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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

October 29, 2008 - 1:31 a.m.
Concord, New Hampshire

NHPUC NOV13'08 PM 1:43

RE: DG 08-107
CONCORD STEAM CORPORATION:
Petition for Approval of Transfer
of Utility Assets, Distribution
System Upgrades and Steam Purchase
Agreement. (Prehearing conference)

PRESENT: Chairman Thomas B. Getz, Presiding
Commissioner Graham J. Morrison
Commissioner Clifton C. Below

Sandy Deno, Clerk

APPEARANCES: Reptg. Concord Steam Corporation:
Steven V. Camerino, Esq. (McLane, Graf...)

Reptg. PUC Staff:
Edward N. Damon, Esq.

Court Reporter: Steven E. Patnaude, LCR No. 52

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Mr. Camerino 4

Mr. Damon 7

P R O C E E D I N G S

1
2 CHAIRMAN GETZ: Okay. Good afternoon.
3 We'll open the prehearing conference in docket DG 08-107.
4 On August 28, 2008, Concord Steam Corp. filed for a
5 determination that its plan to enter into a steam purchase
6 agreement with Concord Power & Steam was in the public
7 interest, also seeking a determination that the
8 construction of system upgrades to interconnect its
9 distribution system to the proposed new cogeneration
10 facility would be in the public interest, and seeks
11 approval to sell certain utility assets to Concord Power.
12 An order of notice was issued on September 24 setting the
13 hearing for today, and note that an affidavit of
14 publication has been filed.

15 Can we take appearances please.

16 MR. CAMERINO: Good afternoon,
17 Commissioners. Steve Camerino, from McLane, Graf,
18 Raulerson & Middleton, on behalf of the Concord Steam
19 Corporation.

20 CHAIRMAN GETZ: Good afternoon.

21 CMSR. MORRISON: Good afternoon.

22 CMSR. BELOW: Good afternoon.

23 MR. DAMON: Good afternoon,
24 Commissioners. Edward Damon, for the Staff. And, with me

1 this afternoon are Stephen Frink and Robert Wyatt.

2 CHAIRMAN GETZ: Good afternoon.

3 CMSR. MORRISON: Good afternoon.

4 CMSR. BELOW: Good afternoon.

5 CHAIRMAN GETZ: Anything that we need to
6 address besides statement of positions?

7 MR. DAMON: One thing I would just point
8 out. I'm pretty sure that the order of notice may have
9 mentioned a technical session to follow the prehearing
10 conference, at least it usually does. We've been
11 discussing with the Company the need to postpone that
12 slightly, and we'd like to talk with the Company after the
13 prehearing conference today to firm up a date for that.

14 CHAIRMAN GETZ: Okay. That's fine. Any
15 objection to that process, --

16 MR. CAMERINO: No objection.

17 CHAIRMAN GETZ: -- even though I just
18 said "fine"?

19 (Laughter.)

20 CHAIRMAN GETZ: I'll hear a statement of
21 positions.

22 MR. CAMERINO: Sure. Mr. Chairman, as
23 the Commission knows from prior cost of energy proceedings
24 for Concord Steam, the State has indicated a desire not to

1 renew Concord Steam's lease for the facility at Pleasant
2 Street, and they have been looking into alternative
3 locations for some time. They have determined that it's
4 in the best interest of the Company and of its customers
5 to move to a new location and enter into a long-term steam
6 purchase agreement with another entity that would build a
7 cogeneration facility. That entity is known as "Concord
8 Power & Steam, LLC". At the moment, it's an affiliated
9 entity, and it is planning to build a 17-megawatt
10 wood-fired generating plant in the south end of Concord.

11 The anticipated timeline for that
12 project is to do demolition and site preparation later
13 this fall, to begin construction in Spring of 2009, and
14 complete construction, go to commercial operation in
15 August of 2010. The Company needs to finalize its debt
16 and equity financing, and it needs approval from this
17 Commission for several portions of the transaction.

18 As you noted, one aspect of that
19 transaction is a transfer of some of the assets of the
20 utility that are currently used to generate electricity,
21 that requires approval. There will be a financing that
22 will be undertaken later by Concord Steam itself, as
23 opposed to the cogeneration entity, and that, although
24 that financing is not part of this proceeding, it's

1 something that is anticipated. There will be upgrades to
2 the distribution system in order to connect it to the new
3 plant and for some related matters. And, those
4 expenditures need to be reviewed in this transaction
5 because of the need for later financing. But the Company
6 can't proceed with the project unless it knows that those
7 will be acceptable to the Commission. And, then, lastly,
8 the steam purchase agreement, the Company is looking for
9 what, in essence, is a pre-approval. And, the reason for
10 that is that it would not want to expend all of these
11 funds and undertake this project and move the facility,
12 and then at a later date have the Commission determine
13 that the arrangement under which the steam is being
14 purchased is in some way not acceptable. And, so, those
15 are the three key areas that the Company is seeking review
16 and approval for in this proceeding.

