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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

June 11, 2008 - 10:02 a.m.
Concord, New Hampshire

RE: DE 07-096
PUBLIC SERVICE OF NEW HAMPSHIRE:
Proposed Default Energy Service Rate
for 2008. (Hearing regarding a petition
to increase the 2008 Energy Service Rate)

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

Connie Fillion, Clerk

APPEARANCES: Reptg. Public Service of New Hampshire:
Gerald M. Eaton, Esq.

Reptg. Residential Ratepayers:
Meredith A. Hatfield, Esq., Consumer Advocate
Kenneth E. Traum, Asst. Consumer Advocate
Office of Consumer Advocate

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.

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

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E X H I B I T S

4

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

5

9

PSNH filing containing an estimated
Default Energy Service Rate for July
through December 2008, including the
testimony and attachments of
Robert A. Baumann (04-21-08)

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PSNH updated filing containing a
recalculated Default Energy Service
Rate for July through December 2008,
including revised attachments to Mr.
Baumann's testimony and the Technical
Statement of Richard C. Labrecque
(05-22-08)

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RESERVED (Record request for the
most recent update, including the
May actuals)

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1 P R O C E E D I N G S

2 CHAIRMAN GETZ: Okay. Let's open the
3 hearing in docket DE 07-096. On April 21, 2008, Public
4 Service Company of New Hampshire filed a petition
5 requesting an increase to its Energy Service Rate
6 effective July 1. According to PSNH, the current Energy
7 Service Rate is 8.82 cents and at that time estimated a
8 new rate of 9.25 cents per kilowatt-hour. And, it
9 indicated that it would update its projections and cost
10 calculations. PSNH also projected at the time that,
11 without an increase in its Energy Service Rate for the
12 remainder of 2008, it would under recover by \$17.3 million
13 by the end of the year. Issued an order of notice on May
14 16 setting the hearing for this morning.

15 Let's take appearances please.

16 MR. EATON: For Public Service Company
17 of New Hampshire, my name is Gerald M. Eaton.

18 MS. HATFIELD: Good morning,
19 Commissioners. Meredith Hatfield, for the Office of
20 Consumer Advocate, on behalf of residential ratepayers.

21 CMSR. BELOW: Good morning.

22 MS. AMIDON: Suzanne Amidon, for
23 Commission Staff, and with me today is Steve Mullen, who
24 is the Assistant Director of the Electric Division.

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[WITNESS PANEL: Baumann|Labrecque]

1 CHAIRMAN GETZ: Good morning.

2 CMSR. MORRISON: Good morning.

3 CMSR. BELOW: Good morning.

4 CHAIRMAN GETZ: Mr. Eaton.

5 MR. EATON: I'd like to call to the

6 stand Mr. Robert Baumann and Mr. Richard Labrecque.

7 (Whereupon Robert A. Baumann and Richard

8 C. Labrecque were duly sworn and

9 cautioned by the Court Reporter.)

10 ROBERT A. BAUMANN, SWORN

11 RICHARD C. LABRECQUE, SWORN

12 DIRECT EXAMINATION

13 BY MR. EATON:

14 Q. Mr. Baumann, would you please state your name for the
15 record.

16 A. (Baumann) My name is Robert A. Baumann. I'm the
17 Director of Revenue Regulation and Load Resources for
18 Northeast Utilities Service Company. And, I'm here on
19 behalf of the Public Service Company of New Hampshire.
20 My responsibilities include all revenue requirement
21 calculations for PSNH.

22 Q. Have you previously testified before the Commission?

23 A. (Baumann) Yes.

24 Q. Did you prepare or have prepared under your supervision

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[WITNESS PANEL: Baumann|Labrecque]

1 a document that was filed with the Commission under my
2 cover letter on April 21st, 2008?

3 A. (Baumann) Yes.

4 Q. And, what is that document?

5 A. (Baumann) That document is the Company's initial filing
6 for an Energy Service Rate effective July 1, 2008. In
7 that filing, using prices at that time, we had proposed
8 or at least filed a rate that would be 9.25 cents per
9 kilowatt-hour.

10 Q. And, is that testimony true and accurate, based upon
11 the numbers that you had available at that time?

12 A. (Baumann) Yes.

13 Q. And, if I asked you those questions today, you would
14 answer them in a similar manner?

15 A. (Baumann) Yes, with one caveat. We're going to get to
16 the updated filing. In the updated filing, after we
17 had filed this original filing, we did find two issues
18 that needed to be revised. But, at the time of the
19 filing, we had the what I would call 100 percent of the
20 latest known information available.

