

DG 03-181

Concord Steam Corporation

2003/2004 Cost of Energy Rate

Order Approving the Cost of Energy Rate

O R D E R N O. 24,234

November 5, 2003

APPEARANCES: McLane, Graf, Raulerson and Middleton, P.A., Sarah B. Knowlton, Esq., for Concord Steam Corporation; Marcia A.B. Thunberg, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 17, 2003, Concord Steam Corporation (Concord Steam or the Company), a public utility supplying steam service to approximately 120 commercial and institutional customers in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) revisions to its tariff providing for its Cost of Energy (COE) for the period November 1, 2003 through October 31, 2004. The COE rate proposed in this filing is \$8.69 per Mlb (1,000 pounds of steam), compared to the current COE rate of \$13.00 per Mlb, a reduction of \$4.31 per Mlb.

On October 14, 2003, Concord Steam filed a revised petition for an updated COE rate of \$8.76 per Mlb, a reduction of \$4.24 per Mlb from the current COE rate of \$13.00 per Mlb. Concord Steam's filing was accompanied by the pre-filed

testimony and supporting attachments of Peter G. Bloomfield, President of Concord Steam.

An Order of Notice was issued on September 23, 2003 setting a technical session for October 9, 2003 and a hearing for October 22, 2003. Concord Steam informed customers of the proposed rate change by publishing a copy of the Order of Notice in the Concord Monitor on September 26, 2003.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam Corporation

Concord Steam witness Peter G. Bloomfield addressed the following issues: 1) energy supply and purchasing policies including the conversion from oil and natural gas to oil, natural gas and wood; 2) calculation of the proposed COE rate; 3) the reconciliation of the prior period's energy revenues and costs; and (4) customer impact.

1. Energy Purchasing Policies

In prior winter periods, Concord Steam has purchased a mix of #6 oil, and waste oil. In the upcoming winter period, Concord Steam will be implementing a new fuel mix incorporating wood with #6 oil and waste oil. For the remainder of the year, Concord Steam will be using a combination of primarily natural gas and wood. Mr. Bloomfield testified that Concord Steam has burned fossil fuels for the past eight to nine years due to economic considerations but that now, it is cheaper to

incorporate wood and wood chips. Concord Steam had burned wood for about fifteen years previously. Hearing Transcript of October 22, 2003 ("10/23/03 Tr.") at 8 lines 15-24.

Concord Steam's 2003/2004 energy supplies will be roughly fifty-five percent wood and forty-five percent fossil fuels in the form of natural gas, waste oil and #6 virgin oil. 10/22/03 Tr. at 15 lines 4-6. Because wood has a lower Btu rate than fossil fuels, seventy percent of the steam produced will be from fossil fuels. 10/22/03 Tr. at 15 line 10.

Mr. Bloomfield explained that wood supply contracts entered into by Concord Steam will result in an average delivered cost of \$19 per ton. 10/22/03 Tr. at 13 lines 16-22. By way of comparison to oil, a ton of wood is approximately equivalent to a barrel of oil in net steam energy out of the boiler. Given that the present futures cost of oil of \$30 per barrel versus wood is \$19 per ton, Mr. Bloomfield asserted that wood is an attractive option. Exh. 1 at 5.

Mr. Bloomfield testified that burning wood results in Concord Steam incurring certain non-fuel costs. These costs amount to an estimated \$172,587 and include Wood Brokers' Fees of \$30,000, Additional Electricity Expenses of \$65,000, Fuel Additives in the amount of \$16,000, Ash Disposal costs of \$16,587 and Incremental Labor Costs of \$45,000. Exh. 1 at 9.

After adding the non-fuel costs to the wood costs, the proposed cost per MMBTU of burning wood cited by Mr. Bloomfield is \$3.60 per MMBTU, or roughly \$2.20 per MMBTU less than the proposed cost of burning natural gas of \$5.80 per MMBTU. Exh. 1 at 8. By the Company's calculation, the reintroduction of wood will save customers an estimated \$322,000 for the upcoming year. *Id.* In addition to the aforementioned cost savings, Concord Steam believes that the re-introduction of wood to its fuel mix will provide a less volatile fuel source.

