Okay.

4 A. Exactly.

5 Q. All right.

6 A. Yes.

7 Q. That clarifies that. And, just a couple of questions
8 on this, you know, "transferring of costs" from the
9 energy charge to the base cost. Is it safe to assume
10 that, for every dollar that was transferred from the
11 base to the energy rate, that there was a comparable
12 dollar decrease in the base rate to account for that?

13 A. Yes, that's correct.

14 Q. Okay. So, that's a dollar-for-dollar switch?

15 A. Yes. It would be just a swap. That's right.

16 Q. And, there was some, obviously, a bunch of discussion
17 on the new facility and what's going to happen,
18 because, I mean, if we look at this, and we see, you
19 know, you're requesting permanent rates of, I guess,
20 over 20 percent increase. I mean, these rate increases
21 aren't sustainable. Eventually, you're going to start
22 losing more customers. And, then, once you lose more
23 customers, you get into a spiral where then you will
24 raise the rates more, and then lose more customers.

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[WITNESS: Bloomfield]

1 So, how confident are you in the ability for the
2 Company to deliver, I think you said it was \$26 a
3 thousand pounds or around that figure for steam?

4 A. So, we're -- we're very confident. We've been through
5 the numbers pretty thoroughly. Of course, we are going
6 to have to go through the full rate case, and -- but we
7 feel very comfortable that those numbers are very
8 achievable.

9 Q. And, since you're kind of splitting the company now
10 into two entities, if I'm correct, and if I'm not,
11 please just --

12 A. Uh-huh.

13 Q. -- jump in here. Where, right now, you have a single
14 entity that is the -- that produces the product, the
15 steam, and then it distributes it as well, and it's all
16 a regulated utility. Am I correct in assuming that?

17 A. Yes, that's right.

18 Q. And, in the future, you'll have two separate companies,
19 one is a distribution company, and it will be a
20 regulated utility, and the second one is a
21 non-regulated producer of steam?

22 A. That's correct. Yes.

23 Q. And, there will be a purchase power agreement between
24 the two of those then?

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[WITNESS: Bloomfield]

1 A. Yes.

2 Q. And, that's what will set down the terms of -- I mean,
3 I'm looking at such things as -- we have similar
4 circumstances, I guess, on the electric side, where we
5 have companies, like Unitil, that no longer are
6 producing any of their own electricity, so they just
7 deliver it.

8 A. Uh-huh.

9 Q. But they have the ability to go out and -- go out for
10 bids, and they have four or five different companies
11 come in and bid, and they, through competition, get a
12 better price. In the case of steam, I'm sure, if you
13 went out for a bid, there would be no other bidders,
14 because there simply is no one selling the product.

15 A. Right.

16 Q. So, you know, over the long term, we were at least
17 concerned to make sure that we get a competitive based
18 price there, because you have no competition and no
19 regulation. So, that's just --

20 A. Yes. That's --

21 Q. -- just to let you know up front we are concerned about
22 that.

23 A. Yes. Yes. No, that was -- we understood that right up
24 front. And, that's why, when we first submitted the

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[WITNESS: Bloomfield]

1 Steam Purchase Contract, it was based on actual costs,
2 and the steam company paying its percentage of the
3 actual operating and maintenance and labor expense of
4 the facility. But the steam portion, and looking at
5 total revenues into the new plant, 85 percent of the
6 total revenues are from the sale of electricity.

7 Q. Uh-huh.

8 A. And, so, only roughly 15 percent is from the sale of
9 steam. So, the company's -- the cogen company's,
10 Concord Power & Steam's incentive to reduce and keep
11 costs down are significant. Although, Concord Steam is
12 paying for essentially its share of those costs,
13 they're a small piece of their overall piece. And, so,
14 we're paying, basically, a three-tiered structure is
15 how we've arranged it. There's one piece that does not
16 escalate, that helps pay for the debt service portion
17 of the project. There's a piece that does escalate by
18 a CPI-type escalator, to cover labor and O&M costs.
19 And, then, the third piece is a fuel cost pass-through
20 that -- that the Concord Power will track all of its
21 fuel costs, and that gets passed through on an actual
22 cost basis. Those fuel costs are -- the fuel records,
23 the purchasing, everything that Concord Power does,
24 that this power -- this purchase contract we have

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[WITNESS: Bloomfield]

1 allows Concord Steam and the Commission access to those
2 records, to just confirm that they're being just and
3 reasonable in their fuel pricing and fuel structure.

4 So, --

5 Q. And, what's the size of the electric output of the
6 plant?

7 A. Twenty megawatts, roughly.

8 Q. And, I think you're implying, maybe you're not, so let
9 me ask the question to make sure, that, because the
10 majority of the output of the plant of, as far as
11 revenue, is going to come from the sale of electricity,
12 that you're at least hoping or assuming that the
13 competitive electric market, i.e., the ability -- the
14 desire to get the price of their electricity out as
15 cheap as they can so they will be dispatched more
16 often, will hold the costs down to for the overall
17 plant, including steam production?

18 A. Yes. Although, we have contracted for 100 percent of
19 our electricity sales, long-term, fixed price -- well,
20 long-term contracts that are basically similar in
21 structure to what we just talked about how the steam
22 was priced. So that they -- they have an incentive to
23 keep their costs down, because, although their fuel is
24 a pass-through, their -- the remainder of their costs

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[WITNESS: Bloomfield]

1 are at a set price. And, so, they have got a real
2 incentive to keep those other costs down.

3 Q. And, are those -- are you at liberty to say who those
4 contracts are with --

5 A. Yes. It's the --

6 (Court reporter interruption.)

7 BY CMSR. HARRINGTON:

8 Q. Can you tell us who you signed the contract for the
9 electric sales?

10 A. Yes. The electric sales are in a number of off-takers.
11 We're selling electricity to the New Hampshire Electric
12 Co-op; to Reading Municipal Light Department, in
13 Reading, Massachusetts; and to South Jersey Energy, who
14 is a reseller, who will provide that electricity to
15 State of New Hampshire retail meters and City of
16 Concord retail meters.

