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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

July 2, 2009 - 9:25 a.m.
Concord, New Hampshire

RE: DE 08-113
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
Proposed Default Energy Service Rate
Charge for 2009. (Hearing regarding
a midterm adjustment of the rate)

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

Jody Carmody, Clerk

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

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., 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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WITNESS PANEL:

ROBERT A. BAUMANN

DAVID A. ERRICHETTI

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ELIZABETH TILLOTSON (at Page 12)

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Ms. Amidon

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

2 CHAIRMAN GETZ: All right. Good
3 morning. We'll open the hearing in docket DE 08-113. On
4 May 20, 2009, Public Service Company of New Hampshire
5 filed a petition requesting an adjustment to its Energy
6 Service rate effective with service rendered on or after
7 August 1, 2009. At the time of its filing, PSNH estimated
8 the new rate to be 8.94 cents per kilowatt-hour, compared
9 to the current rate of 9.93 cents per kilowatt-hour. An
10 order of notice was issued on June 11 setting the hearing
11 for this morning. And, I'll note for the record that the
12 affidavit of publication has been filed. And, we have a
13 Notice of Participation filed by the Office of Consumer
14 Advocate.

15 Can we take appearances please.

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

19 CHAIRMAN GETZ: Good morning.

20 MS. HATFIELD: Good morning, Mr.
21 Chairman. For the OCA, Meredith Hatfield.

22 CHAIRMAN GETZ: Good morning.

23 MS. AMIDON: Good morning, Mr. Chairman.
24 Suzanne Amidon, for Commission Staff. And, with me today

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[WITNESS PANEL: Baumann|Errichetti]

1 is Steve Mullen, who is the Assistant Director for the
2 Electric Division.

3 CHAIRMAN GETZ: Good morning.

4 MS. AMIDON: Good morning.

5 CHAIRMAN GETZ: Mr. Eaton, if you can
6 begin.

7 MR. EATON: Thank you, Mr. Chairman. We
8 have a panel of witnesses this morning. I'd like to call
9 to the stand Mr. Robert A. Baumann and Mr. David A.
10 Errichetti.

11 (Whereupon Robert A. Baumann and David
12 A. Errichetti was duly sworn and
13 cautioned by the Court Reporter.)

14 ROBERT A. BAUMANN, SWORN

15 DAVID A. ERRICHETTI, SWORN

16 DIRECT EXAMINATION

17 BY MR. EATON:

18 Q. Mr. Baumann, would you please state your name for the
19 record.

20 A. (Baumann) My name is Robert Baumann.

21 Q. What is your position and for whom are you employed?

22 A. (Baumann) I'm the Director of Revenue Regulation and
23 Load Resources for Northeast Utilities Service Company.
24 And, the Northeast Utilities Service Company provides

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[WITNESS PANEL: Baumann|Errichetti]

1 direct services for the operating subsidiaries,
2 including Public Service Company of New Hampshire. My
3 responsibilities are centered around the revenue
4 requirement calculations in PSNH, as well as some
5 revenue requirement calculations in other
6 jurisdictions.

7 Q. Mr. Errichetti, would you please state your name for
8 the record.

9 A. (Errichetti) My name is David Errichetti.

10 Q. For whom are you employed and what is your position?

11 A. (Errichetti) I work for Northeast Utilities Service
12 Company. I am a Manager in the Wholesale Power
13 Contracts Department.

14 Q. And, what are your duties?

15 A. (Errichetti) I provide analytical support for power
16 supply of CL&P, Connecticut Light & Power, Western
17 Mass. Electric, and Public Service Company of New
18 Hampshire. And, I am administratively responsible for
19 the bidding and scheduling of PSNH resources to meet
20 the ES rate customers.

21 Q. Have you previously testified before the Commission,
22 Mr. Errichetti?

23 A. (Errichetti) Yes, sir.

24 Q. Mr. Baumann, did you prepare testimony for this

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[WITNESS PANEL: Baumann|Errichetti]

1 proceeding?

2 A. (Baumann) Yes.

3 Q. Could you tell us when that was filed?

4 A. (Baumann) The original filing was on May 20th, 2009.

5 Q. And, do you have that testimony before you?

6 A. (Baumann) Yes.

7 Q. Do you have any corrections to make to that testimony?

8 A. (Baumann) No.

9 Q. Is it true and accurate to the best of your knowledge
10 and belief?

11 A. (Baumann) Yes.

12 MR. EATON: Mr. Chairman, I'd like to
13 have that testimony of May 20th marked as "Exhibit 10" for
14 identification.

15 CHAIRMAN GETZ: It's so marked.
16 (The document, as described, was
17 herewith marked as Exhibit 10 for
18 identification.)

19 BY MR. EATON:

20 Q. Mr. Errichetti, did you participate in the preparation
21 of a Joint Technical Statement?

22 A. (Errichetti) Yes.

23 Q. And that was with whom?

24 A. (Errichetti) Mr. Baumann.

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[WITNESS PANEL: Baumann|Errichetti]

1 Q. And, when was that filed?

2 A. (Errichetti) It was filed as a part of the May 20th
3 filing.

4 Q. And, do you have that in front of you at this time?

5 A. (Errichetti) Yes.

6 Q. Do you have any corrections to make to that Joint
7 Technical Statement?

8 A. (Errichetti) No.

9 Q. And, is it true and accurate to the best of your
10 knowledge and belief?

11 A. (Errichetti) Yes.

12 MR. EATON: Mr. Chairman, I would like
13 the Joint Technical Statement of Robert Baumann and David
14 Errichetti to be marked as "Exhibit 11" for
15 identification.

16 CHAIRMAN GETZ: So marked.

17 (The document, as described, was
18 herewith marked as Exhibit 11 for
19 identification.)

20 BY MR. EATON:

21 Q. Mr. Baumann, did you have an occasion to revise the
22 information you provided in your testimony of May 20th?

23 A. (Baumann) Yes. The attached Energy Service calculation
24 was updated for latest known future prices, as well as

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[WITNESS PANEL: Baumann|Errichetti]

1 an additional month of actual data that became known
2 after the May 19th filing.

3 Q. And, do you have those attachments in front of you?

4 A. (Baumann) Yes.

5 Q. And, do you have any corrections to make to those
6 attachments?

7 A. (Baumann) No.

8 Q. What was the date of that filing?

9 A. (Baumann) That was June 19th, 2009.

10 MR. EATON: Thank you. Mr. Chairman,
11 I'd like those revised attachments dated June 19th, 2009
12 marked as "Exhibit 12" for identification.

13 CHAIRMAN GETZ: Be so marked.

14 (The document, as described, was
15 herewith marked as Exhibit 12 for
16 identification.)

17 CHAIRMAN GETZ: So, Mr. Eaton, on the --
18 Exhibits 11 and 12 were both filed under cover letter of
19 June 19th?

20 MR. EATON: Yes. Both 11 -- 10 and 11
21 were filed under a cover letter of May 20th. And,
22 Exhibit 12, and what I'll offer as Exhibit 13, were filed,
23 excuse me, under a cover letter of June 19th, 2009.

