

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

DG 16-769

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

Direct Testimony

of

Stephen P. Frink
Assistant Director – Gas & Water Division

August 30, 2016

1 **New Hampshire Public Utilities Commission**

2 **Concord Steam Corporation**

3
4 **Petition for Emergency Rates and to Discontinue Service**

5 **DG 16-769**

6 **Testimony of**
7 **Stephen P. Frink**

8
9 **Q. Please state your name, occupation and business address.**

10 **A.** My name is Stephen P. Frink and I am employed by the New Hampshire Public Utilities
11 Commission (Commission) as Assistant Director of the Gas & Water Division. My business
12 address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire 03301.

13 **Q. Please summarize your educational and professional experience.**

14 **A.** I joined the Commission in 1990 as a member of the Audit Team and worked as a Utility
15 Analyst and Sr. Utility Analyst before becoming the Assistant Finance Director in 1998. In
16 2001 Commission operations were restructured and I became the Assistant Director of the
17 Gas & Water Division and have primary responsibility for the administration of the financial
18 aspects of the regulation of the gas utilities and Concord Steam Corporation.

19 Prior to joining the Commission I worked as a Budget/Financial Analyst for the cities
20 of Austin and Dallas, Texas. I have a Bachelor of Arts and a Master's in Business
21 Administration from the University of New Hampshire.

22 **Q. What is the purpose of your testimony in this proceeding?**

1 **A.** The purpose of my testimony is to provide Staff's recommendations on whether Concord
2 Steam (Concord Steam or Company) should be granted emergency rates as proposed by the
3 Company and whether it should be allowed to discontinue service on or before May 31, 2017
4 and to recommend that the procedural schedule be revised to allow for additional discovery
5 and testimony.

6 **Q.** **Please summarize Staff's findings and recommendations on these issues.**

7 **A.** Concord Steam filed its petition just over a month ago and interested parties have until August
8 31, 2016 to petition for intervention. As noted in its petition, unless Concord Steam receives
9 near-term rate relief the Company will experience operating losses which will strain its ability
10 to provide service to its remaining customers. Staff agrees that near-term rate relief is
11 essential to enable Concord Steam to continue providing safe and reliable service though this
12 winter, and Staff recommends that the Commission approve temporary emergency rates
13 effective October 1, 2016. The hearing scheduled for September 6, 2016 should be used to set
14 the temporary emergency rates effective October 1, 2016 and to rule on intervention requests.

15 A procedural schedule should be established that provides for additional discovery and
16 testimony, and sets a hearing on the merits to take place in early October. This should
17 provide adequate time for the Commission to issue an order on emergency temporary rates
18 and all other issues related to Concord Steam's petition prior to November 1, 2016.

19 Staff recommends that temporary emergency rates be approved in order to generate
20 \$7,233,994 of utility revenues over the eight month period of October 2106 through May
21 2017. This represents an increase of \$1,244,028 over the \$5,989,966 of Concord Steam
22 revenues realized from sales in 2015. The proposed increase is based on Staff's preliminary

1 position regarding Concord Steam's emergency rate request and subject to change based on
2 further discovery and consideration. Staff's preliminary positions are described below and
3 supporting schedules are attached. See *Attachment SPF-1*.

4 Staff will be working with the Company to prepare an exhibit with the proposed rates
5 and customer class bill impacts for rates designed to recover Staff's recommend revenue
6 requirement and a compared to the Company's proposal.

7 **Q. Briefly describe the current filing.**

8 **A.** On July 21, 2016, Concord Steam filed a petition with the Commission for emergency rates
9 and to discontinue service. Based on a 2015 test year, Concord Steam calculated a revenue
10 deficiency of \$1,618,332 and has proposed emergency rates designed to recover those
11 additional revenues though an increase in distribution rates effective October 1, 2016 through
12 May 31, 2017. The proposed increase represents an 81% increase in usage revenue and a
13 23% increase in total revenue (the increase in usage revenues is partially offset by a decrease
14 in Cost of Energy (COE) revenues due to an expected decrease in the current COE rate of
15 \$28.25 per Mlb to \$23.53 per Mlb). The increase in usage rates is intended to fund operations
16 until service is terminated, and to decommission portions of the plant and distribution system
17 following the termination of service, as well as to retire debt.

18 In addition to this revenue increase, the Company's proposal would allow for monthly
19 adjustments to the usage rates of up 50% without further Commission action to address
20 potential over or under recoveries at service termination. Concord Steam requests approval to
21 charge the Concord School District non-tariff rates for usage at two of its facilities. It also
22 requests approval to recover costs associated with an unexpired lease-purchase agreement for

1 heating equipment that was entered into without Commission approval, although the leased
2 equipment was referenced in a special contract approved by the Commission in Order No.
3 25,558 issued August 2, 2013.

