

DG 02-125

CONCORD STEAM CORPORATION

Notice of Intent to File Rate Schedules

Order Approving Permanent Rates

O R D E R N O. 24,147

March 28, 2003

APPEARANCES: Sarah B. Knowlton, Esq., McLane, Graf, Raulerson and Middleton, for Concord Steam Corporation, and Donald M. Kreis, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On June 17, 2002, Concord Steam Corporation (Concord Steam or Company) filed with the New Hampshire Public Utilities Commission (Commission) a notice of intent to file rate schedules.

On July 23, 2002, Concord Steam filed its proposed rate schedules, supporting material, and petition for authority to establish permanent rate increase. The filing requested an annual revenue increase of \$501,702, which represented a 13.9 percent increase over weather-normalized pro forma test year revenues. On August 8, 2002, Concord Steam filed a petition for temporary rate increase in the amount of \$496,405, or 13.7 percent over test year revenues.

On August 19, 2002, the Commission issued Order No. 24,039, which suspended the proposed tariffs and scheduled a

prehearing conference and technical session for September 11, 2002. On September 9, 2002, the Governor's Office of Energy and Community Services (GOECS) filed a motion for intervention.

A prehearing conference and technical session were held on September 11, 2002. On September 26, 2002, the Commission issued Order No. 24,058, approving the proposed procedural schedule and GOECS' motion for intervention.

On September 30, 2002, Concord Steam submitted its testimony and schedules in support of its temporary rate filing. Also on September 30, the Commission issued a secretarial letter correcting certain dates in Order No. 24,058. Commission Staff filed its testimony regarding temporary rates on October 4, 2002.

On October 15, 2002, Commission Staff filed a settlement agreement on temporary rates on behalf of itself and Concord Steam, together with a request for waiver of N.H. Admin. Code Rule Puc 203.09(d), which requires that settlements be filed no less than five days prior to hearing. A hearing on the temporary rate settlement agreement was held on October 15, 2002.

On October 25, 2002, the Commission issued Order No. 24,073 approving the temporary rate settlement agreement, with

the approved rate to become effective on a bills rendered basis November 1, 2002.

On January 7, 2003, Staff filed the direct testimony of Stephen P. Frink, Assistant Director of the Gas & Water Division. Concord Steam and Staff held a technical session January 28, 2003 and a settlement conference February 4, 2003. As a result of discussions, a settlement was reached between Concord Steam and Staff.

By secretarial letter dated February 18, 2003, the Commission granted the request of Staff and Concord Steam to allow the filing of a settlement agreement no later than February 21, 2003.

On February 21, 2003, Concord Steam and Staff filed a comprehensive Settlement Agreement (Settlement Agreement) regarding permanent rates with the Commission. In accordance with the procedural schedule, a hearing on the Settlement Agreement was held on March 4, 2003.

On March 10, 2003, Staff filed a letter with the Commission stating that it had reviewed Exhibit 6 introduced at hearing and the delivery rates are consistent with the rate design provisions of the Settlement Agreement.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam Corporation

Concord Steam states that it filed its rate case because it has earned substantially less than its authorized rate of return during the past three years;¹ instead, the Company has been earning a rate of return of approximately 2 percent since 1999. For the test year ended December 31, 2001, Concord Steam reported a \$99,000 loss, which translates to a weather-normalized, overall rate of return of approximately negative 3 percent and a return on equity of approximately negative 3.9 percent. Concord Steam also states that base rates for the Company were last established on September 1, 1996. See *Concord Steam Corporation*, Order No. 22,298, 81 NHPUC 664 (1996). Concord Steam advocates approval of the Settlement Agreement which stipulates a permanent rate increase designed to yield an increase in annual revenues of \$501,702, *i.e.*, an increase of 13.96 percent.

According to Concord Steam, the permanent rates provided by the Settlement Agreement will allow the Company to operate in an efficient and effective manner and provide quality

¹ Pursuant to an approved settlement, the Commission allowed the Company an overall rate of return of 8.63 percent, including a return on equity of 8.5 percent, in *Concord Steam Corporation*, Order No. 22,298, 81 NH PUC 664, 666. (1996).

service to its customers. Concord Steam calculates that under the permanent rates called for in the Settlement Agreement, the total annual bill for a "small" customer, assuming usage of 295 M/lbs and an energy charge at the new \$13.09 rate, would be \$6,714, as compared to \$5,985 under the base rates in effect prior to the temporary rates established in Order No. 24,073, which is an increase of 12.2 percent.²

B. Staff

In its pre-filed testimony, Staff recommended making several adjustments to the Company's test year for purposes of calculating the revenue requirement for permanent rates, including weather-normalizing sales, reducing rate base, and increasing the allowed rate of return from that proposed by the Company. Staff supports Commission approval of the Settlement Agreement.

