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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 10, 2010 - 9:11 a.m.
Concord, New Hampshire

RE: DE 09-035
PUBLIC SERVICE OF NEW HAMPSHIRE:
Distribution Service Rate Case.
(Hearing regarding permanent
distribution service rates)

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

Sandy Deno, Clerk

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

Reptg. Manchester Dept. of Public Works:
Douglas L. Patch, Esq. (Orr & Reno)

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Rorie Hollenberg, Esq.
Kenneth E. Traum, Asst. Consumer Advocate
Stephen Eckberg
Office of Consumer Advocate

Reptg. PUC Staff:
Matthew J. Fossum, Esq.
Edward N. Damon, Esq.
Steven E. Mullen, Asst. Dir. - Electric Div.
George McCluskey, Electric Division

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

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1 P R O C E E D I N G

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DE 09-035.
4 This docket was opened subsequent to a filing on April 17,
5 2009 by Public Service Company of New Hampshire requesting
6 a increase in rates, setting temporary rates. Order of
7 notice was issued on an April 30, followed by a prehearing
8 conference, and approval of a procedural schedule, which
9 culminated in an order approving temporary rates on
10 July 31. The Company had filed for permanent rates on
11 June 30. An order was issued suspending those tariffs and
12 scheduling a prehearing conference on July 30, and
13 subsequently approving a procedural schedule culminating
14 in the hearing today. And, we have before us today a
15 Settlement Agreement on Permanent Rates entered into among
16 PSNH, Staff, and the Consumer Advocate that was filed on
17 April 30.

18 Can we take appearances please.

19 MR. EATON: For Public Service Company
20 of New Hampshire, my name is Gerald M. Eaton. Good
21 morning.

22 CHAIRMAN GETZ: Good morning.

23 MR. PATCH: Good morning. Doug Patch,
24 from Orr & Reno, on behalf of the Manchester Department of

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1 Public Works. And, with me this morning are Tim
2 Clougherty, the Deputy Director, and Jay Davini, the
3 Public Utilities Coordinator.

4 CHAIRMAN GETZ: Good morning.

5 MR DAVINI: Good morning.

6 MS. HATFIELD: Good morning,
7 Commissioners. Meredith Hatfield, for the Office of
8 Consumer Advocate, on behalf of residential ratepayers.
9 And, with me today I have Rorie Hollenberg, Ken Traum, and
10 Steve Eckberg.

11 CHAIRMAN GETZ: Good morning.

12 MR. FOSSUM: And, good morning. Matthew
13 Fossum and Edward Damon representing the Staff of the
14 Public Utilities Commission. And, with us today are Steve
15 Mullen and George McCluskey from Commission Staff.

16 CHAIRMAN GETZ: Good morning. Are you
17 ready to proceed, Mr. Eaton, or are there any things we
18 need to address prior to hearing from your witnesses?

19 MR. EATON: Yes. Preliminarily, we
20 circulated a list of exhibits. The temporary rate
21 proceeding ended at Exhibit 6. And, we provided the Clerk
22 with copies of the exhibits, and we have them available
23 for the court reporter, if necessary. They essentially
24 are the testimony that PSNH filed on June 30th, along with

1 Volume 2, which are the schedules and attachments to those
2 testimonies and the standard filing requirements. Exhibit
3 14 is an updated computation of the distribution revenue
4 deficiency that were changes that were brought up by
5 discovery, and some changes up, some changes down.
6 Exhibit 15 is the Testimony of Mr. Traum and Eckberg that
7 was filed on January 15th. Exhibit 16 is Mr. Traum's
8 testimony. Seventeen (17) is Mr. McCluskey's testimony on
9 behalf of Staff. Mr. Cunningham's testimony is number 18.
10 The cost of capital testimony of Mr. Chattopadhyay was
11 filed on January 15th on behalf of Staff. And, Exhibit 20
12 is the Settlement Agreement.

13 CHAIRMAN GETZ: Okay. Exhibits 7
14 through 20 will be marked for identification as described
15 by Mr. Eaton.

16 (The documents, as described, were
17 herewith marked as Exhibits 7 through
18 20, respectively, for identification.)

19 MR. EATON: The way we are going to
20 proceed today is with an initial panel of Mr. Hall,
21 Baumann, Traum, and Mullen, and they will describe the
22 Settlement Agreement. Then, we will convene a second
23 panel of Mr. McCluskey, Mr. Hall, and Mr. Charles Goodwin
24 of Northeast Utilities Service Company. And, they will be

1 available to answer any detailed questions on revenue
2 allocation and rate design that the City of Manchester
3 Public Works Department may be interested in.

4 CHAIRMAN GETZ: Is everyone fine with
5 that proposed procedure?

6 (No verbal response)

7 CHAIRMAN GETZ: Hearing no objection,
8 then, Mr. Patch?

9 MR. PATCH: Mr. Chairman, just to note
10 for the record, we do have some questions for the first
11 panel, you know, not just the second panel.

12 CHAIRMAN GETZ: I would have made that
13 opportunity available.

14 MR. PATCH: Thank you.

15 CHAIRMAN GETZ: Mr. Eaton.

16 MR. EATON: I'd like to call Steven
17 Mullen, Kenneth Traum, Stephen Hall, and Robert Baumann to
18 the stand.

19 (Whereupon Stephen R. Hall, Robert A.
20 Baumann, Kenneth E. Traum, and Steven E.
21 Mullen were duly sworn and cautioned by
22 the Court Reporter.)

23 MS. HATFIELD: I guess I will begin.

24 STEPHEN R. HALL, SWORN

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 ROBERT A. BAUMANN, SWORN

2 KENNETH E. TRAUM, SWORN

3 STEVEN E. MULLEN, SWORN

4 DIRECT EXAMINATION

5 BY MS. HATFIELD:

6 Q. Good morning, Mr. Traum.

7 A. (Traum) Good morning.

8 Q. Could you please state your full name for the record.

9 A. (Traum) Kenneth E. Traum.

10 Q. And, by whom are you employed?

11 A. (Traum) I'm employed by the Office of Consumer
12 Advocate.

13 Q. And, what is the position that you hold?

14 A. (Traum) I'm Assistant Consumer Advocate.

15 Q. And, have you testified previously before the
16 Commission?

17 A. (Traum) Yes, I have.

18 Q. And, did you work on the Settlement Agreement that is
19 being presented today on behalf of the Office of
20 Consumer Advocate?

21 A. (Traum) Yes, I did, as part of a team effort.

22 MS. HATFIELD: Thank you.

23 BY MR. FOSSUM:

24 Q. Now, Mr. Mullen, could you state your full name for the

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 record please.

2 A. (Mullen) My name is Steven E. Mullen.

3 Q. And, by whom are you employed and in what capacity?

4 A. (Mullen) I'm employed by the New Hampshire Public
5 Utilities Commission. I am the Assistant Director of
6 the Electric Division.

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

9 A. (Mullen) I work with the Director of the Electric
10 Division in managing the Electric Division and the
11 day-to-day activities, as well as I analyze filings of
12 various nature of all sorts of different electric
13 issues that come before us.

14 Q. And, have you testified previously before the
15 Commission?

16 A. (Mullen) Yes, I have.

17 Q. And, did you work on the Settlement Agreement that is
18 being presented today in this docket?

19 A. (Mullen) Yes, I did.

20 BY MR. EATON:

21 Q. Mr. Baumann, will you please state your name for the
22 record.

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

24 Q. For whom are you employed?

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 A. (Baumann) I'm employed as the Director of Revenue
2 Regulation & Load Resources for Northeast Utilities
3 Service Company.

4 Q. And, what is your duties -- what are your duties in
5 that position?

6 A. (Baumann) My duties include a lot of regulatory
7 direction, in terms of the filings that are submitted
8 in New Hampshire on behalf of Public Service Company of
9 New Hampshire. I also have duties in other
10 jurisdictions in Connecticut and Massachusetts as well.

11 Q. Did you submit prefiled testimony in this proceeding?

12 A. (Baumann) Yes.

13 Q. And, did you respond to data requests that were
14 propounded by the Staff and the OCA?

15 A. (Baumann) Yes.

16 Q. And, did you participate in settlement discussions with
17 the Office of Consumer Advocate and the Staff?

18 A. (Baumann) Yes, I did.

19 Q. Mr. Hall, would you please state your name for the
20 record.

21 A. (Hall) My name is Stephen R. Hall.

22 Q. For whom are you employed?

23 A. (Hall) I am employed by PSNH. I'm Rate and Regulatory
24 Services Manager.

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. And, what are your duties in that position?

2 A. (Hall) I'm responsible for regulatory relations. I'm
3 also responsible for pricing, tariff administration,
4 and rate policy and planning.

5 Q. Did you prepare direct testimony in this proceeding?

6 A. (Hall) Yes, I did.

7 Q. And, did you respond to data requests that were asked
8 of you?

9 A. (Hall) Yes, I did.

10 Q. Have you previously testified before this Commission?

11 A. (Hall) I have.

12 Q. And, did you participate in the settlement discussions
13 that led to the Settlement that's been introduced as
14 Exhibit 20 in this proceeding?

15 A. (Hall) Yes, I did.

16 Q. Mr. Baumann, have you previously testified before the
17 Commission?

18 A. (Baumann) Yes.

19 Q. Mr. Hall, could you start us off with introducing the
20 Settlement and the procedural history of the case.

21 A. (Hall) Certainly. I'll start by providing an overview
22 of Section 1 of the Settlement, which is the
23 "Introduction and Procedural History". Some of this
24 was already covered by the Chairman or Mr. Eaton in

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 their remarks.

2 PSNH filed its Petition for Temporary
3 Rates on April 17th, and that time we requested a
4 \$36.4 million annual increase in distribution rate
5 level, effective on a temporary rate basis as of
6 July 1st, 2009. The result of that filing was a
7 settlement between PSNH and the Staff that provided for
8 a \$25.6 million temporary rate increase that took
9 effect on August 1st, 2009. That temporary rate level
10 included \$6 million annually for recovery of the
11 December 2008 ice storm costs.

12 PSNH subsequently filed testimony and
13 exhibits on June 30th proposing a permanent rate
14 increase of \$51 million, also effective August 1st,
15 2009. PSNH's permanent filing also requested a step
16 increase of \$17 million in distribution rates effective
17 July 1st, 2010. And, that filing included continuation
18 and expansion of PSNH's Reliability Enhancement
19 Program. It included rate design changes and it
20 included some other tariff pages.

21 Following the filing, the Commission's
22 Audit Staff conducted an audit, and they issued a final
23 report on December 2nd. PSNH updated its revenue
24 requirements on December 15 and reduced its original

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 proposed annual rate increase by \$358,000. And,
2 following that, there was a lengthy period of discovery
3 and several technical sessions and settlement
4 conferences that occurred between November 2009 and
5 April 2010, that culminated in the filing of a
6 settlement on April 30th.

7 I want to add that these discussions,
8 these settlement discussions were very challenging and
9 very difficult. And, the reason that they were is
10 because of the issues that all of the parties were
11 dealing with. The difficulties had nothing to do with
12 the people involved. And, with that in mind, I want to
13 thank both the Staff and the OCA for their willingness
14 to look for creative solutions to what at times
15 appeared to be insurmountable problems, and for their
16 willingness to continue to work and reach resolution of
17 these very tough issues. So, my thanks to both Staff
18 and OCA.

19 I am now going to turn it over to Mr.
20 Baumann, who is going to give a brief overview of
21 Section 2 of the Settlement, which talks about rate
22 changes.

23 A. (Baumann) Thank you. You forgot to thank me, but I'll
24 let it go. Section 2 of the Settlement, and I'm on

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Page 3 of the Settlement document, basically, I'm going
2 to just overview the highlights of the rate changes
3 that are embedded in the Settlement. We will talk
4 about the specifics in the next few minutes as we get
5 into the other sections.

6 The first rate change that will take
7 effect per the Settlement would be July 1st of this
8 year, 2010, and that would be a \$45.5 million increase
9 in distribution rates. The second increase would --
10 or, the second change in rates would be July 1 of 2011,
11 and that's a \$2.9 million rate decrease. And, the
12 third increase would be on July 1, 2012, which is a
13 \$9.5 million increase. And, on July 1, 2013, it would
14 be the fourth rate change, which would be an increase
15 of 11.1 million effective on that date. The increases,
16 respectively, the \$45 million increase is about a
17 3.9 percent increase in rates. The negative
18 2.9 million is about a 0.2 million decrease -- 0.2
19 percent decrease. The 2012 increase is approximately a
20 0.8 percent increase. And, then, the last increase is
21 approximately a 0.9 percent increase. And, again, Mr.
22 Hall has a lot of detail on the rate changes. But,
23 overall, all of those rate changes together are
24 approximately 5.4 percent on overall rates through the

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 term of the Settlement Agreement, which will be through
2 June 30th of 2015.

3 The components of the increase were
4 based on what I call "standard" revenue requirement
5 calculations of expenses and rate base and return.
6 They took into consideration the need for
7 forward-looking rate changes that would attempt to, at
8 some level, modify or address attrition issues
9 associated with earnings. And, when I say "attrition
10 issues", I mean the issue of setting rates for a period
11 of time, and then keeping them the same over that
12 period of time, knowing that costs increase over a
13 period of time, and, without any rate changes, you
14 would have rate -- you would have revenues being
15 out-stripped by increasing costs. And, one of the key
16 components of our testimony that we filed in the
17 original case was a need for and a desire to come to
18 some type of agreement on a regulatory structure that
19 really addressed the attrition issue, and would
20 possibly allow us to set a rate path over a period of
21 time that was more or less known and measurable, with
22 some exceptions that we'll talk about later, but,
23 basically, a known and measurable rate path that could
24 be -- that had a good possibility of being sustained

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 and would address some of the issues that the Company
2 has seen in the past with attrition.

3 Even over the last three years, the last
4 case three years ago, we had a modest step increase
5 after year one of that case, but we saw a very rapid
6 attrition to earnings, to the point where the
7 distribution company in 2009 earned about 3.6 percent
8 on equity.

9 And, so, I believe that this Settlement
10 and the steps and the increases that we've outlined
11 really is a, if I will -- if I can say a "cutting edge"
12 approach to the attrition issue. We, PSNH, did not get
13 what we wanted, so to speak, but that's the beauty of a
14 settlement, and the benefits of the settlement, that
15 it's a balancing act. And, I echo Mr. Hall's
16 sentiments that it was a very challenging and
17 educational situation to go through as part of this
18 Settlement. But we believe that the Settlement really
19 is a balance of all the issues that were raised and
20 will, you know, will be a good five year process that
21 -- going forward, if it were approved by the
22 Commission.

23 Q. Mr. Hall, did Public Service Company recently file
24 requests for changes in other rates that would be

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 effective at the same time as the proposed distribution
2 rate changes?

3 A. (Hall) Yes, we did.

4 Q. And, what were those?

5 A. (Hall) We recently filed for a change in the Energy
6 Service rate for effect on and after July 1st, and the
7 Stranded Cost Recovery Charge rate for effect on and
8 after July 1st.

9 Q. Did you prepare an exhibit that would summarize those
10 changes if the Commission adopted them?

11 A. (Hall) Yes, I did. I prepared an exhibit that
12 summarizes not only those two changes, but, in
13 particular, summarizes the change by class of the
14 impact of the Settlement on distribution rates.

15 Q. And, do you have that exhibit in front of you?

16 A. (Hall) Yes, I do.

17 MR. EATON: Mr. Chairman, could we have
18 that marked as "Exhibit 20".

19 CHAIRMAN GETZ: Well, 21.

20 MR. EATON: Twenty-one.

21 CHAIRMAN GETZ: So, it will be so
22 marked.

23 (The document, as described, was
24 herewith marked as Exhibit 21 for

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 identification.)

2 BY MR. EATON:

3 Q. Do you need to explain that any further or is it
4 self-explanatory?

5 A. (Hall) I'll give it a very quick overview. The first
6 page shows the proposed changes in distribution revenue
7 by class for all of the classes. That's in the first
8 column. Total is about \$45.575 million for total
9 company. I've then added a couple of columns of
10 numbers that show the estimated impact of the Stranded
11 Cost Recovery Charge proposed increase and Energy
12 Service rate proposed decrease. I added those two
13 columns to show that the impact of the Settlement on
14 total revenue level, in the event that the estimated --
15 that the proposed Stranded Cost Recovery Charge and
16 Energy Service rates are approved, the dollar amounts
17 are shown in the first page. If you look at the second
18 page, it shows the percentage impact by class and total
19 company. And, if you go to the far right-hand column,
20 you can see that, with the distribution rate increase
21 embodied in the Settlement, combining it with the
22 proposed stranded cost and Energy Service rate changes
23 proposed on July 1st, the net impact total company is
24 about a 1.7 percent change in overall rate level. And,

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 the third column -- the third page is simply the
2 overall change on a percentage basis of the
3 distribution rate increase embodied in the Settlement.
4 I've eliminated the impact of the Stranded Cost Charge
5 and the consumption tax -- and, I'm sorry, Energy
6 Service rate. The attachment that I have shows both
7 Pages 2 and 3 are identical. I don't know if that's in
8 the version that was handed out or not.

9 CMSR. BELOW: Mr. Hall, the last column
10 appears to be identical, but the percentages in the other
11 columns seem to be different.

12 BY THE WITNESS:

13 A. (Hall) Ah. My mistake. The second page shows the
14 impact of the distribution rate change, Stranded Cost
15 Recovery Charge, and Energy Service rates, this is
16 Page 2, on each individual portion of rate level. The
17 third page shows those same changes on overall rate
18 level. And, to get the impact of distribution only on
19 overall rate level, all one needs to look at is the
20 third page, Column 1, that shows "Proposed Distribution
21 Including Recoupment". And, the bottom line of that is
22 a 3.92 percent overall rate change as a result of the
23 Settlement Agreement.

24 BY MR. EATON:

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. Mr. Hall, did you have an exhibit prepared showing
2 typical bill comparisons?