17 Q. Okay. And, one final question. How is the funding for
18 the decommissioning of the existing plant, since you
19 have a commitment to restore that to somewhat better
20 shape than it's in now, at least render it safe and not
21 hazardous, how do you plan on funding for that?

22 A. Well, the -- our lease requires we just simply provide
23 them with an operational plant. So, we're just now
24 starting to talk about what needs to be done to shut it

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[WITNESS: Bloomfield]

1 down and safely decommission it. And, we're not
2 expecting to have to invest any significant money into
3 that project, into that plant to decommission it.
4 We're looking at mostly just making sure that -- that
5 things that might get frozen or damaged get heat traced
6 and enclosed, and everything else be basically secured.
7 And, so, we're talking about what needs to be done with
8 the State. We haven't talked about what the costs are
9 and who's going to be paying for it yet.

10 Q. Okay. So, when you say an "operational plant" then,
11 are we talking in simplistic terms then, if you just
12 were to shut the plant down tomorrow, you'd drain the
13 lines, make sure nothing was energized, and basically
14 say "It's yours", the State, --

15 A. Yes.

16 Q. -- and that would be about it?

17 A. Yes. Yes. So, that, you know, we'd leave them the
18 underground oil tanks, we'd leave them the
19 asbestos-covered insulation. We'd leave them all of
20 the joys that we've lived with for the past 30 some odd
21 years.

22 Q. Yes. This was my next statement. There is no
23 requirement for you to clean of hazardous waste or
24 anything like that?

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[WITNESS: Bloomfield]

1 A. No.

2 Q. And, no requirement to lay out the plant with nitrogen
3 or anything like that to maintain it going forward?

4 A. No.

5 CMSR. HARRINGTON: Okay. All right.
6 That's all the questions I had. Thank you.

7 CHAIRMAN IGNATIUS: Thank you.
8 Commissioner Scott.

9 CMSR. SCOTT: Thank you. I think we're
10 still morning. Yes. Good morning again.

11 BY CMSR. SCOTT:

12 Q. On your Page 8 of your testimony, or this annotated 13,
13 and on the bench you stated that, and, again, a lot of
14 the commodity-related costs are better incorporated
15 into cost of energy as they're connected to the usage
16 of steam.

17 A. Uh-huh.

18 Q. The more you use it, the more there is, compared to
19 delivery service. And, that I understand. But, on
20 both written and verbal, you've also said "and it makes
21 more sense, given, in the future, you'll have the new
22 plant." And, I understand that also. But, and I'm not
23 trying to jinx anything here, but, obviously, we've
24 been talking -- you've been talking about the new plant

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[WITNESS: Bloomfield]

1 for quite a while, it's been a while coming. Does this
2 change the calculus, if, for some reason, that either
3 gets delayed again or if it just doesn't happen, how
4 does that change the calculation or does it?

5 A. The reasons for moving it over I think are still
6 appropriate. You know, those costs are directly
7 related to the production of steam. If it gets further
8 delayed or something else happens, we'll deal with it
9 then. I guess we do have -- we do have contingency
10 plans for other ideas and other ways of surviving into
11 the future. But this is our best choice at this point.

12 Q. So, if I can paraphrase it, and I think it says in here
13 anyways, so, it's not the primary reason for putting it
14 under Cost of Energy, the new plant, but, should that
15 happen, it makes sense in that capacity also, is that
16 fair to say?

17 A. Yes. That's right. Yes.

18 Q. All right. Thank you. And, again, I'm looking towards
19 the future, with your future plans. Are looking at
20 expanding your customer base or are you looking at just
21 staying within the existing steam circuit, if you will?

22 A. Well, we'll be putting a new steam line in from where
23 the new plant will be, it's about 6,000 feet of new
24 steam line. And, there's three or four reasonably good

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[WITNESS: Bloomfield]

1 size customers we would like to pick up along that
2 route. And, as I've said, we've got existing customers
3 that we've lost over the past few years that we'd be
4 looking at trying to recover. But we're not looking at
5 expanding our service territory significantly at this
6 point. You know, we're not planning to try and go
7 across the river or do any kind of major expansions
8 like that.

9 Q. And, with that 6,000 feet you're talking about, which,
10 obviously, you need to tie in. I understand that
11 there's some residences along there. Are you looking
12 at trying to get residential customers also?

13 A. Yes. There are residences. We have one residence on
14 right now. You know, mostly it's -- we have
15 commercial/industrial, if they want to tie in, we can.
16 But, for a residence, it tends to be a little pricy.
17 Again, if their boiler, whatever it might be, if they,
18 say, had an oil or a gas-fired boiler, and they needed
19 to replace it, and it was going to cost them five or
20 \$6,000, then -- then, it might make sense for them to
21 tap into the steam system right there. But, you know,
22 putting in even small steam pipe, it costs, you know,
23 well over \$100 a foot. And, so, if they have 100 feet,
24 that's \$10,000. So, it's, you know, it can get pricy

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[WITNESS: Bloomfield]

1 for a small residence to tie in.

2 Q. And, earlier you were being asked the advantages of
3 steam, again, for, let's say, I'm a
4 commercial/industrial customer potential. I assume
5 also that one of the advantages is, obviously, I don't
6 have a boiler, I don't have to have maintenance crews
7 and all the maintenance associated with that, and
8 expertise on that end. Is that a fair statement?

9 A. Yes. Exactly right, yes.

10 Q. Okay.

11 A. Yes. The mechanical room is much smaller, so they have
12 more space they can use for -- it frees up for other
13 purposes. You know, their mechanical room can be much
14 smaller. And, they need typically less operation and
15 maintenance personnel and less cost to get it done.

