

Senate Capital Budget Committee

Sonja Caldwell 271-2117

HB 368-FN-A, relative to the heating of certain state-owned buildings in Concord and making appropriations therefor.

Hearing Date: March 8, 2017

Members of the Committee Present: Senators D'Allesandro, Daniels and Bradley and Fuller Clark (present but not voting)

Members of the Committee Absent : Senators Sanborn and Watters

Bill Analysis: This bill authorizes the commissioner of administrative services to decommission the Concord Steam Corporation facilities and contract for replacement systems providing heat to state-owned buildings in Concord. The bill makes operating and capital appropriations to the department of administrative services for the purposes of the bill.

This bill is a request of the joint legislative Concord Steam task force.

Sponsors:

Rep. Chandler

Rep. Hinch

Rep. L. Ober

Rep. Shurtleff

Sen. Daniels

Sen. Bradley

Sen. D'Allesandro

Who supports the bill: Please refer to sign in sheets

Who opposes the bill: Please refer to sign in sheets

Summary of testimony presented:

Rep. Chandler

- This issue began last spring when the legislature learned that Concord Steam would be going out of business.
- Sen. Daniels chaired the task force that was created.
- All of the folks in opposition today were in opposition at that time. This bill doesn't have anything to do with what they are opposed to.
- This is a necessity. There are no other options.
- This was the recommendation of the task force. Rep. Ober wrote the bill.
- During task force discussions, we talked about trying to avoid bonding the entire \$25 million. The Treasurer and Commissioner of Administrative Services came up with the proposal which is in the amendment Rep. Graham will be offering. It would allow another method and provide flexibility because the Capital budget has limits on how much bonding we can

authorize.

Rep. Ober

- This is about more than just heat; it's also about having hot water in all the buildings.
- We have a temporary solution to carry us through to allow for bidding on the permanent solution. Green City Power will be able to bid on this when the bid documents come out. Some of the buildings are small and can be serviced with a furnace but it's up to the engineers to figure out the best heating solutions for each building.
- The Concord Steam building is owned by the state.
- The bill as currently written provides for two funding solutions. This authorized up to a maximum of \$25 million to cover the temporary and the permanent solution but it doesn't mean we have to spend that amount of money. It can be funded through general fund dollars or bonding. We might want to use a mixture and this offers maximum flexibility.
- Idea behind this was not to support or oppose fracking, or one type of energy over another, but to provide an appropriation to DAS to give us a temporary and a fulltime solution.
- Concord Steam has been delivering heat via underground pipes that are deteriorating. The pipes don't belong to the state. To repair those pipes would cost a great deal of money.
- She hasn't seen any proposal from Green City Power to repair those pipes. She also questioned how they could be repaired in just a few months.

Rep. Graham

- Offered amendment #0482h
- Worked with Mike Connor and the Treasurer to come up with an alternative to provide funding for replacing Concord Steam. It authorizes the Commissioner to procure an operating lease financing arrangement that will be paid from their utility lines in the operating budget.

Sen. D'Allesandro noted that the amendment only has to do with financing the project.

Sen. Graham said yes and added that the entire bill is about funding the project.

Rep. Oxenham

- She said the decision to move to natural gas was made ahead of time.
- The RFP's are for boilers, not different ways of heating buildings.
- This is a public policy issue. NH promotes energy efficiency and moving away from fossil fuels but now we're looking to put our state buildings on fossil fuels.
- The May 31 date came from a PUC agreement. It's not about the sky falling, it was a way to get the customer base to change over to natural gas.
- Her amendment proposes an RFP process in a fair, open, transparent process of 6 months but she is also ok with 3 months.

Mike Connor and Vicki Quiram – DAS

- Concord Steam had two fires in the fall. It could be catastrophic if the plant had a serious fire.
- The state is already paying \$2.6 million a year for heating costs and they are concerned our rates would double if we were the only customers left on Concord Steam. They issued a RFP for a performance contract with the goal of replacing systems by the spring of 2019.

- On July 20th 2016, DAS got word that Concord Steam would be closing in May 2017. They started working with engineers in public works to assess all 25 buildings. They looked at all heating source options for the buildings.
- There were multiple PUC technical hearings on the issue.
- They noted that nothing in the agreement with the PUC mandates they use natural gas.
- The cost to lease the pipes for a year is \$3.3 million.
- Concord steam closes on 5-31-17 and the next day the state will be on temporary boilers.
- They received a proposal from Green City Power in February of 2016 but it required a 20 year commitment from the state and the base rate assumed all current Concord Steam customers would remain. Green City Power would require the state to purchase a certain number of Mpounds for 20 years.
- DAS responded saying they weren't comfortable with a long term agreement. Concord Steam did same thing and DAS gave them the same answer.
- The plant is in terrible shape and does not have a fire suppression system. It has many other deficiencies. Steam is very inefficient. 50% of steam doesn't reach the customer. The plant has had 8 fires in the last 11 years and the last one did significant damage.
- The County, City, and hospital have all moved off of Concord Steam.
- 180 million dollars is what our facilities that are on Concord Steam are valued at.
- The 20 year commitment would preclude the state from responding to new technologies and efficiencies.
- They've already started to bid out the projects. They need the funding authority this month.
- Waiting is not an option.
- This bill maintains their ability to be flexible.
- This does not commit the state to any one heating source. They are committed to reducing fossil fuel usage and will continue to do that.