3 A. (Hall) Yes, I did.

4 Q. Could you please describe that document.

5 A. (Hall) Certainly. What this shows is the impact on
6 various typical bill amounts by class of the
7 distribution rate change on July 1st of this year
8 embodied in the Settlement, plus the three proposed
9 step increases included in the Settlement. It shows it
10 on a dollar amount basis and on a percent change basis,
11 assuming no other changes or any other rate components.
12 So, this just gives you an idea of what we're talking
13 about with regard to bill amount changes on a dollar
14 and percent basis as a result of the impact of the
15 Settlement.

16 Q. And, the major rate classes are depicted on that
17 exhibit?

18 A. (Hall) Yes. Residential service, Rate R; two pages for
19 Rate G; one for Rate GV; and one for Rate LG.

20 MR. EATON: Mr. Chairman, could we have
21 that marked as "Exhibit 22" for identification?

22 CHAIRMAN GETZ: So marked.

23 (The document, as described, was

24 herewith marked as Exhibit 22 for

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 identification.)

2 BY MR. EATON:

3 Q. Mr. Hall, do you have anything to add to that portion
4 of your testimony?

5 A. (Hall) Not to that portion. What I'd like to do now is
6 turn the presentation over to Mr. Mullen, who is going
7 to address the timeline of developments in the rate
8 case.

9 Q. I'm handing out a sheet, Mr. Mullen. It's entitled
10 "Public Service Company of New Hampshire DE 09-035
11 Summary of Temporary Rate Recoupment and Rate Changes
12 per Settlement Agreement". Do you recognize that?

13 A. (Mullen) Yes, I do.

14 Q. Did you prepare this document?

15 A. (Mullen) Yes, I did.

16 Q. Do you have any changes to make to it or is it true and
17 accurate?

18 A. (Mullen) It's true and accurate.

19 Q. Could you please describe the document.

20 A. (Mullen) Sure. What I tried to do here was just depict
21 on one page the various changes and the amounts that
22 were previously described by both Mr. Hall and Mr.
23 Baumann, so you kind of get the timeline from
24 August 1st, 2009, which was the start of the temporary

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 rates, all the way through the end of the Settlement
2 and the end of what we'll describe for an Earnings
3 Sharing Agreement through June 30th, 2015. And, I just
4 figure, you know, sometimes a picture helps explain
5 things a little bit better. People can kind of see the
6 flow of what's happening at one point. It's basically
7 at July 1st, starting 2010 through 2013, there's some
8 sort of change going on one way or the other.

9 MR. EATON: Could we have this marked as
10 "Exhibit 23" for identification?

11 CHAIRMAN GETZ: So marked.

12 (The document, as described, was
13 herewith marked as Exhibit 23 for
14 identification.)

15 BY MR. EATON:

16 Q. Mr. Mullen, could you describe the portion of the
17 Settlement that has to do with the cost of capital?

18 A. (Mullen) Sure. If you turn to Page 4 of the
19 Settlement, Section 3, Section 3.1 gives the components
20 of the agreed upon capital structure, as well as the
21 costs of those various components. For equity, you
22 will see that the rate is 9.67 percent. That is the
23 same as the currently allowed rate of return -- or,
24 excuse me, return on equity for PSNH. And, the capital

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 structure includes a long-term debt, as well as a small
2 amount of short-term debt, and comes to an overall
3 weighted cost of capital of 7.513 percent.

4 Q. Would you describe the Earnings Sharing Agreement, Mr.
5 Mullen.

6 A. (Mullen) If you turn to Pages -- to Page 5 of the
7 Settlement Agreement, Section 4, describes an Earnings
8 Sharing Agreement. This is essentially a five year
9 agreement, where, starting with the period July 1st,
10 2010 through June 30th, 2011, PSNH will prepare a
11 rolling average return on equity calculation, and they
12 will do that every quarter. As time goes on and they
13 do those calculations, to the extent that PSNH's
14 earnings were to exceed 10 percent, any earnings above
15 10 percent would be shared 75 percent with customers
16 and retain 25 percent by the Company. Now, remember,
17 the return on equity was 9.67 percent. So, to the
18 extent that any earnings were between 9.67 percent and
19 10 percent, PSNH would retain those.

20 On the other end, at the low end, if
21 PSNH's earnings were below 7 percent for two
22 consecutive quarters, then, if you look at Section 4.3,
23 PSNH would be allowed to come in and request a change
24 in its rates. And, that basically gives some

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 protection to PSNH on the low end. But, at the same
2 time, there's some sharing that goes on with customers
3 on the high end. So, as this is a five year agreement,
4 there's lots of things that can change over time. And,
5 what we tried to do is make it so we're not in here in
6 another year or two from now doing the same thing that
7 we're doing now.

8 And, over the course of the five years,
9 what we're really trying to focus on here is the actual
10 earnings, not the individual line items. But,
11 basically, we tried to set up a process where PSNH has
12 a reasonable chance to earn a reasonable rate of
13 return. But, at the same time, we have some outs on
14 either end. So, if things go, you know, if things go
15 either if the earnings become very high or if the
16 earnings become lower than expected during the time.

17 During the course of this time, too,
18 PSNH will also be -- its capital structure will change
19 at times, because they will be making -- they will be
20 borrowing additional money and they will be infusing
21 the equity over time. So, if you look at Section 4.5,
22 what's going to happen is, as PSNH borrows more money,
23 they will also try to put more equity in at the same
24 time to try and keep the component percentages about

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1 the same as what we have agreed to in Section 3.1.

2 Q. Mr. Baumann, could you please explain the step
3 increases in Section 5?

4 A. (Baumann) I'm referring now to Page 5 and 6 of the
5 Settlement, again Section 5. This whole section really
6 addresses the issue of increased capital spending going
7 forward through a period of five years. And, again,
8 what I alluded to earlier about the attrition of
9 earnings, if you don't have rates that at least in part
10 address the increase in costs that you're spending for
11 your distribution capital and your reliability
12 expenditures.

13 And, the key components, which are on
14 the top of Page 6, really, there were four steps
15 involved. When you file a rate case, you start with a
16 test year, test year rate base, average rate base.
17 And, the test year this year was 2008. To that, we
18 made adjustments to bring the rate base to the end of
19 2009, the rate year. At that point, we started
20 discussions on attrition. And, the first step that we
21 included in these revenue requirements, and it's noted
22 on the top of Page 9, is a \$2.3 million adjustment, to
23 eliminate the lag of recovery of a end of 2009 rate
24 year capital structure to bring it -- excuse me,

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1 capital expenditures to bring it to March 31st of 2010.
2 That's about a three month elimination of lag. And,
3 that's where that \$2.3 million in revenue requirements
4 comes in. The key to that then would be that, as of
5 July 1, 2010, you would have net plant in your rate
6 base as of March 31st, 2010. So, everything that goes
7 in on July 1st would be, in theory, known and
8 measurable as of March -- of the previous March 31st.

9 Then, we structured, and I'm going to
10 stay with the plant, the plant changes, we structured
11 three more increases, as I mentioned before, on July 1
12 of 2011, '12, and '13, that addressed a portion of the
13 change in net utility plant that is anticipated over
14 the next three years.

15 And, I'm going to bring you through the
16 -- what I call the "mechanical numbers" here, and then
17 Mr. Traum will pick up where I left off in talking
18 about how we're going to track this and report this.
19 But, over those next three years, July 1, '11, '12, and
20 '13, we have effectively folded in projected plant
21 balances as of the previous March of each year. So
22 that, once again, the increases that would go into
23 effect on July 1 of each of the identified years would
24 be based on numbers -- of net plant numbers on the

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1 previous March. So, there's no -- there is still a
2 three-month lag in effect that is not part of this rate
3 proposal, the March through July. And, then, there's
4 also no increase associated with any lag into the rate
5 year, if you will, or the year of recovery. So that
6 there is -- we've taken a big step to eliminate as much
7 lag as possible in revenue requirements calculations
8 with net plant, but there's still the lag, because you
9 collect in the future year costs associated with prior
10 year plant. So, in the current year that you're
11 collecting that future year, you're really collecting
12 for costs that are still in history, in the rear-view
13 mirror, so to speak.

14 The component of that, and I really
15 think it's a key component, is that there was -- there
16 was a real willingness to look at and address actual
17 changes in net plant. And, again, Mr. Traum will talk
18 about how that's going to be measured. But that was,
19 to me, a key component that the Settling Parties
20 worked, you know, worked through to come up with a
21 method that would be based on some still historical net
22 plant balances, but much more current, so there was
23 less of a lag between setting rates and then, really,
24 recovering the costs for costs that had been incurred

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1 in the previous time period.

2 In addition, there are two increases,
3 and, again, on the top of Page 6, associated with the
4 REP -- REP II, actually, program that will be talked
5 about a little later. And, those are on July 1, '11
6 and July 1, '13 of 1.5 and 1.6 million. And, again,
7 that shows the support and revenue requirements needed,
8 in addition to \$4 million that is part of the July 1,
9 '10 increase associated with REP II, that will be
10 needed to continue that program, so that we can
11 continue the expenditures on the reliability area that
12 was outlined in a lot of testimony. Mr. Johnson is
13 here, if he's needed for detailed questions in the REP
14 area.

15 So, those are the steps. And, now, I
16 guess I can turn it over to Mr. Traum and he can
17 outline the reporting requirements associated with
18 those steps.

19 A. (Traum) Thanks, Bob. I'll explain the step adjustment
20 process as described in Sections 5.2 through 5.5. And,
21 please bear with me, because I view this process as the
22 most complicated aspect of this Settlement, recognizing
23 that it goes out for a number of years.

24 The same process will apply to the three

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1 steps projected for effect July 1, 2011, July 1, 2012,
2 and July 1, 2013. So, for purposes of illustrating and
3 explaining the process, I'll just focus on the July 1,
4 2011 step. And, also, for the purpose of clarity and
5 to avoid unnecessary repetition, the step process that
6 I'll be talking about excludes plant additions related
7 to the Reliability Enhancement Program, the 1.5 million
8 and 1.6 million that Mr. Baumann referred to, which
9 will be discussed further.

10 Generally speaking, the proposed process
11 for the non-REP step uses two capital investment tests
12 to determine whether and to what extent PSNH should
13 implement the proposed step increases. The first step
14 concerns the actual change in net distribution plant.
15 The second test is to be considered only if the first
16 test is not met, and it relates to the actual net
17 distribution plant balance.

18 For the 2011 step, the Agreement
19 requires PSNH to file financial documentation and
20 explanations by April 30, 2011. This filing would
21 include a report of changes in net distribution utility
22 plant for the 12 month period ending March 31, 2011, as
23 well as the actual balance on that date. At that
24 point, Staff and the OCA will review those filings.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Under this first test, if the actual
2 change in the net distribution utility plant over that
3 one year period is equal to or greater than
4 \$75 million, and the Staff and OCA agree with PSNH's
5 calculations and inputs, then the step adjustment would
6 take effect July 1, 2011, subject to Commission
7 approval that the plant additions are prudent, used and
8 useful, and providing service to customers. So, that's
9 the first test, if the 75 million is met. But, if
10 Staff or the OCA disagree with -- that PSNH has met the
11 \$75 million criteria, then either Staff or the OCA may
12 request a hearing to determine whether the step
13 adjustment should take effect as scheduled and as
14 calculated by PSNH.

15 If, however, PSNH's April 2011 filing
16 shows that the change in net distribution plant to be
17 less than \$75 million, then we go to a second test to
18 determine if and to what extent PSNH is entitled to the
19 step increase. Under the second test, the actual net
20 distribution plant balance as of March 31, 2011 is
21 compared with the forecasted net distribution plant
22 balance of \$997 million as of March 31, 2011, which is
23 shown in Section 5.5 of the Settlement. And, that
24 number, that forecasted number was based on PSNH's

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1 five-year plan from February 2010.

2 If the actual net distribution plant as
3 of March 31, '11 is equal to or greater than the 997,
4 and again subject to Staff and OCA agreement, the step
5 would take effect on July 1, 2011, and, again, as long
6 as the Commission finds in its approval that the plant
7 additions are prudent, used and useful, and providing
8 service to customers.

9 If the net distribution plant balance as
10 of March 31, '11 is less than the 997, and subject to
11 Staff and OCA review and Commission approval, the
12 amount of the step adjustment will be revised downward,
13 consistent with Attachment 1 to the Settlement
14 Agreement.

15 For example, if the balance was
16 990 million, as opposed to the 997, there would be --
17 this step adjustment of \$9.3 million would be reduced
18 by approximately 1.1 million. That reduction is
19 calculated by determining the difference between what
20 was determined at the 997 million, and that difference
21 is multiplied by the rate of return of 7.513 percent
22 tax effected, and also reduced relating to the
23 depreciation rate of 2.95 percent. I'm sure that's
24 very complicated. Hopefully, the numbers show up in

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Attachment 1 and that makes it easier.

2 As stated in Section 5.4.4, if the Staff
3 or OCA disagree with any aspect of the Company's
4 calculations, then either Staff or the OCA can request
5 the Commission hold a hearing to determine whether the
6 step adjustment should take effect as scheduled, as
7 calculated by PSNH.

8 As stated at the start of this
9 discussion, my explanation related simply to the
10 July 1, 2011 step, and I'm not going to repeat it for
11 the other two steps, but it would be the same process
12 with just the different investment thresholds, which
13 are specified in the Settlement Agreement.

14 And, in conclusion, I'd just say that in
15 no case can the amount of any step as it relates to
16 non-REP plant investment exceed the amounts shown in
17 the table on the top of Page 6 of the Settlement.

18 With that, at this point I believe I'll
19 be turning it back over to Mr. Mullen.

20 A. (Baumann) If I could just jump in for one second, a
21 couple things I didn't mention about this section. We
22 chose net plant because it is a directly measurable
23 number right off of the audited financial statements of
24 the Company. And, we will be able to supply, we, PSNH

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 will be able to supply that net plant balance by
2 detailed plant account. We'll be able to -- a "net
3 plant balance" is net of accumulated depreciation. We
4 will be able to provide, by detailed plant account, the
5 net accumulated depreciation values. So, it's a number
6 that is very readily available to be -- to be dissected
7 down to a level that is very, very measurable and
8 reviewable by all parties.

9 The other issue that I didn't mention is
10 that the step increases, and Mr. Traum just mentioned
11 that the reporting and review will be at what I will
12 call "100 percent of plant net of the REP additions".
13 But the actual step increases, and they are supported
14 in Exhibit 1, are based on 80 percent of the net plant
15 balances. So, this is not 100 percent of the net plant
16 balance increases; the changes were based on
17 80 percent. I don't necessarily need to get into
18 Exhibit 1, but Exhibit 1 basically looks at the
19 changes, as Mr. Traum mentioned, but then, for
20 calculation of the step increases, they are reduced to
21 the 80 percent level for net plant. Thank you.

22 Q. And, you were -- you were referring to "Attachment 1"
23 to the Settlement Agreement?

24 A. (Baumann) Yes, I was, Mr. Eaton.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. Thank you. Mr. Mullen, could you go onto the
2 Reliability Enhancement Program.

3 A. (Mullen) If you turn to Page 8 of the Settlement
4 Agreement, in Section 6, the Reliability Enhancement
5 Program is something that started for PSNH in July 1st
6 of 2007. This originated in PSNH's last distribution
7 rate proceeding, which was DE 06-028. At the time of
8 that case, that was -- the Reliability Enhancement
9 Program was to be a five-year program to -- for
10 targeted capital expending and operation and
11 maintenance spending, for things like tree trimming,
12 replacing some aging equipment, and a lot of the
13 reliability-related measures to increase the
14 reliability of PSNH's distribution system.

15 In this proceeding, what we've agreed to
16 do is to continue the existing program, as well as
17 provide an incremental funding of \$4 million, that will
18 be used for additional capital spending and additional
19 O&M spending. A couple of the projects that will be
20 done in there will be some enhanced tree trimming, some
21 of that is even to deal with trees that are still left
22 over from the December 2008 ice storm.

23 There will also be funding provided in
24 here for PSNH to implement a Geographic Information

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 System. The Geographic Information System will provide
2 a lot of detailed information about the location of
3 PSNH's facilities, certain problems with PSNH's
4 facilities. And, some of this also stems from the
5 Commission's review of the December 2008 ice storm. In
6 that report, there was some action items having to deal
7 with PSNH's Outage Management System. And, they said
8 "Well, we'll look at all of that in the course of this
9 rate case."

10 So, what we've done, related to the
11 Geographic Information System, that's going to be a
12 significant undertaking by PSNH over the course of a
13 number of years. PSNH will have to tie it into I think
14 roughly a dozen other computer systems. And, once they
15 do that, they will be able to implement a Outage
16 Management System that is tied into that Geographic
17 Information System. However, that's all going to take
18 some time. And, what -- in the meantime, PSNH has made
19 some enhancements to its existing Outage Management
20 System, to provide some additional information related
21 to outages, restoration status. And, I think, if you
22 -- even if you look at PSNH's website recently, with
23 some recent outage events we've had due to wind and --
24 I think it was mainly windstorms, PSNH now has a map

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 that you can go to on its website, where you can see
2 information by community, in terms of how many
3 customers they have, how many outages there are. And,
4 I believe that information gets refreshed every 15
5 minutes. This is an enhancement that PSNH has recently
6 made. It was something that was not available at the
7 time of the ice storm. And, this is all -- PSNH will
8 continue to make enhancements to that, as well as other
9 information that's available. While at the same time
10 it's preparing what's called, I think in Section 6.4, a
11 "High Level Design" for their Geographic Information
12 System.

13 What this High Level Design is, is this
14 is something that their Information Technology
15 Department, you'll see this is a capitalized term. So,
16 this is something that they refer to. And, it's more
17 of a schematic about the various steps that they will
18 have to do and the various components that they will
19 have to put in, and how they're going to put these in
20 over time.

21 Under the terms in Section 6.4, that
22 High Level Design will be complete by July 1st, 2011.
23 And, over time, we're going to be reviewing that and
24 discussing that and continue to be updated on the

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 status of the implementation of that GIS, as well as
2 eventually a GIS-based Outage Management System.

3 Also related to the Reliability
4 Enhancement Program, I think you've heard previously
5 that there's a couple of step increases related to
6 recovering the revenue requirements associated with
7 various capital projects. What happened during the
8 existing Reliability Enhancement Program that started
9 in July of 2007 is that the funds were getting eaten up
10 somewhat by recovering the capital -- recovering the
11 revenue requirements associated with the capital
12 projects. So, as more years went on, they still had to
13 recover the revenue requirements from the year one
14 capital projects, the year two capital projects from
15 the existing funding of the Reliability Enhancement
16 Program.

17 So, what we've done here for the second
18 Reliability Enhancement Program is said "Okay, what
19 we'll do then is provide a couple of step increases so
20 the funds don't continually get eaten away by that same
21 sort of phenomenon."

22 Q. Mr. Mullen, could you go on and explain how the
23 Settlement Agreement deals with the Major Storm Reserve
24 and the two major storms that PSNH has experienced?

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 A. (Mullen) Section 7.1 says that the annual accrual to
2 PSNH's Major Storm Cost Reserve will be three and a
3 half million dollars. This Major Storm Reserve has
4 been in effect I think since the last two rate cases, I
5 think that's when it started. And, over time, the
6 funding has changed, and it's mainly been done based on
7 an average of experience from prior major storms. And,
8 there's a certain definition as to what -- as to what
9 qualifies as a major storm. It's not repeated in this
10 document, and I can't recall the details offhand, but
11 only certain storms will qualify for funding from this
12 reserve.

13 So, going forward from July 1st, 2010,
14 we've agreed that the annual funding will be three and
15 a half million dollars. Now, that money can only be
16 used for major storms. And, to the extent PSNH had
17 none, the money would not -- they would not be able to
18 use that money for anything else. And, eventually, we
19 would review the level in there to see if it needs to
20 be adjusted.

21 Related to the December 2008 ice storm,
22 in Section 7.2, we provided that the costs associated,
23 the remaining costs to be recovered of a little under
24 \$44 million will be recovered over a period of seven

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1 years. And, the carrying charges will be at a rate of
2 four and a half percent, which is the same cost rate as
3 PSNH's last long-term debt financing.

4 Earlier this year, in February of 2010,
5 PSNH also experienced a windstorm that incurred quite a
6 bit of damage on its system. The costs are still being
7 tallied for that, and I think invoices are still being
8 received. So, what we've agreed to do is, once all the
9 final costs are known, PSNH will come in, and Staff,
10 OCA, and PSNH will review the costs. And, we'll
11 recommend either a modification to one of the rate
12 changes, and depending on how we decide to recover the
13 costs, it could be through the Major Storm Reserve, it
14 could be through a separate mechanism, a lot of this is
15 going to depend on how much the costs are and maybe
16 what else is going on with some of PSNH's other rate
17 changes at any particular time. So, we're not locked
18 in to doing it a particular way right now, we're trying
19 to keep our options open, in terms of, you know, how
20 much they are and how we might creatively deal with
21 those costs.

22 Q. Mr. Traum, could you please explain the Section 8,
23 concerning "Uncollectible Expense".

24 A. (Traum) Certainly. In these -- particularly in these

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 economic times, the issue of uncollectible expense has
2 certainly risen in priorities, not only from a company
3 perspective, but certainly from a consumer perspective.
4 And, we've tried to look at what could be done there.
5 But, in the -- for purposes of the Settlement Agreement
6 itself, we were using PSNH's 2009 uncollectible expense
7 level. But what the parties have agreed to do is to
8 jointly select an independent consultant through a
9 competitive bidding process to assist us with a review
10 and analysis of a number of factors related to the
11 uncollectible expense. Those factors are described in
12 Section 8.1 in the Settlement Agreement.

13 Based upon the review and analysis of
14 these factors, the Settling Parties expect that the
15 consultant will develop recommendations for
16 consideration to the Settling Parties. Although those
17 recommendations will not be binding, the Settlement
18 Agreement contemplates the Settling Parties considering
19 those recommendations and deciding how best PSNH can
20 address its uncollectible expense going forward.

21 The Agreement proposes to restrict the
22 cost of the study, at least the recoverable cost of the
23 study, to \$100,000, which PSNH may recover through one
24 of the non-REP step adjustments previously described.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 The Agreement also contemplates the
2 possibility that an adjustment to uncollectible expense
3 may be appropriate as a result of the consultant's
4 review. And, in that case, the Settlement proposes to
5 allow such an adjustment, again, through one of the
6 non-REP steps.

7 Q. Mr. Mullen, could you describe the Section Number 9 on
8 "Depreciation Expense and Plant Retirements".

9 A. (Mullen) Yes. And, this was a subject of
10 Mr. Cunningham's testimony. And, what we've agreed
11 here is that the depreciation rates that will be used
12 are the whole-life depreciation rates, with a reserve
13 imbalance amortized in accordance with Mr. Cunningham's
14 testimony, which I believe was marked as "Exhibit
15 Number 18". I believe, too, that the rates are, if I'm
16 remembering right, I believe it's his Schedule JJC-7.

17 Also, when PSNH comes in for its next
18 distribution rate proceeding, whenever that may be, it
19 will prepare a new depreciation study.

20 And, in Section 9.3, relates to timely
21 recording of retirements and accounting for the cost of
22 removal, these are a couple items that were noted in
23 the Staff's audit. And, PSNH has agreed to continue to
24 be vigilant in doing both.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. Mr. Hall, could you briefly summarize the Rate Design
2 section.

3 A. (Hall) Certainly. We're probably going to have more,
4 excuse me, more discussion on rate design during the
5 next panel presentation, but what I'll describe is
6 generally Section 10, which talks about how the rate
7 increase was allocated to the various classes. And,
8 essentially, the rate increase was allocated to each
9 class on what we refer to as an "equi-proportional"
10 basis, the same percentage increase approximately for
11 each class, with one exception, and that was for
12 General Service, Rate GV, and that's for customers
13 between 100 and 1,000 kilowatts of billing demand.

14 For Rate GV, what the parties agreed to
15 do is that, since the cost of service study showed that
16 Rate -- the rate of return for Rate GV was greater than
17 other classes, that the three step increases -- that
18 the increases to Rate GV would be phased in in three
19 increments, to bring Rate GV's rate of return to within
20 one and a half percent of the system average rate of
21 return. And, by increasing Rate GV in three increments
22 and getting it to within one and a half percent, there
23 was a difference between what we would have increased
24 Rate GV on an equi-proportional basis versus what we

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 actually did. That difference was then recovered from
2 all other classes on an equi-proportional basis.

3 Now, Attachment 2 to the Settlement
4 Agreement shows the class-by-class revenue requirements
5 resulting from this allocation, by year. And, the
6 rates and charges on a class-by-class basis are shown
7 in Attachment 3. And, those rates and charges on
8 Attachment 3 will become effective, unless the proposed
9 step increases are changed pursuant to Sections 4, 5 or
10 12 of the Settlement. And, Mr. Traum talked about
11 those processes, about the process of changing a little
12 bit earlier. If the rates are changed, then any change
13 through rates is going to be proportionally adjusted to
14 customer demand and energy charges.

15 Q. Mr. Traum, could you explain the rate design changes
16 that were agreed to for the residential class, Rate R?

17 A. (Traum) Certainly. And, from the residential class
18 perspective, there are two important features to the
19 Settlement that I'd like to point out, and somewhat
20 repeating what Mr. Hall had just said. As part of the
21 overall Settlement, the rates for the residential
22 class, as well as all other classes, other than the GV
23 class, will be increased by slightly more than the
24 overall average increase. So, to put that in

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 perspective, if you were to turn to Exhibit 21, Page 2,
2 that was handed out this morning, if you were to look
3 at that first column, "Proposed Distribution Including
4 Recoupment", you'll see that the residential rate for
5 distribution will be going up 17.52 percent, whereas
6 the average for all classes is 17.21 percent. The only
7 class that is seeing a slightly lower percentage
8 increase than the average is the GV, as Mr. Hall had
9 explained.

10 And, what that page also shows is that,
11 based upon PSNH's current estimates of Stranded Cost
12 Charge change and Energy Service change as of July 1,
13 the net impact on residential rates as of July 1, 2011
14 will be approximately a 3.08 percent increase.

15 And, also, then looking further at
16 Exhibit 22, the last three columns of Exhibit 22
17 provide an idea of what the impact of the various step
18 adjustments will be for the residential class at
19 different usage levels. And, I just point that out to
20 show that the 2011 step is anticipated to have a --
21 result in a slight reduction in rates. The 2012 step
22 is forecasted to have roughly a 1 percent increase in
23 rates. And, for the 2013 step, just over 1 percent
24 increase in rates.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. Mr. Hall, could you briefly explain the other tariff
2 changes that are proposed?

3 A. (Traum) Excuse me.

4 Q. I'm sorry.

5 A. (Traum) I wanted to complete one other thought.

6 Q. All right.

7 A. (Traum) And, that's that also in Section 10.2 requires
8 that, from the residential class, that the customer
9 charge and the volumetric or usage charge will be
10 increased by the same percentage. This was an
11 important issue for the OCA, and it's different from
12 the Company's original proposal, which would have
13 increased the customer charge by a higher percentage
14 than the volumetric rate.

15 Q. I'm sorry, Mr. Traum. That was an important point of
16 the Settlement. Is your explanation complete now?

17 A. (Traum) Yes, it is. Thank you.

18 Q. All right. Mr. Hall, could you explain the other
19 tariff changes in Section 11.

20 A. (Hall) Certainly. In PSNH's June 30, 2009 filing, we
21 proposed a Midnight Outdoor Lighting Service option.
22 And, that's an option under which street lighting
23 customers could have street lights turned off at
24 midnight, as a way to save some money. And, the

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1 Settling Parties are recommending that that option be
2 approved and be allowed to go into effect.

3 Next change is a language change to the
4 Apparatus sections of Rates GV and LG that state that
5 PSNH isn't required to rent pole-mounted apparatus to
6 customers. The specific language that the parties
7 agreed on is included as Attachment 4 to the
8 Settlement.

9 The next change was that the Settling
10 Parties have recommended the Commission approve the
11 removal of an option available to government and civic
12 groups to pay over time for excess costs of new
13 installations, extensions or replacements under Outdoor
14 Lighting Service Rate OL. It's a provision that's been
15 in effect since the 1970's, and simply hasn't been
16 used. So, it's largely outdated.

17 Next, PSNH will be filing a request with
18 the Commission to either clarify its rules on master
19 metering and, if necessary, to grant a waiver to PSNH
20 from that portion of its rules that may require master
21 metering. And, once the Commission approves the
22 Settlement, PSNH would then submit that filing.

23 And, finally, PSNH has agreed that it
24 will continue to monitor developments in LED lighting

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1 technology. And, the Settlement allows any party to
2 propose implementation of tariff pages applicable to
3 LED outdoor lighting.

4 Q. Mr. Baumann, could you describe the section on
5 "Exogenous Events", Section 12.

6 A. (Baumann) Yes. Again, and that's found on Page 12 of
7 the Settlement. The Settlement, I'm going to start
8 broad, and then I'll get into maybe some examples of
9 the exogenous events, but the Settlement calls for or
10 allows for adjustments upward or downward that may be
11 necessary if an exogenous event takes place and causes
12 a \$1 million change, both positive and negative, in
13 revenue requirements to the existing deal. Anything
14 below a million dollars in a calendar year would not
15 meet the threshold. It could be -- it could be two or
16 three exogenous events that total up to a million
17 dollars or in excess of a million dollars.

18 The mechanics of it is that we are going
19 to look at, beginning with the calendar year 2010,
20 every annual year is going to be reviewed for exogenous
21 events. And, at the end of March of the following
22 year, PSNH must file one of two things. Either --
23 well, PSNH must file a certification that there is an
24 exogenous event, at which point it would be available

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1 and it would be reviewed by all parties, and it would
2 be reviewed and approved potentially or disapproved by
3 the Commission for the next step increase on July 1.
4 And, that approval process would be whatever the
5 Commission deemed appropriate at the time. If there
6 are no exogenous events for the calendar year, then
7 PSNH has to certify to that in that March filing as
8 well, the annual March filing.

9 The Settlement also calls for the
10 ability for all parties on or before May 1 of the
11 following year to make a filing to, again, to change
12 rates for any type of exogenous event, either up or
13 down. And, when I say "all parties", all parties,
14 excluding PSNH.

15 The key to exogenous events, and it's
16 outlined on Page 12, really is four, four major
17 sections: State initiatives, federal initiatives,
18 regulatory cost reassignments, and externally imposed
19 accounting rules. And, what -- I'll take them one at a
20 time.

21 And, the state initiatives really are --
22 it could be state law, it could be local law, like a
23 municipality, but this would be any type of change in
24 the law that might impact the cost structure or the

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1 revenue structure of PSNH. It specifically excludes
2 property tax rates and re-evaluations of property
3 taxes. And, that's a significant exclusion, especially
4 as we see the property tax pressures on all the towns.
5 And, that is one of the risks that's embedded in this
6 filing, if you will, or in this Settlement that PSNH is
7 taking on.

8 The second part are the federally
9 initiated cost changes. And, this is a very broad area
10 of regulation that could come out of the federal
11 process, in terms of taxes or any type of fees or
12 anything that would be, in the broad context, federally
13 imposed. One example of that might be the recent
14 healthcare legislation, that may be an exogenous event,
15 because that has materially impacted the financial --
16 the tax costs that PSNH is going to see in the future.
17 I mention it now just as it's unfortunately a true-life
18 example, as opposed to a hypothetical potential
19 example. But, certainly, it's just an example at this
20 point, and I only mention it in that context.

21 The third area is, and it's on the top
22 of Page 13, is regulatory cost reassignments. And,
23 really, this is -- this is an area where we assign our
24 costs to the different segments of our company, the

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1 distribution segment, the transmission segment, the
2 generation segment. And, if there were some finding by
3 some commission that had the authority to do a change
4 in that allocation of segment accounting, such as the
5 FERC or the SEC or ISO-New England, that would be,
6 again, an exogenous event that could take place.

7 And, then, finally, externally imposed
8 accounting rule changes. We have seen, infrequently in
9 the past, that the Financial Accounting Standards Board
10 has made changes to accounting rules. Off the top of
11 my head, I know there was one years ago that dealt with
12 leasing, leases, and how you accounted for leases. If
13 there was some type of accounting change from the FASB
14 or some other entity, like the SEC or whatever, that we
15 would, again, that would be considered an exogenous
16 event.

17 It's a very broad area, but yet it's
18 specifically designed to those four major categories.
19 And, lastly, in this "Exogenous Event" section, there
20 is a section on "Excessive Inflation", Section 12.3.
21 And, that really has two measurement periods. It has a
22 three-year measurement period between January 1, '11,
23 2011, and December 31st of 2013. So, it's really for
24 calendar years '11, '12, and '13. That, if the annual

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1 average inflation rate were to exceed 4 percent, then
2 there could be an adjustment to these rates. In
3 addition, it calls for a four-year period that extends
4 it through December 31st, 2014. So, that's '11, '12,
5 '13, and '14, and, again, an average overall annual
6 change of 4 percent. The reason we chose -- we chose
7 periods of time so that a particular calendar year that
8 might be an outlier wouldn't necessarily -- wouldn't
9 trigger this type of clause. You would have to have
10 what I would call a more sustained level of excessive
11 inflation. And, then, if you did exceed that 4 percent
12 level for those two measurement periods, one of those
13 two measurement periods, there would be a calculation
14 of the excess as applied against the operation and
15 maintenance expense for the Company. Thank you.

16 CMSR. IGNATIUS: Mr. Baumann, I'm sorry.
17 Can you tell me again where the source of those inflation
18 triggers are? I thought you said it was "12.4", but I
19 don't --

20 WITNESS BAUMANN: Of 4.0 -- Oh, I'm
21 sorry. Section 12.3.

22 CMSR. IGNATIUS: Oh, yes. Thank you.

23 WITNESS BAUMANN: Too many numbers
24 flying around here.

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1 CMSR. IGNATIUS: Thank you. I'm fine.

2 BY MR. EATON:

3 Q. Mr. Hall, could you explain the term of the Settlement
4 Agreement.

5 A. (Hall) Certainly. The Settlement has a five-year term
6 that ends on June 30th, 2015, unless it's terminated
7 sooner under Section 4 or by mutual agreement of the
8 parties and approval by the Commission.

9 Q. Mr. Traum, could you explain some of the miscellaneous
10 provisions.

11 A. (Traum) Certainly. Section 14.1 is quite
12 straightforward. It simply requires PSNH to recover
13 the cost of SBC-funded programs, such as the Electric
14 Assistance Program and the CORE programs, through the
15 budgets for those programs and not through distribution
16 rates.

17 Section 14.2 concerns PSNH's
18 photovoltaic installation at Energy Park in Manchester.
19 And, this section has a couple of objectives. First,
20 the Settling Parties agree that, although the rate base
21 includes the capital costs of this project and the
22 revenue requirement has been reduced to reflect
23 projected revenues derived from the project, there is
24 no agreement as to whether or not PSNH had been

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1 required to seek and obtain Commission approval of the
2 investment prior to installation and whether the
3 investment in the project was prudent. It's just the
4 settlement. Any Settling Party remains free to raise
5 this issue in the future. And, if the Commission were
6 to disallow the investment, PSNH may retain the value
7 of any revenues produced by the project.

8 Section 14.3 requires PSNH, as part of
9 its next distribution rate case, to file both an
10 embedded and a marginal cost of service study. And, I
11 just want to add that, by the OCA agreeing to this
12 item, that it should not be interpreted as implying
13 that the OCA agrees that a marginal cost of service
14 study should be used to the exclusion of other methods
15 to develop intraclass rate design, nor even used for
16 interclass revenue requirements for determining what
17 the class revenue requirements are.

18 Section 14.4 requires PSNH to annually
19 file a report on executive compensation as its
20 affiliate, CL&P, is required to file in Connecticut.
21 The report will include compensation information about
22 all officers of the utility at VP level and above, the
23 top five officers of the utility's parent, as well as
24 any directors of the utility's parent if the utility

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1 pays a portion of their compensation. And, besides
2 showing total annual compensation, it will show the
3 amount allocated to the utility.

4 The OCA can provide a copy of the
5 Connecticut orders and form as an exhibit, if the
6 Commission wishes at this time.

7 Q. And, Mr. Hall, could you describe the "General
8 Provisions" found in Section 15.

9 A. (Hall) Certainly. These are standard provisions that
10 are found in most settlements. Essentially, it says
11 that the Settlement is premised upon the Commission's
12 acceptance of the Settlement without changes or
13 conditions or modification, and resolves all issues
14 that are specified in the Settlement. It says that the
15 Settlement isn't a precedent for future proceedings.
16 It also says that the Parties aren't admitting to any
17 allegation or contention, nor are they foreclosed from
18 taking different positions in future proceedings. The
19 Parties are recommending that the Settlement be
20 approved in its entirety by the Commission. And,
21 there's a statement in there that talks about the
22 confidential nature of the negotiations.

23 Q. Do any of the witnesses have anything to add to their
24 summary of the Settlement Agreement?

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1 A. (Baumann) No.

2 A. (Hall) No.

3 A. (Mullen) No.

4 A. (Traum) No.

5 MR. EATON: The witnesses are available
6 for cross-examination.

7 CHAIRMAN GETZ: Well, let's start with
8 opportunities for questions among the Settling Parties.
9 So, I assume, Mr. Eaton, you have no questions for Mr.
10 Traum or Mr. Mullen?

11 MR. EATON: No.

12 CHAIRMAN GETZ: Ms. Hatfield, do you
13 have questions for other members of the panel or direct
14 follow-up?

15 MS. HATFIELD: Thank you, Mr. Chairman.
16 I don't. I would, just to follow up on Mr. Traum's offer,
17 the OCA does have copies of the Connecticut PUC order
18 that's referenced in paragraph 14.4, which also shows the
19 template that's used in that state. And, we can provide
20 that just for your information.

21 CHAIRMAN GETZ: Thank you. Well, why
22 don't we just mark this for identification. That would be
23 Exhibit Number 24.

24 (The document, as described, was

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1 herewith marked as Exhibit 24 for
2 identification.)

3 MS. HATFIELD: Thank you.

4 CHAIRMAN GETZ: Mr. Fossum, do you have
5 any questions for any of the panelists?

6 MR. FOSSUM: I just have one clarifying
7 question for whomever, I guess, feels most qualified to
8 answer it.

9 BY MR. FOSSUM:

10 Q. Looking at the "Exogenous Events" section, Section 12
11 of the Agreement, you've noted that the -- Mr. Baumann
12 had noted the total change -- the net change would be a
13 million dollars of exogenous events in any year. Just
14 for clarity, does that, presuming there to be an
15 exogenous event or series of exogenous events meeting
16 or exceeding \$1 million, PSNH would be free to then
17 recover the total of its expenses. Is that accurate,
18 rather than the total of its expenses, minus the
19 million dollars?

20 A. (Baumann) Yes. It would be the total.

21 MR. FOSSUM: Okay. Thank you.

22 CHAIRMAN GETZ: All right. Mr. Patch.

23 MR. PATCH: Good morning, members of the
24 panel. Can you hear me okay? Is this microphone working?

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1 WITNESS BAUMANN: Yes.

2 CROSS-EXAMINATION

3 BY MR. PATCH:

4 Q. The questions I have are probably best answered I would
5 think, Mr. Hall, by you, but anybody on the panel
6 should feel free to respond. I'm going to start with a
7 question about how many street lights there are in the
8 City of Manchester. Do you have any idea, Mr. Hall?

9 A. (Hall) I'm sorry, I don't know offhand.

10 Q. Would you be willing to accept, subject to check, that
11 there are approximately 8,900 street lights in
12 Manchester?

13 A. (Hall) Sure.

14 Q. Are you familiar with the tariff that applies to the
15 street lights in the City?

16 A. (Hall) Yes.

17 MR. PATCH: Mr. Chairman, I'd ask that
18 this be marked as the next exhibit, which I think is 25.

19 (Atty. Patch distributing documents.)

20 CHAIRMAN GETZ: So, Mr. Patch, these are
21 copies of current tariff pages?

22 MR. PATCH: That's right, Mr. Chairman.
23 I'll represent that I copied them off of, actually, the
24 Commission's website.

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1 CHAIRMAN GETZ: Okay. We'll mark the
2 package for identification as "Exhibit Number 25".

3 (The document, as described, was
4 herewith marked as Exhibit 25 for
5 identification.)

6 BY MR. PATCH:

7 Q. Mr. Hall, do you have any reason to think that this is
8 or is not the tariff?

9 A. (Hall) I believe it is.

10 Q. Okay.

11 A. (Hall) I'll take your word for it.

12 Q. Do you know what wattage most of the street lights in
13 Manchester are?

14 A. (Hall) Not offhand.

15 MR. EATON: There is a person in the
16 room who could answer that question, Mr. Desbiens.

17 MR. PATCH: Okay. Well, I actually have
18 a copy of a letter which PSNH provided to the City of
19 Manchester. Just give me a second. It's dated March
20 11th. And, it has an attachment to it, which I think
21 provides the answer. And, I would ask that this be marked
22 as the next exhibit, which I think would be 26. It's a
23 letter dated March 11th. And, it's from I believe it's
24 Jeaneen Coolbroth. And, there are some attachments to

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1 this letter. This is a letter to Mr. Clougherty, with the
2 DPW.

3 (Atty. Patch distributing documents.)

4 BY MR. PATCH:

5 Q. And, could you tell the Commission, do you know who Ms.
6 Coolbroth is, Mr. Hall?

7 CHAIRMAN GETZ: Well, let's take a
8 second. And, we'll just mark for identification the March
9 11, 2010 letter from Ms. Coolbroth as "Exhibit Number 26".

10 (The document, as described, was
11 herewith marked as Exhibit 26 for
12 identification.)

13 BY MR. PATCH:

14 Q. Page 1 of the attachments -- well, first of all, Mr.
15 Hall, are you aware of who Ms. Coolbroth is?

16 A. (Hall) Yes. Jeaneen Coolbroth is Southern Division
17 Manager for PSNH.

18 Q. And, have you seen this letter before?

19 A. (Hall) I don't believe I have.

20 Q. If you would turn to Page 1 of the attachments, there's
21 a pie chart there. And, this I believe answers the
22 question about the City's street lights and the wattage
23 of those street lights. Correct me if I'm wrong, but I
24 believe it indicates that 58 percent are 50-watt and

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1 13 percent are 70-watt, and then there are other
2 smaller percentages for the other wattages for the
3 street lights?

4 A. (Hall) I agree with you.

5 Q. Okay. I want to shift attention for a minute to the
6 Settlement Agreement, which I believe has been marked
7 as "Exhibit 20". And, there is Attachment 3 to the
8 Settlement Agreement, Page 4 of 4. If you could have
9 that in front of you?

10 A. (Hall) I have it.

11 Q. And, that indicates that it's a "Summary of Current and
12 Proposed Distribution Rates", correct?

13 A. (Hall) Yes, it does.

14 Q. And with regard to EOL, which is the tariff that the
15 City takes the street light -- outdoor street lighting
16 from PSNH under, correct?

17 A. (Hall) Yes. The tariff that you handed out in
18 Exhibit 25, the rates and charges will be the same as
19 the attachment you referred to, Page 4 of 4 of
20 Exhibit 20, Attachment 3, under the "Current Rates"
21 column.

22 Q. Now, I mean, as we learn from that Page 1 of the
23 attachment to the Coolbroth letter, most of the street
24 lights, I guess over 70 percent, fall in the 50-watt or

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- 1 the 70-watt. So, that's the first two lines of
2 Attachment 3, Page 4 of 4, correct?
- 3 A. (Hall) Yes, it is.
- 4 Q. Now, this chart actually starts with current rates in
5 August of 2009, which is after the temporary rate
6 increase, is that correct?
- 7 A. (Hall) Yes. Which is today's rate level.
- 8 Q. Now, would you agree, subject to check, and it should
9 be in the exhibit that we've marked for identification
10 as the EOL tariff, that the rates before this docket
11 was opened were \$5.91 for both the 50-watt and the
12 70-watt?
- 13 A. (Hall) Sure, I'll accept that subject to check.
- 14 Q. Okay. And, then, if we do the math and we compare the
15 pre-rate case rate of \$5.91, to the proposed July 2011
16 rate of \$7.64, would you agree, subject to check, that
17 that represents, if you round it up, a 30 percent
18 increase in rates?
- 19 A. (Hall) Over a three-year period, yes.
- 20 Q. Over a what year period?
- 21 A. (Hall) Three-year.
- 22 Q. How do you get three years?
- 23 A. (Hall) Started with rate level effective in January 1,
24 2008.

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1 Q. Okay. But, actually, in July of 2009, the City would
2 have been paying at the rate of 5.91, is that correct?

3 A. (Hall) Okay. Fine. If you want to look at it that
4 way, then it's over a two-year period.

5 Q. Actually a one-year period, isn't it?

6 A. (Hall) I thought you said "2011"?

7 Q. No, I said "2010". If I said "2011", I was incorrect.

8 A. (Hall) My apologies.

9 Q. So, over a one-year period, that would represent a
10 30 percent increase, is that correct?

11 A. (Hall) In bill amounts from July 2009 to July 2010, it
12 represents a 30 percent increase in the distribution
13 component of rate level.

14 MR. PATCH: I want to show you a copy of
15 a bill which the City of Manchester received from PSNH for
16 the month of June of 2009, which would have been before
17 the temporary rates were instituted. And, I'll ask that
18 this be marked.

19 (Atty. Patch distributing documents.)

20 CHAIRMAN GETZ: Okay. We'll mark the
21 bill for identification as "Exhibit Number 27".

22 (The document, as described, was
23 herewith marked as Exhibit 27 for
24 identification.)

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1 BY MR. PATCH:

2 Q. And, this bill then would have been prior to the
3 implementation of the temporary rate increase, is that
4 correct?

5 A. (Hall) Yes, it would.

6 Q. And, the total amount on the first page is
7 "\$85,636.39", is that correct?

8 A. (Hall) Yes, it is.

9 Q. And, just to point out a couple of other things. If
10 you look at the second page, there's an "Average Energy
11 Cost" there of "8.181 cents per kilowatt-hour", is that
12 correct?

13 A. (Hall) Correct.

14 Q. And, if you look a couple of lines down, there's an
15 indication that there's actually an energy supplier of
16 that energy portion of the rate, is that correct?

17 A. (Hall) Yes, there is.

18 Q. It says "Amerada Hess Corporation"?

19 A. (Hall) Yes.

20 Q. Which indicates that the City has taken advantage of
21 purchasing the energy portion of the bill at least from
22 a competitive supplier, is that correct?

23 A. (Hall) Correct.

24 MR. PATCH: Now, I want to show you a

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1 copy of a bill for August of 2009 and ask that this be
2 marked as well.

3 (Atty. Patch distributing documents.)

4 MR. PATCH: Mr. Chairman, if we could
5 have this marked for identification as the next exhibit.

6 CHAIRMAN GETZ: Okay. We'll mark this
7 second bill as "Exhibit Number 28".

8 (The document, as described, was
9 herewith marked as Exhibit 28 for
10 identification.)

11 MR. PATCH: And, again, if we look on
12 the front page, in the upper right-hand corner, it
13 indicates that the total bill for the month of August was
14 "97" -- excuse me, "\$97,206.61", is that correct?

15 A. (Hall) Yes, it is.

16 Q. Now, am I correct that that represents approximately a
17 \$12,000 increase over the bill for the month of June?

18 A. (Hall) Yes. 11,600, close enough.

19 Q. I'm going to direct your attention back to the March
20 11th letter from Ms. Coolbroth. And, if you look at
21 Page 4 of the attachment to that letter. And, if look
22 at, in the far right, near the top of that page, where
23 it says "Lighting Rate EOL"?

24 A. (Hall) Uh-huh.

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- 1 Q. And, I believe it indicates that the delivery portion
2 of the bill was approximately, and it says "Rates
3 Effective January 1, 2010" at the top, but it says that
4 that's about 68 percent of the bill, is that correct?
- 5 A. (Hall) Yes.
- 6 Q. And, that's based on a energy charge of \$8.96, is that
7 correct?
- 8 A. (Hall) The delivery portion of the bill has nothing to
9 do with the energy charges.
- 10 Q. But, in order to figure out the 68 percent --
- 11 A. (Hall) The 68 percent, yes.
- 12 Q. And, so, in the event that that energy portion were
13 less, say, the 8.18 cents per kilowatt-hour that was in
14 the August or, actually, the June bill, then,
15 obviously, that percentage of the delivery rate would
16 be even higher, is that fair to say?
- 17 A. (Hall) Yes, it would.
- 18 Q. And, if the rate were, as I believe it currently is,
19 and you could accept this subject to check, somewhere
20 in the range of 6.53 cents per kilowatt-hour, then the
21 percentage of the bill would actually be even higher,
22 is that fair to say?
- 23 A. (Hall) Your statement is correct. I don't know where
24 you got the "6.53". But I think it's axiomatic that,

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1 to the extent that the energy rate decreases, the
2 proportion of the bill that's remaining, the delivery
3 portion, becomes higher as a percentage. Just like, if
4 it goes the other way, it becomes lower as a
5 percentage.

6 Q. Okay. Now, are you aware of the fact that the DPW has
7 met with PSNH on a few different occasions at least in
8 attempts to try to figure out ways to reduce their
9 bills?

10 A. (Hall) Yes. My --

11 Q. And, did --

12 A. (Hall) Go ahead.

13 Q. Go ahead.

14 A. (Hall) My understanding is that there has been at least
15 one or two meetings, and meetings are ongoing, that
16 there will be more.

17 Q. And, I believe Mr. Long actually met with them back in
18 August of 2009, and then, on April 8th of this year,
19 Mr. Goodwin and some other representatives from PSNH
20 met with the City to try to discuss ways to reduce
21 bills. Is that fair to say?

22 A. (Hall) Yes. I'm aware of the April 8th meeting. I'm
23 not aware of Mr. Long's meeting on August of '09, but
24 I'll accept it.

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1 Q. And, one of the recommendations was to obtain power
2 from a competitive supplier, I think that's noted in
3 the Coolbroth letter of March 11th?

4 A. (Hall) Okay.

5 Q. And, in fact, I don't know if you'd be willing to
6 accept subject to check, the City has been doing that,
7 I believe, since December of 2008 or approximately that
8 period of time.

9 A. (Hall) Okay.

10 Q. I want to show you a couple of -- actually, they're
11 three different pie charts that have been developed by
12 the City that, again, show the portion of the amount
13 that the City pays for street lights that's paid for
14 distribution charges.

15 MR. PATCH: And, Mr. Chairman, if we
16 could have these marked as three different exhibits or as
17 one, but -- whichever's your preference, but they're pie
18 charts that have been developed by the City that I think
19 just sort of reinforce the percentage figure and -- that
20 the distribution portion is of the overall rate.

21 CHAIRMAN GETZ: Well, if you're going to
22 provide copies to everyone, let's just mark them as a
23 package.

24 MR. PATCH: Okay. Thank you.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 (Atty. Patch distributing documents.)

2 MS. HATFIELD: Mr. Chairman, I know
3 you're just marking them for identification now, but I
4 just did want to raise the issue of authentication,
5 because the City doesn't have a witness to be able to
6 discuss how these were developed and answer any questions.
7 So, I just want to mention that now. We can discuss it
8 later when you're deciding which exhibits to admit.

9 MR. PATCH: I apologize for my lack of
10 dexterity in getting these handed out. Mr. Chairman, you
11 know, perhaps to address the Consumer Advocate's issue, I
12 understand that we don't have a witness. You know,
13 obviously, the City intervened in this docket late, and we
14 appreciate the Commission allowing us in when it did, it
15 was past the time that we could submit testimony. The
16 City is not an experienced intervenor here at the
17 Commission. And, so, it really wasn't aware of how --
18 when it needed to intervene. But I would suggest that any
19 concerns about authenticity would go more to the weight
20 than whether or not they ought it be allowed, to be at
21 least marked for identification at this point in time.

22 CHAIRMAN GETZ: Well, we'll mark the
23 three pie charts, the "Typical EOL Breakdown '08-09,
24 "'09-10", and "'10-11" as "Exhibit Number 29".

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1 MR. PATCH: Thank you.

2 (The document, as described, was
3 herewith marked as Exhibit 29 for
4 identification.)

5 CHAIRMAN GETZ: And, I am expecting that
6 you're going to cross-examine based on these, is that
7 correct or what is your --

8 MR. PATCH: I have just one or two
9 questions. I think the pie charts and what they indicate
10 is pretty self-evident.

11 BY MR. PATCH:

12 Q. But, as an example, Mr. Hall, the "Typical EOL
13 Breakdown" on the 2010-2011 chart has a figure of
14 68 percent for distribution, which actually corresponds
15 to the figure that was in the attachment to
16 Ms. Coolbroth's letter, is that fair to say?

17 A. (Hall) Excuse me. That's what this chart shows.

18 Q. Yes. And, the figures in the lower right-hand corner I
19 think are of interest. The 2008-2009 shows a total of
20 701,000, versus the 2010-2011 figure of \$900,000 for
21 distribution. Which I would represent to you is a
22 total of what the City anticipates it will be paying
23 during 2011 as compared to the 2008-2009. And, I don't
24 expect you really, I guess, to be able to verify that

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1 or not, but it's -- do you have any comment on that?

2 A. (Hall) Well, that's your testimony. It is what it is.

3 I can't verify these numbers.

4 Q. Right. Understood.

5 CMSR. IGNATIUS: Excuse me. Mr. Patch,
6 can you just explain, I assume '08-09 and '09-10 are based
7 on actuals. Is '10-11 based on projections?

8 MR. PATCH: It's based on a projection
9 of -- based on the amount that was actually used during
10 the previous fiscal year, and then the projected rate
11 under the Settlement Agreement.

12 CMSR. IGNATIUS: And, it never says
13 "total paid by the City for EOL service", but I assume
14 that's what your figures in the lower left-hand are?

15 MR. PATCH: Actually, that's just the
16 distribution portion.

17 CMSR. IGNATIUS: You're right. Thank
18 you. Paid by the City for the service?

19 MR. PATCH: Paid or anticipated to be
20 paid, depending on which.

21 BY MR. PATCH:

22 Q. Now, we talked about, Mr. Hall, about how the City has
23 gone to a competitive supplier. I think one or two
24 other recommendations that the -- that PSNH had made to

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1 the City was that it consider shutting down street
2 lights as a way of same saving money. Is that fair to
3 say?

4 A. (Hall) In this letter?

5 Q. I believe in that letter, although, if not there, then
6 in meetings that the City has had with various PSNH
7 representatives.

8 A. (Hall) I didn't attend those meetings, so I don't know
9 what was said.

10 Q. If you look at the top of Page 3 of that letter, the
11 March 10th -- March 11th letter, it says "March 10th"
12 at the top of Page 3, that first or the carryover
13 paragraph from the previous page, it says, and you
14 correct me if I'm wrong, "In order for the City to
15 significantly reduce the outdoor lighting expense, PSNH
16 recommends removing outdoor lights that are no longer
17 needed or converting a portion of the outdoor lights to
18 the Midnight Option." Is that correct?

19 A. (Hall) That's what it says, yes.

20 Q. And, the Midnight Option is what you have proposed in
21 this docket?

22 A. (Hall) Yes, it is.

23 Q. And, maybe just to focus on that for a minute, the
24 actual estimated cost of installing these lights would

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 be about \$160 for each light, is that correct? And,
2 I'm looking at Page 382, I think it's Volume 3.

3 MR. EATON: For the purposes of the
4 record, that's been premarked as "Exhibit Number 13".

5 WITNESS MULLEN: Excuse me. It's
6 actually Volume 2 of PSNH's original filing.

7 MR. PATCH: What is it?

8 WITNESS MULLEN: I believe it's Volume
9 2.

10 MR. PATCH: Volume 2, okay. I
11 apologize. But I think it was Page 382, correct?

12 WITNESS HALL: Yes. Page 382. Was your
13 question the estimated cost of installation?

14 MR. PATCH: That's correct.

15 WITNESS HALL: Yes.

16 BY MR. PATCH:

17 Q. \$160 per luminaire or per light?

18 A. (Hall) Yes.

19 Q. And, would you accept subject to check, if the City
20 were to replace all of the 8,900 street lights with a
21 midnight option, that would be \$1.4 million, which
22 would be 8,900 times 160?

23 A. (Hall) I'll accept that calculation. I want to add
24 that the \$160 is if the photocells are replaced at a

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 time not during normal plant replacement, and,
2 therefore, it's a lot more expensive.

3 Q. Could you explain that maybe?

4 A. (Hall) Sure. PSNH, as part of maintenance of street
5 lights, replaces lamps on a scheduled basis. I
6 believe, for most lamps, it's every four years or so.
7 If the replacement of the photocell to go to the
8 Midnight Option is done during that normal lamp
9 replacement, it's a very low cost replacement. On the
10 other hand, if a municipality wanted PSNH to go out and
11 replace all the photocells not during a time of normal
12 lamp replacement, that's where the \$160 comes from.

13 Q. And, do you know how many or approximately how many
14 luminaires PSNH replaced last year?

15 A. (Hall) I don't know.

16 Q. Now, assume for a minute that the City were to take
17 advantage of this new midnight offering. Ignoring, for
18 purposes of this question, the safety issues related to
19 shutting down street lights and, admittedly, some
20 political issues related to that. But, assume for a
21 minute that they were to take advantage of it, would
22 that reduce at all the distribution charge portion of
23 the bill?

24 A. (Hall) If street lights were taken out of service,

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1 sure. And, I can --

2 Q. I'm sorry, but you mean taken out of service
3 altogether, but just not shut down during the midnight
4 portion?

5 A. (Hall) Oh, I'm sorry. I misunderstood your question.
6 I thought you said "remove the street lights".

7 Q. I guess, you know, maybe I did, and apologize for that.
8 But what I meant was to take advantage of the Midnight
9 Option for street lighting?

10 A. (Hall) No. The distribution portion of the rate would
11 remain unchanged. And, that's because the facilities
12 are still there to provide service.

13 Q. So, the distribution portion of the bill would, in
14 fact, end up being even a higher percentage of the
15 bill, in the event that the City were to take advantage
16 of the Midnight Option?

17 A. (Hall) Well, I guess one could look at it that way. I
18 think that's somewhat of an unusual way to look at it.
19 The distribution portion would remain unchanged, the
20 total bill would decrease.

21 Q. Do you know by how much? Do you have some idea on a
22 per luminaire basis?

23 A. (Hall) For the City? I haven't done that calculation.

24 Q. Do you know what the rate of return is that PSNH was

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1 earning on street lighting before this docket was
2 filed?

3 A. (Hall) That's for a witness on the next panel.

4 Q. Okay. What are "LED street lights"?

5 A. (Hall) What are they?

6 Q. Yes.

7 A. (Hall) Light emitting diode street lights.

8 Q. And, would you accept subject to check that some of the
9 benefits of LED street lights include improved night
10 visibility, longer lifespan, lower energy consumption,
11 reduced maintenance costs, no mercury or other known
12 disposable hazards?

13 A. (Hall) That sounds right, based on my limited knowledge
14 of LED. It's a relatively new technology, but
15 something we're going to look at.

16 Q. And, that's, in fact, referenced in the Settlement
17 Agreement?

18 A. (Hall) Yes, sir.

19 Q. Is that correct? I think that was mentioned in direct
20 testimony?

21 A. (Hall) Yes.

22 MR. PATCH: There was also a data
23 request in this docket concerning LED outdoor lighting
24 that I want to show you and I'd ask that it be marked.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 (Atty. Patch distributing documents.)

2 MR. PATCH: And, just for the record,
3 this is a data request that was asked by Staff. It says
4 "Q-STAFF-001-4". And, it says the witness is "Stephen R.
5 Hall" and "Gilbert E. Gelineau". And, so, Mr. Chairman, I
6 would ask that this be marked for identification as the
7 next exhibit.

8 CHAIRMAN GETZ: Okay. It's marked as
9 "Exhibit 30" for identification.

10 (The document, as described, was
11 herewith marked as Exhibit 30 for
12 identification.)

13 BY MR. PATCH:

14 Q. And, rather than read through the whole thing, I'm
15 going to try to summarize, if I can, Mr. Hall, what the
16 response was to the question. And, the question that
17 was asked by Staff was basically, I mean, it's broken
18 down into a few different questions, but asking whether
19 PSNH had customer inquiries? How PSNH responds to
20 those inquiries? Should a new rate be developed for
21 LED lighting? And, the response, you correct me if I'm
22 wrong, but is basically that "despite the fact that
23 PSNH had numerous customer inquiries, it does not offer
24 LED outdoor lights, and it would be premature for PSNH

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1 to offer such a service." Is that correct?

2 A. (Hall) Yes. It goes on to give the reasons why,
3 though.

4 Q. That's right. And, feel free to elaborate on that, if
5 you'd like to.

6 A. (Hall) Well, sure. The response said that "there isn't
7 currently a standardized rating system for LED outdoor
8 lighting products, and therefore it's not possible for
9 utilities to identify quality products." That's why we
10 haven't offered it yet. And, that's why, in the
11 Settlement, we said we're going to continue to monitor
12 the developments and look into whether it should be
13 offered.

14 Q. But you're not offering it at this point in time?

15 A. (Hall) Correct. And, the reason is that, if you don't
16 know what the quality of the product is, and you offer
17 a new product to a customer, and there's all kinds of
18 problems with it, that's not a situation that either
19 PSNH or the customer really wants to be in. And,
20 that's why it's not offered right now.

21 Q. Have you consulted with any other utilities that may,
22 in fact, be offering LED lights around the country?

23 A. (Hall) I don't know.

24 Q. So, you don't know of any others that are?

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

- 1 A. (Hall) I don't know if we've consulted with any others.
- 2 Q. Do you know if any others are?
- 3 A. (Hall) I'm not aware of any, but that doesn't mean
- 4 there aren't any. Now, the other thing that this
- 5 response says is, notwithstanding the fact that there's
- 6 no outdoor lighting option offered for LED, a customer
- 7 could install it if they wanted, they would just have
- 8 to take metered service.
- 9 Q. So that you would allow the customer to install it
- 10 themselves, pay for it, install it, or you're saying
- 11 PSNH would be willing to do that?
- 12 A. (Hall) I didn't follow your question.
- 13 Q. Well, I --
- 14 A. (Hall) If a customer wanted to install LED on their own
- 15 facilities, they could do so and take metered service.
- 16 Q. Isn't it true, Mr. Hall, that under the EOL tariff that
- 17 we provided a copy of, the DPW, not PSNH, must pay any
- 18 cost incurred in connection with new installations,
- 19 including the installed cost of the luminaire brackets
- 20 and the cost of removal of the old luminaires and
- 21 brackets, so that the City, in effect, pays for the
- 22 luminaire itself, but, as the tariff says, the title to
- 23 the luminaire is vested in the Company?
- 24 A. (Hall) Yes.

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1 Q. Is that correct?

2 A. (Hall) That's correct.

3 Q. And, the tariff says that "the Company shall not be
4 required to perform any replacements or maintenance
5 except during regular working hours." Is that fair to
6 say?

7 A. (Hall) Correct. That doesn't mean that the Company
8 would not do so.

9 Q. Say that again.

10 A. (Hall) That doesn't mean the Company would not do so.
11 I mean, if there was an emergency situation, I can't
12 imagine the Company saying "Sorry, you're going to have
13 to wait until next Monday."

14 Q. Do you know of any situations where that's happened?

15 A. (Hall) I'm not familiar with any.

16 MR. PATCH: Yes, I think that's all the
17 questions I have of this panel, Mr. Chairman.

18 CHAIRMAN GETZ: Thank you. Commissioner
19 Below.

20 CMSR. BELOW: Yes, I have a few
21 questions.

22 BY CMSR. BELOW:

23 Q. With regard to Section 4 of the Settlement Agreement,
24 Exhibit 20, the proposed Settlement describes using a

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 "12-month rolling average of return on equity" and
2 references using the "F-1 Form". Would that be just a
3 simple rolling average or would it be weighted in any
4 way based on the total or net equity?

5 A. (Mullen) That's just a simple rolling average.

6 Q. Okay. Mr. Hall, I think in the discussion in Section 6
7 on the "High Level Design" of a GIS-based Outage
8 Management System, I was curious, do you know if -- to
9 what extent might PSNH also be looking at, in
10 conjunction with such a system, improved digital
11 information and control on its distribution and
12 transmission systems, such as a SCADA or so-called
13 SmartGrid investment?

14 A. (Hall) Commissioner, I can't answer that question, but
15 there's someone in the audience who I know can, and
16 that's Steve Johnson.

17 Q. Okay?

18 A. (Hall) Who has just stepped out. Great timing.

19 A. (Mullen) And, if I could just add to that, part of the
20 Reliability Enhancement Program, and I'm going to
21 Mr. Johnson's testimony, which is Exhibit Number 8. If
22 you look on Page 18 of his testimony, you will see that
23 there's a couple of tables on that page, and part of it
24 talks about SCADA. There are some SCADA replacements.

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1 There are some aspects of SCADA included in the
2 Reliability Enhancement Program. Again, Mr. Johnson
3 could provide more detail on it, but there is some
4 aspect of that in there.

5 Q. Okay. Oh. Do you have an idea, and this turning to
6 Section 7.3, for Mr. Baumann or Hall, do you have an
7 idea of the order of magnitude of the cost of the
8 February wind storm?

9 A. (Hall) I don't have that information. And, I'm looking
10 to Mr. Johnson, he may have a better idea.

11 Q. So, you don't know whether it's 1 million? 5 million?
12 10 million?

13 A. (Hall) Tens of millions, but it's not -- it isn't close
14 to anywhere near the December 2008 level.

15 Q. Okay. Well, there's another witness who might have
16 that. I mean, I understand that you don't have final
17 numbers.

18 A. (Hall) Yes.

19 Q. And, that's what the Settlement Agreement addresses,
20 once you have firmer numbers. I'm just wondering if
21 there is somebody that can shed a little more light on
22 that.

23 A. (Hall) I'll see if Mr. Johnson has a rough idea.

24 CHAIRMAN GETZ: Well, I guess we can do

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1 a couple of things. We can have an offer of proof from
2 Mr. Eaton or we can swear Mr. Johnson in.

3 MR. EATON: Well, there are a couple of
4 questions that Mr. Johnson could address, and perhaps it's
5 better to swear him in.

6 CHAIRMAN GETZ: Why don't we do that
7 right now then.

8 (Whereupon Stephen M. Johnson was duly
9 sworn and cautioned by the Court
10 Reporter.)

11 STEPHEN M. JOHNSON, SWORN

12 MR. EATON: So, Mr. Commissioner, could
13 you remind me and everyone else of your first question
14 about the agreement to --

15 CMSR. BELOW: On the Reliability
16 Enhancement Program, it was a question about to what
17 extent might the High Level Design of a GIS-based Outage
18 Management System also look at possible improvements to
19 digital information control in the distribution and
20 transmission systems, such as SCADA or so-called SmartGrid
21 investment?

22 WITNESS JOHNSON: Sure. Good question.
23 We currently have an electric system control center that
24 manages our transmission and distribution system. It

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1 already has a platform. So, it's self-sufficient. To the
2 extent that we move into the distribution network, which
3 is the lower voltage system, we can expand into that lower
4 voltage network with more sophisticated switching and
5 D-SCADA capability. The GIS facilitates that, but it is
6 -- it not necessarily has to be there, because our
7 platform at the control center can be used for that. It's
8 certainly an enhancement, and it makes sense to tie those
9 two together, and they would be in the future.

10 CMSR. BELOW: So, that's something you
11 would be looking at to some extent in that High Level
12 Design of an Outage Management System?

13 WITNESS JOHNSON: Absolutely.

14 CMSR. BELOW: Okay. And, the other
15 question was, do you have any idea, order of magnitude,
16 the cost of the February wind storm?

17 WITNESS JOHNSON: Not at this point, not
18 the impact.

19 CMSR. BELOW: Back to the panel on the
20 Settlement.

21 BY CMSR. BELOW:

22 Q. The 12.3, the inflation, it's just the term "inflation"
23 seems to be used here. Is there a particular reference
24 to the CPI, U.S. City average-all items, or something

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

- 1 like that? Or what would be the measure of inflation?
- 2 A. (Traum) It does say on the second line of 12.3 it's the
- 3 "Gross Domestic Product Implicit Price Deflator".
- 4 Q. Oh. Okay. And, is that also published by the
- 5 Department of Labor or is that something --
- 6 A. (Traum) I believe that's the case, subject to check.
- 7 Q. And, that would be, to the extent that there's regional
- 8 or national, is that sort of the national, the broadest
- 9 national measure of that?
- 10 A. (Traum) Again, I believe that's correct.
- 11 Q. Okay. Under Section 14.2, there's a reference to the
- 12 Settlement Agreement, the parties agreeing to adjust
- 13 the revenue requirement to reflect the value of the
- 14 energy and RECs produced by the solar array. Does
- 15 anybody on the panel know how that energy is used? Is
- 16 it used to offset PSNH internal load or -- and/or is it
- 17 used as a credit toward line losses?
- 18 A. (Hall) It's used to reduce the load, internal load at
- 19 Energy Park.
- 20 Q. Okay. Which would otherwise be charged to ratepayers
- 21 as a cost or it's sort of subsumed within the overall
- 22 cost structure?
- 23 A. (Hall) The cost associated with company use is a cost
- 24 recovered through distribution rates --

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. Okay.

2 A. (Hall) -- or company use at non-generating facilities.
3 So, it reduces -- And, it reduces revenue requirements
4 that otherwise get recovered through distribution
5 rates.

6 Q. And, going back to Section 11.4, I understand there
7 will be a separate waiver request. But I just wanted
8 to check, make sure the parties were aware, that the
9 statute references the 2000 or pursuant to statute and
10 action by the State Building Codes Review Board, that
11 the applicable, as of April 1, throughout the State of
12 New Hampshire, the applicable International Building
13 Code and International Energy Conservation Code is the
14 2009 edition. Does the panel understand that?

15 A. (Hall) I am aware, I wasn't aware of that specific
16 point, but I am aware that there have been updates to
17 the International Energy Conservation Code since 2000.

18 Q. And, I guess that will arise in a separate waiver
19 request. But is it the Company's belief that it needs
20 both the waiver from the rule and a waiver from the
21 Code? Or, are you under the belief that we could waive
22 the provision of the Code?

23 A. (Hall) The source of our disagreement was that PSNH
24 believes that master metering is prohibited. And,

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1 Staff believes that the Commission rules may allow
2 master metering or does allow master metering. So, we
3 have a disagreement over what the rules say. And,
4 we're unable to resolve that disagreement. So, that's
5 why we're here.

6 Q. Okay. So, that's moving forward separately. You don't
7 need action on this in this docket?

8 A. (Hall) No, sir.

9 Q. Okay.

10 A. (Hall) We will make a separate filing.

11 CMSR. BELOW: Okay. That's all I have
12 at this time.

13 CHAIRMAN GETZ: Commissioner Ignatius.

14 CMSR. IGNATIUS: Thank you. Good
15 morning, gentlemen.

16 BY CMSR. IGNATIUS:

17 Q. I do have a request about the temporary rate recovery
18 period, and wonder if that's for this panel or for the
19 next panel?

20 A. (Hall) Probably this one.

21 A. (Baumann) This one.

22 Q. All right. Now, because the increases seem to be
23 somewhat front-end loaded on this Settlement, and with
24 a significant increase to start, and then far lesser

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 increases in coming years, did you give consideration
2 to a longer period of time for recovery of the
3 temporary rates? That, too, is during this initial one
4 year period, the completion of the temporary rate
5 recovery?

