

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 08-116

CONCORD STEAM CORPORATION

2008-2009 Cost of Energy Adjustment

Order Approving Cost of Energy Rate

ORDER NO. 24,911

October 31, 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 Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 15, 2008, Concord Steam Corporation (Concord Steam), a public utility supplying steam service to approximately 109 commercial and institutional customers and one residential customer in Concord, filed its cost of energy (COE) rate adjustment for the period November 1, 2008 through October 31, 2009. Included in the filing was the pre-filed testimony of Peter G. Bloomfield, president of the company. The Commission issued an order of notice on September 17, 2008, scheduling a hearing on October 23, 2008. There were no intervenors. On October 22, 2008, Concord Steam filed a revised 2008-2009 winter COE, including supporting attachments. The hearing was held on October 23, 2008.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam Corporation

At the hearing, Mr. Bloomfield addressed the following issues: (1) the proposed COE rate and bill impacts, (2) fuel purchase strategy and reasons for the increased costs, (3) sales

forecast and unaccounted-for steam, (4) cogeneration operations and (5) status of the company's new steam plant project.

1. Calculation of the Proposed COE Rate and Bill Impacts

Mr. Bloomfield indicated that the original filing proposed a COE rate of \$19.51 per Mlb. However, after reviewing the filing with Staff, the proposed COE rate was increased by \$0.30 per Mlb to \$19.81 per Mlb to reflect the increase in the estimated cost of wood yard operations from \$245,483 in the original filing to \$289,160 in the updated filing. The revised COE rate of \$19.81 per Mlb is \$5.43 per Mlb higher than the COE rate of \$14.38 per Mlb that was approved by the Commission for the 2007-2008 COE period.

The estimated total bill impact for a small steam customer is approximately an 18 percent increase over last year. For a medium size steam customer, the total bill impact is approximately an 18.6 percent increase over last year and, for a large steam customer, the total bill impact is projected to be approximately a 19 percent increase over last year.

2. Fuel Purchase Strategy and Reasons for the Increased Costs

With respect to Concord Steam's fuel purchase strategy, Mr. Bloomfield noted that most of its fuel supply is wood chips and shredded wood. Mr. Bloomfield indicated that the projected 2008-2009 COE rate increase is due primarily to the increase in diesel fuel costs, which directly impact the cost of wood used as the company's primary energy source. The logging equipment and the delivery tractor trailer trucks operate on diesel fuel. The company has entered into contracts for its wood supply that will result in an average cost of wood of approximately \$32 per ton. Of this cost, approximately \$1 is for the cost of the wood, \$15 is for the labor and chipping and \$16 is for transport. In his testimony, Mr. Bloomfield indicated that a ton of wood

is approximately equivalent to a barrel of oil in net steam energy out of the boiler. At the time of hearing, oil futures were approximately \$65 per barrel.¹ According to Concord Steam, the price of wood is still attractive when compared to oil and natural gas alternatives.

The Company expects approximately 70 percent of its steam to be generated by burning wood. The annual estimated energy savings to the company's customers at the time of the original filing, including the allowance for additional direct costs associated with burning wood, is over \$2.5 million compared to the cost of burning oil priced at the time of the original filing.

Natural gas, at an average cost of about \$12 per MMBtu, will make up approximately 20 percent of Concord Steam's energy supply. A combination of waste and number 6 oil, at average costs of about \$112 and \$78 per barrel respectively, supplies the final 10 percent necessary for steam generation. Since Concord Steam has pre-purchased approximately 90 percent of its projected oil and natural gas requirements, the Company does not expect any significant risk of volatility in its energy costs used in this COE filing.

3. Sales Forecast and Unaccounted-for Steam

Mr. Bloomfield indicated that Concord Steam weather normalizes actual steam sales from the prior year using a 30 year normal degree day average. The sales forecast also takes into account the loss of steam load associated with two of its customers, the Legislative Office Building (summer load) and St. Johns church, both of which switched to an alternate fuel during the past year.