24 CHAIRMAN GETZ: All right. Thank you.

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[WITNESS PANEL: Baumann|Errichetti]

- 1 BY MR. EATON:
- 2 Q. Mr. Errichetti, did you also participate in a Joint
- 3 Technical Statement with Mr. Baumann, which was filed
- 4 on June 19th, 2009?
- 5 A. (Errichetti) Yes.
- 6 Q. And, do you have that in front of you?
- 7 A. (Errichetti) Yes.
- 8 Q. And, do you have any corrections to make to that
- 9 document?
- 10 A. (Errichetti) Yes.
- 11 Q. Would you please say what those corrections are.
- 12 A. (Errichetti) In the paragraph that begins with the
- 13 Number 2, in the second paragraph, third line, it says
- 14 "The forecasted cost increase of \$6.9 million is", the
- 15 "increase" should be "decrease". Other than that, I
- 16 have no other corrections.
- 17 Q. So, as I read it, that whole sentence is "The increase
- 18 from the May 20th, 2009 filing to the June 19th
- 19 filing" -- and, so, the third line, the word after
- 20 "cost" should be "decrease of \$6.9 million", correct?
- 21 A. (Errichetti) Yes.
- 22 Q. With that correction, do you have anything else to add
- 23 to this --
- 24 A. (Errichetti) No.

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[WITNESS PANEL: Baumann|Errichetti]

1 Q. -- Joint Technical Statement?

2 A. (Errichetti) No.

3 Q. And, is it true and accurate to the best of your
4 knowledge and belief with that correction?

5 A. (Errichetti) Yes.

6 MR. EATON: I'd like this marked as
7 "Exhibit 13" for identification.

8 CHAIRMAN GETZ: So marked.

9 (The document, as described, was
10 herewith marked as Exhibit 13 for
11 identification.)

12 MR. EATON: Would you -- I guess, at
13 this point, we've marked the exhibits, and shall we wait
14 for a summary until Commissioner Below is here?

15 CHAIRMAN GETZ: Yes. Let's take a
16 recess in this docket at this point.

17 (Whereupon a recess was taken at 9:35
18 a.m. and the hearing reconvened at 10:12
19 a.m.)

20 CHAIRMAN GETZ: Okay. Good morning.
21 We're back on the record in docket DE 08-113, Public
22 Service Company of New Hampshire, a petition regarding a
23 Energy Service rate change. So, Mr. Eaton.

24 MR. EATON: Mr. Chairman, I'd like to
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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 add a couple more witnesses to our panel. So, I'd like to
2 recall to the stand Mr. Robert A. Baumann and Mr. David
3 Errichetti. And, I'd also like to call to the stand
4 Mr. William Smagula and Mrs. Elizabeth Tillotson. I
5 believe Mr. Baumann and Errichetti have been sworn in this
6 hearing, but Mr. Smagula and Mrs. Tillotson have not.

7 (Whereupon William Smagula and Elizabeth
8 Tillotson were duly sworn and cautioned
9 by the Court Reporter and joined the
10 witness panel of Robert Baumann and
11 David Errichetti.)

12 WILLIAM SMAGULA, SWORN

13 ELIZABETH TILLOTSON, SWORN

14 DIRECT EXAMINATION

15 BY MR. EATON:

16 Q. Mr. Smagula, for whom are you employed?

17 A. (Smagula) I'm employed with Public Service Company of
18 New Hampshire.

19 Q. What is your position and what are your duties?

20 A. (Smagula) My position is Director of Generation, and I
21 have overall responsibility for Public Service
22 Company's generating plants.

23 Q. And, did you file prefiled testimony in this
24 proceeding?

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

- 1 A. (Smagula) Yes.
- 2 Q. You did?
- 3 A. (Smagula) No, I had -- there were some questions, but
- 4 not testimony directly.
- 5 Q. Right. You responded to certain data requests that
- 6 were propounded?
- 7 A. (Smagula) Yes.
- 8 Q. And, could you briefly summarize what you're prepared
- 9 to answer on cross-examination?
- 10 A. (Smagula) I believe there may be some questions
- 11 relating to the Merrimack Station Unit 2 turbine event
- 12 that took place last year and insurance proceeds
- 13 related to that.
- 14 Q. And, will there be some work on that turbine in the
- 15 upcoming period that we're setting the rate for?
- 16 A. (Smagula) Yes. There will be a lengthy outage for Unit
- 17 2 in the August to December time period.
- 18 Q. Thank you. Mrs. Tillotson, would you please state your
- 19 name for the record?
- 20 A. (Tillotson) Elizabeth Tillotson.
- 21 Q. For whom are you employed?
- 22 A. (Tillotson) I'm employed by Public Service Company of
- 23 New Hampshire.
- 24 Q. What is your position and what are your duties?

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 A. (Tillotson) I'm the Technical Business Manager in the
2 Generation Department and have responsibility for
3 environmental compliance and regulatory compliance.

4 Q. Did you answer certain data requests in this
5 proceeding?

6 A. (Tillotson) I did.

7 Q. And, what is the purpose of your appearance today and
8 what are you prepared to answer questions on?

9 A. (Tillotson) To the extent that people want to talk
10 about RGGI, Regional Greenhouse Gas Initiative,
11 estimates and forecasts for dollars in the Energy
12 Service rate.

13 Q. Thank you. Mr. Baumann, could you please state or
14 summarize the Company's position in this proceeding.

15 A. (Baumann) We have filed for a new Energy Service rate
16 effective August 1st, 2009. And, that rate, it's an
17 interim rate that would run through the end of the
18 year. We originally filed on May 20th, which was
19 Exhibit 10, and then we revised our filing on June 19th
20 with additional energy forecast updates, as well as
21 additional actual general ledger data for the month of
22 May. Our filing has reconciled 2008 actual data, and,
23 as I just said, actual data through May 2009, and then
24 forecasted data for the remainder of the period.

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 The proposed rate that we are requesting
2 is a rate of 9.03 cents per kilowatt-hour, and that's a
3 decrease from the current rate that's in effect today
4 of 9.92 cents per kilowatt-hour. And, generally
5 speaking, that decrease reflects lower market prices
6 than in the previous rate that's now in effect.

7 Q. Does PSNH request the Commission to act on the prudence
8 of these costs or is this just an estimate of the rate
9 that should be charged?

10 A. (Baumann) This is purely an estimate of the rate. The
11 actual costs that are embedded in this filing will be
12 reviewed in detail by the Commission and other parties
13 through the separate annual reconciliation process. We
14 recently filed the 2008 annual reconciliation data,
15 which is -- we're undergoing a review now with data
16 requests and such. The actual data in 2009 that's in
17 this forecasted rate will be adjudicated and reviewed a
18 year from now, as we -- when we file the 2009 actual
19 data.

20 So, there's really -- we're really
21 looking to set a rate based on known data through May
22 of '09 that comports with the general ledger, as well
23 as forecasted data for the rest of the year. But that
24 will all be reviewed for prudence in the future.

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 Q. Do you have anything to add to your testimony, Mr.

2 Baumann?

3 A. (Baumann) No.

4 MR. EATON: Thank you, Mr. Chairman.

5 The witnesses are available for cross-examination.

6 CHAIRMAN GETZ: Thank you. Ms.

7 Hatfield.

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

9 Staff has kindly agreed to do their cross-examination
10 first this morning.

11 CHAIRMAN GETZ: Thank you. Ms. Amidon.

12 MS. AMIDON: And that will be conducted
13 by Mr. Mullen.

14 MR. MULLEN: Good morning, all.

15 WITNESS TILLOTSON: Good morning.

16 WITNESS SMAGULA: Good morning.

17 CROSS-EXAMINATION

18 BY MR. MULLEN:

19 Q. Mr. Baumann and Mr. Errichetti, let me make sure I've
20 got the right exhibit here, if we look at Exhibit
21 Number 13, which is the June 19, 2009 Joint Technical
22 Statement, do you have that?