6 A. (Traum) I think it's fair to say that there was
7 discussion about that. And, this was just one of the
8 terms of the Settlement that came out.

9 Q. You have a rate trajectory that has a significant
10 increase, then a drop, and then slight lesser increases
11 in coming years. We certainly hear from customers that
12 a smoother rate path is easier to plan for. Was there
13 a reason not to try to allow for recoveries in a way
14 that would allow for a somewhat smoother rate path than
15 the rise, drop, and then rise again?

16 A. (Traum) Again, Commissioner, I'd say, yes, there was
17 discussion about that. The OCA certainly shares the
18 concerns that you're raising.

19 Q. Well, I respect your honoring the Settlement Agreement
20 terms to not get into discussions beyond that.

21 A. (Baumann) Commissioner, I can just add that we did
22 discuss those type of issues. We certainly discussed
23 trying to match the cost of the service with the
24 recoveries and the rates at the time. And, I think we

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1 looked at other issues, such as length of time on
2 recovery of storm costs and such, to try and spread
3 out, if you will, recovery at lower than cost of
4 capital type of returns, so that we were trying to keep
5 the costs down, which is evident here with a
6 4.5 percent return on that large balance. And, while
7 an 8 or \$9 million increase is not -- is a large
8 increase, you know, on a percentage basis, we came up
9 with numbers that were less than 1 percent out in 2012
10 and '13. That kind of all played into our thinking.

11 A. (Mullen) If I could just add to that, too. Considering
12 the timing of these on July 1st of each year, PSNH's
13 Energy Service and Stranded Cost rates also change at
14 those times, too. So, no matter what we might have
15 planned out, tried to plan out under an alternative
16 scenario, you're always subject of what happens with
17 those rates on those dates, too. So, the ultimate
18 impact by customers is going to be the result of all of
19 those changes on those dates.

20 Q. Thank you. Mr. Baumann, in the Section 4, regarding
21 the step adjustments, just want to clarify a couple of
22 items. In looking at Page 5, 4.4, you have slightly
23 different terms on -- compared to 4.3. If the 4.3
24 allows for less than 7 percent for two consecutive

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1 quarters, certain things then happen, and 4.4, greater
2 than 10 percent. But it doesn't state, is it in any
3 one quarter? Is there any consecutive -- any
4 requirement of consecutive showings? It's a very
5 different provision.

6 A. (Baumann) The 7 -- For both the 7 and 10 percent, you
7 look at a 12-month earnings, and it rolls three months
8 at a time. So, they are the same type of time period,
9 a 12-month period. It just happens to roll each
10 quarter, because we file the F-1 on a quarterly basis
11 now, and it shows the 12 months ended quarter one and
12 then 12 months ended quarter two, as we roll through
13 the year. So, I think they are on the same basis. The
14 difference between the 10 and the 7 is the 10 -- the
15 10, the sharing of the 10 begins if you exceed the 10,
16 whereas the floor, the 7 percent floor does not trigger
17 unless you exceed the floor for two consecutive
18 12-month rolling annual quarterly filings.

19 Q. So, any one quarter that exceeds the 10 would trigger
20 that provision?

21 A. (Baumann) Yes.

22 Q. Thank you.

23 A. (Traum) And, if I could just clarify, if it's not
24 clear, that in any quarter where the Company reports,

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 the Company is reporting for a 12-month period. It's
2 not as though just one independent three-month period
3 resulted in a higher ROE, the 10 percent, it's for that
4 12-month period.

5 Q. Thank you for that clarification. Mr. Baumann, also on
6 Page 5, and this is the beginning of Section 5, the
7 step increases, can you just confirm, and I believe you
8 said it, but I want to be certain of it, in using -- in
9 reducing the lag period of time for recovery, can you
10 confirm that there will be no step increase for any
11 plant investment that has not been in service, used and
12 useful, in the provision of service to customers?

13 A. (Hall) Yes.

14 A. (Baumann) Yes. It was a significant issue that we
15 wanted to make sure we resolved appropriately. Every
16 increase that has been contemplated here is based on
17 known and measurable plant at a minimum three months
18 prior to the time of in-service or the time that the
19 rate would change. That's why we picked March as the
20 cut-off, if you will, for July 1 rates. In the old,
21 you know, in the older scenarios or, you know,
22 traditional ratemaking, you might take an average test
23 year balance to change rates in the future. So, you
24 were constantly way behind in the lag. This hasn't

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 eliminated that lag. The only way you could eliminate
2 the lag is if you were to forecast and collect
3 forecasted rate base and capital plant at the time of
4 rates, which was rejected, and even a June 30th number
5 was rejected, we went back to March, to make sure we
6 had that three-month period after actual data was
7 available to look at the rate for a July 1 change.

8 A. (Mullen) If I could, the actual language is found in
9 Sections 5.4.1, 5.4.2, 5.4.3, all the -- subject to
10 approval by the Commission that the plant additions are
11 approved, used and useful, and providing service to
12 customers.

13 Q. Well, let's continue with that, Mr. Mullen. I have a
14 number of questions about the process involved for
15 these various changes. And, what will be requiring a
16 hearing and what will not be requiring a hearing?
17 What's automatic? What may be automatic only after a
18 hearing or automatic simply on submission by the
19 Company that meet certain threshold tests? Maybe we'll
20 just start first with what we were talking about, the
21 step increases. Where -- it's clear from the
22 Settlement Agreement that the parties have agreed to
23 materials being submitted, information for the parties
24 to evaluate, Staff and the OCA, and I assume broader

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 than that, to review new investments, to share and
2 discuss, and I assume in a sort of informal technical
3 session process, the information you're seeing, whether
4 it's on investments, exogenous factors and the like.
5 But what happens next in all of these? When do we
6 reach the point of Commission orders and what precedes
7 a Commission order, in terms of process and notice to
8 the public, further proceedings before the Commission?

9 A. (Mullen) Okay. Well, as was said, this was the subject
10 of considerable discussion, and I want to make sure I
11 get it right here. If you look at Section 5.5, okay.
12 Excuse me, back up to 5.4. And, if we take, for
13 instance, the first, the 2011 step. The first thing
14 you do is you look at the actual change to net
15 distribution utility plant. And, if it's equal to or
16 greater than 75 million, and the Staff and OCA agree
17 with PSNH's calculations and the inputs, then it shall
18 take effect, subject to approval by the Commission that
19 the plant additions are prudent and used and useful and
20 providing service to customers. Now, what we envision
21 there is that there wouldn't necessarily be a hearing
22 there, as we'd be having a hearing on these numbers
23 right now. So, what would happen there is, say Staff
24 files, you know, files a recommendation saying "PSNH

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1 has done this and, you know, has complied with this
2 section. And, you know, we've discussed it with OCA."
3 Then, the Commission would rule -- either there would
4 be, I don't know if it rises to the level of a
5 Commission order or it's just a letter saying that the
6 Company has complied with it and it's allowed to go
7 into effect. If there's some disagreement, well, then
8 we can request a hearing.

9 Q. Well, before you move on, are there -- would other
10 members of the panel agree that that was the
11 expectation?

12 A. (Hall) I agree.

13 MS. HOLLENBERG: Can we ask a question
14 of our witness?

15 CMSR. IGNATIUS: I asked a question of
16 your witness. We would like to hear the answer.

17 BY THE WITNESS:

18 A. (Baumann) I agree with what Mr. Mullen just said. It
19 was more of a compliance, as opposed to a litigated
20 filing, in terms of how this was -- how this was
21 perceived to move forward.

22 A. (Hall) And, that's assuming that the Settling Parties
23 agree with PSNH, with respect to the information that
24 we file, that they conclude "yes", all of this

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 information satisfies the requirements, the plant is in
2 service and was prudent, is used and useful. In that
3 case, I think that there would be no hearing. That
4 there would either be an order or a secretarial letter
5 from the Commission saying "yes, we've complied with
6 that provision and therefore the step increase can take
7 effect as planned in the Settlement.

8 A. (Traum) And, I guess I'd just add or I'd like to just
9 say that, if the Staff and the OCA agree, then it's up
10 to the Commission what form they want to take in
11 granting the approval. If the Staff or the OCA do not
12 agree, then we could certainly have the opportunity to
13 request the Commission hold a hearing on such.

14 CHAIRMAN GETZ: Ms. Hatfield or
15 Ms. Hollenberg, do you have anything to add to that?

16 MS. HATFIELD: Mr. Chairman, I'd be
17 happy to wait for redirect, but I can do it now, if that
18 might be easier.

19 CHAIRMAN GETZ: Why don't we do it now.

20 BY MS. HATFIELD:

21 Q. Mr. Traum, are you familiar with the recent Aquarion
22 rate case, where the Commission approved what we call
23 in shorthand the "WICA" process?

24 A. (Traum) Certainly, in general terms, yes.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. And, are you familiar with the fact that the
2 Commission, in implementing that particular step
3 adjustment process, the Commission issued an order nisi
4 in that case?

5 A. (Traum) Yes.

6 Q. And, do you think that that might be an appropriate way
7 for the Commission to address this step process?

8 A. (Traum) That's certainly an appropriate way.

9 MS. HATFIELD: Thank you.

10 BY CMSR. IGNATIUS:

11 Q. When those numbers come forward and the parties discuss
12 them internally, is it anticipated that the parties are
13 the parties who are the intervenors and statutory
14 parties in this docket going forward for the next five
15 years? Or, is it anticipated to be the Settling
16 Parties?

17 A. (Baumann) I'm sorry, Commissioner, you said the
18 "Settling Parties" at the end?

19 Q. When you talked about the "parties reviewing all this
20 information", was it the Settling Parties you're
21 thinking of to this Agreement or is it the full parties
22 to this proceeding, which is another four or five
23 entities?

24 A. (Hall) It's the former. It's the Staff and OCA.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

- 1 Q. Similarly, the review in Section 14 on the Solar Park,
2 would that be under a whole new filing, if there was
3 some discussion of whether those rates -- those
4 investments should be disallowed or would it be part of
5 this proceeding?
- 6 A. (Hall) Section 14 isn't embodied under Section 5. So,
7 under Section 14, I think, if Staff or OCA disagreed,
8 then we'd probably have to have a hearing.
- 9 Q. All right.
- 10 A. (Traum) And, on this particular section, I'd say it
11 wouldn't just be Staff or OCA that could raise these
12 issues in the future.
- 13 A. (Hall) Correct. Correct. I agree.
- 14 Q. Okay. And, in Section 12, I think it is, on exogenous
15 factors, what's the expectation regarding who reviews
16 those and Commission process, once you've been through
17 them? I mean, I look at 12.4, says that PSNH shall
18 file the information by March 31st. That's not really
19 starting the process I'm concerned about so much, as
20 the review. And, does it end up, if there's agreement
21 among OCA, Staff, and PSNH, after reviewing the
22 numbers, does it then become automatic, similar to the
23 Section 5 provisions, or is it something that goes to a
24 Commission process?

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

- 1 A. (Mullen) To answer your question, it's not automatic.
2 Towards the end of 12.4 says "Any adjustments to
3 revenue requirements for Exogenous Events: (1) shall
4 be subject to review and approval as deemed necessary
5 by the Commission." Well, -- So, and I would think
6 that, considering that they would involve changes to
7 rates, the Commission would want to review that, and
8 any filing that PSNH's makes would be part of this
9 docket or there would be some public filing, so --
- 10 Q. So, Mr. Mullen, you had an interesting phrase a moment
11 ago that maybe helps put this in better perspective for
12 me. You had said "Well, we are having a hearing on the
13 rates today." So, we don't need a hearing on the rates
14 in the future regarding the step increases, correct?
- 15 A. (Mullen) Unless they're changed through other workings
16 of the Settlement.
- 17 Q. And, that that's the only section that you would
18 consider being worked through the hearing process in
19 the Settlement, any of the other changes in rates
20 outside of the step increases would require or the
21 Commission may require additional process to finalize
22 those?
- 23 A. (Mullen) Yes.
- 24 A. (Traum) Commissioner, if I might add, I'm not sure if

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 I'm being too picayune here, but I view what the
2 Commission would be approving with regards to the step
3 adjustments here is the methodology and the thresholds.

4 Q. Mr. Traum, on the provisions regarding uncollectibles,
5 Section 8, and that's on Page 9 of the Settlement
6 Agreement, is there an expectation that other utilities
7 might participate in those discussions and in the
8 participation in the study that is to be commenced?

9 A. (Traum) We had certainly thought about whether a
10 generic proceeding would be appropriate. And,
11 obviously, the Commission or any party can request a
12 generic proceeding. But we were envisioning this as
13 being PSNH-specific. I suppose, if another party
14 wanted to get involved, recognizing that this only
15 relates to PSNH, we'd address it at that point.

16 Q. And, you had testified that the parties will "jointly
17 select the consultant after a competitive process". Is
18 it PSNH that will actually run that competitive process
19 and retain the consultant, but with input on the
20 selection process from the parties?

21 A. (Traum) Well, I would think that the RFP would be one
22 that all three parties would have input into how that
23 was developed. PSNH would be -- would pay the bill,
24 which consumers would end up paying in the long run.

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Is that responsive?

2 Q. It is. It's not a Commission consultant with -- it's
3 to be retained by PSNH?

4 A. (Traum) Correct.

5 Q. Mr. Hall, I think this may be my last area of inquiry.
6 Following up on Mr. Patch's questions, he had
7 identified that the outdoor lighting tariff was
8 recently changed, the distribution portion of it had
9 increased just before the initiation of this rate case,
10 it sounds like?

11 A. (Hall) If I recall our conversation, he talked about an
12 increase in August 1st of 2009.

13 Q. Well, he had said that was the imposition of the
14 temporary rate recovery I thought?

15 A. (Hall) Right.

16 Q. And, that prior to that the rates themselves had
17 increased, remember his 30 percent increase number,
18 that there had been a significant increase in the
19 tariff itself prior to that?

20 A. (Hall) My understanding of the 30 percent was that he
21 was comparing the rates in effect prior to the
22 temporary rate increase, and rates that will be in
23 effect once the Settlement is implemented. So, he was
24 looking at July of '09, which was before temporary

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 rates took effect, and July of 210 -- 2010, which is
2 after permanent rates under the Settlement Agreement
3 take effect.

4 CMSR. IGNATIUS: All right. Thank you.

5 Then, nothing else.

6 BY CMSR. BELOW:

7 Q. Just going back to the step -- proposed step increases,
8 I think the provisions of the Settlement Agreement
9 provide that only 80 percent of the non-Reliability
10 Enhancement Project plant would be used for purposes of
11 determining the revenue requirement of the -- for the
12 step increase. The 20 percent that's not put into rate
13 base for purposes of the revenue -- step increase
14 revenue requirement, what would happen to that? Is
15 that just carried forward into the next rate case? Is
16 it still subject to allowance for funds used during
17 construction? What -- is there anything that we should
18 know about how that would be treated going forward?

19 A. (Traum) I guess I can start by saying it was
20 anticipated that that remaining 20 percent would be
21 related to revenue-producing net plant additions. So,
22 there wouldn't be any -- an attrition drag due to
23 those. It would be resulting in additional revenues to
24 the Company offsetting the investment costs.

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 A. (Mullen) But, to the extent that they are not included
2 in the revenue requirement calculation, it would be
3 like any other plant that a utility puts in between
4 rate cases. It would carry forward. And, any AFUDC
5 would only be during the period of construction as
6 would normally be.

7 Q. Okay. And, if that resulted in an under earning, that
8 would come back through the collar, ROE collar, either
9 over or under. If, for instance, half of it turned out
10 to be revenue-producing, then that might result in over
11 earning and would be captured through the collar. Is
12 that the expectation of the Settling Parties?

13 A. (Mullen) Yes.

14 A. (Traum) We can only wish.

15 A. (Hall) Yes.

16 CMSR. BELOW: Okay. Thank you.

17 BY CHAIRMAN GETZ:

18 Q. I just have a question about the mechanics of the
19 timing in reading Sections 4 and 5. So, I mean,
20 putting aside exogenous changes, if there's two
21 quarters of ROE, you know, below 7 percent, its
22 expectation is that there's a -- there's a rate change
23 in July 2010, then steps in 2011, '12, and '13.
24 Section 4.3 says "PSNH will not be allowed to propose a

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[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 change to its permanent distribution rates for effect
2 prior to July 1, 2015." So, I guess my expectation
3 would be that PSNH would be permitted, some time in the
4 Summer of 2014, to make a filing for a permanent
5 delivery rate increase. Is that -- I assume that's
6 correct?

7 A. (Hall) Yes, for effect July 1st, 2015. It might not
8 even occur until the first quarter of 2015.

9 Q. So, it's effectively, though, they would be foregoing
10 -- PSNH would be foregoing the opportunity for
11 temporary rates?

12 A. (Hall) I didn't catch the last part?

13 Q. If you're going to -- if there's going to be an
14 opportunity to file for rates effective 2015, can you
15 file for temporary rates in 2014? This is what's not
16 clear to me about this language. Is there a stay-out?
17 I would read this, as a general matter, to mean -- to
18 say that there's going to be a rate change, a step
19 change in July 1, 2013. And, if everything else goes
20 well, there would be no subsequent rate change to
21 July 1, 2015?

22 A. (Hall) That's right.

23 A. (Mullen) Yes.

24 A. (Traum) Yes, sir.

[WITNESS PANEL: Hall|Baumann|Traum|Mullen]

1 Q. So, no temporary rates in 2014?

2 A. (Hall) Correct. If this, provided this Settlement
3 holds, there will be no changes to distribution rates
4 for a period of five years.

5 CHAIRMAN GETZ: All right. Any
6 redirect?

7 MR. EATON: I think I'd like to do my
8 redirect as part of the next panel, where both Mr. Hall
9 and Mr. Goodwin could answer.

10 CHAIRMAN GETZ: Anything else for the
11 panel, because I think it would be time to take a lunch
12 break?

13 MR. EATON: Yes. Our witness does have
14 some information about the magnitude of the wind storm.
15 We called back to the Company, and Mr. Johnson can testify
16 to that now.

