

1 STATE OF NEW HAMPSHIRE  
2 PUBLIC UTILITIES COMMISSION  
3

4 March 18, 2009 - 1:41 p.m.  
5 Concord, New Hampshire

6  
7 RE: DE 09-010  
8 GRANITE STATE ELECTRIC CO. d/b/a  
9 NATIONAL GRID: Default Service Rates  
10 for the period beginning May 1, 2009  
11 through July 31, 2009 for the  
12 Large Customer Group and beginning  
13 May 1, 2009 through October 31, 2009  
14 for the Small Customer Group.

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16  
17 PRESENT: Chairman Thomas B. Getz, Presiding  
18 Commissioner Graham J. Morrison  
19 Commissioner Clifton C. Below

20  
21 Diane Bateman, Clerk

22  
23 APPEARANCES: Reptg. Granite State Electric Co. d/b/a  
24 National Grid:  
Marla B. Matthews, Esq. (Gallagher...)  
  
Reptg. Residential Ratepayers:  
Meredith Hatfield, Esq., Consumer Advocate  
Office of Consumer Advocate  
  
Reptg. PUC Staff:  
Suzanne G. Amidon, Esq.

25  
26 Court Reporter: Steven E. Patnaude, LCR No. 52

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## I N D E X

3

PAGE NO.

4

WITNESS PANEL: MARGARET M. JANZEN  
SCOTT M. McCABE  
MICHAEL W. MURPHY

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Direct examination by Ms. Matthews

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Cross-examination by Ms. Amidon

21, 25

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Cross-examination by Mr. McCluskey

24, 27

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Interrogatories by Cmsr. Below

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CLOSING STATEMENTS BY:

15

Ms. Hatfield

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Ms. Amidon

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Ms. Matthews

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## E X H I B I T S

3

EXHIBIT NO.

D E S C R I P T I O N

PAGE NO.

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Default Service filing for the  
 period beginning May 1, 2009  
 (03-16-09) [CONFIDENTIAL & PROPRIETARY]

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Default Service filing for the  
 period beginning May 1, 2009  
 (03-16-09) [REDACTED FOR PUBLIC USE]

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Revised Page 1 of 1 of Schedule SMM-1  
 and Revised Page 1 of 1 of  
 Schedule SMM-2  
 [CONFIDENTIAL & PROPRIETARY]

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Revised pages to the Testimony of  
 Scott M. McCabe, including testimony  
 and schedules [REDACTED FOR PUBLIC USE]

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Amended RPS Settlement Agreement  
 (03-11-09)

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National Grid Loss Factor Report  
 (03-09-09)

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

2 CHAIRMAN GETZ: Okay. Good afternoon,  
3 everyone. We'll open the hearing in docket DE 09-010,  
4 concerning National Grid's Default Service rates. An  
5 order of notice was issued on February 13 opening this  
6 proceeding and scheduling the hearing this afternoon.  
7 And, on March 16th, the Company filed its petition  
8 proposing Default Service rates for the period May 1, 2009  
9 through July 31, 2009 for the Large Customer Group, and  
10 for the period May 1, 2009 through October 31, 2009 for  
11 its Small Customer Group.

12 Can we take appearances please.

13 MS. MATTHEWS: Good morning, Mr.  
14 Chairman, members of the Commission. My name is Marla  
15 Matthews, of Gallagher, Callahan & Gartrell, on behalf of  
16 National Grid. I have with me Kristin Mahnke, who is an  
17 analyst at Grid. And, on the panel you will notice that I  
18 do not have John Warshaw, who is unfortunately ill and not  
19 able to attend, so we're going to do our best here. I  
20 have Margaret Janzen filling in for John, who is the  
21 Director of Electric Supply and Distributed Generation.  
22 Next to her is Scott McCabe, who is the Principal Analyst  
23 in the Regulation and Pricing Department of the electric  
24 distribution group for National Grid USA. And, finally,

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1 Michael Murphy, who is the Manager of Electric Wholesale  
2 and Retail Settlement for National Grid.

3 CHAIRMAN GETZ: Okay. Good afternoon,  
4 everyone.

5 MS. HATFIELD: Good afternoon,  
6 Commissioners. Meredith Hatfield, for the Office of  
7 Consumer Advocate, on behalf of residential ratepayers.

8 CHAIRMAN GETZ: Good afternoon.

9 MS. AMIDON: Good afternoon. For  
10 Commission Staff, Suzanne Amidon, and I do expect Mr.  
11 McCluskey will be joining me at some point.

12 CHAIRMAN GETZ: Good afternoon. Are you  
13 ready to provide, Ms. Matthews?

14 MS. MATTHEWS: We are. We have some  
15 exhibits that we would like to mark for identification. I  
16 believe that the Commissioners have in front of them the  
17 confidential filing that's been marked as "Exhibit 1" for  
18 identification.

19 CHAIRMAN GETZ: It will be so marked.

20 (The document, as described, was  
21 herewith marked as Exhibit 1 for  
22 identification.)

23 MS. MATTHEWS: And, I think we have the  
24 non-confidential version would be "Exhibit 2".

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1 CHAIRMAN GETZ: So marked.

2 (The document, as described, was  
3 herewith marked as Exhibit 2 for  
4 identification.)

