

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DG 12-242

CONCORD STEAM CORPORATION

Notice of Intent to File Rate Schedules

Order Approving Permanent Rates

ORDER NO. 25,499

April 25, 2013

APPEARANCES: Concord Steam Corporation by Peter Bloomfield and Mark Saltsman; and Alexander F. Speidel, Esq., for the Staff of the Public Utilities Commission.

I. PROCEDURAL HISTORY

Concord Steam Corporation (Concord Steam) is a utility providing steam service to one residential and 101 commercial and institutional customers in Concord. On September 5, 2012, Concord Steam filed rate schedules and other documentation in support of an increase in its permanent steam distribution rates. Concord Steam sought to increase its annual revenue requirement by \$862,584, or 21%; with \$549,600 coming from an increase in distribution rates and \$312,984 from an increase in its Cost of Energy (COE) rate. Concord Steam stated the reason for the rate filing was that it earned a negative 6% rate of return based on a weather-normalized test year ending December 31, 2011.

The procedural history of this proceeding is more fully described in Order No. 25,432, dated October 30, 2012. In brief, the Commission suspended the proposed permanent rate schedules and held a prehearing conference. Staff and Concord Steam conducted discovery, filed testimony, and filed settlement agreements on temporary and permanent rates; and the Commission approved temporary rates effective for service rendered on or after November 1,

2012. During this time, the Commission's audit staff also conducted an audit of Concord Steam's books and records. The Commission also held a duly-noticed hearing on the merits on April 3, 2013 at which Staff and Concord Steam presented evidence and testimony in support of a settlement on permanent rates.

II. SUMMARY OF THE TERMS OF THE SETTLEMENT AGREEMENT

A. Revenue Requirement

Staff and Concord Steam recommend the Commission approve an increase in Concord Steam's annual revenue requirement of \$732,000 effective May 1, 2013. This revenue deficiency is based on a total test year rate base of \$5,273,417, an overall rate of return of 5.70%, and a *pro forma* revenue requirement of \$5,218,528. As illustrated on Exhibit 3 to the Settlement Agreement, this revenue requirement includes a \$27,851 increase in revenues from Concord Steam's metered rate; a \$312,984 increase in revenues from Concord Steam's Cost of Energy charge; and \$391,165 from an increase in Concord Steam's usage rates.

The overall rate of return is based on a return on equity of 6.92%, a cost of long-term debt of 4.06%, cost of short-term debt of 3.22%, and a capital structure of 36% debt and 64% equity. State and federal taxes were calculated to be \$197,100. Staff and Concord Steam also agreed to certain adjustments to its income statement to account for lost customers, expenses associated with three customer installations, administrative and general expenses and the transfer of water and sewer charges, ash disposal costs, permit fees and cost of chemicals to the Cost of Energy. The proposed revenue requirement represents a 15.08% increase over Concord Steam's 2011 test year revenues, however, because the test year contained one time revenues for installation of customer steam systems that will not be realized in future years, small-meter

customer rates will increase by 18.15%; medium-meter customer rates will increase by 18.89%; and large-meter customer rates will increase by 18.74%.

B. Rate Design

Concord Steam does not maintain separate rate classes for residential and commercial customers and therefore Staff and Concord Steam request the Commission approve the following meter charges, unless otherwise specified under the terms of an approved special contract, effective May 1, 2013:

	Winter	Summer
	Oct through May	June through Sept
Small Meter Type A or B	\$20	\$16
Medium Meter Type C, D, or E	\$50	\$16
Large Meter Type F, G, or steam flow	\$110	\$16

Staff and Concord Steam request the Commission approve Concord Steam’s current three-tiered declining block rate structure and incorporate the rates as follow:

First 500 M (1000) lbs. per month	\$21.50
501 to 2000 Mlbs per month	\$20.34
2000 or more Mlbs per month	\$16.85

With respect to Concord Steam’s Cost of Energy, Staff and Concord Steam request the Commission allow Concord Steam to recover, through the Cost of Energy rate, the following cost categories in the Concord Steam’s annual Cost of Energy filing: water and sewer, ash disposal, permit fees and boiler chemicals.