21 MR. EATON: Mr. Chairman, could I have
22 this document marked as "Exhibit 9" for identification?

23 CHAIRMAN GETZ: So marked.

24 (The document, as described, was

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[WITNESS PANEL: Baumann|Labrecque]

1 herewith marked as Exhibit 9 for
2 identification.)

3 BY MR. EATON:

4 Q. Mr. Baumann, you referred to an update. Could you
5 explain when that was made and what the document is?

6 A. (Baumann) Yes. We made an update, which is traditional
7 for the Energy Service Rate, on May 22nd, 2008. In
8 that update, we increased the proposed Energy
9 Service Rate from the originally filed 9.25 cents to a
10 9.40 cents per kilowatt-hour. Within that calculation,
11 there was an adjustment that actually raised the rates
12 slightly, associated with Unitil revenues that had been
13 improperly accounted for. There was also a material
14 increase to market prices, which was really the driver
15 for the increase from the 9.25 to the 9.40 cents. And,
16 in addition, there was a material revenue credit
17 associated with the Northern Woods RECs that had been
18 inadvertently left out of the original calculation.
19 The net of those three adjustments caused the increase
20 to 9.4 cents per kilowatt-hour.

21 Q. Mr. Labrecque, could you please state your name for the
22 record.

23 A. (Labrecque) Richard C. Labrecque.

24 Q. For whom are you employed and what are your duties?

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[WITNESS PANEL: Baumann|Labrecque]

1 A. (Labrecque) I'm employed by Northeast Utilities Service
2 Company in the Regulated Wholesale Marketing
3 Department. Where I assist in the procurement of
4 wholesale power for the operating companies, including
5 forecasting the Energy Service expenses for PSNH and
6 planning their supplemental purchase plans.

7 Q. Have you previously testified before this Commission?

8 A. (Labrecque) Yes.

9 Q. Did you prepare a technical statement that was included
10 with the May 22nd filing?

11 A. (Labrecque) Yes.

12 Q. Do you have any corrections to make to that?

13 A. (Labrecque) No.

14 Q. Is it true and accurate to the best of your knowledge
15 and belief?

16 A. (Labrecque) Yes.

17 MR. EATON: Mr. Chairman, could we have
18 the May 22nd, 2008 filing marked as "Exhibit 10" for
19 identification?

20 CHAIRMAN GETZ: So marked.

21 (The document, as described, was
22 herewith marked as Exhibit 10 for
23 identification.)

24 BY MR. EATON:

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[WITNESS PANEL: Baumann|Labrecque]

- 1 Q. Mr. Baumann, could you briefly summarize the Company's
2 position in this proceeding.
- 3 A. (Baumann) The Company is seeking to set an Energy
4 Service Rate that we believe is the most accurate rate
5 for the upcoming six months, July through
6 December 2008. With that in mind, we have filed a rate
7 of 9.40 cents per kilowatt-hour. Because of recent
8 market changes and pricing that are continuing to go
9 up, that may be slightly underestimated at this point.
10 We have -- We reviewed this calculation two days going
11 and felt that the 9.4 cents was probably in the
12 vicinity of about 9.7 cents in today's market. There
13 was a drop yesterday in the market. So, the 9.7 cent
14 is probably in the 9.6 cent range.
- 15 So, generally speaking, we believe the
16 9.4 cent is slightly underestimated with the market,
17 and we'd probably request an additional update if that
18 were acceptable, to increase or to take, say, prices as
19 of the end of today to get the most current prices for
20 our Energy Service Rate. Again, the Energy
21 Service Rate is reconcilable. It's just a matter of
22 the timing of the market and where the prices are at
23 the time. But we believe that probably the most
24 current market conditions would be more appropriate to

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[WITNESS PANEL: Baumann|Labrecque]

1 use than something that's a few weeks old at this
2 point.

3 Q. Mr. Labrecque, could you summarize the changes that are
4 contained in your technical statement.

5 A. (Labrecque) Sure. The technical statement describes an
6 \$11.3 million over recovery during the first four
7 months of the year, primarily attributable to a lower
8 energy requirement, and also describes, for the balance
9 of the year, an under recovery approximately 35 million
10 greater than was originally forecast. The expense
11 increases in the balance of the year are laid out here,
12 and the main drivers being coal and wood per unit cost
13 increases, and the other big portion is market purchase
14 expense.