5 MS. MATTHEWS: A few others. Mr. McCabe  
6 has some corrected testimony, which, if I may approach, I  
7 can provide you the confidential and non-confidential  
8 versions.

9 CHAIRMAN GETZ: Please.

10 MS. MATTHEWS: Exhibit 3 is the  
11 confidential and Exhibit 4 is non-confidential.

12 CHAIRMAN GETZ: And, they will be marked  
13 accordingly.

14 MS. MATTHEWS: Thank you.

15 (The documents, as described, were  
16 herewith marked as Exhibit 3 and  
17 Exhibit 4, respectively, for  
18 identification.)

19 MS. MATTHEWS: And, I have two more.  
20 One is an Amended RPS Settlement Agreement, if I can  
21 approach again. Thank you. And, finally, the Loss Factor  
22 Report, which was filed with the Staff on March 9th. And,  
23 I think those would be "5" and "6".

24 CHAIRMAN GETZ: And, they're so marked.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 MS. MATTHEWS: Thank you.  
2 (The documents, as described, were  
3 herewith marked as Exhibit 5 and  
4 Exhibit 6, respectively, for  
5 identification.)  
6 (Whereupon Margaret M. Janzen, Scott M.  
7 McCabe and Michael W. Murphy were duly  
8 sworn and cautioned by the Court  
9 Reporter.)

10 MARGARET M. JANZEN, SWORN

11 SCOTT M. McCABE, SWORN

12 MICHAEL W. MURPHY, SWORN

13 DIRECT EXAMINATION

14 BY MS. MATTHEWS:

15 Q. Ms. Janzen, would you please state your full name and  
16 business address for the record.

17 A. (Janzen) Yes. My name is Margaret Janzen. My business  
18 address is National Grid, 100 East Old Country Road,  
19 Hicksville, New York 11801.

20 Q. Thank you. What's your position with National Grid?

21 A. (Janzen) I am the Director of Electric  
22 Supply/Distributed Generation at National Grid.

23 Q. And, what are your duties and responsibilities in that  
24 position?

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[WITNESS PANEL: Janzen|McCabe|Murphy]

- 1 A. (Janzen) As Director of that group, I am responsible  
2 for the management of the power procurement in the  
3 electric supply group and the engineering services  
4 underneath the distributed generation team.
- 5 Q. I believe you have copies of Exhibits 1 and 2 in front  
6 of you. Can you please describe those exhibits for the  
7 record?
- 8 A. (Janzen) Yes. This is the procurement results of the  
9 RFP process of the power procurement for the Granite  
10 State Electric for the Large and Small Customer Groups  
11 for the period beginning on May 1st, 2009.
- 12 Q. Do Exhibits 1 and 2 contain confidential and  
13 non-confidential versions of Mr. Warshaw's testimony --
- 14 A. (Janzen) Yes, they do.
- 15 Q. -- and schedules? Sorry.
- 16 A. (Janzen) Yes, they do.
- 17 Q. And, you're standing in today for Mr. Warshaw, who is  
18 ill?
- 19 A. (Janzen) Yes, I am.
- 20 Q. And, you're familiar with the testimony and schedules  
21 in Mr. Warshaw's prefiled testimony?
- 22 A. (Janzen) Yes, I am.
- 23 Q. Mr. McCabe, would you please state your full name and  
24 business address for the record.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 A. (McCabe) Scott McCabe, 201 Jones Road, Waltham,  
2 Massachusetts.

3 Q. And, what is your position with National Grid?

4 A. (McCabe) I'm a Principal Analyst in the Electric --  
5 Regulation and Pricing Department of the Electric  
6 Distribution and Generation Group of National Grid.

7 Q. And, what are your duties and responsibilities in that  
8 position?

9 A. (McCabe) I perform rate-related services for the  
10 distribution companies of National Grid, including  
11 Granite State Electric Company.

12 Q. And, do Exhibits 1 and 2 contain your testimony?

13 A. (McCabe) Yes, they do.

14 Q. And, do you have corrections to make to your testimony?

15 A. (McCabe) I do.

16 Q. Can you explain those corrections for us?

17 A. (McCabe) Well, the corrections that I have are  
18 contained in Exhibit 3. And, the first page on  
19 Exhibit 3 is a calculation of net charge offs for 2008.  
20 And, the numbers in Lines 1 and 3 were input  
21 incorrectly, and those have been corrected. And, these  
22 corrections flow through a number of my other exhibits  
23 -- or, schedules, as well as a few pages of my  
24 testimony. And, I've provided replacement pages for

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 each one of the pages in the testimony and schedules

2 that have been impacted.

3 Q. So, the non-confidential and confidential versions are

4 in Exhibits 3 and 4?

5 A. (McCabe) That's correct.

6 Q. And, do you adopt the corrected testimony and schedules

7 as your own?

8 A. (McCabe) Yes, I do.

9 Q. Mr. Murphy, would you please state your full name and

10 business address for the record.

11 A. (Murphy) Michael Murphy. National Grid, 300 Erie

12 Boulevard West, Syracuse, New York 13202.

13 Q. And, what is your position with National Grid?

14 A. (Murphy) I'm the Manager of Wholesale and Retail

15 Settlement.

16 Q. What are the duties and responsibilities in that

17 position?

18 A. (Murphy) To manage and provide the data processes that

19 are used to complete the wholesale and retail

20 settlement to the New York-ISO and the ISO-New England.

