

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 26, 2013**AT (OFFICE):** NHPUC

FROM: Robert J. Wyatt *RJW*
Assistant Director, Safety Division

SUBJECT: DG 13-153
Concord Steam Corporation
Petition for Approval of a Special Contract
D. McLeod Florist

TO: Commissioners
Docket File
Service List

BACKGROUND

On May 17, 2013, the petitioner, Concord Steam Corporation (“Concord Steam” or “Company”), filed with the New Hampshire Public Utilities Commission (Commission) a petition for approval of a special contract that was executed on October 6, 2010. The terms of this agreement have been in effect with D. McLeod Florist (“McLeod”) since October 1, 2010 for service in connection with McLeod’s florist/greenhouse business on South State Street in Concord¹. Although the agreement had been in effect since October 2010, it was necessary for Concord Steam to install a service main to connect McLeod to its distribution system before McLeod could begin receiving steam service. The Company began providing steam service to McLeod under the special contract in December 2010.

In its petition, the Company stated that McLeod was planning to replace its old oil-fired steam boilers². As an alternative to replacing the boilers, McLeod inquired about the possibility of Concord Steam providing steam service to the greenhouse and retail florist operations. The Company asserts the proposed special contract was designed to meet the specific needs of McLeod while at the same time providing benefits for Concord Steam and its other customers. Concord Steam understood that the steam supply would be the energy source used to supply heat to both McLeod’s greenhouse and retail operations. Concord Steam assumed an annual steam

¹ In DG 12-242, the Concord Steam Corp. Petition to Increase Base Rates, the NHPUC Audit Staff identified the account for D. McLeod Florist as being served and billed under the provisions of a special contract that had not been filed with or approved by the Commission. On April 25, 2013, in DG 12-242, Order No. 25,499, the Commission directed Concord Steam to file the special contract for D. McLeod Florist with the Commission no later than May 15, 2013.

² In response to Staff Data Request 2-3, the Company notes that the reference to “McLeod’s desire to replace its aging fuel oil boilers” was incorrect and should have referenced natural gas as the fuel type used by the aging boilers.

load for McLeod at 550 Mlbs³. This contract enables Concord Steam to add an important new customer whose operations were located in close proximity to a section of the steam distribution system. Concord Steam and McLeod came to an agreement where McLeod would contribute \$12,000 toward the installation cost for the steam service main. Concord Steam, in exchange, acquired a new steam sales customer that will be billed at a special contract rate.

STAFF INVESTIGATION AND ANALYSIS

Staff referred to information from the recent Concord Steam base rate filing in DG 12-242. Staff also referenced dockets for the special contract agreements between Concord Steam and the Concord School District (DG 09-154) as well as the special contract petition for the CATCH/Endicott Hotel account (DG 13-152) that was filed on the same day as the McLeod petition.

The special contract with McLeod carries a five year term that commenced on October 1, 2010. Staff points to page 3, line 15 of Mr. Saltsman's testimony, where he explains the circumstances that contributed to the Company's administrative oversight of not filing the petition for a special contract in a timely manner. Staff is extremely concerned with Concord Steam's failure to meet its regulatory requirements. Not only did Concord Steam fail to file the petition in a timely manner, when the matter was brought to the Company's attention by the Commission Audit Staff it was months before the Company filed its petition, and only after the Commission ordered it to do so by no later than May 15, 2013. Even then, the petition was not filed until May 17, 2013, two days beyond the deadline set by the Commission. Putting that issue aside, Staff's investigation and analysis focuses on the merits of the petition, testimony and agreement documents.

In its petition, testimony and supporting documents, Concord Steam states that McLeod is important because the additional steam sales load will provide the Company with a reliable new revenue stream from a customer with an established presence at this location in Concord. In the instant docket, Mr. Saltsman's testimony (p. 3, lines 2-4) states that the addition of this load is beneficial to all steam customers by enabling the Company to spread its fixed costs over a wider base of revenues without additional investment in assets. Although this load is relatively small when compared to the system as a whole, the Company has experienced some significant load losses during the past several years and is trying to reverse that trend by retaining its remaining customer base and if opportunities similar to McLeod present themselves, by adding to its customer base.