23 A. (Baumann) Yes.

24 A. (Errichetti) Yes.

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 Q. And, basically, the purpose of this statement was to
2 identify changes from your May 20th filing in this
3 proceeding, is that correct?

4 A. (Errichetti) Yes.

5 Q. A lot of the -- as I go through the items, a lot talk
6 about additional migration. Could you give a sense of
7 what the total migration is that PSNH is experiencing
8 or, at least for this case, it's expected to experience
9 for the remainder of 2009 and how that compares to past
10 years?

11 A. (Errichetti) It's about 16 percent ballpark, drifting
12 toward 18 percent. And, I think, compared to prior
13 years, it has grown. I'm not absolutely certain about
14 this, but I'm pretty sure this is the largest amount of
15 migration we've seen since C-Day.

16 Q. Any thoughts as to what's driving that?

17 A. (Errichetti) The third party suppliers I suspect have
18 been able to offer more attractive pricing than what's
19 in the ES rate, because the market has fallen since we
20 set the rate in January, and the competitive suppliers
21 are starting at -- they start their clock when they
22 make their commitment to the customer, whereas we've
23 got our clock starting earlier. That's been the big
24 driver, I think, for migration between when we set the

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 rate back in January and today.

2 Q. And, I would assume that most of the migration is with
3 the large customers?

4 A. (Errichetti) In the information that's been shared with
5 me, and what I've been told, the answer to that is
6 "yes".

7 CHAIRMAN GETZ: Mr. Errichetti, you said
8 "16 percent", from 16 percent of what over what period?
9 What are you --

10 WITNESS ERRICHETTI: Okay. Well, hold
11 on a second, let me get my workpaper here. As of this
12 week, 18 percent of -- 18 percent of the distribution load
13 of PSNH is now with third parties, at the time of peak.
14 Which is just to say that, if the load factor of the
15 customer who migrated is a little different than the
16 customers who stayed, then 18 percent, from an energy
17 perspective, might be a little different.

18 CHAIRMAN GETZ: Thank you.

19 BY MR. MULLEN:

20 Q. Along that same line, if you refer to a response to
21 Staff Set 2, Number 10, --

22 A. (Errichetti) Yes.

23 Q. I don't plan to introduce this as an exhibit, but this
24 dealt with the sales by class, by month. If I look at

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 Page 2 of that, there's the forecasted sales, as well
2 as forecasted migration included in the June 19th
3 update filing at the top of the page?

4 A. (Errichetti) Yes.

5 Q. And, just based on that, looking at the forecasted --
6 the actual through May of 2009 and the forecast for the
7 remainder of the year, would you say, subject to check,
8 that the competitive supply sales for the entire year
9 are roughly 16 percent of total?

10 A. (Errichetti) Did you say "subject to check"?

11 Q. Yes.

12 A. (Errichetti) Yes, then subject to check.

13 Q. Okay. Now, turning to Exhibit Number 12, which was the
14 June 19th updated attachments of Mr. Baumann.

15 A. (Errichetti) Where am I going? June 19th attachments?

16 Q. Yes. This will probably be for Mr. Baumann and
17 Mr. Smagula. As I look at Attachment RAB-1, Page 1, if
18 you look at Lines 25 and 26, Line 25 says "Merrimack
19 Incremental O&M Costs, net of projected proceeds" and
20 Line 26 says "Merrimack Projected RPC", which means
21 "Replacement Power Costs", "Insurance Proceeds". Is
22 that correct?

23 A. (Baumann) Yes.

24 Q. Could we basically get an explanation of what those two

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 lines represent, and then how, in terms of insurance
2 proceeds, how those are being treated for purposes of
3 the rates?

4 A. (Smagula) Well, I can explain what our insurance
5 coverage is and how we've been processing claims to our
6 insurance carriers.

7 Q. Could you move the mike a little closer please.

8 A. (Smagula) Public Service has two insurance policies.
9 One is for boiler and machinery equipment. This deals
10 with the fact that, if you have any type of equipment
11 malfunction or equipment problem, our insurance has a
12 \$1 million deductible, after which we receive full
13 reimbursement. So, with regard to the turbine damage
14 that had taken place after start-up in May of 2008, the
15 costs incurred to analyze what the problem was, open
16 and inspect that piece of equipment, order parts, and
17 do repairs this year, all of that will be covered under
18 one insurance claim for boiler and machinery, with, as
19 I said earlier, a \$1 million deductible. Some of the
20 costs in these line items reflect that, that element.
21 Thus far, in 2008, we've submitted a claim for O&M or
22 out-of-pocket costs of \$3 million, which were the costs
23 to do some engineering work and to open and inspect and
24 clean the turbine and put it back together. That was

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 about \$3 million, and we've been reimbursed that.

2 Also, during that period, we do have,
3 and we will be reimbursed for these, on future costs
4 for the repairs. Also, we have insurance coverage for
5 replacement power. That replacement power policy has a
6 60 day waiting period. And, for Merrimack -- And, for
7 Merrimack 2, it has a per day maximum limit. It also
8 has a CAP. So that the replacement power proceeds from
9 insurance claims cannot go beyond \$31 million.

10 So, as part of our submittal to our
11 insurance companies and their adjustors for replacement
12 power, we have submitted to them the costs for
13 replacement power after the 60 day waiting period
14 ended, through the month of October, and that was about
15 \$3 million. And, that has also been reimbursed, as was
16 the \$3 million for O&M expense last year.

17 There has been another claim submitted
18 for November and December incremental replacement power
19 costs, and we have not received those proceeds as yet.
20 We've also submitted a claim for the first quarter of
21 energy, lost energy value, and we have not received
22 those proceeds as yet. So -- And, we will be
23 proceeding to submit another claim sometime this month
24 for the second quarter of this year.

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 So, just to summarize, we've submitted
2 requests for reimbursement for our expenses and our
3 replacement power. We've been paid most of last year's
4 payments. And, we are -- others are pending for those,
5 back in the last part of last year and the beginning of
6 this year. So, what is reflected in these two lines
7 items I believe is the claim that was initially
8 submitted and that we have received the majority of the
9 reimbursement.

10 Q. So, for purposes of costs incurred or expected future
11 insurance proceeds, how were those dealt with for
12 purposes of rates? This might be Mr. Baumann.

13 A. (Smagula) Well, may I just comment?

14 Q. Sure.

15 A. (Smagula) Merrimack 2 had a planned four week outage
16 this spring. But the solution path that provided the
17 highest value to customers resulted in a decision to
18 take an outage in the fall of this year, starting
19 August 1st. The replacement power component for that
20 long outage will be reimbursed to us. However, it will
21 be reduced by a four week period, because we would have
22 taken a four week period in the spring, we just happen
23 to be taking it in the fall, and our customers would
24 have paid for the full replacement power of the unit

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 during that four week period. So, the insurance
2 carriers will cover everything beyond that. So, they
3 will pay for 14 of the 18 weeks.

4 Q. So, now, the --

5 A. (Smagula) And, that amount of anticipated reimbursement
6 for that value has been submitted into these
7 calculations for the '09 Energy rate.