15 Q. Do you have anything -- either of you have anything to
16 add to your testimony?

17 A. (Baumann) I just have one item that I think is notable.
18 And that is, when we filed the original 9.4 cents, we
19 had actual data through April of 2008. We closed the
20 books yesterday, and I was informed early this morning
21 that the May numbers showed an additional million
22 dollar under recovery. So, if we did revise this
23 filing, say, by the end of the week, it would also
24 include May actual data that would -- well, definitely

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[WITNESS PANEL: Baumann|Labrecque]

1 has an actual increase of about a million dollars in
2 that actual data.

3 MR. EATON: Thank you. Thank you,
4 gentlemen. I have nothing further on direct.

5 CHAIRMAN GETZ: Ms. Hatfield.

6 MS. HATFIELD: Thank you, Mr. Chairman.

7 CROSS-EXAMINATION

8 BY MS. HATFIELD:

9 Q. Mr. Labrecque, I believe you just testified that, in
10 addition to increasing market prices, that the
11 increasing cost of coal and wood have contributed to
12 the price increase. Did I hear you correctly?

13 A. (Labrecque) Correct.

14 Q. And, have there been increases in the cost of coal and
15 wood, in addition to what's been provided in your
16 filing?

17 A. (Labrecque) I suppose if we -- there could potentially
18 be further transportation adjustments, based on the
19 fact that diesel today is higher than it was three
20 weeks ago, when we last forecast these expenses. So,
21 there could be some minor further increase in the coal
22 and wood expense.

23 Q. And, Mr. Baumann, I believe that you -- you just
24 requested in your testimony that the Company be able to

[WITNESS PANEL: Baumann|Labrecque]

- 1 file the most accurate Energy Service Rate. And, I
2 think you were really referring to the market cost, was
3 that correct?
- 4 A. (Baumann) Yes, using the latest known market.
- 5 Q. So, would you also be proposing to include potentially
6 increases in costs that Mr. Labrecque was just
7 discussing, related to coal and wood procurement?
- 8 A. (Baumann) Yes, if they were available, and I believe
9 they are, we would use those costs as well.
- 10 Q. And, when you made that filing, would the Company be
11 willing, when you made that additional request or
12 provided that information, would the Company be
13 providing workpapers to back up that request?
- 14 A. (Baumann) Yes. We'd file the standard workpapers and
15 the standard packet as we always do.
- 16 Q. Thank you. Mr. Baumann, if you would turn to -- I'd
17 like you to look actually at both Exhibit 9 and Exhibit
18 10, there's a page that's similar in both. It's RAB-2,
19 Page 1. Do you have that in front of you?
- 20 A. (Baumann) Yes, I do.
- 21 Q. Thank you. If you look at Line 29, and I want to just
22 focus you on the "April 2008" line there. And, on
23 Exhibit 9, it's labeled "April 2008 Re-estimate", and
24 Line 29 is "Retail Megawatt-hour Sales", and the number

[WITNESS PANEL: Baumann|Labrecque]

1 is "641,272". And, if you compare that to Exhibit 10,
2 which says "April 2008 Actual", Retail Megawatt-hour
3 Sales is "570,922". And, I'm wondering if you can
4 discuss that change and talk about if you think that
5 that's an ongoing trend, and also discuss what you
6 would attribute that to?

7 A. (Labrecque) Yes, I can take this one actually. Yes,
8 you see there about a 70 gigawatt-hour drop between the
9 forecast and the actual. That forecasted 641 you
10 referred to was based on our April 2007 sales forecast,
11 which we have since updated. That alone, you know,
12 would account for essentially 26 of the 70
13 gigawatt-hour delta. And, I guess you'd attribute that
14 to revised economic modeling inputs that drive the
15 sales forecast, you know, being updated to more recent
16 economic conditions. If I'm stumbling, it's because
17 I'm not the economist, I'm not the sales forecaster,
18 but I've talked with her. Migration is also accounted
19 for in here. Migration in April actual was
20 approximately 24 gigawatt-hours greater than what we
21 had estimated in last November's filing.

22 I just recently saw some April variance
23 reports from the sales people, where weather was only a
24 two gigawatt-hour delta. And, their accounting for

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[WITNESS PANEL: Baumann|Labrecque]

1 changes in economic conditions was only one additional
2 gigawatt-hour. So, we're coming up with approximately
3 17 gigawatt-hours that we're putting in the other
4 bucket, which I'm told is -- primarily accounts for
5 conservation efforts or, you know, perhaps price
6 sensitivity issues. You know, it's something they're
7 tracking and reviewing.

8 Q. And, in the updated filing, would you be including a
9 new sales forecast?

10 A. (Labrecque) I will -- The filing you have in front of
11 you, the May 22nd filing, that is the latest sales
12 forecast, which is actually May 13th of '08 it was
13 issued, further adjusted by my estimate of migration
14 for the balance of the year. So, it's as up to the
15 date, up-to-date as it can be.

