

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

Concord Steam Corporation

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DG 08-____

**VERIFIED PETITION FOR APPROVAL OF TRANSFER OF UTILITY ASSETS,
DISTRIBUTION SYSTEM UPGRADES
AND STEAM PURCHASE AGREEMENT**

Concord Steam Corporation (“CSC” or the “Company”) hereby petitions the Public Utilities Commission (the “Commission”) for approval of the transfer of certain assets currently used by the Company to generate electricity to an affiliate as well as a determination that the Company’s plan to enter into a steam purchase agreement with the affiliate and the construction of certain distribution system upgrades as part of the provision of steam services to its customers through a new cogeneration facility is prudent and consistent with the public interest. In support of its request, CSC states as follows:

1. CSC currently provides retail steam service from its plant located on Pleasant Street in Concord, New Hampshire. CSC leases the plant from the State of New Hampshire, which lease expires on August 31, 2010. Since 2005, the Company has been providing the Commission with a report every 90 days updating the Commission on the status of the Company’s negotiations with the State to extend the lease. *See* Order 24,472 (June 2, 2005). In April 2008, as part of its base rate case, the Company informed the Commission that it planned to provide steam service from a wood-fired renewable energy facility in South Concord and that it would not renew its lease for the Pleasant Street facility. *See* DG 07-076, Transcript of April 23, 2008 Hearing on Rate Case Settlement, p. 21. In its Order Approving Permanent Rates, the

Commission authorized the Company to cease filing the 90 day report on the status of the lease negotiations, and observed that as part of the Settlement Agreement, "...the Company agrees to continue keeping Staff informed about the progress of its plans for construction and operation of the new plant." Order 24,866 at 6. The Commission observed that "[i]t is expected that the new steam/electric generation plant construction will necessitate a comprehensive rate filing to address the new capital and operating costs." *Id.*

2. Since the conclusion of its rate case, CSC has determined the structure of its utility operations once it vacates the Pleasant Street facility, and seeks the Commission's approval for the transfer of certain utility assets to accomplish that restructuring and a determination that the construction of system upgrades to interconnect to the new cogeneration facility and entry into a steam purchase agreement is prudent and in the public interest.

3. By way of background, a new entity by the name of Concord Power and Steam, LLC ("Concord Power") will be formed, which will construct and own a biomass-fired cogeneration facility. The facility will have a capacity of 17 megawatts (the "Cogeneration Facility"), subject to Concord Power's obligation to supply steam to the Company. Concord Power will initially be owned jointly by Peter Bloomfield and Mark Saltsman, although it is expected that one or more third-party investors will acquire a substantial interest in the entity in exchange for an equity investment in an amount to be determined. The Cogeneration Facility will be located on South Main Street in Concord, New Hampshire on land owned by P & M Realty, LLC and leased to Concord Power; all of the necessary approvals from the City of Concord and State of New Hampshire have either been obtained or are in process for its operation. The Cogeneration Facility will use wood as its primary fuel supply and will be certified as a Class 1 Electric Renewable Facility.

4. In the Fall of 2008, Concord Power will begin demolition and site preparation for the Cogeneration Facility; construction is scheduled to begin in March 2009. Concord Power anticipates commercial operations to begin in August 2010, at the time CSC's lease with the State expires. CSC anticipates that it will continue to operate its Pleasant Street facility until the Cogeneration Facility is completely operational.

5. Under this new configuration, CSC would continue to own and operate its current steam distribution system, and would make upgrades to its distribution system to interconnect with the Cogeneration Facility. Specifically, CSC will be making the system upgrades to establish this interconnection, including 6,800 feet of 16" steam pipe running from the Cogeneration Facility to the Company's distribution system, as well as re-insulating portions of the Company's downtown Concord steam distribution system. CSC estimates that the cost of these upgrades will be \$4,000,000. CSC will be financing these upgrades through debt financing such as a tax exempt bond issuance through the Business Finance Authority. The Company will be seeking Commission approval for that financing at a later date and anticipates filing a petition with the Commission for approval of such financing in the Spring of 2009.

6. In or around June 2010, CSC will be transferring all of its employees to a services company, Concord Steam Services, LLC, which will be jointly owned by Peter Bloomfield and Mark Saltsman. Concord Steam Services, LLC will provide all of the staffing necessary to maintain and operate the Cogeneration Facility and CSC's retail steam distribution system. Concord Steam Services will enter into individual service agreements with CSC and Concord Power, which will describe the specific services to be provided and the method for allocating costs to the two entities. CSC will file a copy of the service company agreement with the Commission in accordance with RSA 366:3.

7. CSC will enter into a Steam Purchase Agreement with Concord Power, in which Concord Power will supply all of CSC's steam requirements for retail steam service. A copy of the form of the Steam Purchase Agreement is attached as Exhibit A. Under the Steam Purchase Agreement, CSC will pay a price per MMBtu for steam purchased, which will be calculated annually and will consist of three charges: (a) a monthly capacity charge; (b) an operations and maintenance charge based on all non-fuel related expenses for the ongoing operation and maintenance of the Cogeneration Facility, and; (c) a fuel charge. While the Company is seeking Commission approval that the overall price structure under the Steam Purchase Agreement is prudent and in the public interest, all of the annual costs under the Steam Purchase Agreement would be subject to review by the Commission as part of the Company's annual cost of energy proceeding.