16 CMSR. SCOTT: Okay. Thank you.

17 CHAIRMAN IGNATIUS: A few questions, Mr.
18 Bloomfield.

19 BY CHAIRMAN IGNATIUS:

20 Q. The new line that you need to put in to connect -- I
21 take it it's to connect the new generation plant to the
22 existing steam system, distribution system?

23 A. Yes.

24 Q. Is that contained within, physically located within

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[WITNESS: Bloomfield]

1 your franchise territory?

2 A. Hmm. I would say "yes". I never really thought about
3 how big our franchise territory is. But, yes, it is.
4 It's the City of Concord. So, I'm sure -- I know it's
5 within the City of Concord. So, --

6 Q. All right. And, is your franchise all of the City of
7 Concord?

8 A. Yes.

9 Q. Okay. And, once all of this is completed, I take it
10 Concord Steam will retain ownership of all of the
11 underground distribution facilities?

12 A. Yes.

13 Q. Its ownership will stop at the line where the
14 connection moves from the distribution out of the new
15 plant to the plant itself?

16 A. Yes. Yes. In terms of, there will be a couple of
17 meters, and some valves and stuff. And, at the
18 building envelope, that will be the point where Concord
19 Steam will be responsible for that underground steam
20 line from that point, to where it connects into our
21 system, it will be part of our regular distribution
22 system.

23 Q. And, the new generation plant, you're calling "Concord
24 Power", is that correct?

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[WITNESS: Bloomfield]

1 A. Concord Power, yes.

2 Q. And, will you be an officer of both entities?

3 A. I expect to be a limited partner in the new facility.

4 So, we will be operating that plant. That our existing
5 operations personnel that are now operating Concord
6 Steam, will be hired by Concord Power & Steam and no
7 longer work for Concord Steam. So, the Concord Steam
8 employee base will drop from fifteen or sixteen to four
9 or five. And, Mark Saltsman and I will be managing the
10 new plant as operators, essentially, of the new
11 facility.

12 Q. All right. Have you calculated what the effect would
13 be for a typical bill, if both the temporary rate
14 proposal and the requested Cost of Energy rate were
15 approved as filed?

16 A. Yes, I have.

17 Q. And, if you've got actual numbers, as opposed --
18 percentages are really hard to work with, especially
19 when you're shifting buckets, --

20 A. Uh-huh.

21 Q. -- and that one's going up and one's goes down. So,
22 depending on which thing we're looking at, they can
23 look -- it can moderate or look quite extreme. So, if
24 there's sort of an all-in what the customer sees, if

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[WITNESS: Bloomfield]

1 all of those changes were in effect November 1, what
2 would the impact be?

3 A. So, you're asking if the temporary rate and Cost of
4 Energy, is that what you're asking?

5 Q. Yes.

6 A. Yes. So, with the temporary rate and the Cost of
7 Energy, what we consider -- we classify our customers
8 in three general sizes; small, medium, and large. A
9 small customer, it's annual bill would increase
10 approximately \$600, where it might be -- previously it
11 will be \$4,700 a year, that might increase to about
12 \$5,300 a year. Our medium customer -- which is about a
13 15 percent increase. And, our medium customer, there
14 would be from \$27,000 to \$30,000. And, large customer
15 would go from \$134,000 to \$150,000.

16 Q. And, are those all about a 15 percent increase?

17 A. Those are all about 15 percent, yes.

18 Q. And, then, the expectation is, another year or so, and
19 everything would drop significantly with the new --

20 A. Significantly, yes.

21 Q. All right. When you said that you had experienced a
22 "negative 6 percent return", what period of time were
23 you calculating that on?

24 A. That was the calendar year or fiscal year of 2011.

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[WITNESS: Bloomfield]

1 Q. Is that also the test year in the rate case?

2 A. Yes, it is.

3 Q. And, what's your authorized return, last authorized?

4 A. We had requested roughly a 3 percent return last time.

5 We're asking for about a 6 percent return this time.

6 Q. Is it correct that, in this docket, we'll be looking at
7 all of the -- not today, in temporary rates, but in the
8 ultimate resolution of the permanent rate case, we'll
9 be looking at all of the changes that are necessary for
10 bringing the new plant on line or will that be yet
11 another docket?

12 A. That will be yet another docket.

13 Q. So, the references to a PPA coming in, some of the
14 other details, they're being looked at as part of the
15 overall picture of where we're heading, but they're not
16 teed up for approval yet?

17 A. That's correct. Yes.

18 CHAIRMAN IGNATIUS: Any further
19 questions? Commissioner Harrington.

20 CMSR. HARRINGTON: Yes, I just had one
21 additional question.

22 BY CMSR. HARRINGTON:

23 Q. As far as the Forward Capacity Market goes, I see your
24 new facility is going to be coming on line, you said

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[WITNESS: Bloomfield]

1 syncing, and to be full power in March or so of 2014.
2 So, they would be eligible, if they had a capacity
3 supply obligation, to participate in the power market
4 in June of 2014. Do they have a capacity supply
5 obligation for that time?

6 A. No, we don't at this point. We do -- we did enter into
7 the Forward Capacity Market. We had an obligation, but
8 expecting to -- and, actually, we were supposed to come
9 into effect initially 2011, June of 2011. And, because
10 of delays, we've been able to delay it for two years.
11 But, as of June 2013, we lose that, that slot. So,
12 we're going to have to re-enter into the rebidding
13 market on that.

14 Q. Okay. So, you'll be coming in as a -- rebidding in as
15 a new supplier then?

16 A. Yes.

17 Q. Okay. And, in your purchase power agreements that you
18 mentioned you have with various entities there, you
19 mentioned the Co-op, Reading, and so forth. Would any
20 of those be considered out-of-market contracts? And,
21 is that --

22 A. All of them are, actually.

23 Q. All of them are, okay. That's what I thought. So,
24 have you given thought to how you're going to deal with

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[WITNESS: Bloomfield]

1 the minimum offer price review that you would be
2 subject to, which I think, for a biomass facility, is
3 somewhere in the vicinity of \$20 a kilowatt-month?
4 Since the market tends to clear at below four, I'm
5 assuming you're not counting on any capacity payments
6 for this?