16 Q. Excuse me. Thank you. Mr. Baumann, looking again at
17 Exhibit 10 on that same page, on Line 20, which is
18 labeled "Energy Service Uncollectible Expense", you'll
19 notice that there was no amount included for the months
20 of January 2008 through April 2008. But, if you look
21 on Page 2, the next page, there actually was an amount
22 of \$174,000 included for those months. Can you explain
23 why there were amounts included on Page 2, but not on
24 Page 1? I'm sorry, on Page 1 it's January through

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[WITNESS PANEL: Baumann|Labrecque]

1 April, and then, on Page 2, it's July through December.

2 So, could you explain the difference?

3 A. (Baumann) Certainly. What you're seeing is that there
4 is uncollectible expense in the January through April,
5 which is actual data. It's been -- It's included in
6 the "O&M", Line 13, and wasn't broken out separately.
7 The May data on, which is estimated or forecasted, is
8 -- there is no estimate in the O&M, it's part of a line
9 item that you pointed out on Line 20. We actually saw
10 this, and we're, in the future, either the
11 uncollectible expense will be part of the estimate of
12 O&M or we'll break it out. It's a pretty minor number,
13 so it will probably be subsumed in the O&M estimate.

14 MS. HATFIELD: Thank you. No further
15 questions.

16 CHAIRMAN GETZ: Ms. Amidon.

17 MS. AMIDON: Thank you. With your
18 permission, I'll have Mr. Mullen conduct the cross.

19 MR. MULLEN: Good morning.

20 BY MR. MULLEN:

21 Q. Regarding your updated sales forecast, how often does
22 PSNH update its sales forecast?

23 A. (Labrecque) To the best of my knowledge, it's twice a
24 year, a budget cycle, which I believe concludes in the

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[WITNESS PANEL: Baumann|Labrecque]

1 fall, a two-year budget cycle, and a five-year business
2 planning cycle, which concludes in May or June.

3 Q. So, in what was your updated filing that had the 9.4
4 cent rate, that included the sales forecast that
5 basically impacted every month from April to the end of
6 the year?

7 A. (Labrecque) In the filing, in the filing from May 22nd,
8 it impacted actually June through December. It's been
9 our practice to keep May, the month that's kind of in
10 the middle, you know, we filed May 22nd, May was almost
11 done, we didn't have actuals, so we stuck with the May
12 original forecast, re-forecast, which I believe was
13 filed April 22nd or something like that. And, that was
14 still using, if I get this right, I think that had
15 updated to the Fall of '07 sales forecast. So, now
16 going forward, we're going to have, obviously, May
17 actuals, if we agree to file later this week, we'll
18 have May actuals, and June through December sales will
19 be based on the May '08 sales forecast.

20 Q. Looking at your technical statement that was included
21 in the May 22nd filing, overall your sales forecast is
22 lower, is that correct?

23 A. (Labrecque) Correct.

24 Q. And, I think you touched on briefly is some, you know,

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[WITNESS PANEL: Baumann|Labrecque]

1 updated information regarding migration. What other
2 factors are driving your sales forecast down?

3 A. (Labrecque) I don't think that's something I can
4 comment on with any accuracy. It's just not my -- It's
5 not my forte.

6 A. (Baumann) Other than previously mentioned, we have
7 economic impacts that are ongoing, as well as
8 migration.

9 Q. Do you have the discovery responses from this case
10 handy?

11 A. (Labrecque) Yes.

12 Q. Could I refer you to what's labeled as "Staff Set 2,
13 Question 4.

14 A. (Labrecque) I got it.

15 Q. This response goes through some of the general factors
16 that were at play in reducing the forecast, is that
17 correct?

18 A. (Labrecque) That's correct.

19 Q. So, I don't know if you can just, you don't have to get
20 into the particular gigawatt-hour sales of each one, if
21 you don't want, but I just want to have for the record
22 some of the things that are going on that are reducing
23 your sales forecast going forward.

24 A. (Labrecque) Okay. Well, yes, Item (a) here in the

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[WITNESS PANEL: Baumann|Labrecque]

1 response really referred to the change in the sales
2 forecast, which a few minutes ago I was saying I
3 couldn't explain. You know, that's, obviously, a
4 product that comes out of sales forecasting, and it's a
5 complicated science that I don't fully understand, but
6 it incorporates the latest economic conditions and
7 trends and forecasts, you know, that they use as
8 inputs. And weather, you know, they update I believe
9 their normal weather once a year. But, in sequential
10 vintages of that sales forecast, there's been declines.
11 I don't know if it's purely economic, recessionary
12 trends or what. But the remainder of the data request
13 was more describing the month-by-month variances from
14 the forecast, which I'd call more normal variances,
15 like actual weather or actual economics as it -- the
16 indicators that they track, how they deviated from
17 those indicators that were used as inputs to the
18 original forecast.