21 Q. Although you didn't file prefilled testimony in this

22 proceeding, is it correct that you helped prepare the

23 Loss Factor Report marked as "Exhibit 6"

24 A. (Murphy) Yes.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Q. Are you prepared to answer questions about the Loss  
2 Factor Report?

3 A. (Murphy) Yes, I am.

4 Q. I'd like to begin with Ms. Janzen. Would you please  
5 summarize the bid process that's outlined in  
6 Mr. Warshaw's prefiled testimony.

7 A. (Janzen) The Company issued an RFP for Default Service  
8 for small and large customers for Granite State. And,  
9 we issued that RFP with the intent to have three months  
10 service for the industrial customers and six months for  
11 the residential, beginning the period of May 1st. And,  
12 we were able to evaluate those bids and to have  
13 concluded who the awards would be presented to. And,  
14 we also did make sure we had compliance with the  
15 Renewable Portfolio Standards as part of that RFP  
16 process.

17 Q. And, two suppliers were chosen for the Small and Large  
18 Customer Groups?

19 A. (Janzen) That's correct.

20 Q. And, the process that National Grid followed, I think  
21 you said this, but just to follow up, complied with the  
22 solicitation and bid process previously approved by the  
23 Commission, correct?

24 A. (Janzen) That's correct.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Q. Did the Company solicit bids from suppliers that  
2 contain both pass-through and all-inclusive prices for  
3 capacity costs?

4 A. (Janzen) No, we did not.

5 Q. How come?

6 A. (Janzen) Because, of the previous agreement, that the  
7 Company would only do all-inclusive -- would only issue  
8 an RFP for all-inclusive pricing from the bidders.

9 Q. Did the Company also recently enter into an Amended RPS  
10 Settlement Agreement with the Commission Staff and the  
11 Office of Consumer Advocate?

12 A. (Janzen) Yes, it did.

13 Q. And, is that the document that we have marked for  
14 identification as "Exhibit 5"?

15 A. (Janzen) Yes, that's right.

16 Q. Could us please describe the RPS Settlement Agreement  
17 generally.

18 A. (Janzen) The Agreement allows for the Company to be  
19 able to accept bids outside the RPS process from  
20 suppliers of those RECs that would be, if the Company  
21 evaluated them and found them to be in the least cost  
22 and could meet the RPS standards, it gives the Company  
23 the ability to work with those additional bids.

24 Q. So, the case that you just described, the Company being

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1       able to evaluate unsolicited offers to purchase RECs,  
2       those are part of the amendments, correct?

3    A.   (Janzen) That's correct.

4    Q.   And, the Company is requesting that the Commission  
5       approve the Amended Settlement Agreement as filed,  
6       correct?

7    A.   (Janzen) Yes.

8    Q.   Did the Company calculate an RPS adder related to the  
9       RPS compliance costs as part of this filing?

10   A.   (Janzen) Yes, it did.

11   Q.   Can you describe for me the RPS adder, what that --  
12       excuse me. Could you describe for me what the RPS  
13       adder for compliance costs is based upon?

14   A.   (Janzen) That the Company intended to evaluate the  
15       market pricing in order to calculate that, and, with  
16       that in mind, with the -- there is no market data  
17       available to the Company's knowledge. So, we took the  
18       Alternative Compliance Payment and used that as a proxy  
19       for market prices, and that is how the Company came to  
20       calculate the adder.

21   Q.   And, did the Company select any bids for RPS compliance  
22       from the winning bidders for Default Service?

23   A.   (Janzen) Yes. We were able to evaluate those bids.

24       And, we did see that there was -- the bid for the Large

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Group that we were able to -- felt it was the least  
2 cost, and we awarded that part to the Large Customer  
3 Group.

4 Q. And, what about the Small Customer Group?

5 A. (Janzen) We felt those prices were close or above the  
6 ACP, and we felt they were not economical. And, the  
7 Company feels that it would be best to procure a better  
8 cost in a future RFP shortly.

9 Q. And, that's consistent with the Settlement Agreement,  
10 correct?

11 A. (Janzen) Yes, that is.

12 Q. Has the Company procured any RECs as a result of a  
13 separate solicitation?

14 A. (Janzen) Yes. Actually, in January, the Company did  
15 issue an RFP that would comply with the RPS. And, as a  
16 result of that, we did procure a small amount of RECs  
17 for the Residential and the Small Customer Group.

18 Q. Does the Company's Default Service procurement comply  
19 with the Settlement Agreement?

20 A. (Janzen) Yes.

21 Q. And, are the proposed Default Service rates for the  
22 Large and Small Customer Groups reflective of current  
23 market prices in your opinion?

24 A. (Janzen) Yes, they are.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Q. I'd like to turn to Mr. Murphy, go out of order a  
2 little bit. Mr. Murphy, are you familiar with the Loss  
3 Factor Report filed with PUC Staff on March 9th, which  
4 is currently marked for identification as "Exhibit 6"

5 A. (Murphy) Yes, I helped to prepare the report.

6 Q. Would you please summarize the declining loss factor  
7 issue for me?

8 A. (Murphy) Yes. In September of 2008, the Commission  
9 Staff noticed that the monthly loss factor used to  
10 calculate retail rates had declined when compared to  
11 past filings.

