

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 07-076

CONCORD STEAM CORPORATION

Rate Proceeding

Order Approving Permanent Rates

ORDER NO. 24,866

June 27, 2008

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

I. PROCEDURAL HISTORY

On August 1, 2007, Concord Steam Corporation, a public utility supplying steam service to approximately 109 commercial or institutional customers in Concord and one residential customer, filed a rate schedule reflecting an increase of \$515,698 in base rate revenues, with the rate increase spread proportionately over all three tiers of the Company's declining block rate structure. Included in Concord Steam's filing was a petition for temporary rates, which requested a temporary rate increase in the same amount as permanent base rates.

Concord Steam indicated that the rate increase would be approximately 26.2 percent compared to the currently approved base rate revenues and an increase of approximately 11.65 percent compared to currently approved overall revenues. The testimony of Peter Bloomfield, president of the Company, was filed in support of the petition for temporary and permanent rates.

On August 24, 2007, the Commission issued Order No. 24,783, which suspended the proposed tariffs, scheduled a pre-hearing conference, and approved a partial procedural schedule. A pre-hearing conference and technical session were held on September 7, 2007. On September

13, 2007, Staff filed the testimony of utility analyst James Cunningham regarding Concord Steam's temporary rate request. On September 17, 2007, the Commission held a hearing on the temporary rate request and, on October 24, 2007, issued Order No. 24,796 approving the temporary rate increase request effective November 1, 2007 on a service-rendered basis.

On December 6, 2007, Staff filed a letter proposing a revised procedural schedule, which was approved by secretarial letter on January 2, 2008. Staff filed additional testimony of Mr. Cunningham regarding Concord Steam's permanent increase to base rate revenues on February 13, 2008. A settlement agreement between Concord Steam and Staff was filed on April 9, 2008 and certain supporting schedules were filed on April 22. A hearing on the settlement agreement took place on April 23, 2008.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam

In connection with its filing for a base rate revenue increase of \$515,698, Concord Steam noted that it had not sought a rate increase since 2004. See *Concord Steam Corp.*, Order No. 24,472 (2005). Concord Steam asserted that its overall rate of return for the 2006 test year was negative 6 percent compared to the authorized level of 8.02 percent. The Company stated that since the last rate case, in addition to the effects of inflation, it has experienced increased interest expense and insurance costs, as well as an increase in sewer discharge fees. In addition, there has also been a decrease in the amount of steam sold due to a loss of some customers¹ and energy efficiency upgrades by others. According to the Company, five or six years ago it was selling between 180,000 to 190,000 Mlbs of steam per year whereas it currently projects steam sales of approximately 165,000 Mlbs per year. The Company stated that it takes steps to

¹ The Company also expects to add two new customers, Rundlett Junior High School and the Carmelite Monastery.

mitigate its operating costs by continuing to cogenerate electricity for its own use and for sale, and by being generally frugal.

Concord Steam asserted that its adjusted actual net operating income for the test year was a loss of \$298,351, resulting in a total revenue deficiency of over \$940,000. However, according to the Company, in order to remain competitive with alternative fuel sources, in particular natural gas and oil, it seeks a base rate revenue increase of only \$515,698, with the increase allocated proportionately over its three categories of block rates. The Company explained that it was requesting a revenue increase substantially less than that to which it is entitled because it is trying to maintain its customer base until it can make significant changes to its physical plant and operations to become more efficient.

The following table summarizes the proposed increases to base rates.

<u>Proposed Increase in Base Rate Revenue by Usage Rate</u>		
	<u>Current Base Rates</u>	<u>Proposed Base Rates</u>
First 500 Mlbs./Month	\$12.11	\$15.87
501 to 2000 Mlbs./Month	\$10.63	\$13.93
Over 2000 Mlbs./Month	\$ 8.81	\$11.54

In its initial filing, the Company had requested rates of \$15.28 per Mlb of steam for the first 500 Mlbs per month, \$13.42 per Mlb for usage over 500 Mlbs up to 2,000 Mlbs per month, and \$11.12 per Mlb for Mlbs over 2000 Mlbs per month. The Commission approved temporary rates at those levels. At hearing, the Company explained that subsequent to temporary rates being established, it discovered that it had overestimated its projected steam sales in the initial filing. In order to obtain the same revenue using the corrected steam sales projections, the Company

proposed to increase its rates to the figures shown in the table. The Company stated it did not seek to recover the difference between the permanent rates and the temporary rates, and the permanent rates should be prospective only, commencing on a service-rendered basis.

A revenue increase of \$515,698 results in an effective 3.22 percent overall rate of return in contrast to the agreed-upon overall allowed rate of return of 8.04 percent pursuant to the settlement agreement. The Company indicated that on an overall revenue basis, the effect of the proposed increase would be less than 12 percent across all usage blocks. In terms of dollar amounts, the increase is approximately \$800 per year for the small user, about \$4,600 per year for a medium user, and about \$23,000 per year for a large user. The Company noted that there has been no reaction from customers regarding the proposed rate increases.

Concord Steam currently leases its steam generation plant from the State of New Hampshire. The lease, in effect since 1980, expires in less than two years. The Company indicated it was in the process of performing preliminary engineering work on a major project to replace its existing steam plant with a new, cleaner and more efficient plant at a new location, run primarily on renewable wood energy sources that could significantly reduce the cost of steam. Concord Steam has received land use approvals from the City of Concord and has filed for environmental permits. The Company reported it was drafting purchase power agreements and talking with contractors to define the cost of the project before entering into serious discussions about financing. The Company expected to begin operations at its new location in the south part of Concord in the summer of 2010.