19 I also comment on -- commented on actual
20 migration versus actual, which is not something that's
21 part of the base sales forecast. And, lastly, I refer
22 to the balance, this "other" category, which doesn't
23 fall into weather, doesn't fall into economic, and it's
24 considered to be driven primarily by conservation

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[WITNESS PANEL: Baumann|Labrecque]

1 efforts.

2 Q. What I'm really just trying to get at here is there's
3 not one single thing that's driving it down, there's a
4 few things going on that are driving your overall sales
5 forecast down. That, if I could just summarize these
6 that are listed here, there's some things regarding
7 weather, economic conditions, migration, conservation,
8 so there's a bunch of things at play that are reducing
9 it, and that lower sales forecast also impacts the rate
10 going up?

11 A. (Baumann) On its own, less sales will increase the
12 rate, but recognize also that the load would follow
13 less sales, so there would be a cost reduction. So,
14 the net/net, assuming you're reducing costs at margin,
15 which is higher than average rates and revenues, it
16 would, you know, in theory, be a slight increase to the
17 rate, because you'd be eliminating -- or, excuse me,
18 you'd be eliminating marginal costs at higher than the
19 average, so it could, in theory, be lowering your rate
20 through a lower sales forecast.

21 Q. Now, regarding your testimony earlier about recent
22 changes in market prices, what aspects of your filing
23 would change related to those market prices, the
24 certain type of cost categories that would be impacted

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[WITNESS PANEL: Baumann|Labrecque]

1 by those?

2 A. (Labrecque) It would appear, well, in the IPP at
3 market. If we want to look at -- yes, we could go to
4 RAB-1, Page 1, of the May 22nd filing, Line 18, the IPP
5 costs would increase.

6 Q. Okay. Now, let me just stop you right there.

7 A. (Labrecque) Sure.

8 Q. To the extent that the IPP at market costs increase, is
9 there a change in any other part of your rate that
10 would also show a decrease?

11 A. (Baumann) To the extent you had a fixed contract IPP,
12 you would have a reversing entry or a lowering of a
13 particular rate with the SCRC. To the extent you have
14 a -- we do have some contract IPPs now that are not
15 fixed, but based on market, that would be a pure
16 increase in your Energy Service Rate.

17 A. (Labrecque) And, it's about half right now. So, as of
18 this morning, I would have told you the IPP number will
19 go up about 2 million, which would mean there would be
20 a \$1 million offset in an SCRC bucket.

21 Q. Okay. Thank you. Now, Mr. Labrecque, if you could
22 just get back to which parts of your costs here would
23 be impacted by the changes in market prices?

24 A. (Labrecque) Okay. Starting at the top, Line 13, we

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[WITNESS PANEL: Baumann|Labrecque]

1 talked about a few minutes ago, to the extent we can
2 get the Fuels Department to, you know, analyze the
3 diesel adjustment impact on balance of the year
4 transportation expense, we'd see an increase there. I
5 don't want to guess at it, but I'm going to, you know,
6 maybe a million. I don't know the impact. I don't
7 think it's 100,000 and I don't think it's 4 million,
8 but it's a material number.

9 Fourteen (14) and 15, we would not be
10 updating; 16 we would not be updating, or 17. IPP
11 costs would go up reflecting current market conditions.
12 Purchase and sale would go up reflecting current market
13 conditions, insofar as they impact our residual
14 supplemental exposure in this filing, which I can walk
15 you through in rough numbers what that is. For June
16 through December, our net exposure is approximately 400
17 gigawatt-hours related to our allowance for base load
18 fossil forced outages, and another approximately 100
19 gigawatt-hours for supplemental spot market purchases.
20 So, we're talking about 500 gigawatt-hours, which this
21 morning the impact was about \$10 a megawatt-hour. Two
22 days ago it was about \$15 a megawatt-hour. So,
23 depending on the day, you've got a 5 to \$8 million
24 exposure there that would show up on that line. And, I

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[WITNESS PANEL: Baumann|Labrecque]

1 don't believe any of the other lines would be impacted.
2 Except those are -- the summary lines and the rate
3 lines and things like that that are calculated.

4 Q. Now, the Energy Service Rate initially is set for an
5 annual period, is that correct?

6 A. (Baumann) Yes.

7 Q. And, a few years ago the Commission implemented this
8 type of proceeding, a mid-year look at the rate. What
9 was the general purpose of that?

