

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: July 26, 2013**AT (OFFICE):** NHPUC

FROM: Robert J. Wyatt *RJW*
Assistant Director, Safety Division

SUBJECT: DG 13-152
Concord Steam Corporation
Petition for Approval of a Special Contract -
CATCH Neighborhood Housing

TO: Commissioners
Docket File
Service List

BACKGROUND

On May 17, 2013, the petitioner, Concord Steam Corporation (“Concord Steam” or “Company”), filed with the New Hampshire Public Utilities Commission (Commission) a petition for approval of a special contract with the CATCH Neighborhood Housing (“CATCH”) for service in connection with the newly renovated Endicott Hotel property in downtown Concord. Prior to the major renovation project at this location, Concord Steam had been providing retail steam service for many years to the old Endicott Hotel, in addition to a few street level commercial properties in the same building.

According to Concord Steam, the proposed special contract has been designed to meet the specific needs of CATCH while at the same time providing benefits for Concord Steam and its other customers. Concord Steam and CATCH agree that steam supply is important to the Endicott Hotel property, in that it has historically been the energy source used to supply heat and domestic hot water to the building. Concord Steam states that early in the renovation process, CATCH was exploring its options of alternative energy sources of heat and hot water for the property. One alternative CATCH was considering was the possibility of converting the property to natural gas as the fuel source for the building’s heat and hot water systems. During a meeting between Concord Steam and CATCH it was determined that Concord Steam would be able to retain this customer long-term if it were able to provide steam energy for both heating and domestic hot water to CATCH at a rate that was competitive with the alternatives. This contract enables Concord Steam to retain an important customer whose building is located in a section of the steam distribution system where the Company has provided many years of steam service. The special contract allows CATCH to make a long term decision concerning its source of heat and hot water for its residential and commercial tenants when the building renovations are complete.

STAFF INVESTIGATION

Staff issued two sets of data requests seeking clarifications related to the petition. Staff also referred back to other special contract agreements between Concord Steam and its customers that were considering similar energy alternatives (Denev Realty (DG 08-141); YMCA (DG 10-116); City of Concord (DG 11-150)).

In its petition, testimony and supporting documents, Concord Steam states that the retention of the steam load to the Endicott Hotel property is important because it is a significant portion of the Company's annual steam sales in the core downtown area. In the instant docket, Mr. Saltsman's testimony (p. 3, lines 2-3) states that the retention of this load is beneficial to all of Concord Steam's customers. 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 reverse that trend by retaining its remaining customer base and if opportunities present themselves, by adding to its customer base. The Company testimony states that CATCH is a non-profit that provides affordable housing to residents in downtown Concord, an area that notably lacks affordable housing built to meet today's energy efficiency standards.

The contract carries a seven year term commencing on October 1, 2013. Throughout the first four years of the agreement, CATCH will pay a usage rate equal to the lowest tier base rate in effect for each billing period¹. For the remaining three years of the agreement CATCH will pay a usage rate equal to the applicable tiered tariff rate in effect for each billing period. CATCH will pay the other components of Concord Steam's tariff (i.e., applicable Meter Charges, Cost of Energy components, and tariff surcharges) at the same rates applied to all customers under Concord Steam's tariff.

The special contract provides assurance to Concord Steam that CATCH will remain a customer in good standing during the seven year term of the agreement. Additional safeguards in the agreement that protect Concord Steam and its firm customers include: 1) a requirement that CATCH will pay all service connection charges related to the restoration of steam service and associated costs if its service is disconnected as a result of CATCH defaulting on its contractual obligations; and 2) the customer agrees to repay any base rate discounts applied to its account if service is discontinued by the customer or by Concord Steam as a result the Customer being in default at any time during the term of the agreement. These and other provisions of the agreement, provides incentive for CATCH to remain in good standing and to avoid any disconnection of steam service.

STAFF ANALYSIS

The Concord Steam/CATCH special contract is essentially an agreement to shift the month-to-month usage from the highest cost first tier rate block to the lowest cost third tier block. Historical data shows that the combined monthly usage for the Endicott Hotel and street level

¹ Normally, steam sales customers will pay the tariff's applicable tiered usage rate based on a customer's metered usage for the billing period. The tariff includes three usage rate tiers that reflect higher usage rates for lower metered volumes and lower rates for higher metered volumes.

commercial properties will likely never exceed the first tier threshold of 500 Mlbs. The special contract allows the customer to pay the lower cost third tier usage rate throughout the first four years of the agreement. This four year period will allow CATCH ample opportunity to analyze the steam energy consumption characteristics for its newly renovated, more energy efficient property and upgraded steam heat and hot water systems. The discounted steam usage rate will allow CATCH a period of time to fine tune its steam heat and hot water systems and educate its new tenants on the shared benefits of energy conservation before its steam usage rates return to normal tariff rates.

Staff did have some concerns related to the initial special contract, as filed with the petition. That contract was silent on the treatment of meter charges and in Section 2 of that version of the contract, a point of reference was inserted for what the initial cost of energy (COE) rate was at the time of the agreement. The referenced rate in Section 2, however, was not the COE rate, but instead, the “over 2000 Mlbs” base usage rate tier of \$15.18 per Mlb in effect at the time.

On July 22, 2013, the Company filed a revised agreement that included a reference to the meter charge requirement and to correct the COE point of reference error. This revised agreement is now consistent with Commission policy for other recent Concord Steam special contracts, in that the discount applies only to the usage rate portion of the tariff for steam service.

