

DG 02-174

CONCORD STEAM CORPORATION

2002/2003 Cost of Energy

Order Approving the Cost of Energy Rate

O R D E R N O. 24,082

November 1, 2002

APPEARANCES: Sarah B. Knowlton, Esq., McLane, Graf, Raulerson and Middleton, for Concord Steam Corporation; Wynn E. Arnold, Esq. and Jack K. Ruderman, Esq. for the Governor's Office of Energy and Community Services; Edward N. Damon, Esq. for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On September 20, 2002, Concord Steam Corporation (Concord Steam), a public utility supplying steam service to approximately 130 commercial and institutional customers in Concord, New Hampshire, filed with the New Hampshire Public Utilities Commission (Commission) its Cost of Energy (COE) rate for the period November 1, 2002 through October 31, 2003. Concord Steam's filing was accompanied by the pre-filed testimony and supporting attachments of Peter G. Bloomfield, President of Concord Steam.

By secretarial letter dated September 24, 2002 and referencing docket DG 01-171, the Commission granted Concord Steam's request to waive the 45 day filing requirement for its annual cost of energy filing, as set forth in *Concord Steam*

Corporation, Order No. 23,822 (November 1, 2001), and allowed Concord Steam to file by September 20, 2002.

An Order of Notice was issued on September 26, 2002 setting a technical session for October 9, 2002 and a hearing for October 29, 2002. Concord Steam informed customers of the impending rate change by publishing a copy of the Order of Notice in the *Union Leader* on October 1, 2002.

On October 11, 2002, the Governor's Office of Energy and Community Services (GOECS) filed a Motion for Intervention.

On October 17, 2002, Concord Steam filed a Motion to Extend Time to Object and Respond to GOECS' Data Requests (Motion to Extend Time) related to the methodology used to calculate the amount of steam to be charged Concord Steam's affiliated electric co-generation operations (Co-Gen) approved in *Concord Steam Corporation*, Order No. 17,261, 69 NH PUC 610 (October 22, 1984) (the "1984 Methodology").

On October 18, 2002, GOECS filed a pleading entitled, Conditional Concurrence With Motion by Concord Steam Corporation to Extend Time and Motion by GOECS to Bifurcate Proceeding and to Establish Procedural Schedule to Address 1984 Methodolgy Issue, concurring with Concord Steam's Motion To Extend Time, conditioned on bifurcation of the proceeding and establishment of a procedural schedule to address the 1984 Methodology issue.

(GOECS' request to bifurcate and establish a procedural schedule is referred to as the Motion to Bifurcate.)

On October 28, 2002, the Commission Staff (Staff) filed the joint testimony of Staff witnesses Stephen P. Frink, Assistant Director of the Gas & Water Division, and Robert J. Wyatt, Sr. Utility Analyst, and an Objection to GOECS' Motion to Bifurcate in connection with the hearing on the cost of energy adjustment.

On October 29, 2002, a duly noticed hearing on the merits was held. At the hearing, GOECS stated it was withdrawing its data requests to Concord Steam, thus rendering moot Concord Steam's Motion to Extend Time. Accordingly, the Commission announced it deemed GOECS's Motion to Bifurcate to be withdrawn.

II. POSITIONS OF THE PARTIES AND STAFF

A. Concord Steam Corporation

Concord Steam witness Peter G. Bloomfield addressed the following issues: 1) energy supply purchasing policies; 2) calculation of the COE rate; 3) the reconciliation of the prior period's energy revenues and costs; and 4) customer impact.

1. Energy Purchasing Policies

During the winter period, Concord Steam purchases a mix of #6 and waste oil to satisfy clean air requirements at the

lowest possible cost. For the remainder of the year, Concord Steam uses natural gas delivered through interruptible transportation service, the lowest tariff rate available. Concord Steam typically pre-purchases forty to fifty percent of its energy supplies each year, depending on price, to reduce rate fluctuations for its customers. Approximately forty percent of the 2002/2003 energy supplies included in the calculation of the COE rate have been pre-purchased.