7 A. The capacity -- the majority of our contracts are fully
8 wrapped, including capacity and fuel and RECs. And,
9 so, they take all of those risks. So that we have
10 capacity payments structured to us based on a certain
11 amount, irrespective of what the ISO actual price is.

12 Q. Okay. So, you -- they buy your capacity, in the case
13 of, let's say, New Hampshire Co-op buys your capacity.
14 And, then, if -- I guess what I'm trying to get
15 straight is, you won't really have any capacity to
16 sell, though, will you? I'm just trying to get to how
17 that works.

18 A. That's right. We'll have a very small amount of
19 capacity to sell as a result of our --

20 Q. Well, maybe I should reword my question to make it
21 clear.

22 A. Yes.

23 Q. Okay. The capacity supply obligation goes to the
24 generator, in your case, your Concord Steam, and then

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[WITNESS: Bloomfield]

1 you can sell that capacity to somebody else, so that
2 they can meet their capacity obligation as part of
3 paying their capacity bill to the ISO. But, in the
4 case of a new biomass facility, that's bidding in as a
5 new supplier, you're most likely, since these are
6 out-of-market purchase power agreements, the way that
7 the rules are being proposed right now, you'll be
8 subject to the minimum offer price review, which is
9 in the vicinity of over \$20, which, unless for some
10 reason you were the most efficient biomass plant in the
11 history of the world, I don't see how you're going to
12 get that down to the three or four dollars where the
13 market clears, or maybe even lower. So, effectively,
14 you will not have any revenues from capacity. And, I'm
15 just wondering, if you're making that assumption when
16 you come up with your \$26 a thousand pounds of steam?
17 A. Yes. Yes. The revenues going into Concord Power &
18 Steam, they're -- we're not counting on any significant
19 amount of capacity --
20 Q. Okay.
21 A. -- as a result of that. But you have to keep in mind
22 that the financing for and the revenues for Concord
23 Power & Steam are not affecting Concord Steam, *per se*,
24 in terms of what they can sell their ISO-New England

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[WITNESS: Bloomfield]

1 capacity in isn't going to effect our pricing and our
2 structure.

3 Q. If their revenues were to go down on the electric side,
4 they wouldn't have to compensate for that someplace
5 else?

6 A. Our steam contract does not allow for that.

7 CMSR. HARRINGTON: Okay. It will be
8 interesting to see that contract then. Thank you.

9 WITNESS BLOOMFIELD: Yes. Yes, you
10 will.

11 CHAIRMAN IGNATIUS: Thank you. Any
12 redirect, Mr. Taylor?

13 MR. TAYLOR: I have none.

14 CHAIRMAN IGNATIUS: All right. Then,
15 you're excused, Mr. Bloomfield. Thank you.

16 WITNESS BLOOMFIELD: Thank you.

17 CHAIRMAN IGNATIUS: Mr. Speidel.

18 MR. SPEIDEL: Yes, Chairman. I would
19 like to call Stephen Frink to the stand.

20 CHAIRMAN IGNATIUS: Please do.

21 (Whereupon **Stephen P. Frink** was duly
22 sworn by the Court Reporter.)

23 **STEPHEN P. FRINK, SWORN**

24 **DIRECT EXAMINATION**

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[WITNESS: Frink]

1 BY MR. SPEIDEL:

2 Q. Okay, Mr. Frink. Could you please state your name and
3 place of business.

4 A. Stephen Frink. And, I work at the Public Utilities
5 Commission.

6 Q. What is your title and job description?

7 A. I'm the Assist Director of the Gas and Finance
8 Division.

9 Q. Mr. Frink, do you have a document in front of you dated
10 October the 19th, with a cover letter from myself?

11 A. Yes, I do.

12 Q. And, would you be able to describe this document in
13 general terms?

14 A. This is the "Direct Testimony of Stephen P. Frink".
15 And, it was prepared by me.

16 Q. Would you care to adopt the conclusions and the
17 statements made in this testimony today?

18 A. Yes, I would.

19 MR. SPEIDEL: I would request that this
20 be marked as "Exhibit 4". Thank you.

21 CHAIRMAN IGNATIUS: So marked for
22 identification.

23 (The document, as described, was
24 herewith marked as **Exhibit 4** for

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[WITNESS: Frink]

1 identification.)

2 BY MR. SPEIDEL:

3 Q. Mr. Frink, do you have any specific changes you'd like
4 to make to your testimony today?

5 A. I do not.

6 Q. Could you give a general summary of your testimony
7 please.

8 A. Yes. I support the Settlement Agreement reached
9 between the Company and Staff that agrees to a
10 temporary rate increase of 12 percent. It is
11 considerably lower than the Company's proposed
12 temporary rates. It's below what I calculated the
13 Company would be entitled to under normal ratemaking
14 procedures, based on the 2011 test year. That was with
15 no adjustments. And, so, we have agreed to something
16 lower than what the Company appears is merited.

17 But, again, we are greatly concerned
18 with the fact that this is a substantial increase.
19 It's got a -- can have a large impact on customers, and
20 customers do have options. And, the new plant isn't up
21 and running. And, there's always concern that natural
22 gas is competitively priced and could -- customers
23 could leave the system. And, we're very appreciative
24 of the fact the Company has taken efforts to

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[WITNESS: Frink]

1 communicate with customers and try to retain those
2 customers. But one of the best ways to retain them is
3 to keep prices as low as possible.

