


# STATE OF NEW HAMPSHIRE

## Inter-Department Communication

**DATE:** August 12, 2009

**AT (OFFICE):** NHPUC

**FROM:** Robert J. Wyatt   
Utility Analyst IV, Gas & Water Division

**SUBJECT:** DG 08-141  
Concord Steam Corporation  
Petition for Approval of a Special Contract with Denev Realty, LLC

**TO:** Commissioners  
Docket File  
Service List

### BACKGROUND

On November 3, 2008, the petitioner, Concord Steam Corporation (Concord Steam), filed with the New Hampshire Public Utilities Commission (Commission) a petition for approval of a special contract with Denev Realty, LLC (Denev), a real estate company owning rental property located at 148-158 North Main Street, Concord, New Hampshire. The rental property is referred to as the "Vegas Building" and is located in downtown Concord.

According to Concord Steam, the proposed special contract<sup>1</sup> has been designed to meet the specific needs of Vegas Building while at the same time providing benefits for Concord Steam and its other customers. Concord Steam and Denev agree that steam supply is important to the Vegas Building, in that it is the existing energy source used to supply heat to the building. Concord Steam states that the Vegas Building's owner has relied on this contract in making long term decisions concerning its source of heat and steam to its tenants who live in the low income housing located in the building.

After submitting the petition regarding the special contract, and at the request of low income housing authorities, Concord Steam helped Denev convert its domestic hot water heating system from electric hot water heaters back to a more efficient steam system. This conversion required no increase to the steam distribution system or service piping because the building's domestic hot water was a steam heated system for many years prior to a short period where the building's prior owners converted the domestic hot water heaters to electric power. It should also be noted that the domestic hot water load is a year-round base load that benefits the Company's steam system, which must remain energized throughout the year to keep the distribution system seals from drying out. There are less than 25 customers that take steam service during the summer months.

---

<sup>1</sup> Concord Steam and Denev Realty have been operating under the terms of the proposed special contract since mid-October 2008, subject to final approval by this Commission.

Further, Concord Steam asserts that retention of the Vegas Building total steam load is important to the Company because it is a significant portion of Concord Steam's annual steam sales in the core downtown area. Thus, this contract enables the Vegas Building to continue its operations while reducing the risk that Concord Steam will lose the Vegas Building steam load and providing a regular revenue stream from the Vegas Building to Concord Steam for services provided. In turn, this will contribute to holding down rates for Concord Steam's other customers.

## STAFF INVESTIGATION

Staff sent out two rounds of data requests related to the petition. In its investigation of this petition, Staff also referred back to DR 91-172, a generic discounted rate docket, and NHPUC Order No. 20,633, which identified the types of issues that will be seriously considered with regard to special contracts and discounted rates. Using the issues identified in that order, Staff had the Company address the following checklist of issues related to the special contract request:

1. *Load retention.* In its petition, Concord Steam states that the retention of the Vegas Building load is important because it is a significant portion of the Company's annual steam sales in the core downtown area. In Mr. Saltsman's testimony (p.4, lines 7-8) he states that this load represents approximately 26 percent of the load in the surrounding downtown area. In response to a data request the Company further explained that the two inch, high pressure main serves this specific downtown area, the Vegas Building being considered the "anchor" customer. If the Vegas Building were to leave the system, it would represent a significant load loss to that particular segment of distribution main, resulting in the loss of fixed cost revenue and the potential for additional base rate increases. In addition, service to the Vegas Building during the summer months serves to maintain system integrity and provide cash flow during the offpeak period. Although this load is relatively small when compared to the system as a whole, the Company has experienced some significant load losses during the past several years and is trying to retain all of its remaining customer base at current levels<sup>2</sup>.
2. *Finite Term, dependent on circumstances.* The term of the agreement, as presented with the petition, is for ten years. However, if the Company were able to reduce overall steam rates by 30 percent, as projected in its current major restructuring plans (DG 08-107), the Denev Realty special contract could potentially be terminated once the lower rates went into effect. The Company has indicated it would be willing to terminate the special contract when the new, lower rates were in place as a result of the purchase of steam from Concord Power and Steam. The Company also stated that it believes Denev Realty would be amenable to such a provision in the contract if the new steam system rates were lower than the existing special contract rate.