8 Q. Okay. I thought that, and maybe I misunderstood, I was
9 under the impression that the costs were in here, but
10 the related insurance proceeds were not reflected in
11 here, because they might be received in 2010?

12 A. (Baumann) Yes. When we set the rates originally for
13 2009, we, in consultation with the Insurance
14 Department, we included certain projections of receipts
15 for insurance. And, Mr. Smagula has been very accurate
16 in that we have actually received 3 million for O&M and
17 3 million for replacement power. We did not assume
18 100 percent or what we think would be 100 percent of
19 the insurance proceeds that we believe we are due in
20 2009, for the 2009 replacement power, we didn't put
21 100 percent of those proceeds in the rate, in the
22 forecasted rate for 2009. In this update, we've
23 actually stayed very consistent with what we had in the
24 beginning of the year in January, in terms of

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[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 replacement power insurance and O&M insurance proceeds,
2 we haven't changed those projections.

3 We are -- We are, maybe I'm the
4 pessimistic accountant, and I have the optimistic
5 engineer to my left, maybe three of them. But, you
6 know, we look at -- you don't book insurance proceeds
7 until you think that they're known, measurable, and
8 probable. We, for the 3 million of O&M and the 3
9 million of replacement power, we booked those in
10 December of 2008, and they're in the reconciliation.
11 So, there's \$6 million of credits in the 2008
12 reconciliation here. We then projected an additional 6
13 million on Line 26 for replacement power that you
14 pointed out earlier, for a total of 9 of replacement
15 power. That was our original projection back in
16 January when we set the rate.

17 So, we, and, again, in consultation with
18 the Insurance Department, we tried to put into these
19 rates what we optimistically expected to receive in
20 2009 for replacement power claims. Any time there is a
21 claim for insurance, the insurance companies are always
22 very diligent in their discussions with us as to how
23 much insurance, you know, we think we should have
24 versus what they think we should have. You know, the

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1 issue of derating is being discussed with the insurance
2 company, because, you know, where do you derate from?
3 What is your assumptions at max output? Is it average
4 expected output? I mean, there are a lot of different
5 arguments in effect that will have to be negotiated
6 throughout these proceedings with the insurance
7 companies.

8 So, what we put in here was a realistic,
9 and not conservative, but more of an optimistic view of
10 what we thought we would get for insurance proceeds in
11 2009. To date, in actual, for replacement power, we
12 have 9 million in the rate, and we've received 3. And,
13 you know, that 3 was, when we booked the 3 in December
14 of '08, we expected to get that within the month. And,
15 we ended up getting that I think in March or April.
16 So, there is, you know, you can be an optimist, you can
17 be a pessimist, but, you know, I prefer to stay towards
18 the optimist's side, but a realistic side. I don't
19 want to put in more insurance proceeds or very
20 aggressive insurance proceeds in this forecast, and
21 then find out down the road that that's not what we're
22 ultimately going to get, or we're going to get most of
23 it in, say, a two year period, 2010, maybe even into
24 2011. So, we tried to strike a balance here, which I

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1 think is a very fair balance, and it's what our best
2 estimate was, again, talking with the insurance people,
3 as to the 2009 recoveries.

4 Q. In terms of quantifying the replacement power costs
5 associated with the extended outage that you're going
6 to have this fall, basically, it's going to be an 18
7 week outage, although you would have normally had a
8 four week outage, is that correct?

9 A. (Baumann) Yes.

10 Q. Do you have an estimate as to what the additional
11 replacement power costs would be for the extended
12 outage?

13 A. (Baumann) Yes. An estimate was run last week. And,
14 assuming the outage would have been somewhere in the
15 October time frame, for what I call the "normal
16 outage", that the estimate was just over 5 million, I
17 think it was \$5.2 million of replacement power costs.

18 Q. Okay. So, now to kind of sum all this up, would I be
19 correct to say that \$5.2 million of additional
20 replacements power costs are in the -- are in this
21 forecasted rate, but the related -- the related
22 insurance proceeds for that period of time are not,
23 because you don't expect them in 2009?

24 A. (Baumann) Well, there's no insurance related to that

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1 four week outage.

2 Q. Right.

3 A. (Baumann) But I think there was a small factor, but I
4 think, generally speaking, a lot of the replacement
5 power insurance proceeds associated with that are not
6 in this rate.

7 Q. Okay.

8 A. (Baumann) That we expect more or at least we're going
9 to submit more claims, but they're not ready. Again,
10 for the reason I'm trying to match reality with the
11 timing of the receipt of the insurance proceeds, which
12 has historically had some lag time.

13 Q. Let's move onto RGGI. As I look at Exhibit 12, again,
14 Line -- on Attachment RAB-1, Page 1, Line 20 has "RGGI
15 costs" of just under \$7 million. Could you just
16 explain basically what -- how PSNH meets its RGGI
17 requirements?

18 A. (Tillotson) RGGI is a program that is a Cap and Trade
19 type program, but primarily allowances are all obtained
20 by compliance entities, by either an auction or a
21 secondary market purchase. Public Service has one
22 other opportunity, because of prior regulation in New
23 Hampshire, the New Hampshire Clean Power Act, which was
24 passed in 2002, was actually a little bit ahead of the

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1 CO2 requirements and compliance, and they provide
2 customer value when there was investments in renewable
3 energy or in energy efficiency. So, PSNH, for 2009,
4 its first compliance year, will primarily be purchasing
5 allowances in either an auction or a secondary market,
6 and also receive 2.5 million RGGI allowances as part of
7 this prior program that recognizes the investment that
8 was made prior to 2009.

9 Q. Is that 2.5 million a firm number?

10 A. (Tillotson) It is. It's in legislation.

11 Q. Okay. Are there two plants that PSNH receives
12 allowances related to?

13 A. (Tillotson) This is a program that was implemented by
14 DES, and right now they have looked at two very
15 specific projects associated with this provision of
16 investment. One was the Smith Hydro, which implemented
17 an energy efficiency project when it replaced its
18 runner. And, we also completed the Northern Wood Power
19 Project, which was an investment in renewable energy.
20 So, those were the two programs that DES has looked at
21 to date.

22 Q. How are the allowances related to those two projects
23 treated for purposes of rates?

24 A. (Tillotson) The easy answer is that investment is

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1 customer investment, therefore customer value, and
2 that's 100 percent true with the Smith Project.
3 Associated with the Northern Wood Power Project, there
4 was also an agreement specific to the Northern Wood
5 Power, where any additional value found associated with
6 the Northern Wood Power would be shared by the customer
7 and the Company, no differently had there been a
8 deficit in value, so to speak, that would have been
9 shared both by the Company and customer. So, it's
10 similar, but we do have slightly different treatment
11 because of the settlement agreement associated with the
12 Northern Wood Power Project.

13 Q. So, would it be fair to say that, related to Smith
14 Hydro, 100 percent of the value of the allowances is
15 credited to customers, but, related to the Northern
16 Wood Power Project, 50 percent?

17 A. (Tillotson) That is a true statement.

18 Q. Related to generation, first, let me start with
19 considering the recent weather we've had, how's hydro
20 production doing, compared to how it was modeled?

21 A. (Smagula) Hydro production is doing well. I just heard
22 on the radio coming up here that there are flash flood
23 warnings in the Merrimack River, which always creates
24 concern to people, but it's free fuel for us.