The McLeod special contract is essentially an agreement to shift the month-to-month usage from the first block (up to 500 Mlb) usage rate tier to the more favorable third (over 2,000 Mlb) usage rate tier. Historical data shows that the monthly usage for McLeod never exceeds the first tier threshold of 500 Mlbs. Throughout the term of the agreement, McLeod will pay a usage rate equal to the tariff's "over 2,000 Mlb" tier, base usage rate in effect for each billing period. In addition, McLeod will pay the other components of Concord Steam's tariff (i.e., Meter Charge,

³ In response to Staff Data Request 2-2, the Company explained that the basis for the assumed annual steam load of 550 Mlb was the historical natural gas annual consumption, converted to equivalent steam Mlb units.

Cost of Energy, and any applicable tariff surcharges) at the same rates applied to all customers under Concord Steam's tariff.

The special contract provides assurance to Concord Steam that McLeod will remain a customer in good standing during the five year term of the agreement. Additional safeguards in the agreement that protect Concord Steam and its firm customers include: 1) a requirement that McLeod will pay all service connection charges related to the restoration of steam service and associated costs if its service is disconnected as a result of McLeod defaulting on its contractual obligations; and 2) the customer agrees to repay any base rate discounts applied to its account if service is discontinued by the customer or by Concord Steam as a result the Customer being in default at any time during the term of the agreement. These and other provisions of the agreement, provide incentives for McLeod to remain in good standing and to avoid any disconnection of steam service.

Although the special contract is silent on the treatment of the meter charge, Staff was able to determine the appropriate meter charges have been billed by the Company and subsequently paid by McLeod. In response to Staff data request 1-8 Concord Steam provided the complete billing history for this account. This billing history enables Staff to verify that this agreement is consistent with Commission policy for other recent Concord Steam special contracts, in that the discount applies only to the usage rate portion of the Company's steam service tariff.

Staff Analysis uses the complete actual historical billing data to calculate the base revenue that has been collected by Concord Steam as a result of the McLeod special contract. The analysis also shows how the discounted special contract rate has benefitted McLeod (see Attachment RJW-1). Based on the analysis, for the initial 30-month period, through May 2013, Concord Steam has received \$24,542 in base usage rate revenue under the terms of the agreement from its steam service to McLeod. The analysis also shows that for the same 30-month period, McLeod has saved \$9,180 as a result of being billed at the special contract usage rate rather than at the normal steam tariff usage rate. Concord Steam has received additional base revenue from the monthly meter charge of \$1,030 and Cost of Energy revenue of \$32,000. By comparison, if the account were to have selected an alternate fuel, Concord Steam would have received no revenues from the McLeod account. Looking forward, Staff estimates that for the next twelve months Concord Steam will receive approximately \$11,000 in base meter charge and usage rate revenue from McLeod. McLeod's annual steam load of approximately 600 Mlbs will benefit all steam customers by mitigating the impact of the Company's fixed costs that are embedded in both the base rate and the cost of energy rate calculations.

STAFF RECOMMENDATION

Staff is not recommending fines or penalties for Concord Steam's failure to file for approval of this special contract in a timely manner or for failing to meet the filing deadline set by Commission order. Based on the record in DG 12-242, Concord Steam request for a rate increase, the Company has cash flow issues and limited ability to increase rates due to the competitive price advantage of natural gas. Concord Steam is attempting to restructure to address that situation but until that situation is resolved fines or penalties could compromise the

Company's ability to provide safe and reliable service. The Commission should put Concord Steam on notice that any subsequent failure to meet filing requirements could lead to fines and/or penalties, particularly in light of the Company's failures in this instance.