12 Q. And, what is the monthly loss factor?

13 A. (Murphy) Well, the monthly loss factor is the  
14 comparison of the wholesale purchases to the retail  
15 sales.

16 Q. Can you briefly describe the investigation the Company  
17 undertook to determine the cause of the decline in the  
18 loss factor?

19 A. (Murphy) We completed a comprehensive investigation of  
20 all wholesale settlement, retail settlement, and the  
21 data inputs that we received from the other meter  
22 readers that are used in the process.

23 Q. And, what were the results of that investigation?

24 A. (Murphy) Well, in reviewing the wholesale settlement

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 process, we found that there is a -- there was a change  
2 in the reporting, the meter point reported from the  
3 Tewksbury to North Litchfield zonal tie line, that's  
4 N-014 [N-214?] to O-215 zonal tie line. That's from  
5 Tewksbury to North Litchfield. And, we believe that's  
6 responsible for the change in the loss factor.

7 Due to the concerns of the data quality  
8 at the Tewksbury end of this line, the meter point  
9 change was made in January '08, 2008. And, the point  
10 was measured on that line from the North Litchfield end  
11 of the line. In terms of making the change, the  
12 Company didn't account for the losses that were  
13 measured between the two data points, between North  
14 Litchfield and Tewksbury. And, we think this  
15 introduced an error in the wholesale settlement  
16 process.

17 Q. Does the error that you identified in the wholesale  
18 settlement process impact ISO?

19 A. (Murphy) No, it doesn't. The settlement -- The 2008  
20 settlement period is closed. In actuality, the New  
21 Hampshire customers benefited from this mistake.

22 Q. And, what steps has the Company taken to address the  
23 issue?

24 A. (Murphy) As of 02/18/09, the measurement point has

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1       been, and the settlement -- wholesale settlement now  
2       has been shifted back to Tewksbury, so we're going to  
3       use the Tewksbury end of this. We also have put forth  
4       a plan that's being evaluated, and we will determine if  
5       we can upgrade the metering points at Tewksbury/North  
6       Litchfield, although they are presently in compliance  
7       with the ISO-New England requirements.

8       Q.   Thank you. I'd like to turn to Mr. McCabe now. Mr.  
9       McCabe, would you please summarize your testimony.

10      A.   (McCabe) Certainly. My testimony supports the various  
11      Default Service rate adjustments that the Company is  
12      proposing effective May 1st, 2009. These rate  
13      adjustments are made in accordance with our -- the  
14      Default Service provisions of our tariff, as well as in  
15      accordance with the -- merges with the Settlement  
16      Agreement in the post transition service docket 05-126.

17                       If you could turn to -- if you could, I  
18      guess, look at Exhibit 3 [Exhibit 4?], and turn to the  
19      second page of Exhibit 3 [Exhibit 4?], which is Revised  
20      Page 4 of my testimony, I provided a table that  
21      summarizes the rates that the Company is proposing.  
22      For the Residential and Small Customer Group, the  
23      Company is proposing a rate of 6.9 cents for the period  
24      from May 1st through October 31st, 2009. This is a

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1 weighted average of the six monthly prices that we  
2 received from our winning supplier. For the Large  
3 Customer Group, the Company is proposing rates of 6.335  
4 cents, 6.753 cents, and 7.364 cents per kilowatt-hour  
5 for the months of May, June, and July, respectively.

6 On the second line of the table, the  
7 Company is also proposing a Default Service Adjustment  
8 Factor credit of 0.285 cents per kilowatt-hour. This  
9 credit is calculated in Schedule SMM-6. And, it is --  
10 it's based on the reconciliation of the Default Service  
11 power expenses and revenues for the period February  
12 2008 through January 2009. And, this reconciliation is  
13 presented in Schedule SMM-3.

14 On the next line, we're proposing a  
15 Default Service Cost Reclassification Adjustment Factor  
16 of 0.071 cents per kilowatt-hour for the Small Customer  
17 Group, and a rate of 0.055 cents per kilowatt-hour for  
18 the Large Customer Group. And, this rate is based on  
19 the administrative costs that the Company projects it  
20 will incur over the next 12 months, as well as a small  
21 under recovery for the cost versus the revenues that  
22 the Company experienced for the period February 2009  
23 through January -- I'm sorry, February 2008 through  
24 January 2009.

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1                   And, finally, the Company is proposing a  
2       Renewable Portfolio Standard Adder of 0.205 cents per  
3       kilowatt-hour for the Small Customer Group. As Ms.  
4       Janzen mentioned, for the Large Customer Group, the  
5       Company accepted a bid from the winning supplier that  
6       included an RPS adder, and that adder is included in  
7       the prices that are presented on the first line of the  
8       table on Revised Page 4.

9                   The typical bill impacts of the rates  
10      that are presented on Page 4, for a 500 kilowatt-hour  
11      customer, it's a bill decrease of \$16.70, or  
12      20.7 percent, from \$80.58 to \$63.88. And, the total  
13      bill for an average residential customer using 257  
14      kilowatt-hours, which is the average residential  
15      customer for the 12-month period ending February 2009,  
16      it's a bill decrease of \$21.95, or 20.6 percent, from  
17      \$106.54, to \$84.59.

18    Q.   Thank you. Are these Default Service reconciliations  
19          the same reconciliations that Granite State usually  
20          performs?