4 **Q. What approach did the Company use in determining the revenue requirement?**

5 **A.** Concord Steam used traditional ratemaking based on a 2015 test year and adjusted for known
6 and measurable change over the proposed termination period (October 1, 2016 through May
7 31, 2017) and to recover shut down costs following termination.

8 **Q. Is traditional ratemaking the appropriate methodology to use in setting emergency**
9 **rates?**

10 **A.** No, traditional ratemaking assumes on-going operations and recovery of long-term
11 investments over the useful life of those assets, funded through a mix of operating income and
12 long-term debt, and that test-year revenues and expenses are fairly representative of what
13 future annual revenues and expenses will be.

14 **Q. How should the revenue requirement to be used in setting emergency rates be**
15 **determined?**

16 **A.** The revenue requirement should be sufficient to fund operations through the termination
17 period, fund decommissioning of the plant and distribution system, pay off debt and provide
18 for a modest return. No new plant investments should be made unless absolutely necessary
19 for current operations and operating and maintenance costs should be kept to a minimum.

20 **Q. Does Concord Steam's filing attempt to minimize operating and decommission costs?**

21 **A.** For the most part, although there are a number of items Concord Steam has included in its
22 revenue requirement calculation that Staff believes should be reduced or eliminated. Staff has

1 accepted most of Concord Steam's revenue and income adjustments in total and has partially
2 accepted others. See *SPF-1 p. 4 of 11* for Concord Steam revenue and income adjustments
3 and which of those adjustments are fully incorporated in Staff's revenue requirement
4 calculation.

5 **Q. Which adjustments in the Company's revenue requirement calculation did Staff reduce**
6 **or eliminate?**

7 **A.** In its emergency rate request, Concord Steam's revenue requirement includes substantial pay
8 increases and retention bonuses for its officers, and a rate of return on par with those of New
9 Hampshire's natural gas utilities. Staff has reduced the proposed pay increases for the three
10 Company officers (President, Vice President and Treasurer) and eliminated the retention
11 bonus for the President and Vice President.

12 Staff's revenue requirement calculation provides for a 3.59% rate of return on 2015
13 year end rate base. See *SPF-1 pages 1 and 11 of 11*.

14 The Concord Steam revenue requirement also includes federal and state income taxes,
15 even though the Company has a net operating loss carryforward of \$970,000 (Staff DR 1-12)
16 that can be applied against future earnings, and that should more than offset any net income
17 Concord Steam might realize before ceasing operations.

18 **Q. Why did Concord Steam propose the wage increases and retention payments?**

19 **A.** For many years Concord Steam has kept costs down by limiting or forgoing pay increases to
20 its officers and by accepting low returns in an effort to limit the bill impact on customers.
21 Concord Steam's proposed increase in officer compensation is intended to bring the
22 compensation to a level consistent with market wages.

1 Concord Steam also proposes a 5% pay increase for all non-officers, and a one-time
2 payment equal to three month's salary, and the extension of health insurance coverage for an
3 additional three months for employees that remain with the Company throughout the
4 termination period. The pay increase, retention bonus and extended health insurance are to
5 incent current employees essential to providing utility service and decommissioning the plant
6 and distribution system to remain with the Company through service termination.

7 **Q. Does Staff agree with the Company's proposed increase in compensation?**

8 **A.** Staff supports the proposed five percent increase, the retention payments, and extended
9 insurance coverage for all non-officers. Concord Steam has a very limited staff, and losing
10 any of its employees could negatively impact operations and/or lead to higher costs for
11 overtime and outside contractors necessary to cover the responsibilities related to the vacant
12 position(s).

13 Staff agrees that a 25 percent increase in the Vice President's pay is appropriate but
14 does not support the proposed 81% increase in the President's compensation, or the 43%
15 increase for the Treasurer (Staff DR 1-6). The Vice President may be the critical employee
16 when it comes to the day-to-day operations of the steam utility and that task becomes
17 increasingly difficult as the wind down commences. The President is compensated through a
18 Management Fee payable to Bloomfield Associates and that compensation has been well
19 below the Vice President compensation for many years. The Utility has accrued, but not paid,
20 the President's management fee for years and Staff believes it is appropriate that the
21 President's compensation should match that of the Vice President and that the revenue
22 increase generates enough revenue to ensure payment. Under the circumstances, the proposed

1 compensation for those two positions is fair and there is no need for a retention payment to
2 ensure their remaining with the Company.