---

<sup>2</sup> In 2008, a near-normal degree day year, Concord Steam annual sales were 144,000 Mlb. The Vegas Building annual load is approximately 1,000 Mlb, equivalent to about 0.7% of the Company's annual sales. In 2001, a similarly near-normal degree day year, annual sales were 215,000 Mlb, which does suggest a loss of system load over the past seven years. Other recent years' annual reports also show progressive declines in steam sales.

3. *The Contract rate is greater than the long run marginal cost.* Staff assumed the current steam production and distribution system is adequate to meet steam customer requirements until the Company restructures. This assumption is based on Staff's understanding that this particular load has been on the system for more than 25 years and that other system load losses have occurred where a few steam customers have switched to alternative fuels in recent years. Staff asked if the Company expected to increase its steam production or distribution capacity during the projected term of this special contract with Denev Realty. An increase in capacity would likely change the long run marginal rate. The Company confirmed that it does expect to increase its steam production and distribution capacity during the projected term of this special contract, as a result of its restructuring, but expects the long run marginal cost to be lower than current rates because of the steam production cost sharing between the power division (approximately 85%) and the steam division (approximately 15%).
4. *The request has been thoroughly scrutinized by the utility.* The Company provided in its petition a *Statement of Special Circumstances* and direct testimony of Mr. Saltsman describing the reasons why this special contract is necessary. The Company provided Staff with an analysis comparing natural gas and steam energy costs based on Denev Realty's verbal estimation of the cost of a gas-fired boiler and Company assumptions of fuel costs. In the analysis, delivered steam costs were discounted to a level the Company deemed necessary to retain the Vegas Building load. A normal marginal cost study was not included with this petition. However, the Company asserts that the discounted marginal rate exceeds its cost. Accordingly, the system is better off with the load than without it.
5. *The special contract process does not provide the utility an unfair advantage over a competitor.* The Company asserts that it is not being given an unfair advantage over its competitor.<sup>3</sup> The Company has previously reported that it has lost some of its larger loads<sup>4</sup> to the local gas utility. In the near term the steam energy rates under the terms of the special contract are expected to be greater than what the Vegas Building would pay if it were to switch to gas service from a natural gas utility (competitor), where gas prices reflect currently lower NYMEX commodity price levels than what have been seen in recent years. However, the special contract allows Denev Realty to avoid the capital costs and tenant disruption necessary to convert to an alternative fuel such as natural gas. By remaining on steam service, the Vegas Building should also benefit from an anticipated future steam rate reduction. Rather than provide an unfair advantage over a competitor, the special contract allows both Concord Steam and the Vegas Building to benefit from their respective capital investments made over the past 25 years that the Vegas Building has taken steam service. The Commission has previously approved

---

<sup>3</sup> In data response 2-5 the Company states "Simply put, the gas company is and will continue to be in the same position as CSC and the local fuel oil companies to compete for business in the Company's service area. CSC does not provide a truly monopolistic service to its customers given these alternate fuel choices and has had to find innovative ways to compete with both natural gas and fuel oil suppliers."

<sup>4</sup> Concord Steam has lost customers including Concord Hospital, Pleasant View Retirement Home, Walker Building, all of which have converted from steam to natural gas over the past several years.

special contracts between gas utilities and specific customers on a case by case basis for similar reasons.

6. *The discounted rate will not increase the rates paid by the State of New Hampshire or other customers.* Concord Steam has stated that if it files for a base rate increase prior to the end of the term of the special contract, the Company agrees not to recoup the revenue loss associated with the discounted rate from other ratepayers.
7. *Prior to requesting a discounted rate, the customer took actions to decrease its consumption and to use its steam energy more efficiently.* The Company reports that Denev, with steam utility assistance, has made some heating system control improvements, but more needs to be done. Concord Steam has committed to continue working with Denev to make recommendations to improve the building's heating system. Additionally, the Company stated that it believes Denev Realty is under court order related to the section 8 housing and the City of Concord, to make "building envelope" improvements that will further aid the energy efficiency of the building.
8. *The Company is prepared to address requests for discounted rates from other customers that may have similar circumstances.* The Company states that it does not have any other customers with the same load profile or that are providing apartment housing of this magnitude. Therefore, Concord Steam believes it is unlikely that the Company will need to make a similar offer to other existing steam customers. Also, when the planned restructuring is complete, all customers are expected to benefit from lower overall steam rates.

## STAFF ANALYSIS

The following summarizes Staff's analysis and is the basis for Staff's recommendation in the case.