Concord Steam further explained that supplies of natural gas will be delivered through interruptible transportation service, which affords it a lower tariff rate. 10/20/03 Tr. at 13 lines 15-17. Concord Steam is also in the process of finalizing negotiations with a couple of waste oil suppliers at this time. The Company expects to contract for Virgin # 6 Oil on the spot market.

2. Calculation of the COE rate.

The proposed 2003/2004 COE rate of \$8.76/Mlbs (1,000 pounds of steam) is calculated by adding the anticipated under collection from the prior 2002/2003 time period of \$65,354 to the cost of energy for the current 2003/2004 time period of \$1,779,927 for a total of \$1,845,281. This total amount is then divided by the anticipated weather normalized 2003/2004 sales of

210,556 Mlb, to arrive at the proposed COE rate of \$8.76 per Mlb Exh. 1 at 7.

3. Prior Period Reconciliation

The reconciliation of Concord Steam's actual and projected energy costs with actual and projected energy revenues for the 2002/2003 time period indicate an under collection of \$65,354, or 2.6 percent of the period costs. The reconciliation includes ten months of actual costs and revenues and two months of estimated costs and revenues as of the date of the filing.

4. Customer Impact

Concord Steam's COE rate for the upcoming 2003 through October 2004 time period is roughly 21.8 percent lower than the prior November 2002 through October 2003 time period. Concord Steam proposes that the COE rate take effect November 1, 2003 on a service-rendered basis.

B. Staff

Staff stated it had reviewed the filing and had held technical sessions with the Company. Staff recommended the Commission approve the COE rate of \$8.76 per Mlb. Staff complimented the company on its initiative to re-introduce wood into its fuel mix. This initiative results in significant anticipated savings for customers for the upcoming November 2003 through October 2004 time period that is estimated at roughly \$322,000.

Staff examined the costs associated with converting the Company's operations to burning wood and has found the costs reasonable. Staff also audited the actual costs included in the prior period under collection. Specifically, staff audited February 2002 energy invoices and found that these energy costs were accurately reflected in the filing. 10/22/03 Tr. at 32 lines 19-24.

Staff reviewed the Company's energy allocation formula used to determine how energy is allocated to the cost of generating electricity for the Company's unregulated cogeneration services versus its regulated steam services. Staff concluded that the allocation was appropriate and reasonable and that the regulated side of the business was not subsidizing the unregulated side.

III. COMMISSION ANALYSIS

After reviewing the record, we find that the COE Rate of \$8.76 per Mlb is reasonable and we will approve it. We note that Concord Steam's filing is consistent with *Concord Steam Corporation*, 86 NH PUC 699 (2001) wherein we approved a settlement agreement allowing Concord Steam to restructure its rates in a revenue-neutral manner.

We applaud the Company's initiative to re-introduce sustainable, indigenous fuel sources to its supply portfolio and the resulting displacement of more expensive fossil fuels.

Concord Steam's change to wood fuel will produce financial benefits for customers in the form of lower and more stable rates. In particular, Concord Steam demonstrated that the price of wood fuel has remained stable, ranging from \$18 per ton fifteen years ago to \$19 per ton now. 10/22/03 Tr. at 13 lines 16-22. The more stable prices are enhanced by the estimated \$322,000 in savings expected to accrue to customers in the upcoming 2003/2004 time period. Given the positive rate impacts expected to result from these changes, we will approve the filing.

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam's proposed 2003/2004 COE rate of \$8.76 per Mlb for the period November 1, 2003 through October 31, 2004, effective on a service-rendered basis, is APPROVED; and it is

FURTHER ORDERED, that Concord Steam may, pursuant to *Concord Steam Corporation*, 86 NH PUC 699 (2001), and without further Commission action, adjust the approved COE rate of \$8.76 per Mlb upward or downward monthly based on Concord Steam's calculation of the projected over or under collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved revised COE rate; and it is

FURTHER ORDERED, that 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; and it is

FURTHER ORDERED, that interest will not be charged on the monthly over or under collection pursuant to *Concord Steam Corporation*, 86 NH PUC 699 (2001); 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 fifth day of November, 2003.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Graham J. Morrison
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary