

**STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**

DOCKET NO. DE 10-195

**Request for Approval of Power Purchase Agreement
Between
Public Service Company of New Hampshire
and
Laidlaw Berlin BioPower, LLC**

January 18, 2011

REBUTTAL TESTIMONY OF

LISA K. SHAPIRO, Ph.D.

1 **INTRODUCTION**

2 **Q. Please state your name, title and business address for the record.**

3 A. My name is Lisa K. Shapiro and my business address is 214 North Main Street, Concord,
4 NH 03301. I am Chief Economist at Gallagher, Callahan & Gartrell, P.C.

5
6 **Q. Have you previously submitted testimony in this proceeding?**

7 A. Yes, I have submitted prefiled direct testimony on July 26, 2010.

8
9 **Q. What is the purpose of your rebuttal testimony?**

10 A. The purpose of this testimony is to rebut the prefiled direct testimony of staff witness
11 Thomas C. Frantz.

12
13 **Q. Please summarize the subject matters you will rebut.**

14 A. Mr. Frantz states (page 1) that his testimony analyzes the economic development benefits
15 factors discussed in RSA 362-F9,II(e), and then concludes (page 8) that he cannot
16 recommend that the Commission approve this PPA as filed. I disagree with Mr. Frantz's
17 conclusion because his analysis rests on 3 critically flawed assumptions.

18
19 First, Mr. Frantz relies on Mr. McCluskey's estimate of total above market costs of the
20 PPA. Second, he assumes that the economic harm from the alleged above market costs
21 outweigh the economic benefits. Third, he does not take into account all of the economic
22 benefits of the Laidlaw project.

1 **Q. Do you agree with Mr. Frantz's assumption that the annual cost of the PPA is \$26**
2 **million in above market costs to PSNH's customers?**

3 A. PSNH disagrees with this assumption. Please see the rebuttal testimony by PSNH
4 witnesses Gary A. Long, Terrance J. Large and Richard C. Labrecque which provides
5 extensive discussion of Mr. McCluskey's analyses and conclusions. Mr. Frantz states
6 that his reasoning for rejecting the analysis that the PPA will provide net economic
7 benefits is "not that Dr. Shapiro's analysis is seriously flawed or that the model is
8 fundamentally flawed . . .but rather that Dr. Shapiro makes no provision for the fact that
9 this contract's prices are above market." (page 6). However, if it is Mr. McCluskey's
10 estimate that is flawed and the net economic impact of the project is positive, then Mr.
11 Frantz's basis for his conclusion is moot.

12
13 **Q. Does Mr. Frantz provide an estimate of what the economic effect on New**
14 **Hampshire would be if the PPA between PSNH and Laidlaw results in over-market**
15 **costs alleged by Mr. McCluskey?**

16 A. Mr. Frantz cites data provided by me in a data response, Staff Set-06, Q-Staff-009. The
17 estimates, based on Dr. Gittell's report, are that a \$10 million increase in electric rates
18 would reduce Gross State Product by about \$5 million and reduce employment by about
19 65 jobs.

1 **Q. Does Dr. Gittell's study provide an estimate of the reduction of jobs and Gross State**
2 **Product from an electric rate increase closer in value to Mr. Frantz's assumption of**
3 **\$26 million rate increase?**

4 A. Yes, Dr. Gittell's study reports that an approximate \$25 million rate increase in 2015
5 associated with certain pricing assumptions if New Hampshire does not participate in
6 RGGI would lead to an estimated reduction in Gross State Product by about \$7.3 million
7 and reduction in employment by about 84 jobs.

8

9 **Q. Do you agree with Mr. Frantz's conclusion that the economic harm from a**
10 **hypothetical \$26 million rate increase would outweigh the economic benefit from the**
11 **PPA as filed?**

12 A. No, I do not. The estimate of the increases in Gross State Product and Employment from
13 the PPA are greater than the estimated loss, thus still providing substantial net economic
14 development benefits to the state. The estimates of the positive economic development
15 benefits in my direct testimony for the operating phase of the proposed Project using the
16 RIMS II model are 229-276 jobs (page 11) and \$19-\$24 million in Gross State Product.
17 These are significantly greater than the economic harm estimate of the alleged \$26
18 million rate increase included in Mr. Frantz's testimony. Even if Mr. Frantz were to
19 simply gross up linearly the estimated Gross State Product and Employment reductions
20 from a hypothetical \$10 million rate increase to a hypothetical \$26 million rate increase
21 provided in Staff Set-06, Q-Staff-009, the economic development benefits estimated are
22 still a net positive.

1 **Q. Are there additional benefits associated with the proposed Project that you did not**
2 **include in the RIMS II modeling?**

3 A. Yes, there are. As I indicated in my direct testimony, Laidlaw stated in their SEC
4 application that they expect to pay in excess of \$1 million in local property taxes. I also
5 indicated that they would pay other taxes such as the statewide utility property tax and
6 the business enterprise and profits taxes, and make expenditures on goods and services
7 typically needed to operate and maintain a biomass facility beyond expenditures on
8 biomass fuel. Furthermore, I indicated that the estimated economic benefits resulting
9 from the RIMS II modeling did not reflect indirect and induced benefits that are likely to
10 result from facility expenditures on local goods and services other than biomass fuel and
11 from any new spending by the 40 permanent employees on local goods and services.
12 Inclusion of these additional benefits would increase the RIMS II estimates I reported in
13 my direct testimony.

14
15 **Q. Are there additional economic benefits that should be considered in analyses of the**
16 **RSA 362-F:9, II(e) factor?**

17 A. Yes, there are. I included in my direct testimony letters from the Coös County
18 Commissioner’s Office and the Community EFSEC Advisory Commission organized by
19 the Androscoggin Valley Economic Recovery Corporation supporting the substantial
20 economic development benefits of the Laidlaw project. On September 9, 2010, the
21 Androscoggin Valley Economic Recovery Corporation filed comments in SEC Docket
22 No. 2009-02 and in this docket in which it expressed full support of the proposed Project
23 and set forth substantial federal and community benefits from timely approval of the

1 proposed Project. The list of benefits can be seen in AVER's letter of September 9,
2 2010, a copy of which is attached to this testimony. The specific benefits detailed in the
3 AVER letter include the following:

- 4 1. \$44.5 million in federal New Market Tax Credit Authority
- 5 2. \$2.25 million of the NMTC as a Community Loan Fund
- 6 3. \$2.25 million of matching leveraged funds from the Community Loan Fund
- 7 4. \$250,000 of the NMTC in grants for job, equipment, safety and responsible
8 forestry practices training.
- 9 5. \$20 million in ARRA Recovery Zone Facility Bond Financing Authority
- 10 6. \$500,000 City of Berlin, NH Targeted Economic Development Funding
- 11 7. A "River Walk" along the Androscoggin River for community use
- 12 8. An ATV/Snowmobile trail along Hutchins and Coos Streets
- 13 9. Landscaping and new fencing
- 14 10. Sponsorship of local events and social activities
- 15 11. Plant tours to educate and promote alternative energy
- 16 12. Low cost thermal energy to the Fraser plant and other collocating businesses.
- 17 13. Priority hiring of local workers
- 18 14. Local purchases of biomass
- 19 15. A community parking lot
- 20 16. A student intern program to develop alternative energy

21
22 In addition, Mr. George Sansoucy, on behalf of the City of Berlin, submitted direct
23 testimony on December 17, 2010 outlining the economic development benefits from the
24 Project to the City of Berlin. A number of the benefits identified in Mr. Sansoucy's
25 testimony are listed above. In addition, Mr. Sansoucy's testimony identified \$3 million
26 per year in payments to the City for taxes, sewer and water and an additional \$10 million
27 in total operating expenses. Most of these benefits were not included in the RIMS II

1 model estimates reported in my direct testimony. . These additional benefits are directly
2 relevant to assessing the economic development benefits of the PPA.

3

4 **Q. Can you please summarize the key conclusions in your rebuttal testimony?**

5 A. The proposed Laidlaw power plant will provide significant economic benefits to an
6 economically depressed area of the state of New Hampshire by supporting 470 average
7 annual New Hampshire jobs during the construction of the Project, and once operational,
8 40 direct jobs at the plant, and about 200 additional indirect and induced jobs, many of
9 which will be in the logging and related industries. In addition, there are other significant
10 economic development benefits, as discussed above.

11

12 Mr. Frantz's conclusion relies on a fundamentally flawed assumption that the above
13 market costs of the PPA are \$26 million a year. Even taking into account all of the
14 economic development benefits from the project as compared to the economic impacts
15 from a hypothetical \$26 million rate increase, there are still substantial net economic
16 benefits.

17

18 **Q. Does this conclude your rebuttal testimony?**

19 A. Yes, it does.