2. Calculation of the COE rate

The proposed 2002/2003 COE rate of \$8.69 per Mlb (1,000 pounds of steam) was calculated by increasing the anticipated cost of energy (gas and oil supplies) of \$1,872,994 to include the KeySpan Energy Delivery New England Interruptible Metering Charge of \$3,720 for the period to arrive at anticipated costs of \$1,876,714. The anticipated cost was then decreased by the prior period over collection of \$5,987 to arrive at the energy costs of \$1,870,727 to be recovered over the 2002/2003 COE period. These costs were then divided by anticipated sales of 215,204 Mlbs, the sales estimate based on weather normalized 2001/2002 sales, to arrive at the proposed COE rate of \$8.69 per Mlb.

3. Prior Period Reconciliation

The reconciliation of Concord Steam's actual and projected energy costs with actual and projected energy revenues for the 2001/2002 COE period indicate an over collection of \$5,987, or 0.3% of period costs. The reconciliation included actual costs and revenues for ten months and estimates for the two months not closed as of the date of the filing. The actual costs were audited by the Commission Audit Staff and found to be accurately reported.

4. Customer Impact

Concord Steam's COE rate from November 2001 through May 2002 was \$8.92 per Mlb; from June 2002 through October 2002 the rate was \$8.00 per Mlb. The weighted average COE rate for the 2001/2002 COE period is very close to the proposed 2002/2003 COE rate and should, therefore, have a minimal impact on customers' bills when compared to last year. Concord Steam expressly did not request a waiver of Puc 1203.05(b) which generally requires rate changes to be implemented on a service rendered basis.

B. Governor's Energy Office & Community Services

GOECS did not file testimony, but in its opening statement to the Commission GOECS expressed its concerns regarding the 1984 Methodology.

GOECS stated that the operating requirements to generate electricity result in higher steam temperatures and pressures than would otherwise be required and, therefore, decreased boiler efficiency and increased wear and tear on the utility steam system. Additionally, GOECS believes the formula used to calculate steam consumption for the Co-Gen using the 1984 Methodology may not adequately charge the Co-Gen for energy consumed, and that the potential exposure could amount to a couple of hundred thousand dollars per year. GOECS also took exception to Staff's testimony stating that Concord Steam had shown a willingness to work with GOECS and Staff, stating that Concord Steam was unwilling to work with GOECS on this issue outside a formal proceeding.

GOECS went on further to say that its concerns had not been addressed, but that due to resource constraints GOECS could not address its concerns in a timely fashion as part of the current proceeding. GOECS reserved its right to raise the issue through a future filing with the Commission.

C. Staff

Staff witnesses Stephen P. Frink and Robert J. Wyatt testified that Concord Steam's energy purchasing policies were reasonable and consistent with the purchasing policies followed in the past. Staff noted that the policy has resulted in

keeping energy costs low while providing a reasonable level of price stability.

Mr. Wyatt testified that Staff had investigated GOECS' concerns regarding the 1984 Methodology and shared some of his findings from a study done earlier this year. First, he explained how each turbine's heat rate of 3,600 Btu/kwh, plus the 400 Btu/kwh cushion agreed to by the parties to the original agreement, was used in the 1984 Methodology in order to include any *expected* operational load swings and still favorably reflect steam usage by Co-Gen. He referred to two examples using real steam temperature and pressure data from a time when the Co-Gen was producing near 100% of capacity and from another time when the plant was generating at less than 50% of capacity. Using steam tables, Mr. Wyatt's examples converted the data to Btu/Lb values, and then back-calculated true heat rate values. The results fell within the 3,600 to 4,000 Btu/kwh range used in the 1984 Methodology.

Mr. Wyatt also suggested the parties work together to take additional meaningful data samples on a random basis, to further test the 1984 Methodology under current/various operating conditions.