C. Tariff Changes

Staff and Concord Steam propose a change in its Turn-On charge and request approval of the following tariff language:

“If steam service has been shut off at the customer’s request between October and May, and if the customer subsequently requests that it be turned on again, before the end of May, the customer will be charged for restoring service. The minimum service charge will be one hour of service technician’s time at the Company’s standard charge out rate, which is \$90/hr.”

D. Rate Case Expense & Temporary/Permanent Rate Reconciliation

Staff and Concord Steam request the Commission authorize Concord Steam to recover \$19,536 in rate case expenses over a twelve month period beginning May 1, 2013 through a \$0.16 per Mlb surcharge. Concord Steam will not recoup the difference between temporary and permanent rates.

III. OTHER ISSUES NOT CONTAINED IN THE SETTLEMENT AGREEMENT

A. Special Contracts

Pursuant to the Commission’s audit of Concord Steam’s books and records, Staff determined that Concord Steam is providing utility service under an unapproved special contract. At the hearing, Concord Steam confirmed that it did not obtain Commission approval to provide service to D. McLeod, Inc. under a special contract and agreed to file a petition with the Commission for approval of the contract. Regarding approved special contracts with the Concord School District and the Concord Family YMCA, it was determined that Concord Steam had not implemented certain rate changes in accordance with the terms of the contracts and Concord Steam agreed to correct the errors.

IV. COMMISSION ANALYSIS

Pursuant to RSA 541-A:31, V(a), informal disposition may be made of any contested case at any time prior to the entry of a final decision or order, by stipulation, agreed settlement, consent order or default. Notwithstanding a settlement among the parties, we must still independently determine whether the settlement results comport with applicable standards. *Concord Electric Co.*, Order No. 24,046, 87 NH PUC 595, 605 (2002) (quoting *Granite State Electric Co.*, Order No 23,966, 87 NH PUC 302, 306 (2002)). N.H. Code Admin. Rules Puc 203.22 (b) requires us to determine, prior to approving disposition of a contested case by settlement, that the settlement results are just and reasonable and serve the public interest.

Additionally, RSA 378:7 authorizes us to fix rates after a hearing upon determining that the rates, fares, and charges are just and reasonable. In determining whether rates are just and reasonable, we must balance the customers' interest in paying no higher rates than are required with the investors' interest in obtaining a reasonable return on their investment. *Eastman Sewer Company, Inc.*, 138 N.H. 221, 225 (1994). In circumstances where a utility seeks to increase rates, the utility bears the burden of proving the necessity of the increase pursuant to RSA 378:8.

According to the settlement agreement, Staff and Concord Steam propose an annual revenue requirement of \$732,000, rounded. This revenue requirement is higher than the \$582,412 revenue requirement for temporary rate purposes approved by Commission Order No. 25,432, (October 30, 2012). Staff and Concord Steam state that the revenue requirement represents a reasonable compromise of all issues relating to the revenue requirement including allowed overall rate of return, return on equity, capital structure, pro forma adjustments, capital additions to rate base, and operating expenses. The agreed upon revenue requirement is an increase of \$732,000 over test year revenues and is based on an overall rate of return of 5.70%, a

return on equity of 6.92%, a cost of long-term debt of 4.06%, and a cost of short-term debt of 3.22%. Staff and Concord Steam propose a total net rate base of \$5,273,417. Exh. 6 at 11. This plant has been audited and is accurately depicted in the schedules to the settlement agreement. The authorized rate of return is relatively low, but according to Concord Steam the company would be at a competitive disadvantage if it were to charge rates based on a higher return. Mr. Bloomfield testified that the company's goal is to retain customers until the new generation unit is built or the existing generation unit is refurbished, at which time he anticipates a 40% reduction in rates.

Having reviewed the proposed revenue requirement and its components, as well as the proposed pro-forma adjustments, we find that the revenue requirement presented by Staff and Concord Steam is just and reasonable and represents a reasonable compromise of the issues. Further, we find that the rate base used to calculate the revenue requirement is prudent, used, and useful in accordance with RSA 378:28.