21    A.   (McCabe) The Default Service reconciliation, the  
22          Default Service Adjustment Factor reconciliation, as  
23          well as the Default Service Cost Reclassification  
24          Adjustment Factor reconciliation are the same

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1 reconciliations that the Company usually presents in  
2 this filing. In this filing, we have also added a RPS  
3 reconciliation, which is presented in Schedule SMM-9.  
4 As you know, effective January 1st, 2008, the Company  
5 started with obligations for RPS. We've been  
6 collecting RPS related revenues through the approved  
7 RPS adders since January 2008. As of yet, we have not  
8 incurred the expenses to meet those obligations. And,  
9 we anticipate incurring those expenses over the next  
10 few months. And, we have to incur the expenses. We're  
11 obligated to meet the obligation by July 1st, 2009.

12 Since we have not incurred the expenses,  
13 we have set up this separate reconciliation basically  
14 so -- our intent is to keep the overcollection that we  
15 have to date, and, when we incur the expenses over the  
16 next few months, we will include those expenses in the  
17 reconciliation. Our intent was, basically, just not to  
18 give the money back to the customers that we've  
19 collected.

20 With regard to the fact that we have  
21 collected the revenues, and we haven't incurred the  
22 expenses, we have made an adjustment to our 2008 cash  
23 working capital study to reflect this fact. And, that  
24 is reflected in Schedule SMM-7. And, it has decreased

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 our cash working capital requirements.

2 MS. MATTHEWS: Thank you. I have no  
3 further questions.

4 CHAIRMAN GETZ: Ms. Hatfield.

5 MS. HATFIELD: Thank you, Mr. Chairman.  
6 Thanks to Mr. McCabe's complete review of the proposed  
7 rates and the rate impacts, I do not have any  
8 cross-examination. And, unfortunately, I must excuse  
9 myself at this time. I have another commitment. But, if  
10 you would permit me, I'd like to just give our position on  
11 the filing?

12 CHAIRMAN GETZ: Please.

13 MS. HATFIELD: Thank you. The OCA does  
14 not object to the Company's request. And, we are pleased  
15 that they are able to take advantage of lower market  
16 prices at this time and to decrease rates. Thank you very  
17 much.

18 CHAIRMAN GETZ: Thank you. Ms. Amidon.

19 MS. AMIDON: Thank you. You've answered  
20 a lot of my questions, too, so I'm trying to find out  
21 where I can go.

22 CROSS-EXAMINATION

23 BY MS. AMIDON:

24 Q. This would be in the confidential material. And, there

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1       were a couple of schedules to Mr. Warshaw's testimony  
2       that I wanted to ask you to explain, not the entire  
3       schedule, but a page. And, the first one I would like  
4       to look at, Ms. Janzen, is at Page 91. And, it's  
5       contained in Schedule JDW-2, which is -- contents are  
6       the bid evaluation conducted by your company upon  
7       receipt of these bids. So, could you please explain to  
8       me what this page and what this graph illustrates?

9     A.   (Janzen) Absolutely. This Attachment 8 is the staff's  
10       -- the group's analysis of all the zones, the bid zones  
11       that came in. And, what we had done was compared those  
12       final actual results of the bids for the zones against  
13       a -- a model that was developed by our group to  
14       independently confirm and validate the actual bids that  
15       were coming in, and then we just present the error  
16       difference between our internal model and the actual  
17       results that came in as a sanity check on those  
18       numbers.

19    Q.   So, what would the numbers under the column headed  
20       "Error" for Rows "P" and "Q" tell us?

21    A.   (Janzen) That the 0.3 percent error for Row P for the  
22       New Hampshire Large Customer Group there, there is a  
23       0.3 percent difference, there's a minimal -- a minimal  
24       difference between what the Company was internally

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 calculating as a forecast of what market prices would  
2 be for this load group, versus what had come in from  
3 the bidders. And, similarly, in the next row there,  
4 "Q", for the Small New Hampshire Customer Group, there  
5 was a 4 percent -- 4.4 percent difference between what  
6 the Company was anticipating and what came in in terms  
7 of the market price from the bidders.

8 Q. And, the minus sign would indicate what?

9 A. (Janzen) That what the Company had calculated was  
10 slightly lower than what actually came in.

11 Q. Okay.

12 A. (Janzen) Based on our assumptions.

13 Q. Then, and the next schedule is JDW-3, at Page 100.

14 And, it's entitled "Comparison of Change in Future  
15 Prices to Change in Procurement Costs". Could you  
16 explain what this attachment does?

17 A. (Janzen) Yes. This attachment is to give a relative  
18 comparison of where pricing was one year ago for  
19 electric and for natural gas, comparing it to where the  
20 Small Commercial Group pricing came in. So, if I could  
21 just point you to the bottom right-hand corner, change  
22 of, for instance, "39.5 percent" there in that bottom  
23 right-hand corner, that is the comparison summer over  
24 summer with the pricing of what the market was seeing

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 in terms of futures for electric and for natural gas,  
2 both for six months and one year ago.

3 MS. AMIDON: One moment please.

4 BY MR. McCLUSKEY:

5 Q. Based on the results of this schedule, you appear to be  
6 saying that, compared with last winter, the bid prices  
7 for the summer have fallen approximately 30 percent.  
8 Is that what this is saying?