Staff Analysis estimates the CATCH/Endicott Hotel property overall usage will be approximately 85% of actual 2010/11 annual usage (see Attachment RJW-1). The usage data from year 2010/11 was used because it was the last year of reasonably normal full-occupancy consumption history. Staff’s analysis is based on assumptions that the renovated building and updated heating and hot water systems will be more energy efficient. Based on those conservative estimates, Staff’s analysis shows base revenues to Concord Steam as a result of the full seven year term of this agreement will be approximately \$194,000. Retention of the CATCH/Endicott Hotel load will benefit all steam customers by contributing to the Company’s fixed costs embedded in both base rate and cost of energy rate components. By comparison, if the account were to have converted to another alternate fuel such as natural gas, Concord Steam and its customers would no longer receive any of the benefits described above.

STAFF RECOMMENDATION

Staff considers the proposed special contract to be in the public interest, as required by RSA 378:18. Specifically, the special contract offers Concord Steam the opportunity to retain steam load, the loss of which would put upward pressure on rates as fixed costs would be spread over a smaller customer base.

In addition, Staff recommends that the Commission include language in an approval Order that indicates that:

- the special contract rate applies through the first four years of the agreement, effective October 1, 2013, and is specific to the usage rate portion of the monthly steam service

bill, which will be equal to the lowest tier usage rate in effect at the time of usage for all metered Mlbs;

- in years five through seven of the special contract, the usage rate for the steam service account will revert back to the normal applicable tariff usage rate and tier in effect at the time of usage; and
- throughout the full seven year term of the special contract, meter charges, applicable surcharges and cost of energy rates relevant to CATCH will be the normal effective tariff rates and surcharges applicable to all steam service customers.

Attachment

		Annual steam usage and revenue calculations based on estimate of 2013/14 usage and normal steam tariff rates in effect as of May-2013						Revenue calculations based on special contract usage rate for years 1-4			
	Metered Mlbs (Source: CSC Response to Staff 1-14)	Metered Mlbs (2010/11 Usage x 85% EE Estimate)	Charge per Medium Size Meter (Oct-May) & (Jun-Sep) Years 1-7	Mlb Sales Usage Rate Revenue- First 500 Years 5-7	Mlb Sales Usage Rate Revenue- 501 - 2000 Years 5-7	Mlb Sales Usage Rate Revenue- over 2000 Years 5-7	Tariff Meter Chg, Usage Rate and COE Revenue Years 1-7	Mlb Usage Rate Revenue- over 2000 Years 1-4	Total Meter Chg, Usage Rate and COE, Yrs 1-4	Annual Discount to Normal Tariff Rates Years 1-4	
											2010/11
Oct	106.5	90.5	\$ 50.00	\$ 1,946.29	\$ -	\$ -	\$ 1,908.27	\$ 3,904.55	\$ 1,525.35	\$ 3,483.61	\$ (420.94)
Nov	136.8	116.3	\$ 50.00	\$ 2,500.02	\$ -	\$ -	\$ 2,451.18	\$ 5,001.20	\$ 1,959.32	\$ 4,460.50	\$ (540.70)
Dec	257.4	218.8	\$ 50.00	\$ 4,703.99	\$ -	\$ -	\$ 4,612.09	\$ 9,366.08	\$ 3,686.61	\$ 8,348.70	\$ (1,017.37)
Jan	248.6	211.3	\$ 50.00	\$ 4,543.17	\$ -	\$ -	\$ 4,454.41	\$ 9,047.58	\$ 3,560.57	\$ 8,064.99	\$ (982.59)
Feb	270.3	229.8	\$ 50.00	\$ 4,939.73	\$ -	\$ -	\$ 4,843.24	\$ 9,832.97	\$ 3,871.37	\$ 8,764.61	\$ (1,068.36)
Mar	191.0	162.4	\$ 50.00	\$ 3,490.53	\$ -	\$ -	\$ 3,422.34	\$ 6,962.86	\$ 2,735.60	\$ 6,207.94	\$ (754.93)
Apr	136.2	115.8	\$ 50.00	\$ 2,489.06	\$ -	\$ -	\$ 2,440.43	\$ 4,979.49	\$ 1,950.72	\$ 4,441.16	\$ (538.33)
May	100.4	85.3	\$ 50.00	\$ 1,834.81	\$ -	\$ -	\$ 1,798.97	\$ 3,683.78	\$ 1,437.98	\$ 3,286.95	\$ (396.83)
Jun	32.4	27.5	\$ 16.00	\$ 592.11	\$ -	\$ -	\$ 580.54	\$ 1,188.65	\$ 464.05	\$ 1,060.59	\$ (128.06)
Jul	24.6	20.9	\$ 16.00	\$ 449.57	\$ -	\$ -	\$ 440.78	\$ 906.35	\$ 352.33	\$ 809.12	\$ (97.23)
Aug	27.0	23.0	\$ 16.00	\$ 493.43	\$ -	\$ -	\$ 483.79	\$ 993.21	\$ 386.71	\$ 886.49	\$ (106.72)
Sep	26.3	22.4	\$ 16.00	\$ 480.63	\$ -	\$ -	\$ 471.24	\$ 967.88	\$ 376.68	\$ 863.93	\$ (103.95)
	1,557.5	1,323.9	\$ 464.00	\$28,463.31	\$ -	\$ -	\$ 27,907.29	\$ 56,834.60	\$ 22,307.29	\$ 50,678.58	\$ (6,156.02)
			x 6 meters	x 3 years			x 7 years		x 4 years		x 4 years
			\$ 2,784.00	\$85,389.94			\$195,351.00		\$ 89,229.18		\$ (24,624.08)
			per year								
			x 7 years								
Base Revenue during 7-Yr Term:	\$ 19,488.00		+	\$174,619.11			=	\$194,107.11			
COE Revenue during 7-Yr Term:							195,351.00				
Total Revenue during 7-Yr Term:	\$ 19,488.00		+	\$174,619.11			+	\$ 195,351.00	=	\$389,458.11	