¹ At the time of the filing in mid-September, Mr. Bloomfield noted the cost of crude was approximately \$110 per barrel. Mr. Bloomfield noted that Concord Steam uses No. 6 residual oil and waste oil, which are less expensive than crude oil but also experienced increased costs this year.

Unaccounted-for steam, meaning the difference between the steam produced and metered sales, was approximately 30 percent in 2007-2008, which compares favorably to the prior year figure of 34 percent. Mr. Bloomfield indicated that Concord Steam's unaccounted-for losses have to do with the heat losses in the distribution system and that the company continues to upgrade its underground steam lines. The Company is also investigating a system which can insulate existing piping systems in place and plans to re-insulate sections of its system during the summer of 2009.

4. Cogeneration Operations

The Company reported in its cost-benefit analysis pertaining to its cogeneration operations that approximately 3.5 million kilowatt-hours of electricity were generated last year. Of that total, it used approximately half for steam plant operations and sold the other half to the regional wholesale electricity market operated by ISO New England. Further, the analysis shows that Concord Steam achieved benefits of \$357,458 from two components: sale of power through ISO New England amounting to \$160,936 and avoided costs of electric purchases from Unitil amounting to \$196,522. The cost of self generation was \$151,368, resulting in a net benefit of \$206,090. According to Concord Steam, the benefit-cost analysis demonstrates that the cogeneration operation is cost effective, with a benefit-cost ratio of 1.53.

5. Status of the new steam plant project

Mr. Bloomfield indicated that the new steam plant project has all of its city permits in place and its state and federal permits are well under way. The Company is arranging financing for the project at this time, with the intent to start construction this year. The new plant is expected to be in service by August 2010, when the existing lease with the State of New

Hampshire expires. On August 28, 2008, the Company filed with the Commission a petition for approval of transfer of utility assets, distribution system upgrades, and steam purchase agreement, docketed as DG 08-107, in which the new steam plant project is described in more detail.

B. Staff

Staff has completed its review of the Concord Steam COE filing for the upcoming period and recommends approval of the rates proposed in the revised filing. According to Staff, the demand forecast is consistent with those filed for previous winter periods and approved by the Commission. Staff has reviewed and audited the first ten months of the 2007-08 COE reconciliation and found the costs to be reasonable and accurately reported. The final two months will be reviewed and audited by Staff and Audit Staff after the Company closes its books on the September and October financials. Any minor discrepancy between the forecasted over-collection and actual recoveries can be addressed through the monthly adjustment mechanism. It is unlikely there would be a major discrepancy as September and October usage is relatively light compared to the rest of the year. Furthermore, because fuel costs and revenues are reconciled after the period, any issues that might arise during the upcoming year can be addressed in next years' COE.

III. COMMISSION ANALYSIS

Based on our review of the record in this docket, we approve the proposed COE rate of \$19.81 per Mlb. as being just, reasonable and lawful as required by RSA 378:7. We note, moreover, that Concord Steam's operations are consistent with the goal of encouraging the use of wood, a renewable fuel, as an energy source when economical. The Company estimated that

wood fuel is approximately 70 percent of its total fuel use. Further, we observe that Concord Steam's use of wood as fuel is expected to produce significant savings during the 2008-2009 COE period as compared to oil.

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam's proposed 2008-2009 COE rate of \$19.81 per Mlb effective November 1, 2008 on a service-rendered basis, is **APPROVED**; and it is

FURTHER ORDERED, that Concord Steam may adjust the approved COE rate of \$19.81 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 20 percent of the approved 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 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 Concord Steam 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. Code Admin. Rules Puc 1603; and it is

FURTHER ORDERED, that Concord Steam continue to include a benefit-cost analysis for its co-generation operations annually in the company's COE filing.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of
October, 2008.

Thomas B. Getz
Chairman

Graham J. Morrison
Commissioner

Clifton C. Below
Commissioner

Attested by:

Lori A. Davis
Assistant Secretary