Aaron Walters - Green City Power

- The state's decision to move to gas forces all users to convert.
- The City gets hit the hardest. Their costs are going up dramatically.
- The state costs are 1.5 to 3 times more expensive than their proposal.
- Impacts on businesses include higher operating expenses and decreased property values.
- The cost of fuel is one component of the cost of heat. The others are operations and maintenance expense, capital investment, and lost revenues.
- Energy efficiency savings can be realized regardless of how buildings are heated.
- They wanted to see if they could offer a compelling solution to the state, city, and downtown businesses.
- The cost of their proposal is \$34.21 per Mpound.
- They propose that decision makers meet with Green City Power to outline key conditions necessary for a mutually acceptable solution. They don't have the facts or know what has happened in the last year.

Sen. Daniels said he dismissed the fact that the state is a single customer and much of his proposal was about the effect on others as reasons why the state should go with Green City Power.

Mr. Walters said the state is the biggest customer and if the state leaves, everyone else has to

change.

Sen. Daniels asked if Green City Power is a registered utility in NH.

Mr. Walters said no; they didn't feel it was appropriate to take action with the PUC yet.

Sen. Daniels asked if Green City Power has offered the state anything other than a 20 year contract.

Mr. Walter responded that they have done so several times. They are more than willing to be flexible and have a conversation with anyone. They have been trying to communicate that message for over a year. He said they are asking the state to tell them what they want and they will respond about whether or not they can do it.

Sen. Fuller Clark said we heard you were committed to having a 20 year contract and DAS felt that was totally unacceptable and unworkable. She went on to say that a number of businesses have already moved away from steam and asked how that would impact Green City Power's ability to go forward with the project.

Mr. Walters said the loss of customers does have an impact but he can't say definitively how much of an impact it would have. Other revenue sources could be adjusted. He said the loss of the City is a small percentage of the overall load.

Sen. Fuller Clark said a number of customers have made the change and they won't be coming back to steam and asked if that changes their interest in moving forward.

Mr. Walters said it may or may not. They want to get hard numbers on who is on the district heating loop.

Sen. Bradley said his proposal is dated and his number of 34.21 was based on the full customer base.

Mr. Walters stated they have other options that could potentially mitigate the loss of those customers.

Sen. Bradley said there's a large capital upgrade required of the piping system as it is very inefficient. If their proposal overlooks that, he asked if that would also impact how the numbers work.

Mr. Walters said that could have been cleared up with some conversation. He cited New York City and Boston as having district heating loops and said it is not uncommon for leaks in district heating systems because it is expensive to tear up streets to fix pipes. He said they did look at thermal imaging of the pipes and would welcome the opportunity to sit down and look at those and be upfront about ways to mitigate that. He said it's not feasible to rip up streets but they can do upgrades to areas that have leaks.

PUC – Anne Ross (to answer questions from Sen. D'Allesandro)

Senator D'Allesandro asked if the PUC can force Concord Steam to stay in business.

- No. The PUC approved the agreement between Concord Steam and Liberty Utilities in which Concord Steam conveyed assets and made a commitment to terminate on a certain date.
- Green City Power has no status with the PUC.

Sen. D'Allesandro asked what the PUC needs to get Green City Power in the loop to be a player in this game.

- The PUC is supervising the last 3 months of service and decommissioning of this utility service. There isn't a place for Green City Power to take action right now but there is a bid process ongoing with the state and anyone can participate in that.
- If Green City Power wanted to operate as a utility they would be asking to service more than a single customer. You have to offer service to the public. They would have to present financial, technical, and managerial qualifications to run a utility.

Sen. D'Allesandro asked how long that would take.

- Difficult to say. 4-5 months to a year. It's not a quick process.

Bill Dwyer – Treasurer

- The Treasury no position on heating mechanisms.
- Rep. Graham asked for alternative funding mechanisms. He reached out to the state's financial adviser about conventional lease financing operations. They talked to lenders and found that 2-3 lenders would be likely to bid on conventional operating lease financing. The distinction with that type of financing is that it does not constitute a pledge of the full faith and credit of the state. The operating budget would provide payments for the lease. A benefit is that it would not impact key debt ratios of the state that the rating agencies focus on. The cost of funds would be higher than the cost of issuing bonds but the term would be about 13 years. If we issued bonds, it would be 20 years. The higher cost is mitigated by the shorter terms.