III. COMMISSION ANALYSIS

There being no objection, we will grant GOECS' Motion for Intervention. Since the other pending motions are now moot or deemed to be withdrawn, no ruling on them is required.

Concord Steam's cost of energy filing is consistent with the applicable provisions we approved in *Concord Steam Corporation*, Order No. 23,822 (November 1, 2001). After review of the record in this docket, we find that Concord Steam's proposed COE rate will result in just and reasonable rates. Accordingly, we accept and approve Concord Steam's proposed 2002/2003 COE rate.

In its statement, GOECS raises a valid concern regarding possible cross-subsidization between the regulated Concord Steam utility and its unregulated Co-Gen. As Staff pointed out, the cost allocation methodology used to assign common costs that are recovered through delivery rates will be addressed in the Concord Steam rate proceeding currently before the Commission, Docket No. 02-125. The cost of energy used by the Co-Gen to produce electricity is recovered through the COE rate, based on steam sales to the Co-Gen which are determined using the 1984 Methodology. Although it is clear operating requirements have changed since adopting the 1984 Methodology for assigning fuel costs to the Co-Gen operations, Mr. Wyatt's

investigation into the matter and the results detailed in his report indicate that the 1984 Methodology appears to be working as intended.

Mr. Wyatt's recommendation that additional data samples be taken on a random basis to further test the 1984 Methodology under current/various operating conditions is a good one and analysis of such data should provide a further basis to test whether utility customers are subsidizing the Co-Gen operations, as alleged. Accordingly, we direct Concord Steam to work with Staff and GOECS in determining the appropriate measurements to be taken, and when, in order to test the validity of the 1984 Methodology on an ongoing basis consistent with cost-effective and valid statistical methods of analysis.

Based upon the results of the testing, or any other pertinent information, GOECS, or any other affected party, may petition the Commission for a change in the cost allocation methodology currently being employed to assign energy costs between the utility and the Co-Gen. In this regard, it is worth repeating here what we said in *Concord Steam Corporation*, Order No. 17,261, 69 NH PUC 610, 611 (October 22, 1984):

"It was further stipulated and agreed to that all allocations made shall remain effective unless and until actual operating experience demonstrates that

they are unreasonable, and that the books and records of Concord Steam Corporation shall be access[i]ble for verification.

...[T]he Stipulation Agreement...is in the public good and is hereby accepted. It is our further judgment that revision of these allocations shall only be made after due notice to all parties, review and investigation, and further Order of this Commission."

Based upon the foregoing, it is hereby

ORDERED, that Concord Steam's proposed 2002/2003 COE rate of \$8.69 per Mlb for the period November 1, 2002 through October 31, 2003 is APPROVED; and it is

FURTHER ORDERED, that Concord Steam may, without further Commission action, adjust the approved COE rate of \$8.69 per Mlb upward or downward monthly based on Concord Steam's calculation of the projected over or under collection for the period, but the cumulative adjustments shall not exceed twenty percent (20%) of the approved COE rate; and it is

FURTHER ORDERED, that Concord Steam shall provide the Commission with its monthly calculation of the projected over or under calculation, along with the resulting revised COE rate for the subsequent month, not less than five (5) business days prior to the first day of the subsequent month. Concord Steam shall include a revised tariff if Concord Steam elects to adjust the COE rate; and it is

FURTHER ORDERED, that interest will not be charged on the monthly over or under collection; and it is

FURTHER ORDERED, that Concord Steam shall file properly annotated tariff pages in compliance with this Order no later than 15 days from the issuance date of this Order, as required by N.H. Admin. Rules, Puc 1603.

By order of the Public Utilities Commission of New Hampshire this first day of November, 2002.

Thomas B. Getz
Chairman

Susan S. Geiger
Commissioner

Nancy Brockway
Commissioner

Attested by:

Debra A. Howland
Executive Director & Secretary