4 That said, the Company did lose money in
5 2011, and businesses can't operate at a loss over the
6 long term. And, so, it was felt that this 12 percent
7 is sufficient for the Company to meet its needs, and
8 balances the needs of the customers by limiting the
9 increase, while still allowing Concord Steam to satisfy
10 its capital and operating requirements.

11 The Settlement also provides for the
12 transfer of certain costs that have historically been
13 recovered through delivery rates into the cost of
14 energy. And, some of those costs may be related to
15 system maintenance. They are production costs. But,
16 just as with the natural gas utilities, there are
17 certain production costs that are required for system
18 maintenance, for pressure support that, for instance,
19 on the gas side, if you -- up in, for EnergyNorth, up
20 in Tilton, the gas pressure is not sufficient to
21 provide gas in the winter period without actually
22 running the peaking plants to keep the pressures up.
23 So, a percentage of that cost is reflected in the
24 delivery rates. So, transportation customers that

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[WITNESS: Frink]

1 don't use any of the Company's energy -- gas supplies
2 still pays a percent of that peaking plant costs, both
3 the capital costs and the commodity costs. So, there's
4 a similar situation that exists here for Concord Steam.
5 They produce some steam, mainly to keep their lines wet
6 during the summer period for maintenance purposes. If
7 they had enough sales during the summer, that that was
8 enough to meet that need, then that might not be
9 necessary, but it is. And, somehow we have to come up
10 with a number that's reflective of that.

11 And, we haven't really addressed this
12 issue in the past, because, until recently, all
13 customers paid all the costs through the cost of energy
14 and usage rates. But, recently, we've had a number of
15 special contracts that have been entered into. And,
16 particularly just this past year or so, the State and
17 the City have entered into special contracts. That's a
18 substantial load. And, those customers will pay
19 increases in the cost of energy, but will not be paying
20 increases on usage rates, which are set for the terms
21 of the special contracts. So, it's very important to
22 get those numbers correct.

23 And, so, it may be, in the next rate
24 case, or even in this rate case, we'll need a cost of

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[WITNESS: Frink]

1 service study performed. We haven't done that in the
2 past, it's expensive for a small company. The loads
3 that were subject to special contracts were very
4 limited, but this is a -- this is an issue that does
5 need to be addressed, and we will be addressing it as
6 part of the permanent rates. And, once that's done,
7 there will be a proposal, a recommendation by Staff,
8 possibly a settlement, but the Commission will -- we'll
9 develop a record and the Commission will have a chance
10 to rule on that when setting permanent rates.

11 And, that pretty much covers my
12 testimony.

13 Q. Now, Mr. Frink, does that cost transfer issue have any
14 impact on the temporary rate increase contained in the
15 Settlement?

16 A. The Settlement allows for a \$582,000 increase in
17 overall rates. And, if we didn't transfer that 312,000
18 into Cost of Energy, then the remaining balance that
19 was -- that was implemented through the usage rates as
20 part of the Settlement, they would be increased by the
21 corresponding amount. So, if we didn't allow the full
22 312, say we took ten percent out, that ten percent
23 would simply be -- would have been reflected in the
24 usage rates, because, again, the determination is the

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[WITNESS: Frink]

1 Company needs a 12 percent increase to satisfy their
2 operating needs for the short-term.

3 Q. Mr. Frink, could you provide a summary of the Staff's
4 review process for Concord Steam's rate case, including
5 the Petition on Temporary Rates?

6 A. Yes. For temporary rates, because the filing, I forget
7 when specifically this was filed, October 5th, I
8 believe?

9 Q. September the 5th.

10 A. September 5th. There was very limited time for
11 discovery. We did issue two rounds of discovery.
12 We've had a technical session with the Company. We had
13 settlement discussions and ongoing discussions with the
14 Company to arrive at this Settlement. We will be
15 issuing further discovery. There will be a -- the
16 Commission, the PUC Audit Staff will be a full audit --
17 will do a full audit of the Company's books and
18 records. And, there will be further technical
19 sessions, there will be testimony, and a hearing on
20 permanent rates when all is said and done.

21 Somewhere, we haven't proposed a
22 schedule at this point, but that's to be discussed.
23 One concern is, these rates, although they're going to
24 be permanent rates, from what you've heard from the

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1 Company, they're building a new plant, and rates are
2 expected to drop. So, in essence, this rate increase
3 is somewhat of a temporary rate increase. And, that is
4 a consideration in setting permanent rates, at least we
5 feel it should be. And, so, the Company expects to
6 file something regarding the new plant and the purchase
7 agreement for the steam. I think that that will play
8 into all of this, so it may extend this process out a
9 little longer than would normally be the case.

10 Normally, I would expect to have this case completed
11 within a matter of maybe four more months, but, by the
12 Spring of 2013, we expect to have a -- have this
13 resolved.

14 Q. So, Mr. Frink, would it be fair to say that, given that
15 Mr. Bloomfield had testified about filing the steam
16 purchase agreement updates and ancillary information in
17 a few weeks, that at some point in November we develop
18 an ongoing schedule for this case?

19 A. Yes. That's my expectation.

20 MR. SPEIDEL: Okay. Thank you very
21 much. No further questions.

22 CHAIRMAN IGNATIUS: Thank you.

23 Questions, Commissioner Harrington? Oh. Right.

24 Cross-examination would be appropriate, I'm sorry.

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[WITNESS: Frink]

1 MR. TAYLOR: If I could just take a
2 moment.

3 (Short pause.)