17 In particular, I mentioned the upgrades
18 to the system, those are on the order of \$4 million. And,
19 another aspect of this transaction that will be subject to
20 review in this proceeding is the restructuring of the
21 employees of Concord Steam and the relationship with an
22 affiliated service company. Currently, Concord Steam has
23 its own employees. The plan is to transfer those
24 employees to a new service company that will provide

1 service both to the cogeneration facility and to Concord
2 Steam, and there will be a service company agreement that
3 will allocate the expenditures under that. That will be
4 filed with this Commission pursuant to RSA 366:3. Again,
5 normally, the Commission reviews those costs as they come
6 through in a rate case and doesn't necessarily pass on the
7 agreement up front. But it's important to the Company
8 that that arrangement and the basic concepts in it be
9 something that are acceptable to the Commission, because
10 they are a critical part of this overall restructuring.

11 The steam purchase agreement has an
12 initial term of 30 years, with a renewal option
13 thereafter. And, so, it's quite a long-term agreement, in
14 order to ensure that the Company will have long-term
15 access to the steam supply at reasonable rates. And, the
16 Company currently estimates, although it does not have a
17 hard figure yet, that this restructuring will result in a
18 rate reduction for customers of approximately 30 percent.
19 So, the Company believes that the overall restructuring is
20 in the public interest. And, we'll be seeking its review
21 and approval. Thank you.

22 CHAIRMAN GETZ: Thank you. Mr. Damon.

23 MR. DAMON: Thank you. The project
24 contemplated by Concord Steam and its affiliate, Concord

1 Power, certainly represents a major change in how
2 operations have been conducted to date. Certainly,
3 Concord Steam today is a steam utility, with some
4 incidental electric cogeneration capabilities.
5 Apparently, when this project is complete, the Company --
6 the operation would become a 17-megawatt merchant electric
7 generating plant, with some steam operations on the side.
8 And, Mr. Camerino has alluded to the promise of a
9 30 percent reduction in steam rates, which, in Staff's
10 view, if achieved, would go a long way towards solving
11 Concord Steam's problems regarding its loss of load
12 experienced in recent times, and might also enable Concord
13 Steam to address its high unaccounted for steam energy
14 problem as well.

15 Mr. Camerino has outlined a number of
16 the elements of this docket, which includes certainly this
17 30 plus year steam purchase agreement between Concord
18 Steam and Concord Power, an unregulated affiliate of
19 Concord Steam, as well as the \$4 million of estimated
20 construction upgrades and the \$1.5 million sale of the
21 utility assets.

22 It's not quite clear to me, but,
23 certainly, we do expect to see the proposed service
24 company agreement proposed by the Company, it's not clear

1 to me yet whether that is to be part of this docket or
2 would become part of a separate docket.

3 Under the steam purchase agreement,
4 there are three charges that would be payable by Concord
5 Steam for -- on an MMBtu basis. One would be a capacity
6 charge, which as the Staff understands is, based on a
7 preliminary review of the contract, would be based in part
8 on an estimated debt service payment of approximately
9 \$6.2 million; an O&M charge, which would be Concord
10 Power's operation and maintenance expenses associated with
11 steam delivered to Concord Steam; and a fuel charge for
12 the steam delivered to Concord Steam. This proceeding is
13 important, because the contract terms are or will be --
14 would be established with the final numbers to be filled
15 in later. And, it's important because some of the
16 financing of the project depends upon the results of the
17 docket.

18 Other very important aspects of this
19 transaction would be the financing docket and a base rate
20 docket that presumably would be filed in the future.
21 Staff intends to perform a careful review of the affiliate
22 steam purchase agreement, as well as the other aspects of
23 the transaction proposed by Concord Steam and for which
24 approval is requested in this proceeding. Thank you.

1 CHAIRMAN GETZ: Anything else that we
2 need to address this afternoon?

3 MR. CAMERINO: No. I think the
4 intention is to meet very briefly afterwards to adopt a
5 procedural schedule, and I assume we could just mail that
6 in to the Commission subsequently.

7 CHAIRMAN GETZ: All right. Then, we
8 will close the prehearing conference and wait for a
9 recommendation from the parties. Thank you.

10 **(Whereupon the prehearing conference**
11 **ended at 1:42 p.m. and the Staff and the**
12 **Company met thereafter to put together a**
13 **procedural schedule.)**

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