

DG 01-171

CONCORD STEAM CORPORATION

Petition to Modify Rate Design to
Implement Annual Energy Cost Adjustment Factor

Order Approving Settlement Agreement

O R D E R N O. 23,822

November 1, 2001

APPEARANCES: Ingersoll & Sullivan, PA by Eugene F. Sullivan III, Esq. for Concord Steam Corporation and Marcia A. B. Thunberg, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 5, 2001, Concord Steam Corporation (Concord Steam), a public utility supplying steam service to approximately 130 commercial and institutional customers in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Petition to Modify Rate Design to Implement Annual Energy Cost Adjustment Factor (ECAF).

On September 25, 2001, Concord Steam filed the testimony of Peter G. Bloomfield, President of Concord Steam, in support of the Petition to Modify Rate Design.

On September 28, 2001, Concord Steam filed the supplemental testimony of Peter G. Bloomfield. The purpose of the supplemental testimony was to provide the proposed ECAF.

Concord Steam finalized its long-term fuel purchases for the 2001/2002 season and proposed an ECAF for the Commission's review and approval.

By Order of Notice issued October 1, 2001, the Commission scheduled a Hearing on the Merits for October 29, 2001, and set deadlines for intervention requests and objections thereto. The Order of Notice also scheduled a Technical Session/Settlement Conference for October 17, 2001 and established rolling data requests by Commission Staff (Staff) and any intervenors, effective as of the date of the Order of Notice, with responses due within one week of submittal, through October 19, 2001.

Staff propounded data requests to Concord Steam on October 8, 2001. Concord Steam issued its data responses on October 12, 2001. Revised responses to certain data requests were provided to Staff throughout the discovery period.

In accordance with the Order of Notice, a Technical Session/Settlement Conference was held on October 17, 2001. No motions to intervene were filed in this proceeding.

On October 25, 2001, Staff filed a Settlement Agreement entered into by Concord Steam and Staff. The Settlement Agreement is the result of the Technical Session/Settlement Conference held on October 17, 2001,

responses to discovery, and numerous telephone discussions.

On October 29, 2001, Concord Steam filed the affidavit of publication for the Order of Notice. Also on October 29, 2001, a properly noticed Hearing on the Merits was held at the Commission at which testimony was offered by Concord Steam witness, Peter Bloomfield, and Staff witness, Michelle Caraway.

II. PETITION TO MODIFY RATE DESIGN

In a filing made with the Commission dated September 5, 2001, Concord Steam proposed to modify its rate design in a revenue neutral fashion. Concord Steam requested authority to put into effect an Energy Cost Adjustment Factor each September based on the projected costs of fuels for the upcoming year to be charged to customers on a constant per Mlb (1,000 pounds of steam) basis throughout the year and reconciled the following year as part of the new ECAF.

Concord Steam states that as part of its last base rate proceeding, the Commission allocated a certain percentage of its energy costs to base rates to reflect the fact that a certain percentage of energy costs were incurred by Concord Steam to keep the steam lines charged year round to preserve the viability of the lines, rather than providing actual steam service to customers. *Re Concord Steam Corporation, 81 NH PUC*

664 (1996). The remaining energy costs are passed on to customers through a monthly reconciliation of the cost of fuel to metered service taken. At the end of each month, all of the customers' meters are read, and the amount of steam sold for the month determined. The actual cost of the energy consumed by the Company in the form of oil, natural gas, or wood is calculated based on invoices and a review of inventory. The cost of energy per Mlb is calculated by dividing the cost of fuel by the amount of steam sold and charged to customers proportionately.

As part of the last base rate proceeding, a small percentage of Concord Steam's energy costs, computed at \$76,500, which reflected fuel costs in 1996, was placed in base rates. During the summer months, \$15,300 per month is subtracted from the cost of the fuel before computing the energy charges to reflect the maintenance function of this amount of Concord Steam's energy costs. According to the Company, this ratemaking methodology, or rate design, overstated the actual costs of service to customers during the summer months. During the summer months, the Company states, the current rate design methodology drives prices to certain customers to unreasonably high levels because energy is being consumed to create steam that is not being used to directly

provide service to customers, but rather to maintain system viability.

