

THE STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DG 16-770

Liberty Utilities (EnergyNorth Natural Gas) Corp., d/b/a Liberty Utilities

And Concord Steam Corporation

Joint Petition for Approval of an Asset Purchase Agreement

DIRECT TESTIMONY

OF

MICHAEL P. CONNOR

September 9, 2016

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1 **Q. Please state your name, occupation and business address.**

2 A. My name is Michael P. Connor. I am the Deputy Commissioner of the New Hampshire
3 Department of Administrative Services. My business address is 25 Capitol Street, Room
4 120, Concord, New Hampshire 03301.

5 **Q. Please describe your educational background and professional experience.**

6 A. I have an Associate Degree in Applied Science in Air Conditioning, Refrigeration and
7 Heating and a Bachelor Degree in Business Management. I have worked in the facility
8 management field for 40 years. I have been employed for the Department of
9 Administrative Services in various capacities over the last 39 years. In my current role I
10 have responsibility overseeing maintenance for approximately 92 state owned buildings,
11 building design and construction and procurement and support services.

12 **Q. Have you previously testified before the Commission?**

13 A. Yes. I testified in Docket DG 16-769, Concord Steam Corporation, Petition for
14 Emergency Rates and to Discontinue Service on September 6, 2016. I have also
15 appeared before the Commission and presented information during a status conference on

1 February 10, 2016 in Docket IR 16-202, Concord Steam Corporation: Investigation into
2 Steam Plant Safety and General Operational Status.

3 **Q. What is the purpose of your testimony?**

4 **A.** The purpose of my testimony is to provide information on the technical and financial
5 challenges for the State created by Concord Steam Corporation's proposed
6 discontinuation of service on May 31, 2017, which is a condition of the Asset Purchase
7 Agreement (the "APA") proposed in this docket.

8 **Q. Please summarize your testimony.**

9 **A.** The State recognizes the need for Concord Steam to discontinue service due to market
10 conditions, an aging facility in need of significant capital investment, and significant
11 distribution losses that have driven increasingly uneconomic rates for Concord Steam
12 service and customer flight. Further, the State understands that the proposed APA will
13 facilitate Concord Steam's closure and reduce the financial impact to Concord Steam
14 customers.

15 However, the short lead-time for Concord Steam customers to transition to alternative
16 heating sources has created a significant hardship for the State. Given the complexity of
17 the conversion process in large, old, and sometimes historic buildings, the State is not
18 able to convert from steam heat prior to Concord Steam's proposed discontinuance of
19 service in May 2017. In order for the State to maintain heat in the 25 state buildings
20 currently served by Concord Steam, the State will need to install temporary boilers to
21 provide service for the 2017/2018 heating season. The State will require access to a
22 portion of Concord Steam's distribution pipes in order to utilize the temporary boilers.

1 Further complicating the State's response to Concord Steam's proposed discontinuance
2 of service is the State's current lack of legal authority to enter into contracts or expend
3 funds to begin the design and construction process necessary to convert from steam to
4 natural gas. The State believes that it can complete the transition from steam to natural
5 gas by the Fall of 2018, but only with assistance from Liberty Utilities, and with
6 expedited legislation in the upcoming 2017 legislative session.

7 **Q. Please describe the State's reasoning for issuing a Request for Proposals to**
8 **transition the State's buildings away from Concord Steam service?**

9 A. For many years the State has recognized that significant cost savings could be achieved
10 by switching from Concord Steam service to natural gas fired boilers in the state
11 buildings. With the low cost of natural gas, even the prospect of a new or renovated
12 steam facility presented a higher cost to the State than a transition to natural gas fired
13 boilers, and the prospect for Concord Steam to obtain the necessary financing for such a
14 venture had been diminishing. In order to explore the cost and feasibility of a transition
15 away from steam, the State issued RFP # 2015-176 on June 12, 2015 seeking proposals
16 for energy performance contracting services including full fuel switching from Concord
17 Steam to other sources.

18 **Q. Would there be cost savings to the State by transitioning from Concord Steam to**
19 **other fuel sources?**

20 A. Yes. At current natural gas rates, the State anticipates an approximately 66% reduction in
21 annual heating costs to serve the 25 state buildings currently served by Concord Steam as
22 compared to the State's costs in 2015. When compared to the emergency rates proposed

1 by Concord Steam in this docket, the State would see a nearly 75% reduction in annual
2 heating costs using natural gas boilers.

3 **Q. Is the State able to complete the transition to other fuel sources within the**
4 **timeframe contemplated by the APA?**

5 A. No. Even if the State were able to begin contracting today for design and engineering of
6 a full conversion of the 25 affected state buildings to natural gas fired boilers, which it
7 cannot, the work could not reasonably be completed before the October 2017 heating
8 season. The affected state buildings have been divided into three categories based on the
9 level of difficulty of transitioning away from Concord Steam. There are six “A”
10 buildings that are relatively easy to convert, seven “B” buildings that require significant
11 design and custom work to convert, and twelve “C” buildings that require substantial
12 customization and complex designs. For some “C” buildings such as the State House,
13 State Library, and State Annex, an entirely new building will be required to house new
14 boilers. Many of the required boilers will need to be custom designed and some have
15 lead-times of up to 26 weeks for delivery. In short, it is a very significant engineering,
16 design and construction undertaking to transition all state buildings off of Concord
17 Steam, with an anticipated timeframe of 18 months.

18 **Q. What is the approximate cost of converting all of the State buildings from Concord**
19 **Steam service?**

20 A. Our estimated cost for the full project is approximately \$20,000,000. If natural gas prices
21 remain at current levels, the annual energy savings following conversion would pay back
22 the cost of the project in roughly 10 years.

