DG 04-163

CONCORD STEAM CORPORATION

2004/2005 Cost of Energy Rate

Order Approving the Cost of Energy Rate

O R D E R N O. 24,390

October 29, 2004

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

I. PROCEDURAL HISTORY

On September 14, 2004, Concord Steam Corporation (Concord Steam), 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, 2004 through October 31, 2005. The COE rate proposed in the filing was $9.34 per Mlb (1,000 pounds of steam), compared to the current COE rate of $10.51 per Mlb, a reduction of $1.17 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 21, 2004, scheduling a technical session for October 8, 2004 and a hearing for October 18, 2004. Concord Steam informed customers of the proposed rate change by direct mail and by publishing a copy of the Order of Notice in the *Concord Monitor* on September 24, 2004.

At the hearing on October 18, 2004, Concord Steam proposed a revised COE rate of $9.73 per Mlb, an increase of $0.39 per Mlb from the original filing. The increase reflects higher prices of natural gas and number 6 fuel oil. Concord Steam filed with the Commission an updated proposed tariff page 11 reflecting the proposed COE rate of $9.73 per Mlb.

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) reconciliation of the prior period's energy revenues and costs; and (4) customer impact.

1. Energy Purchasing Policies

In prior COE periods, Concord Steam had purchased a mix of number 6 oil, waste oil and natural gas. In the current COE period ending October 31, 2004, Concord Steam utilized wood in its mix of fuels after rejuvenating the wood burning systems at the plant. Concord Steam resumed burning wood in January, 2004.

Going forward, the fuel mix will be more heavily weighted with wood due to re-conversion of a second boiler to wood burning this past summer. Based on the re-conversion of two boilers, Concord Steam estimates that wood will account for over 60% of the total fuel consumed.

As a result of rejuvenating its wood burning systems, Mr. Bloomfield testified that Concord Steam expects to achieve significant savings in the coming winter period. He explained that Concord Steam has entered into a wood supply contract that will result in an average delivered cost of $20 per ton. At the hearing, he noted that the futures prices for oil are roughly $40 per barrel. Hence, wood at $20 per ton is very attractive.[1] By his calculation, the

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[1] A *ton of wood* is approximately equivalent to a *barrel of oil* in net steam energy out of the boiler. Bloomfield Testimony, p. 3.

reintroduction of wood will save customers an estimated $500,000, including additional direct costs, during the 2004-2005 COE period.

According to Mr. Bloomfield, the proposed COE rate calculation does not include approximately $200,000 of projected direct wood burning costs which Concord Steam is entitled to recover as part of the COE rate under the Settlement Agreement approved in Commission Order No. 24,147 (March 28, 2003), granting Concord Steam's petition to increase delivery rates. Mr. Bloomfield testified that he intends to file for an increase in delivery rates within the next few weeks that will include the direct wood burning costs that could have been included in the COE filing. He indicated that Commission approval of the anticipated filing would allow for recovery of those costs through delivery rates and the change from recovery of those rates as part of the COE rate to delivery rates would have no rate impact on customers. The direct wood burning costs not included in Concord Steam's proposed 2004-2005 COE rate include (1) labor costs to receive and handle the wood and operate boilers, (2) maintenance and repair costs for additional machinery used in the wood burning process, (3) ash removal costs and (4) related electricity costs. According to Mr. Bloomfield, the transfer of these costs to delivery rates would result in Concord Steam's COE costs being more reflective of energy commodity costs.

Concord Steam believes that the re-introduction of wood to its fuel mix will provide a fuel source with less price volatility. Mr. Bloomfield testified that he expects wood prices to remain stable during the November 2004 through October 2005 time period. He notes that all plants in the area that burn wood are currently on line and no new plants are expected to be added during the coming winter period.

Mr. Bloomfield testified that Concord Steam currently has an air permit that allows it to burn wood. He believes that air quality does not suffer as a result of burning wood and the use of wood provides an overall improvement in air quality. In particular, he contends that although using more wood results in a slight increase in particulate emissions, this would be more than offset by the reduction in sulfur dioxide and nitrogen oxide emissions as a result of using less oil. Finally, Mr. Bloomfield testified that if Concord Steam had not rejuvenated its wood burning systems, the COE rate would be significantly higher than the proposed $9.73 per Mlb. He estimated that the COE rate could be as high as roughly $14 per Mlb.

2. Calculation of the COE Rate

The proposed COE rate of $9.73 per Mlb is calculated by adding the anticipated under collection of $133,448 from the 2003/2004 time period to the estimated cost of energy for the upcoming 2004/2005 time period of $1,876,569 for a total of $2,010,017 to be recovered during the upcoming period. This total amount is then divided by the anticipated weather normalized steam sales of 206,503 Mlb to arrive at the proposed COE rate of $9.73 per Mlb.[2]

3. Prior Period Reconciliation

The reconciliation of Concord Steam's actual and projected energy costs with actual and projected energy revenues for the 2003/2004 time period indicates an under-collection of $133,448, or 6.5% 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 proposed COE rate for the upcoming November 2004 through October 2005 time period is approximately five percent lower than the actual weighted average rate in effect during the previous COE period. Concord Steam proposes that the COE rate take effect November 1, 2004 on a service-rendered basis.

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[2] Exhibit 2.

B. Staff

Staff stated it had reviewed the filing and had held a technical session with Concord Steam. Staff examined the costs associated with converting operations to burning wood and has found the costs reasonable. Staff also audited the actual costs included in the prior period under-collection and found that these energy costs were accurately reflected in the filing.

At the hearing, Staff questioned Concord Steam about its energy supply and purchasing policies, including the rejuvenation of its wood burning systems. At the conclusion of the hearing, Staff recommended that the Commission approve the revised COE rate of $9.73 per Mlb.

III. COMMISSION ANALYSIS

After reviewing the record, we find that the proposed COE rate of $9.73 per Mlb is reasonable. We note that Concord Steam's filing is consistent with the goal of encouraging the use of wood as an energy source when economical, as set forth in the Settlement Agreement approved in Order No. 24,147. Concord Steam's utilization of wood fuel is expected to produce financial benefits for customers in the form of lower and more stable rates, as wood costs are lower than the projected costs of alternative energy sources and the price of wood has traditionally been less volatile than that of oil and gas. In addition, the fuel is sustainable and indigenous to New Hampshire, given the positive rate impacts expected to result from these changes, we will approve the proposed COE Rate of $9.73 per Mlb.

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam's proposed 2004/2005 COE rate of $9.73 per Mlb for the period November 1, 2004 through October 31, 2005, 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 $9.73 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, and 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 twenty-ninth day of October, 2004.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Attested by:

Michelle A. Caraway
Assistant Executive Director