Samuel Langley

- Feels that state funding will be necessary pending the shutdown of concord steam.
- Not sure if this bill is the best way to handle it.
- Thinks the state should take over the plant.
- Cost of fuel can change very quickly. If a lot of people change to gas, there will no longer be an overabundance of it and the price will go up.

Joanna Sharf

- Concerned about the environment and living in a clean future.
- Heard a lot of conflicting information from various presenters. One was about the urgency of making the decision.
- In listening to the PUC, there was an arrangement between Liberty Utilities and Concord Steam that is fixed.
- DAS said Green City Power refused to budge from a 20 year requirement and the representative from Green City said he is open to it.
- One of first presenters said the bill is just about a temporary situation and there will be a bidding process. She thinks decisions have been made but is asking the committee to take time and look carefully at the evidence.
- If you look at all of the factors involved with the costs, it seems like taxpayers would be liable for more cost if we go the natural gas route, if what Green City Power said is true.

Jonathan Chaffee

- There are hidden costs of switching to natural gas. A few years ago it was considered the bridge fuel and clean and green.
- It has become evident that natural gas is not clean or green.
- There are so many leaks in distribution networks.
- It's a potent greenhouse gas. 80 times more potent than carbon dioxide.

Laura Lynch – submitted a petition. She doesn't understand why the state didn't maintain the

building if they own it. She is opposed to the bill.

Father Sam Fuller – is opposed and asked the committee to offer leadership, be responsible, and move beyond expediency.

John Gage

- Has been researching climate science and is concerned about the environment. Where we're headed is not good.
- Sea levels are rising. This isn't crazy science; it's coming from NASA.
- When we make a purchasing decision we're voting for a product. We can't make short term decisions to save a little money.
- Not a proponent for any particular solution.
- Consider all options before you make a choice.

Commissioner Vicki Quiram – (to take question from Sen. Bradley)

Sen. Bradley pointed to section 1, IV of the bill and asked her to discuss what this means and how they will approach the mandate of the legislation.

Commissioner Quiram

- They hired engineers who are familiar with energy savings contracts and ways to heat the buildings.
- They looked at many different options including how to bring fuel in vs. remodeling. Some buildings have forced heat and can't be changed. Some have radiant heat in ceilings.
- Ultimately, they still ended up with mainly natural gas; however the decision wasn't all about the cost. There are historical and construction factors. Nothing requires them to stay with natural gas to heat the boilers.
- As environmental technology moves forward, the state will continue to react to it and make modifications to adapt to those new technologies. Boilers can potentially be modified.
- Concord steam uses a lot of natural gas in its current operation. Natural gas is the best we can do right now.

Sen. Bradley asked why Concord Steam approached Liberty Utilities when it was considering going out of business for the arrangement they have now.

Mark Saltsma – VP of Concord Steam.

- The reason was because they were at an impasse.
- They had made several attempts to bring a new facility on line on South Main St.
- They tried to find financial partners but were not successful.
- They wanted to try to renovate the existing facility. They answered the fire marshal report correcting everything except the roof, which they will fix in April. Although the plant needs repairs, it mostly needs equipment upgrades.
- They couldn't get a deal with the state for a long term contract. DAS was a good partner and tried to work with them. Steve Duprey also tried to help but ran into the same problems they did.
- They couldn't get a financial package together to rescue the business. Their bank wanted to

know what they were going to do. They have a line of credit.

- When they were made aware that the state was going out with an RFP, it was apparent they had to do something. The bank called their line of credit. That's when they approached Liberty. They've been a great partner. Liberty could have waited to see if Concord Steam went bankrupt but they are being a good partner and helping with an organized shutdown. The PUC saw that as the best thing.
- It was not a backroom deal. It was a deal Concord Steam approached Liberty with and it went from there.

Pentti Aalto

- Was a member of the International District Heating and Cooling Association.
- Commended DAS on their work.
- The advantage of a district heating system is to access something you can't get individually.
- St. Paul Minnesota experienced a similar situation where a company was going out of business and gave customers 2 year notice. Instead of steam they used hot water. They converted from steam to hot water and it worked very well.
- If there is political support, we can get many of the advantages that district heating can provide.

Garth Fletcher

- This is a policy issue
- As a state we expressed interest in cutting back on nonrenewable fossils. None of that research and careful thought seems to have trickled down to the executive branch.

District heat is mentioned as desirable to maintain in energy strategy goals.

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