10 A. (Baumann) Well, the general purpose for that was it
11 gave the Commission and all parties the ability to
12 request a change mid-year in the current rate, if that
13 current rate, due to economic -- due to changes in
14 market prices was too high or too low going forward.
15 Net you really would like to end the year at a zero
16 position, zero over zero under, so you don't carry into
17 the next year, you know, a large over recovery or a
18 large under recovery.

19 Q. So, your testimony earlier about potentially updating
20 the rate compared to your -- the most recent proposal
21 of 9.4 cents, where you say that might be a little
22 underestimated, that is consistent with trying to get
23 to zero at the end of the year?

24 A. (Baumann) Yes, it is.

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[WITNESS PANEL: Baumann|Labrecque]

1 MR. MULLEN: I have no further
2 questions.

3 BY CMSR. BELOW:

4 Q. Well, just to be clear, the biggest factor, in your
5 concern about perhaps 9.4 cents being a little
6 underestimated at this point compared to less than a
7 month ago, is the continuing rise in fossil fuel prices
8 that drives diesel as an input, for instance, into wood
9 chips and other delivery costs of fuel, and as well as
10 purchases and consequently IPP costs are based on
11 particularly the price of natural gas in the wholesale
12 market, is that correct?

13 A. (Labrecque) That's correct.

14 Q. And, if those prices should decline a bit back to or
15 below the levels that you were estimating a month ago,
16 then, and stayed at that level through the end of the
17 calendar year, 9.4 cents should prove to be adequate to
18 come out roughly even or better at the end of the year,
19 is that correct?

20 A. (Labrecque) Correct.

21 A. (Baumann) You know, Commissioner, I just would like to
22 add, you know, we've seen what we believe to some
23 extent is a fundamental change in the markets. And,
24 2007 -- 2008, as we now exist, we have purchased

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[WITNESS PANEL: Baumann|Labrecque]

1 forward a lot of our 2008 exposure, or a good portion
2 of it that the Commission is aware of. As we go into
3 2009, that exposure even purchasing ahead is going to
4 be much more costly. So, really, the thing that I
5 think I guess that drove me yesterday when I received
6 these numbers was (a) to get a rate that's accurate,
7 but recognizing, too, that the fundamentals have
8 changed. And, that we don't believe there's going to
9 be a precipitous drop, but, then again, I'm certainly
10 not going to bet on it.

11 But, you know, the Commission should be
12 aware, too, that there's been a fundamental increase.
13 And, for 2009, we see -- we see an Energy Service Rate,
14 if you wanted to take a bet today, that's going to
15 continue to go up.

16 Q. Well, just to be clear out of curiosity, what did you
17 assume back on May 22nd, with your revised filing,
18 about fossil fuel costs through the end of this year?
19 Were you assuming roughly current prices extrapolating
20 or were you projecting some increase or decrease in gas
21 and diesel prices, and consequently how that flows
22 through?

23 A. (Labrecque) We routinely just take a snapshot of the
24 forward markets for gas and oil, and the coal people

[WITNESS PANEL: Baumann|Labrecque]

1 take a current snapshot of where oil is, diesel, for
2 their estimates. We don't escalate it or deescalate
3 it. We're basically taking a snapshot of, say, the
4 NYMEX traded futures markets. So, on May 22nd they
5 were \$12 an MMBtu, and today they're \$13 an MMBtu --

6 Q. For the forward period that you're --

7 A. (Labrecque) For this six or seven months or for the
8 period we're rate forecasting for.

9 Q. Okay. And, the fundamental -- the change you're seeing
10 is that you're saying that, even in the past month,
11 those futures prices have gone up, and you don't see
12 any reason or you think it's more likely that they will
13 stay up or continue to rise than that they will
14 decline, more likely than not?

15 A. (Labrecque) I don't know if I can exactly buy into
16 that. I try to avoid, you know, predicting where
17 they're going to go. They're going to go where they're
18 going to go. But I would say that the rise in the
19 futures prices has been tracking the rise in the actual
20 prices. I mean, day after day, since, you know, late
21 April, prices day-by-day, hourly, in ISO New England
22 have been 100 or 110 or higher, and posted last week or
23 earlier this week they were, you know, almost 200. So,
24 there's both the forwards are elevated and the actuals

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[WITNESS PANEL: Baumann|Labrecque]

1 are very consistent with those. So, it's leading me to
2 think, you know, for the near term, they're probably
3 somewhat in balance. And, we may see hour-by-hour
4 prices over the remainder of the year that are
5 consistent with the current forwards. Whereas, in some
6 prior years, you've seen the year pan out where hourly
7 prices were at a discount to the forwards, because the
8 forwards might have built in some risk premiums and
9 some volatility and uncertainty that didn't
10 materialize. And, I'm not as convinced anymore that
11 that's going to be the case. I'm thinking they're
12 pretty well correlated right now.