### Retention of Load:

Staff calculates that Concord Steam will lose approximately \$15,725 in normalized annual revenue, mostly due to lost fixed cost recovery, if the Vegas Building load is not retained. By comparison, under the terms of the special contract, Concord Steam will retain \$11,518 in annual revenue from the Vegas Building load. RJW-1 summarizes the cost comparison and revenue loss, before and after the special contract, using the COE rates in effect since the beginning of the term of the agreement.

Based on the calculations in RJW-1, under the terms of the special contract, Concord Steam will lose approximately \$4,200 per year in contribution toward its fixed costs if the Vegas Building load is retained at the discounted rate. The contract is set up to require Denev to pay monthly budget payments that are based on monthly meter charges plus the discounted base rates and actual COE rates times one twelfth of the Vegas Building's normalized annual usage.

### Long Run Marginal Costs:

Staff notes that the Commission has indicated in the past that it will not approve special contract rates that are set below the estimated long run marginal cost. Staff makes the following observations in support of this special contract request:

- Concord Steam asserts, as a result of CSC system load losses in recent years, there is excess steam production and distribution capacity. It is reasonable to assume the Company's claim that the special contract rate is sufficiently high to be greater than the long run marginal cost. The *long run marginal cost* includes the costs associated with steam production capacity, steam distribution capacity and operations and maintenance costs, none of which will need to increase as a result of the Denev Realty special contract with Concord Steam.
- The Vegas Building has been on the Concord Steam system for greater than 25 years and any capital investments made to serve this load were incurred decades ago and the steam system will require no additional capital investments by the Company as a result of the special contract.
- The fixed costs associated with serving this load, including the existing steam boiler plant and distribution capacity have been in rate base for a considerable period of time.
- Under the terms of the special contract, the annual Cost of Energy unit rate to Denev Realty for all metered steam commodity will be the same as all other steam customers will pay.
- The Company reports that the only incremental costs it incurs at this time include purchases for electricity, boiler chemicals and water, which in 2007 amounted to \$1.032 per Mlb of steam sold, well below the discounted rate.
- Revenue losses associated with this discount will not be passed on to the other rate payers in future rate cases.
- Concord Steam is a small company that does not have the in-house expertise or resources to hire an outside expert to perform a detailed marginal cost study for a case such as this, nor would it be cost effective for the Company to do so.

From the point in time that the Company is restructured and operating under the terms of the steam purchase agreement with Concord Power, any new or renewed special contract petition should include a long run marginal cost study. The Company has indicated it would not sell steam to any of its customers at rates below its marginal cost and is willing to include such language in this special contract. In future petitions for special contracts, the Company should provide some form of a long run marginal cost study which will show the incremental unit cost of an additional unit of steam production and distribution capacity, and associated O & M costs, if such additions are anticipated for any load additions during the term of the proposed special contract. If no incremental steam production or distribution capacity will be needed during the term of a proposed special contract, the Company should provide sufficient analysis supporting

that assertion. Staff will then be able to review the provided analyses and make appropriate recommendations to the Commission.

## STAFF RECOMMENDATION

Staff recommends that the Commission approve the special contract with Denev Realty with the following requirements:

- With respect to the *long run marginal cost*, Staff is only looking out to the point in time when the Company's restructured rates are in place. The Company has acknowledged that its restructured entities will be adding both steam production and distribution capacity as part of its restructuring plans but expects the long run marginal cost to decrease, not increase, as a result of the restructuring. Up to that point in time, Staff assumes that the circumstances related to this special contract, as spelled out above, allow for consideration without undergoing a long run marginal cost study typically required under Commission guidelines.
- With respect to the *ten-year term* of the special contract, Staff believes that the term is not appropriate given the plan to restructure the Company's operations within the next two years or so. Based on Staff calculations using rates in effect as of November 1, 2008, the special contract provides a 12 percent overall discount annually to Denev Realty (see attachment RJW-1). With overall steam rates expected to decrease by approximately 30 percent as a result of the Company's restructuring, Staff believes it does not make sense to extend this contract beyond the point where the rates change as a result of the restructuring. At that time, if Concord Steam's restructured tariff and COE rates can provide Denev with overall savings of at least the 12 percent it achieves with the special contract, the special contract should be terminated and Denev should be returned to the applicable steam sales service tariff rate.
- The monthly rate billed to Denev Realty for the Vegas Building steam special contract was initially set at monthly budget rate of \$1,955. Staff calculations, as reflected in RJW-1, show that beginning on November 1, 2008, the monthly budget rate should have been set at \$2,565 per month. This rate reflects the COE rate in effect at that time. Any subsequent COE rate changes will require Concord Steam to adjust the monthly special contract rate accordingly. The template in RJW-1 should be used to recalculate the special contract monthly budget rate when the COE rate changes, and the Commission should be provided a copy of the calculation whenever the rate changes. If it has not already done so, Staff recommends that the Company work out a payment arrangement with Denev for any arrearages resulting from initially deficient contract rates and to provide Staff with a reconciliation of costs and revenues at the end of each contract year.
- The annual usage estimate for the Vegas Building has been adjusted by Staff to the normalized steam volume of 972.2 Mlbs per year (See RJW-1). The Company had used 920 Mlbs per year in its calculations setting the initial rate, but provided the more accurate normalized volume in response to a data request. Staff recommends the