4 MR. TAYLOR: We have no questions.
5 Thank you.

6 CHAIRMAN IGNATIUS: See, I beat you to
7 it. Just the efficiency of the Commission.

8 CMSR. HARRINGTON: Good morning, Mr.
9 Frink. Just a few questions.

10 BY CMSR. HARRINGTON:

11 Q. I'm just trying to get a few things, make sure I'm
12 clear on this. In one way, it seems as if you're
13 talking about the temporary rates being lower than the
14 Company would actually merit. It kind of talks about
15 -- sounds like you're kind of postponing the
16 inevitable. But, then, you went onto talk about the
17 projected or the prospect of lower rates under the new
18 company when they build a new facility. Is this kind
19 of -- are you kind of presenting this as sort of a
20 package deal? So, in other words, when the rates, when
21 the higher rate impact of permanent rates, which you
22 say is probably going to be higher than the temporary
23 rates, comes into effect, you'll also be -- the
24 customers will also be hearing about the lower future

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1 rates that are going to come from the new facility, and
2 that will be an inducement to not to scare them off?

3 A. That is definitely a consideration. Just as the
4 Company held off on filing a rate case, to the point
5 where they were suffering losses. Again, I don't think
6 anybody wanted to see the Company come in and ask for a
7 substantial increase in rates without the prospect of
8 lower rates at some future time. And, this has been in
9 the works for a number of years. And, there are
10 customers that have given up and lost -- and left the
11 system. And, without a hard date and some further
12 evidence that this is actually going to take place, and
13 in the not-too-distant future, then, yes, that is
14 definitely a consideration.

15 It is -- I do think of it as a package
16 deal. I think the Company has always treated it that
17 way. They have never come in for, since I've been
18 here, over 20 years, there have been a number of
19 permanent rate increases, and they have never asked for
20 the full amount that they would be entitled to under
21 traditional ratemaking, cognizant of the fact that
22 there are alternatives. It is not so much the
23 Commission setting their rates as it is the market
24 setting their rates. And, that continues to be a

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1 concern. Hopefully, with a new plant, we will resort
2 back to traditional ratemaking, and customers will
3 benefit, as well as the Company.

4 Q. Okay. Thank you for that. I'm trying to get one other
5 thing straight, is this -- whether it be costs going
6 into the Cost of Energy or the usage base rates. And,
7 my first reaction was, "well, why does it make a
8 difference, at least in the short term?" I realize,
9 when they get to the new facility, there's going to
10 quite a bit of difference there, but under the present
11 structure. Then, you started talking something about
12 some special contracts, and that they're going to pay
13 with -- they only pay the -- they don't pay the usage
14 rate or they don't pay the Cost of Energy. Could you
15 elaborate on that? I wasn't quite following what you
16 were getting at there.

17 A. There have been, for instance, when Concord Steam
18 acquired the new schools, that was under a special
19 contract. And, the special contract locks in the usage
20 rate. It does not lock in the meter rate, it does not
21 lock in the Cost of Energy. They will be paying
22 whatever the Cost of Energy is throughout the term of
23 that contract. And, I forget the length of that
24 contract. It's at least ten years. And, again, there

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1 are other special contracts that have the same
2 provisions. And, the State and City make up at least
3 40 percent of the load, I forget exactly what the
4 percentage is, they're a significant amount of Concord
5 Steam's load. And, their usage rate is not locked in
6 at this point in time, but it will be when the new
7 plant comes on line.

8 So, it's very important to make sure
9 that, when that is done, that the energy rates truly
10 reflect energy, and that the usage rates truly reflect
11 usage. Because, if there are energy components in the
12 usage rate, then it will be the customers that are not
13 under a special contract that will be paying those
14 increases, even though more appropriately should be
15 being paid by everybody. So, that is -- that is now an
16 issue where it wasn't in the past. And, it certainly
17 behooves us to get it right as part of the permanent
18 rates. For this immediate proceeding, it really
19 doesn't make a difference.

20 Q. So, I guess what you're saying is, in the past, whether
21 it was a dollar charged to the Cost of Energy or a
22 dollar charged to the usage rate, it was a dollar being
23 paid by everybody, so it really didn't make that much
24 difference?

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1 A. That is correct.

2 Q. And, now, we're saying that, in the future, it will
3 make a difference. And, based on your testimony,
4 you're saying that there's system maintenance that
5 should be reflected in the delivery rates. There was a
6 question I think of Mr. Bloomfield, that, you know,
7 some of the maintenance is definitely still in the
8 usage rates, when they were talking about trying to
9 minimize steam loss and so forth. And, so, what you're
10 saying is Staff has been unable to determine a
11 reasonable approximation of which percentage should be,
12 and therefore recommends that the full amount of those
13 test year expenses be transferred. Is that for the
14 temporary rates only and you'll be coming up with
15 something more definitive for the permanent rates? You
16 know, 80 percent of the costs should be transferred,
17 20 percent not, whatever?

18 A. Yes. That is the plan. And, I would like to correct
19 myself. When I said that "not moving those costs into
20 the COE really has no effect at this point", that's not
21 true to the extent that, again, the schools are paying
22 a --

23 Q. Schools are not --

24 A. -- fixed usage cost. So, that 312,000 that's been

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1 shifted into the cost of energy, and it's our belief
2 that most of that belongs there, the school will be
3 paying those costs. Whereas, if it wasn't shifted in,
4 they would not be paying their share of those costs.

5 Q. And, so, for right now, for the temporary rates, the
6 full amount is being brought over. So, let's just --
7 I'm just going to make up numbers. Let's just say
8 that's \$100. And, you find out, through your further
9 review of this, that actually only \$80 should have been
10 transferred, and 20 should have stayed over with the
11 base rate. Is that reconciled as part of the permanent
12 to temporary rate reconciliation as well or is that
13 just --

14 A. Yes. That would definitely be what, if it is
15 determined that 20 percent or whatever the appropriate
16 percent is, then at that point you could adjust the
17 energy rate, and just reflect it as part of the
18 over/undercollection. So, when we set permanent rates,
19 we could at that time say "okay, 20 percent of those
20 expenses should have been in the Cost of Energy. You
21 can -- we'll refund that to customers, essentially,
22 through next year's Cost of Energy rates." And, when
23 we set the permanent rates, we'll -- that will reflect
24 that 20 percent in permanent rates.