8. While the term of the Steam Purchase Agreement is thirty years, CSC will retain the contractual right to elect to self generate steam or purchase steam from another source. CSC will own two gas-fired back-up boilers, each with a capacity of 62,500 lb/hr of 150 psig steam, which will be located at and interconnected to the Cogeneration Facility. The primary purpose of the back-up boilers is to provide steam when the Cogeneration Facility has scheduled and unscheduled outages.

9. CSC currently owns assets used to cogenerate electricity. Because CSC will no longer own or operate a steam generation facility (with the limited exception of the backup boilers), CSC will be selling some of the Company's assets, including those currently used to cogenerate electricity, to Concord Power for \$1.5 million. The assets that will be sold are set forth on Exhibit B, which also sets forth their value. The value of the equipment was determined by considering the depreciated value of the equipment, the value of the equipment on the used

equipment market, and in some cases the replacement value to Concord Power. The ultimate sales price is higher than the depreciated value, and higher than used equipment prices, but less than new replacement cost. The sale of these assets is in the public good because CSC will receive in excess of fair market value for them, and they will no longer be necessary for utility service. Thus, CSC requests that the Commission approve the sale of the assets in Exhibit B under RSA 374:30.

10. As indicated in the Company's last base rate case, *see* DG 07-076, the Company will be seeking a change in its base rates to reflect the changed cost of providing steam service under this new configuration. While the Company does not currently have precise calculations of the rate impact on its customers, the Company reasonably expects that its steam rates will decrease by approximately 30%. The Company anticipates filing a base rate case with the Commission to establish these rates in the fall of 2009. The Company will be able to provide steam service at reduced rates because the cost to purchase steam from Concord Power will be substantially lower than the current cost to generate steam at the Pleasant Street facility given efficiencies in more current technology, the benefit of base loading the new steam plant, and the ability to allocate the costs of operation to Concord Steam on a percentage of annual output.

11. Prior to the construction of the Cogeneration Plant, CSC must undertake certain actions which either require Commission approval or will have an effect on the Company's rates. First, the Company must be able to transfer the utility assets described on Exhibit B to Concord Power so that it has the equipment necessary to cogenerate electricity, and thus requires approval under RSA 374:30 before the Cogeneration Facility project can proceed. Second, CSC must obtain the financing necessary to construct the upgrades to its system to interconnect with the Cogeneration Facility. All of this must occur prior to the completion of the Cogeneration

Facility in order for CSC to take service from it. However, CSC cannot commit to such substantial capital upgrades without a determination from the Commission that such upgrades are prudent and in the public interest. Third, in order for Concord Power to obtain the debt and equity financing necessary to construct the Cogeneration Facility, CSC must enter into the Steam Purchase Agreement. As with the investment in the system upgrades, CSC cannot commit to the Steam Purchase Agreement without some determination from the Commission that entry into the Steam Purchase Agreement is prudent and in the public interest and that the costs reasonably associated with the Agreement will be recovered through rates.

12. The Company has met with the Staff on multiple occasions to discuss the scope of its proposed new operations, and in light of the significant financial commitment involved in undertaking this new configuration for the provision of retail steam service, it is appropriate and in the best interests of the Company and its customers for the Commission to review the Company's analysis and make a determination of prudence. Thus, the Company requests that the Commission open a docket to conduct something akin to a so-called Easton review, which is typically conducted as part of a proceeding in which a public utility seeks authority to engage in a financing transaction, particularly where the proceeds of the financing will be used for a significant capital project. In such proceedings, the Commission has traditionally examined the prudence of the proposed use of the proceeds of the financing and the effect of such an expenditure on rates. *See, e.g., Pittsfield Aqueduct Company*, Order No. 24,610 (Mar. 31, 2006) *citing Appeal of Easton*, 125 N.H. 205, 211 (1984).

WHEREFORE, CSC respectfully requests that the Commission:

A. Open a proceeding to conduct a review, similar in nature to so-called Easton reviews conducted by the Commission in financing proceedings, and determine that CSC's decision to enter into the proposed arrangement with Concord Power is prudent and consistent with the public interest;

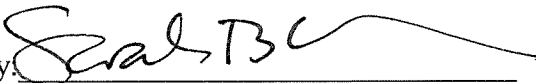
B. Approve the transfer of the utility assets set forth on Exhibit B to Concord Power under RSA 374:30;

C. Complete the foregoing review, including the issuance of an order prior to November 30, 2008; and

D. Grant such other and further relief as may be just and reasonable.

Respectfully submitted,
CONCORD STEAM CORPORATION

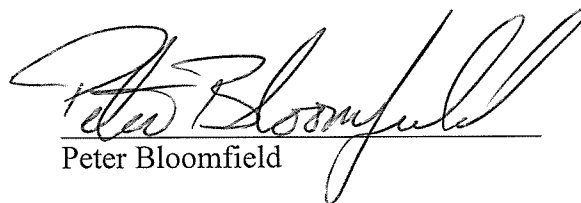
Date: August 28, 2008

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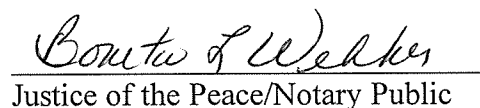
I, Peter Bloomfield, President of Concord Steam Corporation, being first duly sworn, hereby depose and say that I have read the foregoing Verified Petition, and the facts alleged therein are true to the best of my knowledge and belief.

Dated:


Peter Bloomfield

STATE OF NEW HAMPSHIRE
COUNTY OF MERRIMACK

Sworn to and subscribed before me this 20th day of August 2008.


Justice of the Peace/Notary Public

My Commission Expires:

3/22/2011