Company make the proper adjustment to its initial rate to reflect the normalized annual volume of 972.2 Mlbs. The added steam load for domestic hot water and reduced steam load as a result of the installation of the new steam control valve, both of which were done in late 2008, should also be factored in when the Company has enough usage data to support making an adjustment to the load. A true-up of special contract charges shall be made to actual steam costs at the end of each contract year. Each year actual annual usage should be normalized and used along with updated COE rates to determine prospective monthly charges. The Company should provide Staff with a copy of the true-up analysis at the end of each year along with the updated prospective monthly budget rate for the new contract year.

- Staff supports Concord Steam's commitment to work with Denev to make recommendations to improve the building's mechanical system and its efficient use of steam energy. The Company should provide an update of progress on this matter to the Commission prior to December 1, 2009.
- Staff requests that consideration for the approval of this special contract be based on the research and analysis provided and for the reasons stated above.

Staff notes that the term of this agreement commenced on October 15, 2008 and prior to the Company filing the petition for approval of the special contract. Staff has concerns with how this contract was implemented, but nonetheless makes its recommendations after a thorough review. Although the contract was effective on the above referenced date, everything in the agreement is subject to Commission approval. To date, no fixed costs have been shifted to other customers during this time period. The Company has also stated that no fixed costs will be shifted to other customers as a result of the revenue losses associated with this discounted rate, even if Concord Steam files a new base rate case. Staff recommends this be a condition of the approval.

Any changes to the cost of energy rate should be factored in the special contract monthly rate at the time of the COE rate change.

DG 08-141 Concord Steam Corp.  
Special Contract with Denev Realty, LLC (Vegas Building)  
Normalized Mlb per Month for Vegas Building Special Contract:

RJW-1  
Page 1 of 2

Vegas Building Load			Concord Steam Tariff Rates		
Month	Year	Normalized Mlb Att to DR 1-7		Rate	(Rate + Meter Chg)/Mlb
Jan	2007	98.1	Usage Rates:		
Feb	2007	153.8			
Mar	2007	129.6	First 500 Mlbs per month	\$15.87 per Mlb	\$16.18
Apr	2007	81.0	All > 500 Mlbs and < 2,000 Mlbs/month	\$13.93 per Mlb	
May	2007	36.2	All over 2,000 Mlbs per month	\$11.54 per Mlb	\$11.85
Jun	2007	25.1			
Jul	2007	23.7	Meter Charge		
Aug	2007	19.7		Per month	Meter Chg/Mlb
Sep	2007	33.9	Type A or B	\$10.00 per month/meter	
Oct	2007	71.2	Type C, D or E	\$25.00 per month/meter	\$0.31
Nov	2007	116.9	Type F, G or Steam Flow	\$40.00 per month/meter	
Dec	2007	183.0			
		972.0	Cost of Energy Rate	\$14.38 Nov-2007 through Oct-2008	
				\$19.81 Nov-2008 through Jan-2009	
				\$21.31 Feb-2009 through Oct-2009	

Table 1	Cost Comparison		
Rates Effective October 15 through October 31, 2008	Before and After the Special Contract		
	Before	After	Change
<u>Cost of Energy (10/15/08)</u>			
Volume (Mlbs, pro-rated, normalized)	44.6	44.6	0.0
Cost of Energy rate	\$ 14.38	\$ 14.38	\$ -
Revenue Requirement	\$ 640.93	\$ 640.93	\$ -
<u>All Other Costs (Base Rates)</u>			
Volume (Mlbs, pro-rated, normalized)	44.6	44.6	0.0
Rate per Mlb	\$ 16.18 *	\$ 11.85	\$ (4.33)
Revenue	\$ 721.10	\$ 528.17	\$ (192.93)
<u>Total Costs</u>	\$ 1,362.04	\$ 1,169.10	\$ (192.93)
Staff recommended special contract budget charge required from Oct. 15 through Oct. 31, 2008		\$ 1,169.10	