13 Q. So, Mr. Baumann, when you're referring to "a change in
14 the fundamentals", what -- could you just be more
15 specific what you think has occurred? Just that we've
16 -- the future prices and actual prices have just
17 adjusted upward? And, do you think it's more likely
18 than not that they will stay at the level that they're
19 at than retreat?

20 A. (Baumann) Yes, I wasn't necessarily referring to those
21 prices, because I don't know where they're going to go.
22 And, even if I was an expert, I wouldn't know where
23 they were going to go. What I was referring to more
24 was the basket of forward purchases that we attempt to

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[WITNESS PANEL: Baumann|Labrecque]

1 make every year to mitigate future risk and exposure.
2 And, the basket we have in place for 2008, versus the
3 basket we will have in place, some of which we already
4 have in place for 2009, are in fundamentally different
5 markets, in terms of price levels. So, I was -- I'm
6 always sensitive to trying to get to zero, so that next
7 year's rate is not impacted adversely either way, by,
8 in this particular case, an under recovery.

9 I am more sensitive to it knowing of --
10 knowing what our basket of forward purchases have been
11 for 2008, that we made back in 2007, versus the basket
12 of forward purchases we're making in 2008 are for 2009.
13 That's really what I was referring to as "fundamental
14 market change" over the last year that is impacting and
15 will impact our 2009 ES Rate proposals. No, I was not
16 speculating on where prices were to go. If I could do
17 that with any accuracy, I'd be probably sitting
18 somewhere else, but --

19 Q. Okay. And, to clarify on the point you were making
20 about the sales forecast and how that impacts the
21 average cost, you were making the point that, in PSNH's
22 particular situation, where you generate some power,
23 and the average cost of the power you generate is
24 typically lower than the incremental cost of buying

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[WITNESS PANEL: Baumann|Labrecque]

1 power on the wholesale market, such that it's possible
2 that lower sales actually means lower average costs,
3 because you're reducing higher costs on the margin, is
4 that correct?

5 A. (Baumann) Yes, that's the theory.

6 Q. Okay. And, do you have a sense for April, for
7 instance, where sales were significantly less, is that
8 sort of a cross section of the hours or, which would
9 include both peak and off-peak purchases that were
10 reduced on the margin, or is it concentrated in any
11 particular area?

12 A. (Labrecque) All I have is calendar month data all
13 lumped together.

14 Q. Okay.

15 A. (Labrecque) We haven't broken it out.

16 Q. Okay. But, in general, whether it's on-peak or
17 off-peak, your purchased power on the margin, your spot
18 market purchases tend to be higher than your average
19 embedded cost for what you don't purchase, for what you
20 supply yourself, is that correct?

21 A. (Labrecque) Correct.

22 CMSR. BELOW: Okay. Thanks.

23 CHAIRMAN GETZ: Mr. Eaton.

24 REDIRECT EXAMINATION

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[WITNESS PANEL: Baumann|Labrecque]

- 1 BY MR. EATON:
- 2 Q. Could you look at RAB-1, Page 1, on Exhibit 10.
- 3 A. (Baumann) I'm sorry, what page was that?
- 4 Q. RAB-1, Page 1. Line 22. What's that line?
- 5 A. (Baumann) That's the "2007 Actual Energy
6 Service Overrecovery".
- 7 Q. So, if we ended the year with a zero balance, and costs
8 for 2009 were exactly the same as costs for 2008, would
9 the rates go up by \$20 million, because that
10 overrecovery isn't there anymore?
- 11 A. (Baumann) You said the rates would go down?
- 12 Q. No. Would the rates go up by \$20 million?
- 13 A. (Baumann) In effective, if you have a credit in your
14 current rate and it goes away, yes, that would increase
15 the rate.
- 16 Q. If the Commission were interested in having a better
17 estimate, what could the Company do to provide a new
18 estimate and when?
- 19 A. (Baumann) We would run simulations tomorrow morning.
20 I'm sorry, you're talking about for the current six
21 month rate that we're proposing?
- 22 Q. Yes, for the -- to get a better number than 9.4, if the
23 Commission were interested in that?
- 24 A. (Baumann) Right. We could take prices at the end of

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[WITNESS PANEL: Baumann|Labrecque]

1 today, run simulations in the morning, and hopefully
2 crank through the calculations tomorrow, tomorrow
3 evening, which would be Thursday, and get something
4 filed with the Commission on Friday.