Consequently, Concord Steam proposed to abolish the current monthly reconciliation of energy costs and to establish in its place a new, annual Energy Cost Adjustment Factor which will build into customers rates the projected annual cost of energy at a constant year round level. On an annual basis, Concord Steam will provide the Commission with its projected cost of fuels for the year. These costs will then be divided over the number of Mlbs. of steam service projected to be delivered to arrive at an annual ECAF. The following year any over-collection or under-collection for fuel costs will be reconciled through the next annual ECAF with carrying costs to the affected party.

Concord Steam projects the cost of fuel for the 12 months by pre-purchasing a significant amount of fuel for the upcoming heating season. However, Concord Steam proposes a trigger mechanism if the cost of energy changes significantly from the expected cost. The trigger mechanism is intended to allow either the Commission or Concord Steam to request a modification to the rates should they result in an annual over-collection or under-collection of more than 5% from projections.

In its supplemental testimony, Concord Steam filed a proposed ECAF of \$9.11 per Mlb based on energy costs of \$2,012,549 and forecasted sales for the period November 1, 2001 through October 31, 2002 of 221,033 Mlbs.

III. SETTLEMENT AGREEMENT

On October 25, 2001, Staff filed a Settlement Agreement entered into between Concord Steam and Staff. The Settlement Agreement is intended to resolve all issues raised in this proceeding. The terms of the Settlement Agreement are summarized below:

1. Cost of Energy

Concord Steam and Staff agree that the adjustment clause will be referred to as the "Cost of Energy" ("COE") and not as the Energy Cost Adjustment Factor as referred to in the petition and testimony.

2. Test Year

Concord Steam and Staff agree that the test year to be used to develop the upcoming COE is the period October 2000 through September 2001.

3. Monthly Adjustments

Concord Steam and Staff agree that Concord Steam may adjust the approved COE rate upward or downward monthly based on Concord Steam's calculation of the projected over or undercollection for the year, but the adjustments shall not exceed twenty percent (20%) of the approved COE rate. Further, Concord Steam shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COE rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Concord Steam shall include a revised tariff if Concord Steam elects to adjust the COE rate. Monthly reports shall be filed in the docket in which the COE rate was established.

4. Annual Cost of Energy Filing

Concord Steam shall file its annual Cost of Energy filing not less than 45 days prior to the effective date of the new COE rate, November 1. Concord Steam's filing shall include, at a minimum, the following: updated sales

forecast weather normalized using a 30-year historical average; the cost of energy calculation detailing total energy costs broken down by type of energy, anticipated volumes and unit cost, which schedule should have two supporting attachments for hedged and spot volumes; copies of contracts for energy costs hedged for the upcoming year; the projected reconciliation of costs to revenues based on ten months actual and two months estimate; and proposed tariff page.

5. Interest

Concord Steam and Staff agree that interest will not be charged on the monthly over- or under-collection as was proposed by Concord Steam in its petition. Concord Steam and Staff agree that this issue can be raised by either party in Concord Steam's next base rate case proceeding.

6. Audit

Concord Steam shall allow for an audit of its COE reconciliation by the Commission's Audit Staff within 21 days of its annual filing.

7. Hedging

Concord Steam and Staff agree that Concord Steam shall hedge a minimum of fifty percent (50%) of its energy volumes required to meet its projected steam sales for the upcoming period of November 1 through October 31.

8. Energy Costs in Base Rates

As part of Concord Steam's last base rate proceeding, the Commission allocated a certain percentage of its energy costs to base rates to reflect the fact that a certain percentage of energy costs are incurred by Concord Steam to keep the steam lines charged year round to preserve the viability of the lines, rather than providing actual steam service to customers. Concord Steam and Staff agree that the amount of \$76,500, allocated to maintenance, shall remain in base rates until Concord Steam files a base rate case petition with the Commission at which time Concord Steam and Staff will recommend that the \$76,500 be removed from base rates. However, until the Commission issues an order in the base rate case proceeding, Concord Steam shall reduce its projected annual energy costs by \$76,500 when calculating the COE rate.