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[WITNESS: Frink]

1 CMSR. HARRINGTON: All right. Thank
2 you. That's all I have.

3 CHAIRMAN IGNATIUS: Commissioner Scott.

4 CMSR. SCOTT: Good morning.

5 BY CMSR. SCOTT:

6 Q. On Page 1 of your -- of this, your prefiled testimony,
7 you, in the bottom, Line 22, you reference a nine and a
8 half percent return on equity, and then you say "as
9 approved for Northern Utilities". Is that for
10 illustrative purposes or --

11 A. That is just for illustrative purposes.

12 Q. That's a help. Thank you. Earlier, also you
13 mentioned, I know somewhat -- there was somewhat of a
14 guess on the time frame for getting the permanent rate
15 resolved, if you will. If unforeseen circumstances
16 happen again in the construction of the new plant, or
17 whatever, gets delayed, slid again, what's -- do you
18 have a feel for what the impact of that would be?

19 A. Well, it won't change the Company's needs. They used a
20 2011 test year, and they pro formed those expenses,
21 what they're expecting at the existing plant. And,
22 that won't change. The way the new plant plays into
23 this is more -- is, again, in the past, it's been the
24 market that sets the rate. So, I think, even though,

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1 traditionally, this is what they're financing and
2 operating and capital needs are, this is just to meet
3 that. It's been -- they have been not doing that,
4 because they don't want to lose customers. And, if
5 this plant is pushed off, it increases the risk of
6 losing those customers. Which, if you lose a customer,
7 if they pay money to convert to another system, and
8 install a gas system, then I think the odds of getting
9 those customers back are pretty slim, at least in the
10 near term.

11 Then, I think that plays into it. And,
12 the Company and Staff and the Commission may want to do
13 something less than what they would otherwise do. If
14 they know it's going to open on January 1st of 2014,
15 then I suspect it's a lot different than if that is
16 2015.

17 CMSR. SCOTT: Thank you.

18 BY CHAIRMAN IGNATIUS:

19 Q. Mr. Frink, Mr. Bloomfield testified that the last
20 authorized return was 6 percent? I'm sorry, that's the
21 wrong number. Three percent?

22 A. That's actually pretty close. But, just a little
23 background, the Department of Revenue taxes Concord
24 Steam and other utilities based on -- in part, based on

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1 what their allowed rate of return is. I remember, in
2 the prior rate case, getting a call from somebody at
3 the Department of Revenue asking me what their allowed
4 return was. And, I said, "well, we set rates based on
5 something well below the allowed return." And, they
6 said, "Well, it doesn't matter. They have the
7 potential to earn this allowed return." So, in the
8 last rate case, when we determined the rates, we said,
9 "okay, even though, traditionally, you know, this would
10 be a reasonable return, this is the return you've
11 actually requested, approximately 3 percent, that's
12 what we're going to approve here." So, it was an
13 effort to reflect the actual return that Concord Steam
14 could be expected, and, through those means, reduce
15 their tax bill to be reflective of what their actual
16 income was expected to be.

17 Q. And, in looking at your testimony, the bottom of
18 Page 1, in Line 21, you say that you evaluated their
19 deficiency "based on an unadjusted test year and an
20 overall rate of return of 7.35 percent". Why was that
21 number used?

22 A. That is the Company's actual capital structure. And,
23 with using a 9.5 return on equity, generally, you have
24 cost consultant experts that come in and tell you what

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1 is a reasonable return. It would be very difficult to
2 come up with one of those for Concord Steam. But just
3 because the Company -- that the Commission has used
4 9.67, 9.75, in this case, 9.5, which is a fairly recent
5 one, I elected to use this very recent return on equity
6 that was approved as part of another settlement.

7 Q. If you were to evaluate the books and records on file
8 using the 3 percent authorized return, would you still
9 find a deficiency warranting temporary rates?

10 A. I didn't run it that way. I -- let me see what the
11 results were. It might not, because, at 3 percent, I
12 believe the capital structure, which is on Page 12,
13 common stock makes up 64 percent of the Company's
14 capital structure. So, a 3 percent return would have a
15 substantial impact on the weighted cost rate. So, it
16 may not -- it may not have a deficiency.

17 But, again, that 3 percent, I don't
18 think anybody would invest in Concord Steam for a
19 3 percent return. And, actually, I seriously doubt
20 that they would invest in Concord Steam at even
21 something at 9.5, but that's -- but, if we were to use
22 3 percent, it may not. Again, I didn't run that, but I
23 could.

24 Q. So that, I'm just looking at the statute, and the

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1 authority that we have to order temporary rates at
2 378:27. Says that the commission may authorize
3 temporary rates if we find it's "in the public
4 interest", and that "the temporary rates shall be
5 sufficient to yield not less than a reasonable return
6 on the cost of the property used and useful...less
7 accrued depreciation", and that's based on the books
8 and records on file with the Commission.

9 So, in your view, is the amount that you
10 are supporting in the temporary rate agreement
11 constitute a reasonable return or based on a reasonable
12 return?

13 A. Under the circumstances, I would call it a "reasonable
14 return".

15 Q. And, do we know what that number is? Is it using the 9
16 -- I'm sorry, the 7.35 percent in your calculations?

17 A. It is just barely break-even. It's something less than
18 1 percent.

19 Q. I'm sorry, you'll have to explain that. I'm not
20 following you.

21 A. I'm saying the return that the Company will -- is
22 expected to have under temporary rates is under
23 1 percent.

24 Q. All right. I think one last question I wanted to ask

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1 you about. The reference to the special contracts that
2 the City and the State have entered into, are those
3 currently in place or are they proposed?

4 A. Those special contracts have been approved. And, I
5 believe they're in place. But, again, the actual --
6 they're not -- the provisions don't provide for a set
7 usage rate at this point in time. That will be set
8 when the new plant comes into service and rates are
9 established at that point in time.