9 A. (Janzen) Yes, that's what --

10 Q. But the electric futures and the NYMEX gas based  
11 calculations have fallen by 47 percent and 36 percent?

12 A. (Janzen) That's correct. That is the change of the  
13 summer over winter numbers, that's correct.

14 Q. And, what conclusion do you draw from, say, the  
15 difference between the NYMEX natural gas prices and the  
16 actual bid prices?

17 A. (Janzen) The difference between the 30.3 percent and  
18 the 36.3 percent, we look at the electric futures as a  
19 proxy for where the market is, and what we see is the  
20 customer group here indicated the pricing as an  
21 indication of where the rates are, just what the  
22 electric rates do, we would be able to follow the  
23 futures proxy. But it would not be exact, we would not  
24 expect to see the drop in the customer prices to be

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 exactly the same as what the electric futures market  
2 would be. There's some changes --

3 Q. Does it not suggest that the actual bid prices are a  
4 little high, compared with where your market indicators  
5 had suggested?

6 A. (Janzen) Well, the Company believes that this is a  
7 reasonable difference, given where all of the bidder  
8 results were and the number of bidders that were  
9 involved in it, we felt that this was -- this was a  
10 reasonable difference. And, then, just looking at  
11 other qualitative factors in evaluating the bids, we  
12 felt that all the bids, on a whole, in addition to this  
13 information, gave us a look that this was indeed a good  
14 snapshot of where the market was on this particular day  
15 that the bids were actually evaluated and awarded.

16 MR. McCLUSKEY: Okay. Thank you.

17 BY MS. AMIDON:

18 Q. Mr. McCabe, of course, I have a couple questions for  
19 you. In your Exhibit 3, which again is a confidential  
20 document, you have a loss factor at Line 3 for the  
21 Large Customer Group. Where did this loss factor --  
22 how did you derive this loss factor?

23 A. (McCabe) Just one second please. Ms. Amidon, are you  
24 looking at Schedule SMM-1?

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Q. I was actually looking at Exhibit 3, which is your  
2 exhibit, it is a confidential exhibit, and it does  
3 list, at Line 3 -- yes, SMM-1, I'm sorry.

4 A. (McCabe) Okay.

5 Q. But it's the one that was identified as "Exhibit 3".

6 A. (McCabe) The loss factor is the comparison of the  
7 wholesale loads, if you look at the Footnotes 1 and 2,  
8 on the wholesale loads for the 12 month period  
9 ending December 2007 and the retail loads for the 12  
10 month period ending December 2008. The formula to  
11 calculate the loss factor is Line 1 divided by Line 2.

12 Q. And, why did you select this particular time period?

13 A. (McCabe) We selected December -- 12 months ending  
14 December 2007 because the loss factor issue that was  
15 identified in the study performed by Mr. Murphy and  
16 others identified January 2008 as the point where an  
17 error seemed to occur. So, we thought it most logical  
18 to go back to the period prior to that, that error.

19 Q. And, you had discussions with Staff where we agreed  
20 that that was appropriate --

21 A. (McCabe) Yes, we did.

22 Q. -- for this filing?

23 A. (McCabe) Yes, we did.

24 Q. And, you did a similar calculation of the loss factor

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 for the Small Customer Group as well?

2 A. (McCabe) Yes. Yes, we did.

3 MS. AMIDON: Okay. Thank you. I'm

4 going to turn this over to Mr. McCluskey.

5 BY MR. McCLUSKEY:

6 Q. I think I'll stay on the loss factor issue. Mr.

7 Murphy, you were summarizing earlier the study that you

8 submitted to the Commission?

9 A. (Murphy) Yes.

10 Q. Based on my reading of that, I believe the Company is

11 saying that the decline in the loss factor, since

12 January '08, is attributable to the fact that, when the

13 Company switched from taking measurements for the two

14 tie lines at Tewksbury and North Litchfield, switched

15 from Tewksbury to North Litchfield, it omitted to make

16 an adjustment for those measurements associated with

17 the losses on the tie between the two tie points, is

18 that correct?

19 A. (Murphy) That's correct.

20 Q. Okay. And, my understanding is that, in January '09,

21 the Company switched back to Tewksbury?

22 A. (Murphy) It was February 18th.

23 Q. February 18th, was it?

24 A. (Murphy) '09.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 Q. Okay. '09. And, despite the less than ideal measuring  
2 equipment at Tewksbury, you are currently using that  
3 measuring point, is that right?

4 A. (Murphy) That's correct. And, we are evaluating a plan  
5 to upgrade the measurements there, although we believe  
6 they're in compliance with the ISO-New England.

7 Q. So, you would expect over time that the problem should  
8 correct itself?

9 A. (Murphy) Yes.

10 Q. The difficulty I have with this explanation is that, if  
11 you omitted to account for the losses on the tie  
12 between the two tie points, one would expect a step  
13 adjustment in the loss factor after you made the  
14 change, and then the loss factor would stay reasonably  
15 flat after that point. Whereas the data is indicating  
16 that, after you made the change, the loss factor is  
17 continuing to decline. Could you comment on that?