Staff considers the proposed special contract to be in the public interest, as required by RSA 378:18. Specifically, the special contract offers Concord Steam the opportunity to serve an important new steam load on its system, thus providing economic benefits of contributing to its overall fixed cost recoveries.

In addition, Staff recommends that the Commission include language in an approval Order that indicates that:

- the special contract rate is specific to the usage rate portion of the steam service tariff, and will be equal to the "over 2,000 Mlb" tier usage rate in effect during the month of steam usage, for all metered Mlbs;
- throughout the term of the special contract, meter charges, applicable surcharges and cost of energy rates relevant to McLeod will be the normal effective tariff rates and surcharges applicable to all steam service customers.

Attachment

Robert Wyatt, 6/27/13

Concord Steam Corp. Petition for McLeod Special Contract

		Annual steam usage and revenue calculations based on actual usage and normal steam tariff rates the were in effect at the time of steam usage						Annual Revenue Calculations based on the Special Contract Usage Rate for Years			
	Mlb Usage (re. Staff DR 1-8)	Meter Charge (Oct-May), (Jun-Sep)	Tariff Rate/Mlb w/Surcharge Revenue/Mo	Usage Rate 501 - 2000	Mlb Usage Rate Revenue-over 2000	Cost of Energy Rate Revenue	Total Revenue	Contract Usage Rate/Mlb w/Surcharge Revenue/Mo	Total Revenue per Month	Contract Discount to Normal Tariff Rates	Cumulative Contract Discount to Normal Tariff
11/1/2010	25,100	\$ 40.00	\$ 18.60	\$ 16.27	\$ 13.48	\$ 16.64	\$ 13.54				
6/1/2011		\$ 40.00	\$ 18.54	\$ 16.27	\$ 13.48	\$ 16.64	\$ 13.48				
11/1/2011		\$ 40.00	\$ 18.54	\$ 16.27	\$ 13.48	\$ 15.63	\$ 13.48				
12/1/2011		\$ 40.00	\$ 18.54	\$ 16.27	\$ 13.48	\$ 17.80	\$ 13.48				
1/1/2012		\$ 40.00	\$ 18.54	\$ 16.27	\$ 13.48	\$ 16.90	\$ 13.48				
3/1/2012		\$ 40.00	\$ 18.54	\$ 16.27	\$ 13.48	\$ 18.50	\$ 13.48				
11/1/2012		\$ 40.00	\$ 20.88	\$ 18.32	\$ 15.18	\$ 21.08	\$ 15.18				
5/1/2013	25,499	\$ 110.00	\$ 21.50	\$ 20.34	\$ 16.85	\$ 21.08	\$ 16.85				
Dec-10	141.49	\$ 40.00	\$ 2,631.71	\$ -	\$ -	\$ 2,354.39	\$ 5,026.11	\$ 1,915.77	\$ 4,310.17	\$ (715.94)	\$ (715.94)