5 Q. And, would that reflect the actuals for May?

6 A. (Baumann) Yes.

7 MR. EATON: That's all I have on
8 redirect.

9 CHAIRMAN GETZ: Okay. Anything further
10 for these witnesses?

11 MS. AMIDON: Mr. Chairman, I don't know
12 if it's appropriate at this point or in closing, but I
13 would like the Commission to have a record request to
14 request PSNH to update its filings as it proposed in the
15 most recent statement. In other words, to run simulations
16 based on prices at the end of today, and recalculate using
17 the actuals for May, and file updated figures with the
18 Commission on Friday as part of this docket.

19 CHAIRMAN GETZ: Okay. Let's hold off on
20 that then to closings, and see if the Consumer Advocate
21 has any position on that. Is there anything else for
22 these witnesses?

23 (No verbal response)

24 CHAIRMAN GETZ: Then, they're excused.

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1 Is there any objection to striking the identifications and
2 admitting them into evidence?

3 MR. EATON: No.

4 CHAIRMAN GETZ: Then, they will be
5 admitted into evidence. Anything else, before we allow
6 opportunity for closings?

7 (No verbal response)

8 CHAIRMAN GETZ: Okay. Then, hearing
9 nothing, Ms. Hatfield, an opportunity for closing, and if
10 you have a position on the record request or the general
11 issue of updating.

12 MS. HATFIELD: Thank you, Mr. Chairman.
13 Generally, the OCA doesn't take a position on the
14 Company's filing. We're sympathetic to the desire to have
15 the most updated numbers possible to avoid an over- or
16 undercollection. We do have a concern about our ability
17 to review those materials. So, we would request that, if
18 the Commission does require the Company to provide that
19 information, that there be detailed technical statements
20 provided with those updates, and perhaps even a
21 possibility for a conference call among the parties to
22 discuss those changes. And, at that time, we would like
23 some direction from the Commission as to whether you'd
24 like to hear from each of the parties individually on any

1 positions that we have on those new filings that you'll be
2 considering in your order. Thank you.

3 CHAIRMAN GETZ: Ms. Amidon.

4 MS. AMIDON: Well, thank you, Mr.
5 Chairman. Based on the Commission's prior orders, where
6 the Commission was interested in avoiding any deferrals,
7 and this case potentially avoiding an increase in rates as
8 a result of a potential under recovery, we support the
9 idea that PSNH update its filings reflecting the most
10 recent market data, and including the actual calculations
11 for May. Following along with what Attorney Hatfield
12 said, we believe that the parties could meet and make a
13 joint report to the Commission by some deadline, in order
14 to accommodate PSNH's request that this order be issued by
15 June 24th.

16 CHAIRMAN GETZ: Mr. Eaton.

17 MR. EATON: We think the suggestions
18 from both the Consumer Advocate and the Staff are very
19 good. And, we're willing to go along with that and work
20 to get a joint statement or individual statements to the
21 Commission early next week. And, we'll endeavor to file
22 an updated calculation, with workpapers, and an
23 explanation by the close of business on Friday.

24 (Chairman and Commissioners conferring.)

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1 CHAIRMAN GETZ: Well, with respect to
2 the updating issue, we'll reserve Exhibit Number 11 as a
3 record request. We would like to see the updating for the
4 -- with the actual May numbers. We do have some concern
5 about the volatility of the market prices indicated that,
6 on the stand, that it's been moving quite a bit. So, I
7 think one way to address that, in terms of the process
8 that's been explained by the parties, we'd like to see
9 followed; technical statements, opportunity for some
10 discussions among the parties, and a report. But we'd
11 also like to see some options on market -- most recent
12 market numbers, whether it's the most recent five-day
13 average or even just what the closing numbers have been
14 for each of the days of June, so we can get a feel for how
15 volatile these numbers are and give us some better
16 information on where to go with the market prices. Is
17 that understandable to the parties?

18 (No verbal response)

19 CHAIRMAN GETZ: Is there anything else
20 that would be helpful, in terms of greater clarity on this
21 updating issue?

22 MR. EATON: We can do that.

23 CHAIRMAN GETZ: Okay.

24 (Exhibit 11 reserved)

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1 CHAIRMAN GETZ: All right. Then, let's
2 close this hearing. I'll take that matter under
3 advisement and wait for the proposal from the parties.

4 (Whereupon the hearing ended at 10:53
5 a.m.)

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