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1 Q. Good, low cost power?

2 A. (Smagula) Low cost power, yes.

3 Q. Now, in terms of Newington, could you give an update as
4 to how often that runs and how that's being utilized?

5 A. (Smagula) Right now, Newington Station has not run with
6 much capacity factor thus far this year. It was on
7 line last week for a few days. But, because of the
8 current replacement power price, it provides backup
9 value to our base load plants, and also the capacity
10 value that's allocated to it. So, it's creating
11 benefit, but it is not creating, in recent months,
12 benefit in the energy market, by being on line
13 generating kilowatt-hours.

14 Q. I believe in the technical statements that were filed,
15 I think in both the May 20th and the June 19th, there
16 was discussion of a "Merrimack inventory adjustment".
17 Could one of you kind of run us through that, in
18 basically how that arose and how much that was?

19 A. (Tillotson) We complete an inventory audit at Merrimack
20 Station, as we do all the power plants, once a year to
21 reconcile the physical inventory with the booked
22 inventory. In 2009, we found a inventory adjustment
23 that was actually more significant than it had been in
24 the past. And, it was estimated back in December.

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1 And, I believe we now have the actual value that was
2 booked included in our numbers. And, that's the number
3 I don't have in front of me.

4 Q. There was a discovery response on this, if it helps
5 you. It's Staff Set 2, Number 6.

6 A. (Tillotson) We have included -- do you have the backup
7 page, Bob? We have included a 12 plus million dollar
8 credit in this Energy Service estimate to reflect the
9 fact that less fuel was used in the generation of the
10 power. Therefore, when we did our physical inventory,
11 we actually was able to see that the actual inventory
12 was left. That happens for a couple of reasons.
13 There's always some amount of error that just happens
14 throughout the year. When we blend our fuel, you can
15 get some adjustments. We do maintain a coal scale at
16 the bottom of our conveyors that we monitor. And, we
17 believe that that scale had been running very, very
18 well. And, in the most recent time period, started to
19 have an error in it. And, when we picked that up,
20 we've implemented a replacement and a new scale, and
21 we've been monitoring it more closely. What you're
22 seeing here is a year's worth plus of that error
23 associated with it. And, as you can tell, the error
24 was such that we were overstating the amount of coal

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1 being burn. And, now, when we find it in the coal
2 pile, we're crediting that coal value back to
3 customers.

4 Q. So, just by that, the plant's got more efficient?

5 A. (Tillotson) Well, we said "we were making coal", we
6 tried to find a few entertaining comments. But, at
7 this point, we are monitoring it more closely, we're
8 checking on the accuracy of the scale, and we are in
9 the process of replacing it. We're actually doing two
10 inventories in this year, again, just to make sure we
11 have all our accounting up to, you know, accurate, just
12 so we avoid any ups or downs that are excessive like
13 this.

14 A. (Baumann) Yes. When we set the rate for January 2009,
15 we included a \$10 million estimate, because at the
16 time, for the inventory adjustment, a credit in the
17 rate, just to make it clear in the record. At the time
18 we didn't have the final -- final amount that was going
19 to be booked. We ended up booking that in December,
20 but that didn't take place until I think it was the
21 second or third week of January, where we actually
22 finalized the numbers. So, that's the difference
23 between, in the current rates today, we have about a
24 \$10 million credit, and that was an estimate. But,

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1 now, in the rates we're proposing for August 1st, we've
2 increased that to the actual credit inventory
3 adjustment of about 12.7 million.

4 Q. Now, related to PSNH's compliance with the Renewable
5 Portfolio Standards law, I know you just filed your
6 report on 2008 compliance. For 2009, how is that
7 shaping up in terms of acquiring the necessary RECs of
8 the various classes?

9 A. (Errichetti) Well, the latest projection of compliance
10 costs I've seen indicates that there will be some ACP
11 payments. So, we're not going to get all the RECs from
12 either our own resources or through purchases. Is that
13 your question? Or, are you asking "how well are we
14 tracking the estimate that we put in the rate?"

15 Q. Well, if -- I believe, for 2009, there's three classes
16 you have to comply with?

17 A. (Errichetti) Yes.

18 Q. For each of those classes, do you have an idea of how
19 you're doing in terms of acquiring RECs or either
20 having them from your own sources?

21 A. (Errichetti) There's a continuing working estimate of
22 how we're doing, yes. For Class I, it looks like
23 between a range of purchases and owned resources, we're
24 probably going to reach -- meet our requirement. For

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1 Class IV, it's shaping up, probably, for the most part
2 we're going to use owned resources. And, for Class
3 III, it's going to be a combination of purchases and
4 ACP. That's our -- how things are progressing now and
5 likely to play out.

6 MR. MULLEN: Thank you. I have nothing
7 further.

8 CHAIRMAN GETZ: Thank you. Ms.
9 Hatfield.

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

11 BY MS. HATFIELD:

12 Q. Mr. Errichetti, I'd like to ask you a few questions
13 following up on Mr. Mullen's line of questioning with
14 respect to migration. I believe that you testified
15 that, as of this week, 18 percent of Default Service
16 customers are going to a competitive supplier, is that
17 correct? Or, 18 percent of the load?

18 A. (Errichetti) Well, yes. Approximately 18 percent, as
19 measured at peak.

20 CMSR. BELOW: And, just to be clear,
21 that's a reference to 2008 --

22 WITNESS ERRICHETTI: Yes.

23 CMSR. BELOW: -- systemwide New England
24 peak. So, --

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1 WITNESS ERRICHETTI: It's -- well, yes,
2 sir. It's 18 percent of PSNH's peak at the time of the
3 2008 system peak.

4 CMSR. BELOW: Right. Okay.

5 WITNESS ERRICHETTI: To be clear.

6 BY MS. HATFIELD:

7 Q. And, I believe the Company, I think in your technical
8 statement you said that you had underestimated, in your
9 original filing, what the migration would be, is that
10 correct?

11 A. (Errichetti) That's a way of characterizing it.

12 Q. What assumption did the Company use for migration going
13 forward through the end of the year?

14 A. (Errichetti) In the June 19th update, we're reflecting
15 this approximate 18 percent at peak migration. So,
16 we're trying to reflect the latest information we have,
17 and we're not trying to predict additional or return of
18 load.

19 Q. Does the Company believe that that is the best estimate
20 of what migration will be for the rest of the year?

21 A. (Errichetti) Could you repeat the question?

22 Q. If you're using "18 percent" as an estimate for
23 migration for the rest of 2009, did I hear you say
24 that's the Company's best estimate or you're just

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1 sticking with the current number?

2 A. (Errichetti) The latter. We're not trying to predict
3 either way, coming or going. We're trying to use the
4 best known information we have. We're not -- We're not
5 surveying what third party suppliers are offering in
6 the market and trying to predict how many customers
7 are, you know, are thinking about leaving. We're not
8 doing any kind of marketing analysis.

9 Q. Why don't you do that type of analysis?

10 A. (Errichetti) I don't know that it would necessarily
11 change what we're doing. You know, we try not to
12 predict market movements. We try to reflect the best
13 known and knowable information, which is, like, for
14 instance, the forward energy market, we're modeling the
15 current value at the time that we're setting the rate.
16 And, we use a similar approach for migration at this
17 point.