Jan-11	114.31	\$ 40.00	\$ 2,126.17	\$ -	\$ -	\$ 1,902.12	\$ 4,068.28	\$ 1,547.76	\$ 3,489.88	\$ (578.41)	\$ (1,294.35)
Feb-11	127.92	\$ 40.00	\$ 2,379.31	\$ -	\$ -	\$ 2,128.59	\$ 4,547.90	\$ 1,732.04	\$ 3,900.63	\$ (647.28)	\$ (1,941.62)
Mar-11	99.85	\$ 40.00	\$ 1,857.21	\$ -	\$ -	\$ 1,661.50	\$ 3,558.71	\$ 1,351.97	\$ 3,053.47	\$ (505.24)	\$ (2,446.86)
Apr-11	67.11	\$ 40.00	\$ 1,248.25	\$ -	\$ -	\$ 1,116.71	\$ 2,404.96	\$ 908.67	\$ 2,065.38	\$ (339.58)	\$ (2,786.44)
May-11	20.11	\$ 40.00	\$ 374.05	\$ -	\$ -	\$ 334.63	\$ 748.68	\$ 272.29	\$ 646.92	\$ (101.76)	\$ (2,888.20)
Jun-11	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,888.20)
Jul-11	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,888.20)
Aug-11	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,888.20)
Sep-11	9.60	\$ 40.00	\$ 177.98	\$ -	\$ -	\$ 159.74	\$ 377.73	\$ 129.41	\$ 329.15	\$ (48.58)	\$ (2,936.77)
Oct-11	51.57	\$ 40.00	\$ 956.11	\$ -	\$ -	\$ 858.12	\$ 1,854.23	\$ 695.16	\$ 1,593.29	\$ (260.94)	\$ (3,197.72)
Nov-11	74.29	\$ 40.00	\$ 1,377.34	\$ -	\$ -	\$ 1,161.15	\$ 2,578.49	\$ 1,001.43	\$ 2,202.58	\$ (375.91)	\$ (3,573.63)
Dec-11	92.50	\$ 40.00	\$ 1,714.95	\$ -	\$ -	\$ 1,646.50	\$ 3,401.45	\$ 1,246.90	\$ 2,933.40	\$ (468.05)	\$ (4,041.68)
Jan-12	115.80	\$ 40.00	\$ 2,146.93	\$ -	\$ -	\$ 1,957.02	\$ 4,143.95	\$ 1,560.98	\$ 3,558.00	\$ (585.95)	\$ (4,627.62)
Feb-12	96.07	\$ 40.00	\$ 1,781.14	\$ -	\$ -	\$ 1,623.58	\$ 3,444.72	\$ 1,295.02	\$ 2,958.61	\$ (486.11)	\$ (5,113.74)
Mar-12	67.33	\$ 40.00	\$ 1,248.30	\$ -	\$ -	\$ 1,245.61	\$ 2,533.90	\$ 907.61	\$ 2,193.21	\$ (340.69)	\$ (5,454.43)
Apr-12	56.93	\$ 40.00	\$ 1,055.48	\$ -	\$ -	\$ 1,053.21	\$ 2,148.69	\$ 767.42	\$ 1,860.62	\$ (288.07)	\$ (5,742.49)
May-12	7.59	\$ 40.00	\$ 140.72	\$ -	\$ -	\$ 140.42	\$ 321.13	\$ 102.31	\$ 282.73	\$ (38.41)	\$ (5,780.90)
Jun-12	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,780.90)
Jul-12	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,780.90)
Aug-12	0.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (5,780.90)
Sep-12	2.55	\$ 40.00	\$ 47.28	\$ -	\$ -	\$ 47.18	\$ 134.45	\$ 34.37	\$ 121.55	\$ (12.90)	\$ (5,793.80)
Oct-12	31.98	\$ 40.00	\$ 592.91	\$ -	\$ -	\$ 591.63	\$ 1,224.54	\$ 431.09	\$ 1,062.72	\$ (161.82)	\$ (5,955.62)