10 Q. So, is the City and is the State receiving power right
11 now pursuant to those contracts? Receiving steam,
12 excuse me?

13 A. Not at this point, no. Again, I guess those contracts
14 take effect when the new plant comes into service. So,
15 the Commission has approved these special contracts,
16 but it's all, and, actually, I remember reading this in
17 the Concord Monitor, that these -- there was an out by
18 the City if the plant wasn't in service on January 1st
19 of 2014. So, that I think that's the -- the effective
20 date is maybe January 1st, 2014, or when the plant
21 comes into service. I'd have to go back and look at
22 that, the contract itself.

23 Q. So, until those contracts are actually into effect, the
24 City and the State are receiving -- certain City and

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1 State buildings are receiving steam under traditional
2 rates?

3 A. Tariffed rates, yes.

4 Q. And, the reference that Mr. Bloomfield made to a resale
5 arrangement with South Jersey Energy, that all relates
6 to how the energy -- how the steam is supplied when the
7 new plant is in effect and the special contracts go in?

8 A. No. I believe -- I believe that agreement is strictly
9 related to the electric sales to the City and State.
10 It has nothing to do with the steam sales.

11 Q. Good. That makes me -- I was getting so confused.
12 Good. All right. So, that's unrelated, and really a
13 whole nother provision of service, from Concord Power &
14 Steam, not from Concord Steam?

15 MR. BLOOMFIELD: Yes.

16 CHAIRMAN IGNATIUS: All right. I have
17 no other questions. Mr. Speidel, any redirect?

18 MR. SPEIDEL: No redirect. Thank you.

19 CHAIRMAN IGNATIUS: All right. Then,
20 Mr. Frink, you're excused. Thank you.

21 On procedural matters, I should have
22 mentioned at the beginning, and forgot to, we -- this was
23 also a prehearing conference, and time to take requests
24 for intervention. We received none, and there was no one

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1 here this morning seeking intervention. We also require
2 an affidavit of publication demonstrating that the notice
3 was published and we received that. So, thank you. Any
4 other procedural matters, other than striking the
5 identification on the exhibits?

6 (No verbal response)

7 CHAIRMAN IGNATIUS: Is there any
8 opposition to striking the identification and making them
9 full exhibits in the docket?

10 MR. TAYLOR: No opposition.

11 CHAIRMAN IGNATIUS: We'll do that. We
12 have a customer of Concord Steam here. Sir?

13 MR. LILLIOS: Yes.

14 CHAIRMAN IGNATIUS: Is there anything
15 you would like to say before we conclude?

16 MR. LILLIOS: No, it's beyond me, this.
17 No thank you.

18 CHAIRMAN IGNATIUS: All right. Well, we
19 appreciate you coming.

20 MR. LILLIOS: Well, I enjoyed listening
21 to how you go about this.

22 CHAIRMAN IGNATIUS: You're welcome.

23 MR. LILLIOS: Increasing the utility
24 rates, it's quite educational.

1 CHAIRMAN IGNATIUS: You're welcome
2 anytime to come and to make comments.

3 MR. LILLIOS: Thank you.

4 CHAIRMAN IGNATIUS: Then, final
5 closings. Mr. Speidel.

6 MR. SPEIDEL: Yes. Thank you, Chairman.
7 Staff supports the acceptance of the Settlement jointly
8 filed by the Company and Staff for temporary rates. We
9 believe that the rates proposed within the terms of the
10 Settlement are just and reasonable, and will offer Concord
11 Steam needed rate relief at the present time, in light of
12 its impending construction of a new plant by its
13 affiliate, and an expected reduction in steam rates
14 provided by that affiliate. But, in this interim period,
15 we do need to have a viable company for this heating
16 season. We believe that these temporary rates will help
17 to guarantee that.

18 And, we also appreciate the
19 consideration of the Commission for the late filing of the
20 Settlement. As Mr. Frink mentioned, we had had quite a
21 few rounds of discovery and other -- excuse me -- informal
22 consultations that led to this being filed as late as it
23 was. But, in any event, we do appreciate the
24 consideration of the Commission for this late-filed

1 Settlement and a waiver of the five-day filing rule. And,
2 we also thank the Company for its cooperation in answering
3 Staff's questions. Thank you.

4 CHAIRMAN IGNATIUS: Mr. Taylor.

5 MR. TAYLOR: Concord Steam -- Concord
6 Steam respectfully requests that the Commission approve
7 the Settlement Agreement as presented to it today. As
8 demonstrated in the Company's filings, and as confirmed by
9 the testimony of Mr. Bloomfield and Mr. Frink here today,
10 Concord Steam is under-earning considerably relative to
11 its prior authorized rate of return in the last general
12 rate increase -- last general rate case. And, we believe
13 there is a sufficient record for the Commission to support
14 a temporary rate increase.

15 The Settlement Agreement that is before
16 the Commission today is a result of a compromise between
17 the Company and the Staff. We believe the rates set forth
18 therein are just and reasonable, and that the Settlement
19 Agreement is in the public interest. We also believe that
20 the transfer of certain steam-related -- steam
21 production-related costs to the Company's Cost of Energy
22 charge as described in the Agreement is appropriate, and
23 moves the Company's charge structure closer to what it
24 will look like when the new steam plant comes on line.

1 The Company is very appreciative of the
2 efforts of the Staff to work with the Company and reach
3 this Settlement Agreement. And, we look forward to
4 working with the Staff in a constructive way throughout
5 the remainder of the case. The Company also appreciates
6 the opportunity to be heard today. And, I thank you.

7 CHAIRMAN IGNATIUS: I understand you are
8 seeking a November 1 effective date in this docket, as
9 well as the other. And, we recognize that and we will
10 meet that deadline.

11 Unless there's anything further, we'll
12 take all of this under advisement and stand adjourned.

13 **(Whereupon the hearing ended at 11:38**
14 **a.m.)**