

**DG 06-127  
DA 06-114**

**CONCORD STEAM CORPORATION**

**2006-2007 Cost of Energy Adjustment and  
Affiliate Lease Agreement**

**Supplemental Order Regarding  
Affiliate Lease Agreement and Cost of Energy Rate**

**ORDER NO. 24,740**

**April 13, 2007**

**I. PROCEDURAL HISTORY AND BACKGROUND**

On September 14, 2006, Concord Steam Corporation, a public utility supplying steam service to approximately 120 commercial and institutional customers and one residential customer, all in Concord, filed with the New Hampshire Public Utilities Commission (Commission) a petition for authority to increase its Cost of Energy (COE) rate for the period November 1, 2006 through October 31, 2007. The filing was docketed as DG 06-127. The proposed COE rate of \$17.83 per 1,000 pounds of steam (Mlb) included certain costs related to a lease agreement for wood yard operations on Ricker Road, Pembroke between the Company and BS & Chips, LLC, an affiliate of the Company.<sup>1</sup> The lease agreement had been filed on August 21, 2006, pursuant to RSA 366:3 in Docket No. DA 06-114.

Following a hearing, the Commission issued Order No. 24,703 (November 22, 2006) approving the proposed COE rate. Although the Commission concluded that wood yard operations conducted by the Company were consistent with the accepted goal of encouraging the use of wood as an energy source when economical, it stated that the lease agreement should be investigated further in order to determine the appropriate amount of lease-related payments for

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<sup>1</sup> According to information provided by Staff, the lease agreement's reference to a parcel at 80 Ricker Road is in error and the correct reference should be to the parcel at 800 Ricker Road.

recovery through the COE rate and directed that: (a) the Company respond to data requests made by Staff, (b) Staff and the Company discuss the issues, and (c) Staff provide a report on its findings and recommendations within 60 days.

On January 22, 2007, Staff filed its report. According to Staff, the Company indicated that the lease rental amounts had been determined by BS and Chips' debt service requirements in connection with the Ricker Road parcel and an adjoining parcel on Dover Road. However, because the Company did not lease the Dover Road parcel from BS and Chips, Staff maintained that the rent should only reflect the debt service requirements attributable to the acquisition and improvement of the Ricker Road parcel. Based on its calculations regarding an appropriate rent for the Ricker Road parcel, Staff recommended that the lease payment be reduced from \$14,000 per month to \$11,816 per month. Staff also recommended that all lease amounts for the period before the Ricker Road parcel became used and useful, on or about October 15, 2006, not be included in the costs recovered through the COE rate. Finally, Staff recommended that certain technical corrections be made to the lease agreement in order to reflect the parties' intent accurately with respect to the treatment of alterations, additions, improvements and trade fixtures.

Subsequently, Staff and the Company met to discuss the findings and recommendations contained in Staff's report. On March 21, 2007, the Company filed a modified lease agreement with the Commission in Docket DA 06-114 incorporating the recommended technical corrections recommended by Staff and Staff filed a supplemental report summarizing the Company's responses to Staff's initial report. The supplemental report described the understandings reached between Staff and Company, including: (a) a modified lease agreement incorporating the recommendations set forth in the initial report, with the exception of the lease

rental amount, would be filed, (b) the Company would include only \$11,816 of the monthly lease rental amount when calculating its COE rate, the amount of the lease payment Staff recommended for recovery in the report, (c) the monthly lease rental amount in excess of the \$11,816 would be recorded “below the line” as a non-utility expense by the Company when accounting for the transaction, and (d) the reduced wood yard operating costs would be reflected in the Company’s next monthly over/under report and the monthly COE rate set accordingly. According to Staff, the Company preferred to retain the lease rental payments at \$14,000 per month, as specified in the lease agreement, in order to maintain certain ratios in BS and Chips’ loan documents. Staff did not object, noting that the Company will nevertheless only recover \$11,816 from customers in the COE rate, with the remaining \$2,184 of rent attributable to the Dover Road parcel being recorded “below the line” and, in effect, paid by shareholders.

## **II. COMMISSION ANALYSIS**

After careful review of the record, we approve the understandings reached between Staff and the Company described above as just and reasonable in accordance with RSA 366:5 (concerning affiliate contracts) and RSA 378:7 (concerning rates). We also acknowledge the technical modifications to the lease agreement as filed with the Commission on March 21, 2007. Although the lease agreement has not been expressly modified to reflect the reduced monthly rental payment recommended by Staff, the proposed regulatory accounting ensures that the Company’s ratepayers will only pay for utility service provided under the terms of the lease agreement while enabling BS & Chips to meet its loan commitments. We take this action because the failure of BS & Chips to meet such commitments could place the Company’s customers at risk to the extent such failure were to affect the Company’s ability to conduct wood yard operations at the Ricker Road parcel adversely.

The reduced lease payment is to be incorporated in the Company's monthly COE over/under projection report to the Commission. Since the COE mechanism allows for monthly rate adjustments to reduce or eliminate prior period over/under recoveries, the reduction in actual and projected wood yard costs for the period shall be reflected in next month's COE rates and any related overpayments shall be reflected in the COE over the remainder of the current COE period.

We note that the modified lease agreement runs for a term of ten years, which is longer than the lease between the Company and the State of New Hampshire for the Company's Pleasant Street facilities. The possibility that the lease with the State may not be renewed or extended creates uncertainties for all parties involved since, if the lease with the State of New Hampshire is not renewed, the continued usefulness of the Ricker Road parcel for wood yard operations and the Company's ability to fund the lease rental amounts specified in the modified Lease Agreement from ratepayer sources could be open to question. *See Concord Steam Corporation*, Order No. 24,673 (September 29, 2006) in DG 06-111, slip op. at 6 (concerning debt financing request by Company). Our approval of the understandings reached between Staff and the Company as set forth herein should not be construed as imposing on ratepayers financial risks in connection with the modified lease agreement from potential non-renewal of the lease with the State and we reserve all rights to establish reasonable rates payable by the Company's customers in future periods. *Id.*, slip op. at 7.

**Based upon the foregoing, it is hereby**

**ORDERED**, that the wood yard expenses reflected in the approved 2006-2007 COE rate be reduced by the amount recommended in the Staff report to the Commission filed on January 22, 2007 and subsequently agreed to by the Company, with the reduced costs to be reflected in monthly COE rates; and it is

**FURTHER ORDERED**, that the rental payments by the Company to BS & Chips under the Lease Agreement attributable to the Dover Road parcel, \$2,184 per month, shall not be recovered from utility ratepayers, such cost to be recorded "below the line" for regulatory accounting purposes.

By order of the Public Utilities Commission of New Hampshire this thirteenth day of April, 2007.

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Thomas B. Getz  
Chairman

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Graham J. Morrison  
Commissioner

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Clifton C. Below  
Commissioner

Attested by:

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Debra A. Howland  
Executive Director & Secretary