18 A. (Baumann) You know, from my perspective, and sometimes
19 having to deal with third party suppliers, the
20 information, first of all, would probably not be given
21 to you as to what they may be offering. Second of all,
22 they sometimes change their offers. I mean, they have
23 daily offer sheets, some suppliers. So, it's something
24 that's very fluid. And, it would be really difficult

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1 to try and forecast. And, then, you would have to get
2 into the heads of customers as to what they might or
3 might not do. There are, obviously, many different
4 contracts out there now for different time periods.
5 Some may be expiring, some may not be expiring. We now
6 see a decrease in PSNH's energy charge, which is not
7 going to spur more people to leave, in my opinion,
8 because, if the rates are going down, you know, you're
9 less likely to leave than if the rates are going up.
10 So, it's really an estimate. We talk about this
11 internally, that we try to look at the latest known
12 level. And, to really go out any further, I think
13 would be more on the speculation side, as opposed to
14 the estimation side. That's why we elected not to go
15 any further.

16 Q. And, Mr. Baumann, are you aware of, if you look at a
17 source such as NYMEX, for example, are you aware of
18 what the current market prices are forecasted out just
19 to the end of 2009?

20 A. (Baumann) Sure. There's a forecast out there, yes.

21 A. (Errichetti) But that's not load-following, that's
22 just, you know, strip energy.

23 Q. Are you aware, Mr. Errichetti, of what those prices are
24 right now? What the ranges are roughly?

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1 A. (Errichetti) What's reflected in the June 19th filing
2 is still representative of where the market is, yes.

3 Q. So, you're referring to your technical statement and
4 the -- I believe the updated technical statement, which
5 is Exhibit -- I think it would be 13?

6 A. (Errichetti) Yes. And, by the way, when I went to look
7 at this earlier, I did notice there is an immaterial
8 typo. Above the table, it refers to "June 29th", it
9 should refer to "June 19th".

10 Q. So, Mr. Baumann, I think you said that you thought
11 PSNH's rate decrease that you're proposing in this
12 filing, from 9.9 cents to 9.03 cents, wouldn't result
13 in additional migration. Did I hear you say that?

14 A. (Baumann) Well, I said, if you take that as a singular
15 issue, you know, that that would not, onto itself, if
16 you had to guess, "gee, if the PSNH rates are going
17 down, would that cause people to migrate?" I think it
18 certainly would have to be compared then to the current
19 market prices that were being offered by third parties
20 to customers, and the customers' propensity to switch.
21 And, those things are just really unknown.

22 But, taking singular, you know, taking
23 that one singular item, I think lower rates would tend
24 to have people stay with PSNH and/or come back. But

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1 then you have to know what the overall market

2 comparison is, which is not known really.

3 Q. Except that you do have that table in your technical
4 statement showing what the forward electricity prices
5 are, correct?

6 A. (Errichetti) If you look at -- If you look at the
7 middle set of columns labeled "June 19th", that
8 represents peak and off-peak strips. You need to
9 average those to get a load-weighted value, then you
10 need to modify that for load-following. Then, you need
11 to add on all the forward reserve market, ISO expenses,
12 price uncertainty. You need to add in capacity,
13 possibly forward reserves, depending on where you are
14 in New England. So, that's indicative, you know, when
15 you lay on all the additional costs of providing full
16 power, you know, load-following full requirements
17 power, it's let's say upwards of eight cents, just as a
18 number, working number. Then, you get into
19 Mr. Baumann's comment about customer psychology, you
20 know, if you could find someone offering eight.
21 Because the other dynamic is, people don't necessarily
22 price bottom-up, they price top-down. They're offering
23 you a 5 percent discount off of the posted rate from
24 the utility, and then is that enough of a discount to

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1 spur you to switch. So, it's that type of customer
2 psychology that I'm not an expert in.

3 Q. Thank you. Mr. Baumann, do you recall, during the
4 technical session in this docket, that the OCA raised
5 some concerns about the impact on this significant
6 migration on the captive customers, which are largely
7 the residential and small business customers?

8 A. (Baumann) Yes, I do.

9 Q. And, do you also recall that the parties agreed that we
10 would meet prior to the Company's 2010 rate filing to
11 discuss that issue?

12 A. (Baumann) Yes.

13 Q. Thank you. Turning to the discussion of the insurance
14 proceeds for the replacement power for the Merrimack
15 Station outage, if we turn back to RAB-1, Page 1 of
16 Exhibit 12. Mr. Baumann, once the insurance proceeds
17 are reflected, where would those show on the table in
18 RAB-1 on Page 1?

19 A. (Baumann) Well, as we receive them and we reflect them
20 on the general ledger of the books, they really go into
21 actual -- the actual reconciliation data. So, they
22 would disappear, in effect, from say Line 26, because
23 those are projected, but they would flow through into
24 the actual. Similar to the 6 million that we booked in

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1 December of '08 that is embedded in the overrecovery
2 that we have in actual on Line 27.

3 Q. So, customers will pay for at least a portion of the
4 replacement power costs in '09, and they would receive
5 the benefit of the insurance -- at least a portion of
6 the insurance proceeds in 2010, is that correct?

7 A. (Baumann) I think that's essentially correct. That
8 they're going to receive the benefit when it's known
9 and measurable.

10 Q. Mr. Smagula, I think you testified that the outage, the
11 extended outage to repair the turbine at Merrimack
12 Station, will begin on August 1st, is that correct?

13 A. (Smagula) That is correct, yes.

14 Q. Does the Company have any concerns with the timing of
15 that outage, which potentially could take place around
16 the summer peak?

17 A. (Smagula) That issue was weighed heavily. And, I
18 believe a number of factors went into that assessment.
19 We are aware that it will be during a summer load
20 period. However, the necessary length of the outage to
21 conduct the repairs has been developed with our turbine
22 repair company and ourselves and requires 18 weeks.
23 Given that duration, it becomes hard to place it
24 anywhere in the year in order to figure out "where is

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1 it best to mitigate or minimize customer cost impact?"
2 And, the materials to make the repair would not have
3 been available any time sooner than July, the last part
4 of July this year. So, the outage couldn't have begun
5 any sooner, couldn't have been done in the spring of
6 this year. And, because of that duration, and because
7 of the design of Merrimack Station, with a number of --
8 many elements located outdoors, that date was chosen
9 more because, if we get into start-up of this unit in
10 early December, we are in a different season, maybe not
11 a peak load season, but we're in a freezing season.
12 And, at Merrimack Station, whenever the unit, either
13 unit is off line for long periods of time in an
14 extremely coal period, things can freeze. Drain lines,
15 instrument sensing lines, pieces of equipment that have
16 moisture that has crept into it can freeze. So that a
17 start-up, which, in 2008, the start-up of the new
18 turbine was exceptionally well done, and done very
19 quickly, within a matter of a few days, a start-up
20 could take days and, in fact, weeks. And, during that
21 period, you can be fighting with the elements, going
22 into perhaps even late December or January, trying to
23 thaw things out while you're trying to start things up
24 and things are breaking. This has occurred in the

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1 past. And, we really didn't want to be in a start-up
2 mode in the middle of the winter or in the early part
3 of the winter, I should say.

4 So, we tried to determine what was the
5 least risk or lowest cost to customers. And, based on
6 projections of the energy, replacement energy market
7 that we could see in the August time frame, and knowing
8 we really didn't want to get into an unknown risk area
9 in a cold period start-up, that was determined to be
10 the best situation. It also got this repair done
11 promptly and eliminated customer risk with regard to
12 excessive replacement power costs on a daily basis,
13 which may create additional costs. So, a number of
14 those factors went into driving the decision for that
15 August 1st date.