/1 Effective 10/15/08, CSC adjusted the COE rate to \$21.31 per Mlb  
/2 Includes delivery base rate 1st block plus avg unit meter cost  
/3 Includes delivery base rate 3rd block plus avg unit meter cost



Table 1-A		Cost Comparison		
For rates effective 11/01/08 through 1/31/09		Before and After the Special Contract		
		Before	After	Change
<u>Cost of Energy (11/01/08)</u>				
Volume (Normalized annual Mlbs)		972.2	972.2	0.0
Cost of Energy rate	/1	\$ 19.81	\$ 19.81	\$ -
Revenue Requirement		\$ 19,259.28	\$ 19,259.28	\$ -
<u>All Other Costs (Meter, Base Rates)</u>				
Volume (Normalized annual Mlbs)		972.2	972.2	0.0
Rate per Mlb		\$ 16.18 /2	\$ 11.85 /3	\$ (4.33)
Revenue		\$ 15,728.81	\$ 11,520.57	\$ (4,208.24)
<u>Total Costs</u>		\$ 34,988.10	\$ 30,779.85	\$ (4,208.24)
Staff recommended monthly special contact budget charge effective Nov. 1, 2008 - Jan. 30, 2009			\$2,564.99	

/1 Effective 2/01/09, CSC adjusted the COE rate to \$21.31 per Mlb

/2 Includes delivery base rate 1st block plus avg unit meter cost

/3 Includes delivery base rate 3rd block plus avg unit meter cost

Table 1-B		Cost Comparison		
For rates effective 2/01/09 until next COE rate change		Before and After the Special Contract		
		Before	After	Change
<u>Cost of Energy (2/01/09)</u>				
Volume (Normalized annual Mlbs)		972.2	972.2	0.0
Cost of Energy rate	/1	\$ 21.31	\$ 21.31	\$ -
Revenue Requirement		\$ 20,717.58	\$ 20,717.58	\$ -
<u>All Other Costs (Meter, Base Rates)</u>				
Volume (Normalized annual Mlbs)		972.2	972.2	0.0
Rate per Mlb		\$ 16.18 /2	\$ 11.85 /3	\$ (4.33)
Revenue		\$ 15,728.81	\$ 11,520.57	\$ (4,208.24)
<u>Total Costs</u>		\$ 36,446.40	\$ 32,238.15	\$ (4,208.24)
Staff recommended monthly special contact budget charge effective Feb. 1, 2009			\$2,686.51	

/1 Effective 2/01/09, CSC adjusted the COE rate to \$21.31 per Mlb

/2 Includes delivery base rate 1st block plus avg unit meter cost

/3 Includes delivery base rate 3rd block plus avg unit meter cost

SARAH KNOWLTON  
MCLANE GRAF RAULERSON & MIDD  
PO BOX 459  
PORTSMOUTH NH 03802-0459

Docket #: 08-141      Printed: August 12, 2009

**FILING INSTRUCTIONS:    PURSUANT TO N.H. ADMIN RULE PUC 203.02(a),**  
**WITH THE EXCEPTION OF DISCOVERY, FILE 7 COPIES (INCLUDING COVER LETTER) TO:**  
DEBRA A HOWLAND  
EXEC DIRECTOR & SECRETARY  
NHPUC  
21 SOUTH FRUIT STREET, SUITE 10  
CONCORD NH 03301-2429

**PURSUANT TO N.H. ADMIN RULE 203.09 (d), FILE DISCOVERY**

**DIRECTLY WITH THE FOLLOWING STAFF**

**RATHER THAN WITH THE EXECUTIVE DIRECTOR**

LIBRARIAN

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

**BULK MATERIALS:**

Upon request, Staff may waive receipt of some of its multiple copies of bulk materials filed as data responses. Staff cannot waive other parties' right to receive bulk materials.

LEGAL DEPARTMENT

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

ROBERT WYATT

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429

AMANDA NOONAN

CONSUMER AFFAIRS DIRECTOR

NHPUC

21 SOUTH FRUIT ST, SUITE 10

CONCORD NH 03301-2429