17 WITNESS JOHNSON: Accumulated charges
18 for the February storm are amounting to \$25 million at
19 this point, subject to insurance recovery, which is
20 expected somewhere around 9 to \$12 million, it hasn't
21 occurred yet. And, no indication of what is in plant
22 versus expense has been made at this point.

23 CMSR. BELOW: Okay. Thank you. That's
24 helpful.

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 CHAIRMAN GETZ: Okay. Let's recess
2 until 1:30. Thank you.

3 (Whereupon a lunch recess was taken.)

4 CHAIRMAN GETZ: Okay. We're back on the
5 record in docket DE 09-035. Are we ready to proceed to
6 the second panel?

7 MR. EATON: Yes. I'd like to call to
8 the stand George McCluskey, Steve Hall, and Charles
9 Goodwin.

10 (Whereupon Stephen R. Hall was recalled
11 to the stand having been previously
12 sworn, and Charles R. Goodwin and
13 George R. McCluskey were duly sworn and
14 cautioned by the Court Reporter.)

15 STEPHEN R. HALL, PREVIOUSLY SWORN

16 CHARLES R. GOODWIN, SWORN

17 GEORGE R. McCLUSKEY, SWORN

18 DIRECT EXAMINATION

19 BY MR. FOSSUM:

20 Q. Now, I will just introduce Mr. McCluskey to get him on
21 the record. Could you state your name and place of
22 employment for the record please.

23 A. (McCluskey) My name is George McCluskey. I work for
24 the New Hampshire Public Utilities Commission.

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Q. And, in what capacity?

2 A. (McCluskey) I'm an Analyst in the Electric Division.

3 Q. And, have you filed prefiled testimony in this matter?

4 A. (McCluskey) Yes, I have.

5 Q. And, did you work on the Settlement Agreement that is
6 being presented today?

7 A. (McCluskey) Yes. I worked on the rate design component
8 of the Settlement.

9 MR. FOSSUM: Thank you.

10 BY MR. EATON:

11 Q. Mr. Goodwin, would you please state your name for the
12 record.

13 A. (Goodwin) Yes. It's Charles Goodwin.

14 Q. For whom are you employed?

15 A. (Goodwin) Northeast Utilities Services Company.

16 Q. And, what is your position and your duties there?

17 A. (Goodwin) I am the Director of Pricing Strategy and
18 Administration for Northeast Utilities. And, in that
19 role, I'm responsible for rate and rate-related
20 activities for the Connecticut and Massachusetts
21 jurisdictions of Northeast, and responsible for cost of
22 service study analysis for all of Northeast's operating
23 companies.

24 Q. Did you participate in the preparation of the cost of

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 service study that's included with this filing?

2 A. (Goodwin) Yes. That was developed under my direction.

3 Q. Have you ever presented testimony in this, in this
4 jurisdiction?

5 A. (Goodwin) I have in this case, as well as previous PSNH
6 rate cases, provided written testimony. I have not
7 orally testified previously in front of this
8 Commission, although I have on many occasions in both
9 Connecticut and Massachusetts jurisdictions.

10 Q. Mr. Hall, you've previously been sworn?

11 A. (Hall) Yes, I have.

12 Q. And, you presented your qualifications this morning?

13 A. (Hall) Yes.

14 MR. EATON: I think the witnesses are
15 available for cross-examination.

16 CHAIRMAN GETZ: Well, let's start with
17 Mr. Fossum. Do you have any questions for any of the
18 panelists?

19 MR. FOSSUM: I do not.

20 CHAIRMAN GETZ: Ms. Hatfield?

21 MS. HATFIELD: Mr. Chairman, we might
22 have one question, but we're honestly not ready to ask it
23 at this time. Could we go after Staff?

24 CHAIRMAN GETZ: Well, --

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 MS. HATFIELD: Oh, sorry.

2 CHAIRMAN GETZ: After Mr. Patch? We'll
3 turn to Mr. Patch.

4 MR. PATCH: Thank you, Mr. Chairman.
5 I'll direct my questions to the panel generally, and
6 whoever feels capable of answering it certainly can.

7 CROSS-EXAMINATION

8 BY MR. PATCH:

9 Q. I'll start with the question that I had asked this
10 morning about the rate of return that PSNH was earning
11 on street lighting before the docket was filed. I
12 don't know if Mr. Hall or Mr. Goodwin, you have that
13 information?

14 A. (Goodwin) Yes, I have that information. Based on the
15 filed cost of service study, it was in my testimony
16 labeled, in Volume 3, as Exhibit 2, begins on Page 19.
17 And, it's the per book cost of service study for the
18 test year. And, in that study, on Page 2 of 28 within
19 that Exhibit 2, the last two columns show the rate of
20 returns for Rate OL and Rate EOL at the very bottom of
21 the page. And, it shows "2.47 percent" for Rate OL and
22 "0.01 percent" for Rate EOL. That compares to the
23 total company average rate of return of 5.93 percent
24 for this test year.

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Q. And, what rate of return does PSNH estimate it will
2 earn on street lighting if the Settlement is approved?

3 A. (Goodwin) I don't have that information. It would
4 somewhere in the same general relative relationship
5 that I just described. It would be higher, obviously,
6 because the total company rate of return would be
7 higher, but the relative relationship should be
8 approximately as reflected in the test year studies.

9 Q. So, in other words, the rate of return for outdoor
10 street lighting is substantially below the overall rate
11 of return that PSNH is anticipating it will obtain as a
12 result of the Settlement Agreement, is that fair to
13 say?

14 A. (Goodwin) Based on this study, yes.

15 Q. So, street lighting is not really a profitable piece of
16 business for PSNH?

17 A. (Goodwin) I don't know if I'd go as far as saying "not
18 profitable". What I'm saying is that, based on this
19 cost of service study, its embedded rate of return is
20 lower than the system average.

21 Q. So that the 0.01 percent is profitable then? Is that
22 what you're saying?

23 A. (Goodwin) One of the -- we could really kind of go off
24 into a whole cost of service theory tangent here, and

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 I'm not sure if that would be appropriate or not, but
2 let me try this. These cost of service studies are one
3 reflection of a calculation of a Company's rate of
4 return and class rates of return. Profitability
5 arguably can be measured in different ways. For
6 example, the Company, as part of the Settlement, will
7 be filing both an embedded and a marginal cost of
8 service study in the next rate case. One may look at a
9 different type of a cost of service study, such as the
10 marginal study, and conclude that, although the
11 embedded rate of return is something, it still may be
12 profitable. I'm just saying this is one way of looking
13 at it. I wouldn't want to make the generalization that
14 it's "not profitable".

15 Q. When would you anticipate then that those two studies
16 would be completed, when you say "the next rate of" --
17 "the next rate case"? I mean, given the Settlement
18 Agreement, that's pretty far down the road.

19 A. (Hall) It could be, yes. It could be as much as five
20 years.

21 Q. And, actually, Mr. McCluskey, this may be a question
22 for you. And, without getting into the substance of
23 settlement discussions, is Staff -- does Staff think
24 that a marginal cost of service study is important?

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Obviously, that's a new thing. We haven't -- They
2 haven't done a marginal cost of service study in some
3 time, have they?

4 A. (McCluskey) That's the case for PSNH. But Unitil has
5 submitted marginal studies in the last two rate cases.
6 The two gas companies in this state have also submitted
7 marginal cost studies. So, the Commission is quite
8 familiar with those studies. Whether it's gas or
9 electric, the same principles apply. So, we are
10 familiar with them. And, having PSNH file one would
11 complete the use of those studies for all gas and
12 electric companies in the state.

13 Q. What's the benefit of doing a marginal cost of service
14 study, as compared to an embedded cost of service
15 study? What do you see the benefits of that?

16 A. (McCluskey) Well, different types of studies have
17 different benefits, weaknesses. I personally think
18 that a marginal cost study is a much sounder basis for
19 developing both class revenues and the intraclass rate
20 design. So, I think that it would be a considerable
21 step forward to have the marginal cost study to advise
22 the parties to the next proceeding as to whether
23 there's a need for changes in the current rate design
24 for PSNH.

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Q. But that could take, as Mr. Hall said, about -- could
2 be as long as five years, couldn't it?

3 A. (McCluskey) It could be, yes.

4 Q. Mr. Goodwin, I think this is a question for you. I
5 mean, you were involved, you were good enough to meet
6 with the City, you and a few other PSNH officials, back
7 on April 8th, I think it was?

8 A. (Goodwin) Right.

9 Q. And, do you recall at that time that the City had
10 suggested to you, as I think it had actually at the --
11 only at the beginning of the technical session that
12 they met with other PSNH officials, on both times I'm
13 trying to say, the City had suggested the possibility
14 of taking over the ownership and operation and
15 maintenance of the street lights in the City. Do you
16 remember that issue coming up?

17 A. (Goodwin) I remember representatives of the City
18 suggesting or suggesting that that question had been
19 posed previously, yes.

20 Q. And, do you remember we had a discussion about the City
21 of Newton, Massachusetts, I think in the context of Mr.
22 Clougherty had actually seen a presentation, either he
23 or other DPW employees, done by the City of Newton,
24 which suggested that they had substantial cost savings

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 as a result of taking over street lighting in that
2 city? Do you remember that discussion?

3 A. (Goodwin) I remember a discussion regarding Newton, and
4 I remember the discussion essentially focusing on that
5 city in Massachusetts paying relatively lower street
6 lighting rates. I'm not saying the part about "taking
7 over their lights as being their savings" wasn't
8 discussed, I just don't specifically remember that.

9 Q. Okay. I would like to show you a copy of a
10 presentation that, and it looks rather long, and I
11 don't really have a need to go through very much of
12 this, there's just one or two pages I'm interested in
13 bringing to the attention of the Commission. But this
14 was a presentation that was made at the American Public
15 Works Association that really, I think, fair to say is
16 the genesis of the City of Manchester's position that
17 we've just discussed.

18 (Atty. Patch distributing documents.)

19 MR. PATCH: And, Mr. Chairman, I would
20 ask that we mark this for identification.

21 MR. EATON: I'm going to object to this.
22 This is clearly introducing some sort of testimonial type
23 evidence that "the City of Newton has a better situation
24 than we do." We have not had an opportunity to ask any

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 questions about this. The author of the study is, I
2 believe, an employee of Newton DPW Engineering Division.
3 We don't know what we're comparing it to, as far as how
4 National Grid does their lighting rates. So, it could be
5 very much apples and oranges. And, it's certainly being
6 offered as truth that "Newton does better than we do."
7 And, this is an issue that's just being introduced too
8 late in the proceeding.

9 So, I'd object to the introduction of
10 this exhibit.

11 CHAIRMAN GETZ: Well, for purposes of
12 cross-examination, we'll mark it for identification as
13 "Exhibit Number 31". And, then, we will, at the close of
14 hearing, hear arguments on what should be admitted into
15 evidence and determine what, if any, weight should be
16 given to this particular exhibit.

17 (The document, as described, was
18 herewith marked as Exhibit 31 for
19 identification.)

20 CHAIRMAN GETZ: You can proceed with
21 your questions, Mr. Patch.

22 MR. PATCH: Okay. Thank you, Mr.
23 Chairman.

24 BY MR. PATCH:

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Q. Mr. Goodwin, the document I just handed you, there's a
2 right stickie -- a red stickie, I'm sorry, about midway
3 through. And, actually, if you look two pages before
4 that, there's a slide that has at the bottom the number
5 of lights in the City of Newton. And, obviously, I
6 can't ask you to verify that number. But I would just
7 ask you if that slide says that there are "8,440
8 lights", is that correct?

9 A. (Goodwin) Right. And, I remember you saying something
10 earlier this morning referencing "8,900 lights for the
11 City of Manchester". So, if the point is that the
12 numbers are similar, I would say that this data
13 indicates a similarity to the number of counts that you
14 indicated this morning for the City of Manchester.

15 Q. Thank you. You saved me a question. Thank you. On
16 the page that has the red stickie on it, I would just
17 ask you to note, where it talks about the "Cost of
18 Annual DPW Electricity Use" in the City of Newton.
19 And, I believe it's actually NSTAR, not National Grid.
20 But that the savings from Fiscal Year 2006 to 2009, as
21 a result of the city taking over street lights in that
22 city, there was a saving of approximately \$800,000,
23 according to what the slide says. Again, I'm not
24 asking you to verify the accuracy of this, but --

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1 A. (Goodwin) Right. And, I certainly can't do that. And,
2 there's probably many things that are different between
3 2006 and 2009, and I can't speak to any specifics
4 around that. But that is what this slide shows that
5 you handed me, yes.

6 Q. And, again, it was during the April 8th meeting, it was
7 an attempt to try to explain to you why the City was as
8 concerned as it was about the distribution rates, in
9 particular. Do you remember that discussion that we
10 had during that April 8th meeting?

11 A. (Goodwin) Yes.

12 MR. PATCH: I just have one other
13 exhibit that I want to provide to the Commission and ask
14 that it be marked with regard to this issue, and then I'll
15 move on. And, this is a copy of an e-mail exchange
16 between myself and Mr. Schuckel, who is the person that
17 was named on the presentation that we just marked for
18 identification.

19 (Atty. Patch distributing documents.)

20 MR. PATCH: And, I only have one or two
21 questions with regard to this. But --

22 MR. EATON: I have the same objection.
23 This is as if Mr. Patch had Mr. Schuckel here on the stand
24 and he's asking him a question and answering it in this

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 memo, and I don't have a chance to do any discovery on it.
2 And, again, it's probably being offered for the truth of
3 what is contained, not for cross-examination. So, I
4 continue my objection to this exhibit.

5 CHAIRMAN GETZ: Okay. It's noted, but
6 we'll mark it for identification and treat it in the same
7 manner as Exhibit 31.

8 (The document, as described, was
9 herewith marked as Exhibit 32 for
10 identification.)

11 MR. PATCH: Thank you, Mr. Chairman.

12 BY MR. PATCH:

13 Q. If you look at this e-mail, and you look down -- well,
14 first of all, there's a discussion by Mr. Schuckel
15 about the operation and maintenance of street lights
16 and the costs falling into three categories:
17 Distribution, production of electricity, and
18 maintenance of lights. Do you see that, Mr. Goodwin?

19 A. (Goodwin) Yes.

20 Q. And, further down in that e-mail, the top half of the
21 page, he says "We pay about 6 cents a kilowatt-hour
22 distribution to NSTAR and about 6 cents a kilowatt-hour
23 to Suez for the energy. I would estimate our
24 distribution and energy costs to be about \$370,000 per

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 year." So, that's both energy and distribution. And,
2 from the way he's described it, it almost sounds to me,
3 and you correct me if I'm wrong, but that about half of
4 that \$375,000, or about \$185,000, is in distribution.

5 Do you think that's a fair inference from that
6 sentence?

7 A. (Goodwin) It's hard for me to draw any conclusions. I
8 see that he says 6 cents for one piece and 6 cents for
9 the other piece. If 6 is half of 12, then that seems
10 reasonable. But, really, I mean, I am looking at this
11 for the first time and I can't really get my head
12 around the context of it.

13 Q. Okay.

14 A. (Goodwin) But 6 is half of 12, that's essentially your
15 point.

16 Q. That is my point. Thank you. But assume -- okay,
17 assume with me for a minute that the costs are
18 somewhere in the range of 185,000 or even 200,000,
19 which we actually have reason to believe is higher than
20 what it actually, but assume for a minute that that's
21 what it is. That's a significant difference from
22 \$900,000 a year for distribution expenses that we
23 established this morning is what the City would be
24 paying if this Settlement Agreement is approved, is it

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 not?

2 A. (Goodwin) 900 is higher than the other number that you
3 reference, yes. But, again, I don't think I, and I
4 don't think Mr. Hall or anyone from PSNH can testify
5 regarding any assumptions or differences or comparisons
6 or similarities between the two companies and the two
7 services. Two different states, two different
8 jurisdictions, two different -- a whole bunch of things
9 that we don't have enough information today to make any
10 meaningful comparisons with.

11 Q. Okay. Well, I'll move on from the comparison to the
12 City of Newton. When we met with you on April 8th,
13 Mr. Goodwin, we had a discussion about some of the --
14 some of the detail of the cost of service study, is
15 that correct?

16 A. (Goodwin) Right. That was the main purpose was for
17 myself and the primary cost of service lead analyst who
18 prepared it to give her presentation to the City,
19 specifically around some of the details within our cost
20 of service methodology.

21 Q. And, as I said before, we appreciated very much your
22 doing that and your candor in answering our questions
23 that day. I think it contributed to the City's
24 understanding of how that was prepared and what's

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1 underneath it. Although, admittedly, trying to
2 understand the detail of a cost of service study is
3 tough for an attorney or I think for employees of the
4 Department of Public Works. But, anyway, again, we
5 appreciate that.

6 A. (Goodwin) Well, I mean, that's understandable. They
7 tend to be lengthy and fairly complicated sets of
8 algorithms, and they're not easy, frankly, for most
9 anybody to understand.

10 Q. As I recollect, part of our discussion involved trying
11 to look at specific cost items and looking at
12 allocation factors. If you had a -- and "cost item"
13 may not be the correct terminology, but, in the cost of
14 service study, you had certain categories of costs, and
15 decisions were made about how to allocate those costs
16 to different classes of customers, like outdoor
17 lighting, correct?

18 A. (Goodwin) Essentially, that's what a cost of service
19 study does, that's correct. Take a series of various
20 costs and allocate them across to rate classes based on
21 some allocation theories and parameters.

22 Q. And, in terms of those allocation theories and
23 parameters then, I mean, it struck me, and you correct
24 me if I'm wrong, but that decisions were made by

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1 Northeast Utilities or Public Service Company of New
2 Hampshire on sort of an item-by-item basis, about some
3 the allocation might have been higher, some a little
4 lower, it varied? Or, am I correct or not?