16 Q. Thank you. Mr. Baumann, if you would look at RA --
17 sorry, Attachment RAB-2, Page 6, and that is part of
18 Exhibit 10. So, that's your May 20th filing.

19 Actually, you could look at the same page of either
20 filing. They are the same, roughly.

21 A. (Baumann) I'm there.

22 Q. Thank you. On Line 26, there's the word "return", and
23 then in each month there's a percentage there. Can you
24 explain what that is calculating and how you arrive at

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1 that number?

2 A. (Baumann) That is basically an annual -- it's an annual
3 cost of capital divided by 12. So, that would be the
4 monthly, just under a percent, the monthly cost of
5 capital. And, that's applied, this is a revenue
6 requirement calculation, similar to a rate case, where
7 you come up with your return based on the weighted cost
8 of capital, times a rate base. So, this whole schedule
9 develops, you know, the fossil/hydro rate base, in
10 effect, and then it calculates a return that is a
11 component in the total cost structure and recovers from
12 customers.

13 Q. And, what is the annual number that you used in
14 developing the monthly figures?

15 A. (Baumann) In actual, we develop it quarterly. And, so,
16 I believe, in actual, you would see a change quarterly.
17 In the forecast, we probably have a forecasted rate of
18 return. Yes, you can see -- well, actually, I'm
19 looking at April actual versus May re-estimated. It
20 looks like the latest rate of return is then used in
21 the forecast of data through 2009. But, in reality,
22 when we update our rate base quarterly and we update
23 our returns, and they are done in actual on a quarterly
24 basis, and then we just forecast out with a single rate

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1 of return for, say, a year period in the future.

2 Q. So, what is the annual amount that you used in this
3 chart?

4 A. (Baumann) Well, if you take 0.9073 times 12, it's
5 10.88 percent.

6 Q. And, where does that figure come from?

7 A. (Baumann) Well, off the top of my head, I can't give
8 you an answer to that.

9 MR. EATON: Mr. Chairman, I think Mr.
10 Hall could give that response. And, he's not been sworn
11 in this proceeding, but he could provide a response.

12 CHAIRMAN GETZ: Well, let's swear him in
13 just for the formality, and you can answer from where you
14 are.

15 (Whereupon Stephen R. Hall was duly
16 sworn and cautioned by the Court
17 Reporter.)

18 STEPHEN R. HALL, SWORN

19 MR. EATON: Did you hear the question,
20 Mr. Hall?

21 WITNESS HALL: Yes, I know what the
22 question is. I don't have the detail behind the specific
23 calculation. But, essentially, what that number is is it
24 is a weighted average cost of capital. It is -- It uses

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1 the ROE on generation that was allowed by the Commission,
2 that was 9.81 percent, which is then grossed up for taxes,
3 and it then uses PSNH's actual cost of debt and PSNH's
4 actual capital structure, debt versus equity. Using those
5 amounts and using the capital structure, we then calculate
6 a weighted average cost of capital that's used and applied
7 to return on rate base. That weighted average number is
8 then divided by 12 to get a monthly number. And, that's
9 what you see on this exhibit.

10 MS. HATFIELD: Thank you very much.

11 BY MS. HATFIELD:

12 Q. Mr. Baumann, I believe that you provide periodically to
13 the Commission the Company's FERC Form F-1, is that
14 correct?

15 A. (Baumann) Yes. It's the New Hampshire F-1 form, as
16 opposed to the FERC filed F-1.

17 Q. Thank you.

18 A. (Baumann) That's correct.

19 Q. And, in the looking at the last one that at least I
20 have reviewed, which was filed on May 19th of 2009,
21 there's a schedule that shows the return on equity for
22 generation for the Company to be 12.8 percent. Do you
23 recall that?

24 A. (Baumann) I don't recall it. Is that 12 months ended

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1 --

2 Q. That's the 12 months ended March 31st, 2009.

3 A. (Baumann) Subject to check, I'll accept that certainly.

4 Q. And, could you explain the difference between the
5 10.88 percent that we were just discussing, that Mr.
6 Hall helpfully explained, and the 12.8 percent that
7 shows up in the Form F-1?

8 A. (Baumann) You know, off the top of my head I don't know
9 why they're different. I probably would have to take a
10 record request on that. I know that there are
11 differences, because there are below-the-line items
12 that come into play here, there may be out-of-period
13 credits that come into play here. But I just don't
14 have the detail with me.

15 MS. HATFIELD: We would like to have a
16 record request for that question, if we could.

17 CHAIRMAN GETZ: Okay. We'll reserve
18 Exhibit 14 for the Company's response.

19 (Exhibit 14 reserved)

20 CMSR. BELOW: And, could I just get a
21 clarification from Ms. Hatfield. That FERC form or FERC
22 type form, was that a return on equity or rate of return
23 overall that you're referencing?

24 MS. HATFIELD: Thank you, Commissioner

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1 Below. This was -- This particular number was ROE. So, I
2 think, actually, the comparison would be to the "9.81"
3 that Mr. Hall referenced, not to the "10.88" that Mr.
4 Baumann referenced.

5 CMSR. BELOW: Okay. Thank you.

6 MS. HATFIELD: But it was ROE. Thank
7 you. One moment please.

8 (Short pause.)

9 MS. HATFIELD: Thank you. No further
10 questions.

11 CHAIRMAN GETZ: Thank you.

12 CMSR. BELOW: I do have a question.

13 BY CMSR. BELOW:

14 Q. In Exhibit 12, Attachment RAB-1, Page 1, Line 18 is the
15 capacity charge. And, could you just explain, review
16 your understanding of how that capacity charge is
17 charged to PSNH I presume by ISO-New England?

18 A. (Errichetti) That value is PSNH's load share of the
19 total supported UCAP in ISO-New England, times the
20 current Transition Period price, less the revenues
21 received by PSNH owned resources and IPPs' purchase
22 capacity revenue. So, it's a net value of what we owe
23 the Pool versus what we've received from the Pool.

24 Q. And, that's billed on a kilowatt-month basis, is that

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1 correct?

2 A. (Errichetti) Yes. It's --

3 Q. And, the allocation of the kilowatt charge per month,
4 that's based on your system peak relative to the
5 general New England system peak or coincident peak?

6 A. (Errichetti) Yes. It is on a monthly basis, they look
7 at the customers you're serving through your load
8 asset, if you will, relative to what the system peak
9 load was that you referred to. So, as migration
10 happens, our load share goes down and the amount of
11 capacity we're obliged to pay for goes down, and vice
12 versa.

13 Q. And, some of your larger commercial and industrial
14 customers have rates where they pay a demand charge for
15 essentially distribution services, is that correct?

16 A. (Errichetti) Moving out of my element. The demand
17 charge, on a distribution bill, works differently than
18 how the wholesale market allocates capacity costs. So,
19 I know that much. But I don't know, and I would defer
20 to others.

21 Q. Anyone who might respond. It's just a factual matter.
22 Some of your customer classes have a demand charge for
23 distribution services as part of their rate structure
24 and metering structure, is that correct?

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1 A. (Hall) Yes, it is.