III. SETTLEMENT AGREEMENT

The Settlement Agreement is summarized as follows:

1. **Revenue Requirement.** The annual revenue requirement shall be \$4,096,371, an increase of \$501,702, or 13.96 percent, over 2001 test year revenues. The Settlement Agreement provides for an overall rate of return of 8 percent although the agreed upon revenue increase results in an overall rate of return of 6.81 percent.

² The base rate portion of the total bill would be \$2,795 compared to \$2,096, an increase of 33.3 percent.

2. **Wood Burning Equipment and Associated Costs.** Rate Base includes the net book value of the plant and equipment necessary to burn wood chips, to be depreciated over the remaining life of the plant lease.

To encourage wood use where economical, the Company may include the direct costs associated with burning wood, including the cost of wood, labor, electricity, ash disposal, air permit fees, wood broker fees, and other direct variable costs associated with burning wood, in its cost of energy (COE) charge.

The Company shall conduct a cost comparison to determine energy savings associated with burning wood compared to alternative energy sources and may only recover direct wood burning costs up to the achieved savings. The direct costs associated with burning wood and projected savings shall be included in the annual COE filing, and are subject to Commission approval and fully reconcilable.

3. **Underground Mains and Services - State Hospital.** Rate Base includes the net book value of the underground mains and services installed by the Company on the grounds of the New Hampshire State Hospital, to be depreciated over the remaining life of the lease with the New Hampshire State Hospital.

4. **1984 Cost Allocation Formula.** At this time, there shall be no change to the allocation formula approved by the Commission in *Concord Steam Corporation*, Order No. 17,261, 69 NHPUC 610 (October 22, 1984) for purposes of allocating costs between the Company and its affiliated electric co-generation operations.

5. **Rate Design.** The Company shall maintain the present rate design and recover the revenue increase resulting from the Settlement Agreement from all customers on a pro rata basis in accordance with such rate design.

6. **Effective Date and Recoupment.** The revised rates with regard to the test year data as contemplated herein shall be effective on a service rendered basis as of the date of Commission approval of the Settlement Agreement. The Company waives any right to recover the difference between temporary rates established by the Commission in Order No. 24,073 for the period from the effective date of such temporary rates through the effective date of the

permanent rates recommended by the Settlement Agreement. The Company will be allowed to recoup its reasonable rate case expenses as approved by the Commission through a surcharge applied over a period as determined by the Commission, to commence upon approval of such expenses. The Company shall request approval of such expenses in a filing to be made no later than ninety (90) days from Commission approval of the Settlement Agreement.

IV. COMMISSION ANALYSIS

We have reviewed the record in the docket, including the Settlement Agreement and supporting testimony presented at the March 4, 2003 hearing, and we find that terms of the Settlement Agreement are reasonable and in the public good. The terms will result in just and reasonable rates and represent an acceptable resolution of ratepayer and Company interests under current economic circumstances.

The requested revenue increase of \$501,702 results in an overall rate of return of 6.81%, which is less than the proposed 8.0% overall rate of return recommended by Staff. Nonetheless, the revenue increase is designed to cover operating costs as well as provide an acceptable rate of return while maintaining a competitive rate with the alternative energy sources available in the Concord Area.

We believe including direct wood burning costs in the Cost of Energy (COE), not to exceed the amount of saving realized through substituting wood for alternative fuel sources,

may help to lower the COE rate while allowing Concord Steam to fully recover the associated operating expenses. Such an arrangement insures that customers will not pay energy costs beyond what they would ordinarily have paid, and any saving realized through the use of wood will be immediately passed through to the customers. An additional benefit is likely to be realized through greater rate stability, as the price of wood has traditionally been much less volatile than that of the commodities it would be replacing, either natural gas and/or oil.

Although a review performed by Concord Steam indicates that the 1984 Cost Allocation Formula may allocate a disproportionate share of expenses to the Company's unregulated cogeneration division, a change in the allocation formula that reduced such a subsidy would have no effect on the proposed rates, as Concord Steam's proposal does not seek to recover the full revenue requirement under the current formula. Another consideration in not changing the allocation formula at this time is that Concord Steam's existing power supply contract with Public Service Company of New Hampshire expires next year, at which time a new formula may be developed.

The terms of the Settlement Agreement also call for the Company to waive any right to recover the difference between

temporary rates and permanent rates. We find this to be consistent with the Company's objective of remaining competitively priced. To recover the difference would require a surcharge, albeit for a limited time, above the proposed rates.

Based upon the foregoing, it is hereby

ORDERED, the Settlement Agreement entered into between Concord Steam and Staff is APPROVED; 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 of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-eighth day of March, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Claire D. DiCicco
Assistant Secretary