Nov-12	78.99	\$ 40.00	\$ 1,649.31	\$ -	\$ -	\$ 1,665.11	\$ 3,354.42	\$ 1,199.07	\$ 2,904.18	\$ (450.24)	\$ (6,405.86)
Dec-12	104.50	\$ 40.00	\$ 2,181.96	\$ -	\$ -	\$ 2,202.86	\$ 4,424.82	\$ 1,586.31	\$ 3,829.17	\$ (595.65)	\$ (7,001.51)
Jan-13	117.36	\$ 40.00	\$ 2,450.48	\$ -	\$ -	\$ 2,473.95	\$ 4,964.43	\$ 1,781.52	\$ 4,295.47	\$ (668.95)	\$ (7,670.47)
Feb-13	119.73	\$ 40.00	\$ 2,499.96	\$ -	\$ -	\$ 2,523.91	\$ 5,063.87	\$ 1,817.50	\$ 4,381.41	\$ (682.46)	\$ (8,352.93)
Mar-13	62.28	\$ 40.00	\$ 1,300.41	\$ -	\$ -	\$ 1,312.86	\$ 2,653.27	\$ 945.41	\$ 2,298.27	\$ (355.00)	\$ (8,707.92)
Apr-13	72.78	\$ 40.00	\$ 1,519.65	\$ -	\$ -	\$ 1,534.20	\$ 3,093.85	\$ 1,104.80	\$ 2,679.00	\$ (414.85)	\$ (9,122.77)
May-13	12.29	\$ 110.00	\$ 264.24	\$ -	\$ -	\$ 259.07	\$ 633.31	\$ 207.09	\$ 576.16	\$ (57.15)	\$ (9,179.92)
	1744.9	\$ 1,030.00	\$ 33,721.83	\$ -	\$ -	\$ 31,954.06	\$ 66,705.89	\$ 24,541.91	\$ 57,525.97	\$ (9,179.92)	
Projections for next 12 months:											
Jun-13	0.00	\$ 16.00	\$ -	\$ -	\$ -	\$ -	\$ 16.00	\$ -	\$ 16.00	\$ -	\$ -
Jul-13	0.00	\$ 16.00	\$ -	\$ -	\$ -	\$ -	\$ 16.00	\$ -	\$ 16.00	\$ -	\$ -
Aug-13	0.00	\$ 16.00	\$ -	\$ -	\$ -	\$ -	\$ 16.00	\$ -	\$ 16.00	\$ -	\$ -
Sep-13	0.00	\$ 16.00	\$ -	\$ -	\$ -	\$ -	\$ 16.00	\$ -	\$ 16.00	\$ -	\$ -
Oct-13	34.53	\$ 110.00	\$ 742.40	\$ -	\$ -	\$ 727.89	\$ 1,580.29	\$ 581.83	\$ 1,419.72	\$ (160.56)	\$ (160.56)
Nov-13	78.99	\$ 110.00	\$ 1,698.29	\$ -	\$ -	\$ 1,665.11	\$ 3,473.39	\$ 1,330.98	\$ 3,106.09	\$ (367.30)	\$ (527.87)
Dec-13	104.50	\$ 110.00	\$ 2,246.75	\$ -	\$ -	\$ 2,202.86	\$ 4,559.61	\$ 1,760.83	\$ 4,073.69	\$ (485.93)	\$ (1,013.79)
Jan-14	117.36	\$ 110.00	\$ 2,523.24	\$ -	\$ -	\$ 2,473.95	\$ 5,107.19	\$ 1,977.52	\$ 4,561.46	\$ (545.72)	\$ (1,559.52)
Feb-14	119.73	\$ 110.00	\$ 2,574.20	\$ -	\$ -	\$ 2,523.91	\$ 5,208.10	\$ 2,017.45	\$ 4,651.36	\$ (556.74)	\$ (2,116.26)
Mar-14	62.28	\$ 110.00	\$ 1,339.02	\$ -	\$ -	\$ 1,312.86	\$ 2,761.88	\$ 1,049.42	\$ 2,472.28	\$ (289.60)	\$ (2,405.86)
Apr-14	72.78	\$ 110.00	\$ 1,564.77	\$ -	\$ -	\$ 1,534.20	\$ 3,208.97	\$ 1,226.34	\$ 2,870.55	\$ (338.43)	\$ (2,744.29)
May-14	12.29	\$ 110.00	\$ 264.24	\$ -	\$ -	\$ 259.07	\$ 633.31	\$ 207.09	\$ 576.16	\$ (57.15)	\$ (2,801.44)
	602.46	\$ 944.00	\$ 12,952.89	\$ -	\$ -	\$ 12,699.86	\$ 26,596.75	\$ 10,151.45	\$ 23,795.31	\$ (2,801.44)	