2 Q. And, so, here's my real question. Have you ever
3 considered, for those customers for whom you have a
4 demand charge, although it's not for energy, have you
5 considered taking this capacity charge, which is
6 essentially a demand -- wholesale demand charge, have
7 you considered charging that on a demand basis to those
8 customers that you have a demand measuring capability
9 for?

10 A. (Hall) We haven't done that really for a couple of
11 reasons. Number one, the cost -- the capacity cost
12 associated with serving energy load has traditionally
13 been recovered and continues to be recovered by all
14 suppliers through cents per kilowatt-hour energy
15 charges, because it really is related to the energy or
16 kilowatt-hours that customers take, notwithstanding the
17 fact that it happens to be billed to load-holding
18 entities based on their peak demand.

19 So, the common practice is to really
20 recover those capacity-related charges associated with
21 load through energy charges. I don't know of any
22 competitive supplier that recovers those -- that
23 charges customers a per kilowatt charge, plus a
24 kilowatt-hour charge. Nor do I know of any utilities

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1 that recover those costs through a demand charge.
2 Although, you know, in an older model, those costs used
3 to be recovered through demand charges.

4 With regard to -- the second reason is
5 that the billing demands that we use to assess demand
6 charges to customers really differ from the demand or
7 the load that is used to determine the capacity charge
8 that Mr. Errichetti just spoke of. The billing demands
9 for customers are really assessed to customers based on
10 each customer's individual peak in the month. Which
11 may or may not be the same peak, and probably isn't the
12 same peak hour, on which PSNH's monthly load peak
13 occurs, upon which it is billed for service. So, you
14 get into billing complications as well, and you get
15 into allocation purposes -- allocation complications.
16 It's not impossible to do, it just adds a layer of
17 complication to the calculation. So, for those two
18 reasons, for simplicity sake, we've billed it on an
19 energy charge.

20 Q. I'm a little confused about one thing you said.

21 A. (Hall) Yes.

22 Q. You said that the charge at the wholesale level is not
23 really related to demand, though it's charged on
24 demand, but rather is really an energy per

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1 kilowatt-hour basis. But, isn't, in fact, the capacity
2 charge, to have adequate total generation capacity,
3 really at peak demand? And, if less was needed at peak
4 demand, the charge might be less or even perhaps go
5 away?

6 A. (Hall) I agree with that. I agree that the intent of
7 that capacity charge at the wholesale level is probably
8 to ensure that there's sufficient generating capacity
9 available to meet peak demand. What I was referring to
10 when I said it was charged on energy is, really, all
11 that's looked at at the wholesale level is total energy
12 used by customers in a particular hourly period. That
13 determines the load or monthly peak demand, monthly
14 load of a load-holding entity. That's what I was
15 referring to when I said "it's really energy-related".
16 It's the total energy used by customers in one hour.

17 Q. Okay. And, you said you're not aware of any
18 competitive supplier or other utilities that charge the
19 capacity, but you're not necessarily familiar with
20 everyone else's rate structures in New England, but you
21 just don't happen to know of any that do it that way,
22 is that correct?

23 A. (Hall) Correct. Absolutely.

24 CMSR. BELOW: Okay. Thank you.

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1 CHAIRMAN GETZ: Redirect?

2 MR. EATON: No thank you, Mr. Chairman.

3 CHAIRMAN GETZ: Is there anything
4 further for the panel?

5 (No verbal response)

6 CHAIRMAN GETZ: Hearing nothing, then
7 the witnesses are excused. Thank you very much. Is there
8 any objection to striking identifications and admitting
9 the exhibits into evidence?

10 (No verbal response)

11 CHAIRMAN GETZ: Hearing no objection,
12 they will be admitted into evidence. Is there anything
13 else we need to address before providing opportunity for
14 closings?

15 (No verbal response)

16 CHAIRMAN GETZ: Hearing nothing, then
17 we'll begin with Ms. Hatfield.

18 MS. HATFIELD: Thank you, Mr. Chairman.
19 The OCA does not take a position on PSNH's request, but we
20 do have a few comments that we wanted to share with the
21 Commission. One is that we are pleased that rates are
22 decreasing. We are pleased that customers will get the
23 benefit of the lower rates that we've seen in the market.

24 However, we are concerned about, as I

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1 discussed with Mr. Baumann briefly, the issue of
2 migration, and the potential impact that that could have
3 on residential customers who, as the Commission knows,
4 have the legal ability to choose a competitive supplier,
5 but, on a practical level, really don't have a choice.
6 And, so, we appreciate the Company and Staff being willing
7 to meet prior to the Company's filing for the 2010 Energy
8 Service rate to discuss that. This is especially true in
9 light of recent rate decreases for National Grid and
10 Unitil customers that have been more in the range of 20 to
11 30 percent, because they're able to fully take advantage
12 of a decreasing market rate. We fully understand that
13 those customers also see the up-sides of the market, but
14 we would like to just revisit some of these issues with
15 PSNH prior to 2010.

16 With respect to the replacement power
17 costs and insurance coverage for Merrimack Station, we do
18 want to reiterate our request that we made back in
19 December, in our belief that customers should not have to
20 pay for insurance and pay for replacement power costs, and
21 wait to see if the Company does get full insurance
22 reimbursement later. We would like to see the Company try
23 to forecast perhaps more accurately how much they think
24 they will receive and have the customers on the system now

1 get the benefit of that recovery. Mr. Baumann talked
2 about matching up when the Company receives the insurance
3 recovery. We'd like to see the customers get the benefit
4 of that matching that are on the system now.

5 Lastly, we would like to thank
6 Mrs. Tillotson and Mr. Smagula for being here today and
7 being willing to continue to update us on the status of
8 the Merrimack Station project. We appreciate their time.
9 And, also appreciate Mrs. Tillotson's information that she
10 provided to the parties on the different bonus allowances
11 and the earned allocations that will benefit customers and
12 that are to be included in rates. So, we appreciate that
13 as well. Thank you.

14 CHAIRMAN GETZ: Thank you. Ms. Amidon.

15 MS. AMIDON: Thank you. Staff has
16 reviewed the filing. And, we have determined that PSNH
17 has appropriately calculated the Energy Service rate
18 adjustment. And, we recommend that the Commission approve
19 the petition.

20 CHAIRMAN GETZ: Thank you. And, Mr.
21 Eaton.

22 MR. EATON: Thank you, Mr. Chairman.
23 This is an estimate of what our costs would be for the
24 remainder of the year. And, we're not requesting the

1 Commission to find prudence of these costs or the costs
2 incurred to date in 2009. The issue of insurance and when
3 the proceeds are received, to the extent that the
4 insurance reimburses for earlier costs, I believe the
5 customer is protected by the fact that they would receive
6 a return on any overcollections that the Company made
7 during that period, and therefore would be -- would be put
8 back into the same situation as if we were able to say
9 exactly what we were going to get in insurance proceeds.
10 And, I don't think we can make claims for, for instance,
11 for the costs of repairing the turbine and the replacement
12 power costs for the 14 weeks that are covered by this
13 period until that's over and we actually make a claim to
14 insurance companies for those costs.

15 CHAIRMAN GETZ: Okay. Thank you. And,
16 I take it the record response should only take a day or
17 two to provide?

18 MR. EATON: Yes.

19 CHAIRMAN GETZ: All right. Then, we
20 will close this hearing and take the matter under
21 advisement.

22 (Whereupon the hearing ended at 11:25

23 a.m.)

24