3 Staff does not dispute that the Treasurer's compensation may be below market but the
4 Treasurer's job responsibilities are primarily accounting related and therefore less critical to
5 continued operations than many of the non-officer positions that will be receiving a 5%
6 increase, a retention bonus and extended health insurance. Therefore, Staff is recommending
7 that the Treasurer be afforded the same increase and retention package as non-officers.

8 **Q. Why does Staff recommend a rate of return below that being granted other utilities?**

9 **A.** Historically, Concord Steam has sought rate increases well below what other utilities have
10 been granted. For instance, Concord Steam entered a settlement agreement in 2008 that
11 resulted in an effective 3.22% overall rate of return in an effort to retain customers and
12 confirmed that the settlement agreement allowed it sufficient additional operating revenue to
13 provide reliable service to customers (Order 24,866 issued June 27, 2008). Two other rate
14 cases have followed with approved settlements with returns well below those of other New
15 Hampshire utilities, but still sufficient to fund short-term operations.

16 This increase is truly to fund short-term operations and the customer bill impact is far
17 greater than those of prior rate increases and does not take into account the negative financial
18 impact on customers of having to convert to a new energy source. Therefore, Staff is
19 recommending Concord Steam be granted a rate of return of 3.59%, an increase sufficient to
20 fund operations until service termination, decommissioning costs and to retire debt, and
21 reducing the bill impact of providing for a return more in line with what the natural gas
22 utilities have been granted.

1 **Q. Is the Company's proposed rate increase designed to recover debt?**

2 **A.** There are several Company adjustments to test year expenses related to investments and debt
3 the Company has incurred in its provision of service. Test year expenses were adjusted to
4 recover capital costs from prior years, adjustments that increase test year expenses by
5 \$704,171. The Company also includes an adjustment to test year expenses to recover
6 \$300,000 through accelerated depreciation for recovery of a portion of undepreciated plant,
7 and test year expenses were increased an additional \$1,227,678 to pay off several outstanding
8 loans.

9 **Q. Does Staff agree with the Company's expense adjustments related to debt?**

10 **A.** Staff does not agree with the expense adjustments the Company has made related to debt, but
11 does agree that the Company should be allowed to recover half of its remaining rate base
12 through emergency rates which should enable it to pay off its outstanding debt. Rate base on
13 December 31, 2015 totaled \$5,991,198, and the adjustment to recover half is \$2,995,559. See
14 *SPF-1 pages 8 and 9 of 11.*

15 **Q. Please explain why Concord Steam should be allowed to recover 50% of its remaining
16 rate base through emergency rates.**

17 **A.** Historically, the Commission has considered a 50/50 debt to equity ratio as being reasonable
18 for a weighted cost of capital for regulated utilities, and has set rates for utilities based on
19 such a hypothetical capital structure, even though the actual capital structure may be
20 something much different.

21 Typically utility assets with long lives are funded through long term debt and this debt
22 is secured by the assets of the utility. Debt holders, therefore, can reasonably expect to fully

1 recover their loan proceeds. Equity investors do not have a secured interest and seek a higher
2 return on investment to compensate for that risk.

3 Concord Steam investors and lenders have made a substantial investment to fund its
4 rate base and the Company would normally recover that investment through depreciating
5 those assets over their useful lives. Those assets will have little to no value once Concord
6 Steam ceases operations, and absent a rate increase that provides for a recovery of a portion of
7 the plant costs through emergency rates, Concord Steam will be unable to pay off its
8 outstanding debt.

9 Concord Steam is seeking a \$900,000 increase in its \$1,200,000 short term credit line
10 with TDBank that will enable it to fund its cash flow requirements this winter. As part of its
11 due diligence, TDBank will be considering whether Concord Steam's rate increase will be
12 sufficient to repay the current outstanding balance due as well as the proposed increase in its
13 credit line.

14 Therefore, not only is it fair to allow recovery of a portion of its rate base, it's
15 necessary for Concord Steam to be able to acquire the short-term funding necessary for
16 continued operations.

17 **Q. What is Concord Steam's outstanding debt at this time?**

18 **A.** As of August 24, 2016, Concord Steam has loans with an outstanding balance of \$1,458,061
19 (Staff DR 3-1).

20 **Q. What other adjustments did Staff make in addition to those explained above?**

21 **A.** Staff eliminated the test year depreciation and amortization expenses as the 50% recovery of
22 rate base covers that.

1 Staff also adjusted 2015 test year property taxes as the assessed value of the plant and
2 distribution will be close to zero following service termination.

3 **Q. Are you prepared to discuss other issues at the September 6th hearing?**

4 **A. Yes.** Staff is prepared to discuss and advise the Commission on all issues related to the filing.
5 That said, providing additional time for discovery and testimony by all parties will help to
6 further inform the Staff and the Commission in evaluating and addressing the issues.

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

8 **A. Yes.**