The Company also explained that prior to November 2007, customers received separate sewer bills from the City of Concord for the steam condensate deposited into the sewer system and for their normal water and sewer use. In order to alleviate the annoyance and confusion that

this situation caused, the Company worked out an arrangement with the City where, starting last November, it pays the steam condensate sewer bill directly to the City and wraps the steam condensate sewer charges into base rates.

The Company confirmed that the settlement agreement between it and Staff reflects the Company's intent and results in rates that are just and reasonable and is in the public interest. The Company also confirmed that the settlement agreement allows it sufficient additional operating revenue to provide reliable service to customers.

B. Staff

Staff recommended that the Commission approve the settlement agreement. Staff indicated that it had carefully reviewed the proposed rate base and proposed some modifications that have been accepted by the Company. In addition, in Staff's judgment, the cost of capital used in the calculation of an overall allowed rate of return is reasonable, based on the equity and debt components. Staff has also reviewed the increases in the Company's operating costs in detail, including the increased costs of running the wood yard and the increased costs in connection with the City of Concord's condensate charges.

III. SUMMARY OF THE SETTLEMENT AGREEMENT

The Company and Staff agreed to the following terms relating to the Company's request for an increase in permanent base rates:

A. REVENUE DEFICIENCY

The Company's annual revenue requirement based upon the 13-month test year ended 12/31/06 shall be \$4,771,405, which is \$515,698, or 12.1 percent, over test year revenues of \$4,255,707. More specifically, the revenue deficiency in this proceeding shall be calculated using the following components:

1. Stipulated Rate Base: The pro forma rate base for the test year 2006 is \$4,423,862.
2. Stipulated Adjusted Net Operating Income: The pro forma test year net operating income for the Company is negative \$168,919.²
3. Stipulated Rate of Return: The overall allowed rate of return shall be 8.04 percent.
4. Stipulated Revenue Deficiency: The stipulated revenue deficiency is \$515,698, reflecting an effective overall rate of return of 3.22 percent.

B. COMPANY'S LEASE

The Company's steam plant is operated on property that is owned by the State of New Hampshire and leased to the Company. This lease is scheduled to expire on August 31, 2010. The Company has been filing a report every 90 days updating the status of its talks with the State to extend the lease. At this time, the Company is planning to build a new steam/electric generation plant and expects the new plant to be in service by August 31, 2010. As a result, the Company will no longer file the 90-day reports on the lease. However, the Company agrees to continue keeping Staff informed about the progress of its plans for construction and operation of the new plant. It is expected that the new steam/electric generation plant construction will necessitate a comprehensive rate filing to address the new capital and operating costs.

C. RATE DESIGN

The Company and Staff agree to maintain the Company's present rate design and, as stated in the Company's petition, to recover the revenue increase resulting from this agreement from all customers pro rata in accordance with such rate design. The base rates are summarized as follows:

First 500 Mlbs	\$15.87/Mlb.
----------------	--------------

² This settlement agreement incorporates the adjustments recommended in the Audit Staff's March 9, 2005 audit report.

500 to 2000 Mlbs	\$13.93/Mlb.
Greater than 2000 Mlbs.	\$ 11.54/Mlb.

These base rates reflect the correction to the 30-year degree day adjustments to steam sales identified during discovery.³

D. 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 agreement. The Company will be allowed to recoup its reasonable rate case expenses as approved by the Commission through a surcharge applied over twelve months, to commence upon Commission approval of such expenses. The Company shall request approval of such expenses in a filing to be made no later than 90 days from Commission approval of this agreement. Such request shall set forth a detailed itemization of such expenses. Rate case expenses shall include the Company's legal expenses directly related to this docket and such other expenses directly related to this docket as may be allowed by the Commission.

E. SEWER CHARGES

The Company's base rates incorporate a provision to allow it to pay the City of Concord the costs associated with the discharge of steam condensate by its customers into the City's sewer system, and in turn, for the Company to recover such costs from its customers. The Company advises that the arrangement with the City is in place and working well. The Company is now paying the City for all sewer charges and the customers are not being billed for steam condensate disposal.

³ See February 13, 2008 testimony of Mr. Cunningham at page 7, lines 10-17.

IV. COMMISSION ANALYSIS

N.H. Code Admin. Rules Puc 203.20(b) provides that the Commission will approve a disposition of any contested case by settlement if the Commission determines that the result is “just and reasonable and serves the public interest.” We have carefully reviewed the record in this docket, including the settlement agreement and supporting testimony presented at hearing, and we find that the terms of the settlement agreement satisfies these standards. We therefore approve it.

We recognize that the “permanent” rates set forth in the settlement agreement are expected to apply for a somewhat limited period in view of the Company’s plans for substantial changes to its operations. We also recognize that in order to remain competitive with alternative energy sources, the Company is in effect voluntarily forgoing a revenue increase to which, according to the record, it might reasonably be entitled. The revenue increase is thus far smaller than those that might have been proposed. At the same time, we take comfort in the Company’s assurance that the settlement agreement allows it sufficient additional operating revenue so that it can provide reliable service to customers. In short, we find that the settlement agreement represents an acceptable resolution of ratepayer and Company interests under the current circumstances.

Based upon the foregoing, it is hereby

ORDERED, that the settlement agreement is approved, with the rate increases set forth therein to commence on a service-rendered basis on July 1, 2008; and it is

ORDERED, that Concord Steam Corporation 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. Code Admin. Rules Puc 1603.

By order of the Public Utilities Commission of New Hampshire this twenty-seventh day of June, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

ChristiAne G. Mason
Assistant Executive Director & Secretary