1 **Q. You indicated that the State does not have the ability to begin contracting now, why**
2 **not?**

3 A. In order to enter into contracts for engineering and construction services, or for
4 equipment such as boilers, DAS must have available funds appropriated for capital
5 expenditures. Currently, DAS has no such available funds and only a limited amount of
6 emergency money available. DAS also does not at this time have legal authority to
7 borrow money for this work. Legislative authority is required to appropriate funds to
8 DAS and/or to authorize DAS to borrow funds.

9 **Q. How soon could DAS potentially get such authority or appropriations from the**
10 **General Court?**

11 A. Expedited legislation could theoretically be passed as early as late January 2017, but
12 more practically the necessary authorizations would not be available until March 2017.

13 **Q. If DAS begins contracting in March of 2017, how soon could the State complete the**
14 **transition from Concord Steam?**

15 A. We anticipate an 18-month process for design, engineering and construction. If that
16 process begins in March 2017, the project could be completed by the beginning of the
17 2018 heating season in October 2018 if no unexpected delays occur.

18 **Q. How will the State provide heat to the 25 buildings currently served by Concord**
19 **Steam after Concord Steam's proposed discontinuance of service beginning in June**
20 **of 2017?**

21 A. We have investigated temporary solutions to maintain heat in the affected state buildings
22 after Concord Steam's proposed shutdown, and have identified temporary steam boilers

1 as the most cost-effective and reliable solution. Temporary steam boilers fired by natural
2 gas could be connected to the existing steam pipe distribution network to continue
3 providing steam heat to the state buildings until transitioned to permanent systems.

4 **Q. What is the relative cost of temporary steam boilers to serve the State?**

5 A. Our current estimates from contractors show that the annual cost to rent temporary steam
6 boilers would actually be less than the State's current annual cost of service from
7 Concord Steam (before the proposed emergency rate increase) by over \$400,000.

8 **Q. How long would the State need to operate the temporary boilers?**

9 A. In order to maintain the integrity of the steam pipes following discontinuance of service
10 of Concord Steam, the State would need to install and operate the temporary boilers
11 immediately in June 2017. With an anticipated completion date of October 2018, the
12 State would need to operate the temporary boilers for approximately 16 months. If
13 construction of the permanent solution is delayed, the temporary boilers could be needed
14 for a longer period of time.

15 **Q. Does the State need any other rights to operate the temporary boilers?**

16 A. Yes. In order to use the temporary boilers to heat the state buildings, the State would
17 need to utilize a portion of Concord Steam's distribution steam pipes in the downtown
18 Concord area. The State owns the steam pipes on the Gov. Hugh Galen State Office
19 Park, but has no rights in the downtown Concord steam pipes. Without legal rights to use
20 Concord Steam's downtown steam pipes, the State will be unable to heat many
21 downtown buildings after Concord Steam's proposed closure.

1 **Q. Would the temporary boiler solution serve all 25 of the state buildings currently**
2 **served by Concord Steam?**

3 A. No. Two state buildings are located outside the range of the temporary boilers and would
4 need to be converted to natural gas boilers prior to the 2017 heating season: the State
5 print shop building, also known as the Storrs Street Warehouse at 12 Hills Avenue; and a
6 building located at 64 South Street that is currently used by DOiT. The State believes
7 that these buildings can be converted by October 2017 to ensure heat in the 2017/2018
8 heat season.

9 **Q. Given the lack of current spending authority and the tight timeframes involved, are**
10 **there any options available to the State to move more quickly?**

11 A. Without outside assistance, no. However, the State is in discussions with Liberty Utility
12 to obtain assistance to enable contracting to begin sooner and to facilitate the natural gas
13 and water connections needed to install and operate the temporary boilers. Liberty and
14 the State anticipate entering into a special contract, subject to Commission approval, such
15 that Liberty would incur some upfront costs and pass those costs through to the State on
16 the State's utility bill when the State begins taking natural gas service from Liberty in
17 June 2017. The special contract is anticipated to also include pass through costs for the
18 rental and operation of the temporary boilers. With this special contract in place and
19 approved by the Commission, and with the passage of expedited legislation enabling
20 funding of the permanent transition project, the State believes that it will be able to
21 successfully transition its buildings from Concord Steam service without disruption.

1 **Q. What is the status of the State's discussions with Liberty Utilities regarding the**
2 **special contract?**

3 A. Liberty and the State are currently working on the final details of a special contract and
4 hope to submit the contract to the Commission for approval within the next month.

5 **Q. What is the State's position with regard to Concord Steam and Liberty Utility's**
6 **request for approval of the APA?**

7 A. While the condition of APA requiring Concord Steam to discontinue service on May 31,
8 2017 imposes a short time to transition and will result in significant hardship to the State,
9 the State recognizes that Concord Steam's continued operation would likely result in a
10 greater economic hardship as rates inevitably rise to meet the increasing costs of
11 operating an aging plant and inefficient distribution system with a declining customer
12 base. The State further recognizes that the consideration paid by Liberty under the APA
13 will result in a reduction to the State's steam rates during Concord Steam's final heating
14 season and decommissioning process.

15 The State supports approval of the APA in concept, however, because the APA is
16 conditioned on the discontinuance of service by Concord Steam on May 31, 2017, the
17 State is not in a position to recommend approval of the APA until the State has clear
18 rights to utilize Concord Steam's downtown steam pipes for the temporary boilers that
19 will be necessary to maintain heating service in State buildings if Concord Steam
20 discontinues service.

21 **Q. Does this conclude your testimony?**

22 A. Yes, it does.