18 A. (Murphy) I think, from a very preliminary nature, I see  
19 in the wholesale -- internal wholesale settlement  
20 mechanisms that we have, that I have seen a change in  
21 the data already. We won't know really till the 90 day  
22 period past February, you know, where we have our first  
23 retail settlement, you know, what the real indication  
24 is, because that's the period in which the methodology

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 most closely resembles, you know, the study. And, I  
2 think we will definitely see that this has changed  
3 quite a bit. And, I'm expecting, on the line, the  
4 losses are between 4 and 8 megawatts an hour. So, I'm  
5 thinking that we will see this. Although we do know  
6 that the line loading is significant and the  
7 measurement varies with the loading of the line. So,  
8 there will be some variation, but I think we will be  
9 able to detect a change here, when the retail  
10 settlement results start to come in.

11 Q. Could you address my comment that, if you omitted  
12 losses, which may vary from time to time, but one would  
13 think that the variation wouldn't be too significant,  
14 why do you continue to see a fairly significant and  
15 observable change over time in the loss factor?

16 A. (Murphy) The loss factors that we are seeing in the  
17 model are consistent, in terms of the losses that are  
18 used over that line segment, if you will. And, what we  
19 are seeing here, basically, is the -- when the  
20 alternative point, North Litchfield, was used, when you  
21 take a look at the location, there just wasn't  
22 compensation for that 4 to 8 megawatts an hour. So,  
23 when the alternative point is used, we can tell already  
24 that the -- that the math tells us that the results

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 will be basically reciprocal of what we were seeing,  
2 you know, with a fair amount of -- not a fair amount,  
3 with some degree of variation. And, again, I think  
4 that the numbers won't be exact, because the line  
5 loading varies.

6 Q. Uh-huh.

7 A. (Murphy) But we -- I'm fairly certain that we will see  
8 this resolved, you know, basically change from a  
9 negative to a positive. You know, in the wholesale  
10 world, it's a different analysis, but --

11 Q. Do we have to wait the full year to see the true effect  
12 or will we see it part way through the year?

13 A. (Murphy) I think the first indication will be, when  
14 there's the 90 day period, you know, following when we  
15 have a final retail settlement. I think that will  
16 follow, after the -- when we made the change on  
17 February 18th. So, when we take a 90 day period, you  
18 know, from February and March and April, I think we  
19 would be able to tell, you know, from those indicators  
20 what has happened here.

21 Q. Okay.

22 A. (Murphy) And, I think it will show a change.

23 Q. Thank you. Mr. McCabe, you mentioned that the Company  
24 has updated it's lead/lag study?

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[WITNESS PANEL: Janzen|McCabe|Murphy]

- 1 A. (McCabe) Yes, we have.
- 2 Q. And, the study period is what? 2008?
- 3 A. (McCabe) Calendar year 2008.
- 4 Q. Okay. And, this was just filed?
- 5 A. (McCabe) Yes, it was. It was filed in this filing.
- 6 And, it's included in Schedule SMM-8. And, it is
- 7 Workpaper -- I believe it's Workpaper Number 9. Yes,
- 8 it's Workpaper Number 9.
- 9 Q. And, you understand that Staff hasn't had an
- 10 opportunity to review it at this point, and we will be
- 11 conducting a review of it over the next several months?
- 12 A. (McCabe) Yes, I understand that.
- 13 Q. Okay. You did mention that, in developing the new net
- 14 lag, you took into account the lead associated with the
- 15 RPS payments?
- 16 A. (McCabe) Yes, we did.
- 17 Q. And, that resulted in presumably a longer lead and a
- 18 shorter, a smaller net lag?
- 19 A. (McCabe) Yes. Yes, it did.
- 20 Q. Thank you. You also said that the Company decided to
- 21 create a new RPS Adjustment Factor that essentially
- 22 tracks the costs and revenues associated with RPS
- 23 payments and revenues?
- 24 A. (McCabe) Yes, we did. A new RPS reconciliation, that's

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 correct.

2 Q. And, that's on Schedule SMM-9?

3 A. (McCabe) Yes.

4 Q. So, that's -- the schedule that I'm looking at, Page 1  
5 of 2, because you've only got the revenues associated  
6 there, you have an overcollection, and hence the  
7 generation of interest payments that will be passed  
8 through to customers, is that correct?

9 A. (McCabe) That's correct. We've collected \$826,084 for  
10 the period, from January 2008 through January 2009.  
11 And, we have accumulated interest of \$21,223 over that  
12 period.

13 Q. And, is the Company putting that aside or is that  
14 interest for the -- at least for the period covered by  
15 -- oh, this runs through January '09?

16 A. (McCabe) That's correct.

17 Q. And, so, has any of that interest that's being  
18 generated up to January '09, is that reflected in the  
19 proposed Default Service rates or has that being put  
20 aside?

21 A. (McCabe) That is being put aside.

22 Q. Okay. And, so, at what point do you intend to reflect  
23 that in -- so, presumably, you'll reflect it in a RPS  
24 adder, is that correct, at some point?