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9. 2001/2002 Cost of Energy Rate

Concord Steam and Staff agree that the COE rate for the upcoming 2001/2002 period will be \$8.92 per Mlb. The COE rate reflects Concord Steam's total projected energy costs of \$2,095,062 to meet estimated Mlbs. sales of 228,768, the reduction for the \$76,500 of energy costs in base rates, and a beginning undercollection of energy costs of \$23,103.

10. Customer Notification of Rate Changes

Concord Steam shall notify its customers of monthly changes to its COE by printing a notice on customers' bills which are usually sent by the seventh day of the month (meter reads are taken the last business day of the month). Customers will also be notified that they may contact Concord Steam by phone five days prior to the upcoming month to obtain the COE rate for that month.

11. Settlement Implementation

Concord Steam and Staff agree that the terms of this Settlement Agreement are to be implemented effective November 1, 2001.

IV. COMMISSION ANALYSIS

We have reviewed the terms of the Settlement Agreement as well as Concord Steam's filing and the supporting testimony and exhibits presented at the October 29, 2001 hearing. Based on our review of the record, we find that Concord Steam's revenue neutral rate design petition, as amended by the terms of the Settlement Agreement, produces rates that are just and reasonable and in the public good.

The current rate design methodology, approved in Concord Steam's base rate case proceeding in 1996, has not

alleviated summer rates to the extent envisioned. Indeed, customers pay much higher summer rates than winter rates because they are paying for steam used exclusively to maintain the integrity of the distribution system. Concord Steam testified at the hearing that it is cheaper to charge the pipes during the summer than to shut off certain sections, which would lead to system deterioration and cause costly repairs. The rate design methodology agreed to by Concord Steam and Staff develops an average rate per Mlb that is intended to lower summer rates and increase winter rates so that all customers pay to maintain system viability. Independent of a base case proceeding, the proposed methodology reasonably addresses the problem of subsidization between summer and winter customers and maintains revenue neutrality by reducing projected energy costs in the COE rate by \$76,500 currently recovered through base rates.

The terms of the Settlement Agreement also create a feature of Concord Steam's Cost of Energy which is very similar to New Hampshire's natural gas utilities' Cost of Gas (COG) mechanisms. We approved the gas utilities' monthly adjustments to the COG rate because we believe that it more accurately reflects costs, and allows the utilities to pass along cost fluctuations in a timely manner. It also enables

the utilities to match those costs with the appropriate customers and to minimize over and undercollections. We believe these reasons for our previous approvals of the monthly adjustment exist for Concord Steam. Reducing the over/under collections for Concord Steam is a worthy goal, even though Concord Steam will not be accruing carrying costs on over/undercollections. Staff testified that Concord Steam does not have seasonal rates, unlike natural gas utilities which have summer and winter COG rates which give rise to the need to accrue interest on balances held on the utility's books for six months until incorporated in the next corresponding season's COG.

Further, Concord Steam must file with the Commission not less than 5 business days prior to the first day of the subsequent month should it elect to revise its COE. Concord Steam is responsible for notifying its customers of the rate change, as described above, so that customers have the opportunity to respond to rate change. Concord Steam testified that in addition to the notice requirements set out in the Settlement Agreement, it will be notifying its customers of the Commission's decision regarding the rate design petition in bill inserts set to go out the week of November 5th through 9th. Additionally, Concord Steam testified

its press release issued at the outset of this docket also disclosed to customers Concord Steam's intention to change the rates this fall.

Based upon the foregoing, it is hereby

ORDERED, that the Settlement Agreement entered into between Concord Steam and Staff is **APPROVED;** and it is

FURTHER ORDERED, that the new Cost of Energy rate delineated above is effective November 1, 2001 on a service rendered basis; and it is

FURTHER ORDERED, that Concord Steam shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this first day of November, 2001.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco

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Assistant Secretary