The settlement provides for changes in the rate design whereby certain costs previously reflected in the usage rates will now be reflected in the Cost of Energy rate, meter charges will be increased during the winter period and decreased for the summer period, and the declining block rates will be increased such that an average customer within each class will experience a similar rate impact. It is clear from the record that the water and sewer charges, ash disposal, boiler water treatment chemicals and State air permit fees are ongoing expenses attributable to the direct cost of generating steam and, therefore, are more appropriately recovered through the Cost of Energy. Meter charges have not been changed since 2003 and the proposed increase better reflects underlying costs. Raising the winter meter charge while reducing the summer

charge will ensure that those costs are recovered from the customers for which those costs have been incurred, the majority of whom terminate service during the summer months. When factoring in the increases in the meter charges and the increase in the Cost of Energy rate related to the expense transfer, we find adjusting the usage rates to provide for a similar rate impact on each of the customer classes is reasonable and equitable. An added benefit of the proposed usage rates is that the increase in the second and third block rates is greater than the increase in the first block rate and those changes should encourage conservation, as there is a smaller discount for higher monthly usage. Accordingly, we will accept and approve this settlement on rate design.

The settling parties recommend rates which yield an overall revenue requirement increase of 15.1%. Small-meter customer rates will increase by 18.15%; medium-meter customer rates will increase by 18.89%; and large-meter customer rates will increase by 18.74%. Given that the proposed rates are also based on a revenue requirement that we found to be just and reasonable and on a rate base that was audited and is prudent, used, and useful, we find the proposed rates to be just and reasonable in accordance with RSA 378:28.

Pursuant to RSA 378:29, temporary rates are effective until the final determination of the rate proceeding. By Order No. 25,432 (October 30, 2012) we approved a temporary increase to customer rates of 12.8% and the permanent rate increase we are approving today represents an overall increase of 15.1%. Although in general a utility is entitled to recover any difference between temporary and permanent rates, the settlement in this case explicitly precludes Concord Steam from recovering the difference. Given the substantial increase in rates and the need to retain customers pending a potential rate decrease in the not too distant future, we agree that

foregoing the under-recovery is a prudent decision. The settlement provides for recovery of \$19,536 in rate case expenses, expenses that were audited by Staff and found to be reasonable and accurate. The rate case expenses proposed for recovery are relatively modest and will have a limited rate impact. As such, we will approve them.

With respect to the special contract that has not been filed with the Commission, we direct Concord Steam to file the agreement no later than May 15, 2013 for Commission review.

Based upon the foregoing, it is hereby

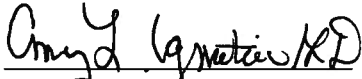
ORDERED, that the that the terms of the settlement agreement presented by Staff and Concord Steam are hereby adopted and approved as discussed herein; and it is

FURTHER ORDERED, that commencing with service rendered on and after May 1, 2013, Concord Steam may apply increased distribution rates on its customer classes, as discussed above; and it is

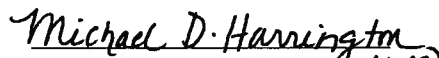
FURTHER ORDERED, that Concord Steam shall file with the Commission properly annotated tariff pages consistent with the settlement agreement within 10 days of the date of this order, as required by N.H. Admin. Rules Puc 1603; and it is

FURTHER ORDERED, that Concord Steam shall file the special contract with D. McLeod with the Commission no later than May 15, 2013.

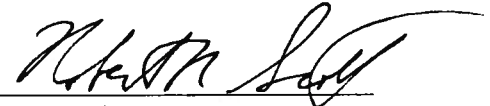
By order of the Public Utilities Commission of New Hampshire this twenty-fifth day of
April, 2013.



Amy L. Ignatius
Chairman

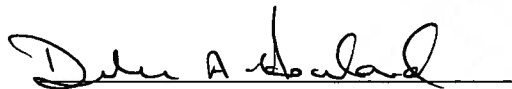


Michael D. Harrington (KNS)
Commissioner



Robert R. Scott
Commissioner

Attested by:



Debra A. Howland
Executive Director