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[WITNESS PANEL: Janzen|McCabe|Murphy]

- 1 A. (McCabe) That's correct, at a future date.
- 2 Q. Thank you.
- 3 A. (McCabe) After we've incurred some expenses to offset
- 4 the revenues that we've been collecting.
- 5 Q. I see. And, when do you anticipate that you'll have
- 6 your first RPS adder?
- 7 A. (McCabe) I would suspect we'd probably propose one at
- 8 this time next year. But, I mean, that's certainly
- 9 subject to discussions with Staff on what the most
- 10 appropriate treatment is.
- 11 Q. Okay. Maybe I should get my question right. My
- 12 understanding is you do have RPS costs built into your
- 13 rate. What we're talking about here is the
- 14 reconciliation component?
- 15 A. (McCabe) Yes.
- 16 Q. So, you're saying nothing associated with the
- 17 reconciliation of RPS costs is currently reflected in
- 18 your Default Service rate?
- 19 A. (McCabe) That is correct.
- 20 Q. And, that will happen at some time in the future?
- 21 A. (McCabe) Yes.

22 MR. McCLUSKEY: Okay. Thank you.

23 WITNESS McCABE: You're welcome.

24 MS. AMIDON: That's it.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 CHAIRMAN GETZ: Commissioner Below.

2 CMSR. BELOW: Yes.

3 BY CMSR. BELOW:

4 Q. Mr. McCabe, on your Revised Page 14 of 15 to Exhibit 4,  
5 at Line 10, there's a sentence that reads: "For other  
6 customers in the Small Customer Group, increases range  
7 from 19.6 percent to 25.9 percent." Did you mean to  
8 say "decreases", instead of "increases"?

9 A. (McCabe) Yes, I did.

10 Q. Okay.

11 A. (McCabe) Thank you.

12 Q. Mr. Murphy, on your Exhibit 6, at Page -- well  
13 Exhibit 1, the graph at the back of it, we have a black  
14 and white version, it's a little hard to read. And, I  
15 was wondering if you could identify, just confirm which  
16 line goes with which line in the key?

17 A. (Murphy) Okay. Just one moment please, I'll have to  
18 get that out. Could you repeat your question please?

19 Q. Well, when you find that exhibit, did you found it?

20 A. (Murphy) Yes.

21 Q. Okay. There's a key at the bottom.

22 A. (Murphy) Yes.

23 Q. And, if you look at the middle of the graph, say,  
24 December '07, the lines most diverge, particularly the

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[WITNESS PANEL: Janzen|McCabe|Murphy]

- 1 middle two. Just from the top, is the top line the  
2 FLD/DLD in that?
- 3 A. (Murphy) That's correct.
- 4 Q. And, the next line, at that December '07, is the total  
5 losses?
- 6 A. (Murphy) Yes.
- 7 Q. And, right under that is the Default Service Large  
8 Customer losses?
- 9 A. (Murphy) I believe so.
- 10 Q. And, then, the bottom line is the Small Customer  
11 losses?
- 12 A. (Murphy) I believe that's true.
- 13 Q. And, how do you explain the negative losses for Small  
14 Customers? What does that mean? Are you just -- Is  
15 that just taking some standard differential between  
16 small and large and applying it to the somewhat  
17 erroneous metering data?
- 18 A. (Murphy) Yes. Yes. That's what is the driver of this.
- 19 Q. So, there's not really negative losses by Small  
20 Customers, it's just, when you apply your standard  
21 formula, it appears that way?
- 22 A. (Murphy) Correct. This a mathematical formula.
- 23 Q. Okay. I had another question, but I forget where it  
24 went. Just a moment.

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[WITNESS PANEL: Janzen|McCabe|Murphy]

1 [Short pause]

2 CMSR. BELOW: I guess that's all.

3 CHAIRMAN GETZ: Any redirect?

4 MS. MATTHEWS: No.

5 CHAIRMAN GETZ: Then, hearing nothing,  
6 the witnesses are excused. Thank you, everyone.

7 WITNESS McCABE: Thank you.

8 CHAIRMAN GETZ: Any objection to  
9 striking identifications and admitting the exhibits into  
10 evidence?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing no objection,  
13 they will be admitted into evidence. We have an  
14 opportunity for a closing statement. Ms. Amidon.

15 MS. AMIDON: Thank you, Mr. Chairman.  
16 Staff has no objection to the Motion for Confidential  
17 Treatment. And, obviously, being a party to the proposed  
18 RPS Compliance Agreement that was submitted as Exhibit 6  
19 -- excuse me, strike that, Exhibit 5, we recommend that  
20 the Commission approve that Agreement in this order.

21 In addition, we reviewed the filing and,  
22 as amended today by Mr. McCabe, we believe that the  
23 Commission -- I mean, strike that, the Company followed  
24 the solicitation and bid evaluation process that was

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1 approved by the Commission. And, we recommend that the  
2 Commission approve the petition.

3 CHAIRMAN GETZ: Thank you.  
4 Ms. Matthews.

5 MS. MATTHEWS: Thank you, first of all,  
6 to Staff and the Commission, for your indulgence with our  
7 witness being ill. I appreciate having Ms. Janzen sit in  
8 at the last minute. We respectfully request that the  
9 Commission approve the proposed Default Service rates for  
10 the Large and Small Customer Groups no later than Monday,  
11 March 23rd, so the rates can become effect for usage on an  
12 after May 1st. And, we also request that the Commission  
13 approve the amended RPS Settlement Agreement as filed.  
14 Thank you.

15 CHAIRMAN GETZ: Okay. Well, thank you,  
16 everyone. We'll take the matter under advisement and  
17 close the hearing. Thank you.

18 (Whereupon the hearing ended at 2:29  
19 p.m.)

20  
21  
22  
23  
24