5 A. (Goodwin) No, I don't think that's really the case at
6 all. There were different general theories that cost
7 of service analysts uphold as to how various primary
8 segments of the business should be allocated. It's
9 really not -- to some degree you look at one particular
10 count or another. Mostly, the cost of service
11 represents a general philosophy from that cost of
12 service analyst. And, in our particular case, we
13 applied a theory called the "Minimum Intercept
14 Approach". Once that basic theory is applied, and the
15 primary components of the distribution system and
16 expenses are allocated, most all of the other
17 components in the cost of service follow that basic
18 similar premise.

19 So, it's not as though you start at the
20 top and say "I'm going to allocate this one in one way
21 and that one in another way." There's a general
22 philosophy that is applied for the cost of service, and
23 a lot of the result falls out from that general
24 philosophy.

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Q. And, how would you describe the general philosophy then
2 that is used as the basis for deciding how to allocate
3 a certain percentage of those cost items to outdoor
4 lighting?

5 A. (Goodwin) Well, let me just say that the approach that
6 we used in this study, which is again called the
7 "Minimum Intercept Study", what makes that different
8 than, say, a previous cost of service study that we
9 presented or that was developed for other rate cases,
10 the minimum intercept applies both a customer and a
11 demand allocation. And, as it relates to lighting,
12 because there are a number of luminaires, they will get
13 allocations based on those numbers of luminaires. So,
14 as it relates to street lighting, that's really the
15 primary driver for the result in a minimum system cost
16 of service, as it relates to the lighting service.

17 Q. So, in effect, each luminaire is treated like an
18 individual customer. Is that fair to say?

19 A. (Goodwin) Like an individual hookup, yes.

20 Q. So, for the City of Manchester, we've got 8,900
21 customers?

22 A. (Goodwin) 8,900 fixtures that interconnect with the
23 distribution system, that's right. And that, again, is
24 the theory of a Minimum Intercept. With the Minimum

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Intercept piece says that there's a minimum system that
2 has to be sized and constructed and have these 8,900
3 fixtures that you speak to interconnected into the
4 system, and that's one set of costs. And, then, beyond
5 that, there's a demand component that says "well,
6 depending on the size, there's going to be a different
7 set of costs." But you're generally correct, yes.
8 8,900 would mean 8,900 allocations for those
9 interconnections.

10 Q. Mr. Hall, I believe you were present at the only
11 technical session or actually it was only a portion of
12 a technical session where the City of Manchester
13 appeared, is that correct? Do you remember that?
14 Mr. Long was there, I believe?

15 A. (Hall) Yes, I remember.

16 Q. And, at that time, we understood Mr. Long to say that
17 he thought "the best way to deal with the issues that
18 were raised by the DPW was through a separate docket."
19 Is that correct? Do you remember him saying that?

20 A. (Hall) I don't recall if he said "the best way was
21 through a separate docket." He may have.

22 Q. Is that still the Company's position?

23 A. (Hall) Regarding dealing with these rate design issues?

24 Q. Well, obviously, my focus is on outdoor lighting, and

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 the City of Manchester's issues with the dramatic
2 increase in rates, and the possibility of a huge saving
3 to the City of Manchester if things could be dealt with
4 a little differently.

5 A. (Hall) Yes. The Company's position is that we support
6 the Settlement and the rate design contained in the
7 Settlement. The City is free to petition the
8 Commission at any time to open a docket, if they want
9 to. And, if they do, we'll look at the petition and
10 we'll act accordingly. And, we will make a decision on
11 how to respond.

12 Q. So, it sounds like your position has changed from what
13 Mr. Long said in that technical session?

14 A. (Hall) I don't recall what Mr. Long said at that tech
15 session. If he did say that, it may well have been in
16 the context of rate design generically. I just don't
17 remember him saying that specifically. But, if he did,
18 that may well have been the context. However, since
19 then, we've reached agreement with the parties on rate
20 design.

21 Q. And, the City of Manchester was not part of those
22 discussions, were they?

23 A. (Hall) Was not part of?

24 Q. Your rate design discussions, your settlement

[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 discussions?

2 A. (Hall) No. The City didn't participate in those
3 settlement discussions. I mean, the City was late in
4 intervening in this proceeding.

5 Q. That's right. But we weren't actually invited to those
6 settlement discussions, were we?

7 A. (Hall) The time to have participated in the discussions
8 would have been to become an intervenor when the case
9 was originally filed. And, at that point in time, the
10 City could have been a full party and participated in
11 all of the discussions and introduce these issues as
12 part of those discussions. You did not.

13 Q. Do you know whether Mr. Long or anybody else involved
14 in the discussions back in August of '09 recommended to
15 the City that it intervene in the docket?

16 A. (Hall) I don't know what you're referring to with
17 regard to an "August of '09 discussion". But, whether
18 or not the -- whether or not Mr. Long would have said
19 that is, quite frankly, not relevant. The issue is
20 whether or not the City felt this was important enough
21 to file a timely intervention and get in at the
22 beginning of the process and get into the proceeding.

23 Q. So, you assume that the City then has a perfect
24 understanding of how the process here at the PUC works?

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1 A. (Hall) Their counsel does.

2 Q. Pardon?

3 A. (Hall) Their counsel does.

4 Q. Well, what if their counsel wasn't contacted back then,
5 because the City didn't know about it, didn't know what
6 the process was?

7 A. (Hall) Well, the City certainly received notification
8 of the rate case filing. They received that from the
9 Executive Director and Secretary. And, I believe that
10 was in the June or July 2009 time frame.

11 MR. PATCH: No further questions. Thank
12 you.

13 CHAIRMAN GETZ: Ms. Hatfield.

14 MS. HATFIELD: Thank you very much, Mr.
15 Chairman. Mr. Patch actually asked one of my questions.

16 BY MS. HATFIELD:

17 Q. So, Mr. Goodwin, if I could have you turn back to that
18 page you were referencing from the cost of service
19 study.

20 A. (Goodwin) Right. It was in Volume 3, Exhibit 2.

21 Q. Yes. And, you were -- I believe you were looking at
22 Bates Page 022, which is Page 2 of 28?

23 A. (Goodwin) Correct.

24 Q. And, at the bottom of that page, you had pointed us or

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 Mr. Patch had pointed us to the "rate of return" line,
2 do you see that?

3 A. (Goodwin) Yes.

4 Q. And, I think you had testified that the numbers under
5 the Settlement Agreement might be different, but that
6 the differences in how the different classes contribute
7 to the rate of return would be similar, is that
8 correct?

9 A. (Goodwin) That's what I said, yes.

10 Q. So, does that mean that some classes then are
11 contributing more to the Company's return than others?

12 A. (Goodwin) All classes contribute differently towards
13 the Company's overall rate of return. Some classes
14 contribute at a rate that's higher than the system
15 average and others contribute at a rate that's lower
16 than the system average. And, that would tend to hold
17 relatively true, in my judgment, both before and after
18 the rate settlement.

19 Q. So that, in this case, the other classes of customers
20 are paying more of a higher share toward the Company's
21 return than outdoor lighting is?

22 A. (Goodwin) Yes.

23 MS. HATFIELD: Thank you. Nothing
24 further.

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1 CHAIRMAN GETZ: Commissioner Below?

2 CMSR. BELOW: No questions.

3 CHAIRMAN GETZ: Commissioner Ignatius?

4 CMSR. IGNATIUS: Just a couple of

5 questions.

6 BY CMSR. IGNATIUS:

7 Q. Mr. McCluskey, in your role in participating in the
8 settlement discussions and other aspects of the rate
9 case, are you aware of any limitation on the part of
10 the intervenors to attend the technical sessions in
11 this case?

12 A. (McCluskey) Generally or in this particular case?

13 Q. In this case.

14 A. (McCluskey) In this case? No. I was -- it's my
15 understanding that any intervenor could participate in
16 tech sessions and in settlement discussions.

17 Q. So, when Mr. Patch was asking questions about whether
18 the City had been -- had been allowed to participate in
19 the settlement discussions, you're not aware of
20 anything on the part of the scheduling of the case or
21 orders of the Commission that would restrict
22 intervenors from participating, except I guess with the
23 exception of Unitil, which was under a limited
24 intervention status?

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[WITNESS PANEL: Hall|Goodwin|McCluskey]

1 A. (McCluskey) That's correct. I'm not aware of any
2 restriction.

3 Q. And, also, Mr. McCluskey, the testimony at the
4 beginning of the day, I think from Mr. Baumann, though
5 I apologize if it was someone else, was that the rate
6 trajectory here for distribution rates was
7 characterized as "sustainable" over this five-year
8 period. Would you concur with that?

9 A. (McCluskey) I actually didn't hear him say that. But,
10 if we're talking "sustainable", I'm not even sure what
11 that means.

12 Q. Let me ask a more direct question then. The Company
13 has seen some increase in the number of customers
14 migrating to competitive supply. Do you feel that the
15 distribution rates that will result from the Settlement
16 here will allow for the Company to maintain a solid
17 base of customers for its distribution service?

18 A. (McCluskey) Yes, because customers that migrate to the
19 competitive market still pay the distribution rate.
20 So, it's not the distribution rate that drives that
21 decision to migrate or stay with the Company. It's the
22 competitive energy rate, which is the alternative. So,
23 if a large customer, who tend to be the customers that
24 migrate, if a large customer receives an offer that has

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1 a lower energy rate to it, then they may go to the
2 competitive market. But the distribution rate is not
3 going to have any impact, because you're going to pay
4 the same rate regardless.

5 CMSR. IGNATIUS: Thank you. I have no
6 other questions.

7 CHAIRMAN GETZ: Okay. Any redirect,
8 Mr. Fossum or Mr. Eaton?

9 MR. EATON: No redirect.

10 CHAIRMAN GETZ: Okay. Hearing nothing,
11 then the witnesses are excused. Thank you, gentlemen.
12 Any issues we need to address before we turn to the
13 admission of exhibits into evidence and opportunity for
14 closings?

15 (No verbal response)

16 CHAIRMAN GETZ: Okay. Hearing nothing,
17 then is there any objection to admitting into evidence
18 Exhibits 7 through 32, recognizing we already have on the
19 record objections by Mr. Eaton to Exhibits 31 and 32?

20 MS. HATFIELD: And, Mr. Chairman, I
21 think we also objected to Exhibit 29, which were the pie
22 charts that the City provided about their bills, a
23 breakdown of their bills.

24 CHAIRMAN GETZ: Yes. Thank you. So,

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1 then, we have objections to Exhibits 29, 31, and 32. Any
2 other objections to any other exhibits?

3 (No verbal response)

4 CHAIRMAN GETZ: Okay. Then, we'll --
5 does anybody want to respond, Mr. Patch, with respect to
6 Exhibit 29, why that should be admitted?

7 MR. PATCH: Well, I think it's similar
8 to the argument I made before, Mr. Chairman. I think, I
9 mean, obviously, the Commission's rules with regard to
10 exhibits are allowed, and, under the Administrative
11 Procedures Act, you're allowed to introduce, unless it's
12 irrelevant or repetitious. And, I believe that this
13 information is something you ought to consider. I
14 understand the authenticity issue and I understand that,
15 you know, that that is an issue here. But I think it goes
16 at least to the weight of the evidence, rather than to its
17 admissibility.

18 If anything, I think our attempt here
19 today has been to try to establish why the City of
20 Manchester was interested and what some of the things were
21 that shaped its petition to intervene in this docket.
22 And, so, I think those exhibits are relevant on that
23 particular issue. And, it's not so much to the actual
24 numbers, but the comparison of the numbers to what the

1 City is looking at as a distribution cost or a portion of
2 its rate from PSNH is so significantly different that
3 that's what gave the City of Manchester, at least in part,
4 that's what drove it to participate here.

5 So, I would recommend that you admit it
6 and give it the weight you deem appropriate. It may not
7 be a lot of weight, but, again, I think it goes to why the
8 City is here.

9 CHAIRMAN GETZ: And, you also want to
10 respond -- opportunity to respond with Exhibits 31 and 32
11 to the objection by Mr. Eaton?

12 MR. PATCH: I think it's the same
13 argument, rather than repeat myself again. I think it's
14 basically the same argument.

15 CHAIRMAN GETZ: Does anyone else wish to
16 speak to admission of Exhibits 29, 31, and 32?

17 MS. HATFIELD: Mr. Chairman, I
18 understand the sort of theory behind admitting it and not
19 giving it much weight. But we would urge the Commission
20 to not admit these exhibits, because, once they're in the
21 record, we could be dealing with them, if this case were
22 to be appealed. We have some questions with respect to
23 this e-mail, because I think e-mail is a difficult medium,
24 because it's hard to know if we have the complete document

1 before us, and not to mention the fact that the author of
2 at least half this e-mail is not present today.

3 With respect to Exhibit 31, just in
4 looking through it in the last few minutes, the OCA would
5 have significant questions about the -- what looks like
6 significant savings by the City of Newton, and all of the
7 steps that the city took with respect to new technologies,
8 as well as ownership. So, I mean, it's a pretty dense
9 document that has a lot of factual representations. It
10 would be helpful to have that witness available.

11 And, then, in terms of the breakdown of
12 the bills, I guess, even the relevance of the City's
13 position to this information isn't particularly clear,
14 other than the very large numbers that jump off the page.
15 But we would urge the Commission to not take -- not admit
16 any of them into evidence at this time. Although, we are
17 very sympathetic to the issue that the City faces in terms
18 of when it got into the case, that this does go beyond the
19 scope of cross-examination in our minds.

20 CHAIRMAN GETZ: Okay. Anything else on
21 those issues?

22 (Chairman and Commissioners conferring.)

23 CHAIRMAN GETZ: Okay. We're going to
24 admit into evidence today all of the exhibits, except for

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1 29, 31, and 32. We'll take under advisement the question
2 of whether to admit them into evidence and precisely what
3 weight, if any, to accord those three exhibits.

4 But, for purposes of today, we'll turn
5 to opportunity for closing statements. I'll begin with
6 Mr. Patch.

7 MR. PATCH: Thank you, Mr. Chairman. We
8 had corresponded with the Commission back in March about
9 this issue. And, the letter that we received from
10 Executive Director Howland indicated that its "closing
11 statement at the hearing either through counsel or another
12 representative." And, so, Mr. Clougherty would like the
13 opportunity to do that, instead of me. If that's okay
14 with the Bench?

15 CHAIRMAN GETZ: Certainly.

16 MR. PATCH: Thank you.

17 MR. CLOUGHERTY: Thank you, members of
18 the Commission, for allowing us to make this statement.
19 My name is Tim Clougherty. I'm the Deputy Public Works
20 Director for the City of Manchester. We appreciate the
21 opportunity to intervene in the rate case and regret that
22 we did not get involved earlier. We certainly would have
23 been more aggressive had we known the significant
24 distribution cost increases that are reflected in the

1 current Settlement Agreement. As Mr. Patch had mentioned,
2 at the time we weren't familiar with how the rate cases
3 work and the process involved. Therefore, this motion did
4 come late and we could not participate fully.

5 Nonetheless, we appreciate the Commission allowing our
6 late intervention.

7 As you're aware and you've heard, the
8 City has serious concerns over the cost to operate the
9 street lights in the City of Manchester. These concerns
10 have existed for some time, although this rate case and
11 the proposed Settlement significantly raises those levels
12 of concern.

13 Our primary concern, and the reason we
14 intervened on this particular docket, deals with
15 distribution costs. You've heard testimony indicate an
16 annual street lighting distribution cost will rise as a
17 result -- a direct result of this Settlement Agreement to
18 the tune of \$200,000 each year for the City. This means,
19 once again, our costs are going from \$700,000 annually to
20 \$900,000 annually directly because of this docket alone.
21 If we were a residential ratepayer from a corresponding
22 kilowatt-hour perspective, cents per kilowatt-hour, this
23 would represent four cents per kilowatt-hour increase.
24 This represents an increase of 29 percent, 29.9 percent in

1 one calendar year. As you can imagine, this hits the City
2 taxpayers very hard. Also comes at a time when we're
3 doing everything within our control to reduce energy
4 consumption and reduce costs.

5 When the EOL Program was first
6 initiated, we converted all street lights to what was
7 considered the most energy-efficient model at the time.
8 We purchase our power, as we have since 2008, for all
9 street lights and the overwhelming majority of the entire
10 City's power, including our water plant, our waste water
11 plant, and the airport, from a competitive supplier. We
12 have taken advantage in several different instances of
13 rebate programs, such as Smart Start. Twelve years ago we
14 engaged a performance contractor to reduce energy
15 consumption, reduce lighting in all -- and replace
16 lighting in all city buildings. We've retrofitted all of
17 our schools with energy recovery ventilators and employ
18 demand-based ventilation strategies. We're currently
19 planning over \$4 million worth of energy improvement
20 projects. All of these efforts are being directly and
21 substantially undermined and offset by the increase in
22 distribution costs associated with street lighting.

23 We believe that, compared to other
24 classes, street lighting pays a disproportionately large

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1 share of its rates to cover distribution. And, based on
2 what we've been able to determine, we find it to be unfair
3 and unreasonable.

4 One must consider the following: In the
5 aggregate, the City pays about \$1.3 million annually in
6 street lighting costs. That's distribution, as well as
7 energy service. If the City were to reduce its associated
8 energy consumption by 50 percent, if we went out and
9 bought lights that used half the amount of power, we'd use
10 25-watt lights instead of the 50, our total street light
11 costs would go down by 13 percent; 50 percent energy
12 reduction, 13 percent reduction in cost; 1.3 million goes
13 to 1.125 million.

14 Distribution costs remain at \$900,000
15 annually. Using a parallel example, if we were to take
16 advantage of the midnight cutoff feature, and we shut off
17 the lights for 50 percent of the night, we'd save the same
18 \$175,000, we'd pay the same \$900,000 in distribution, and
19 save the same 13 percent.

20 Using yet another parallel, LED
21 lighting, you can probably guess the results are the same.
22 All of these examples exacerbate the disproportionate
23 distribution costs paid to PSNH regardless of the energy
24 efficiency measures taken on behalf of the City.

1 I'd like to talk a little bit about what
2 we feel the cause is and how we can fix it. As I said, we
3 have reason to believe that the cost of service study
4 that's being used as the basis for distribution charges
5 may be flawed. It's an embedded cost of service study,
6 not a marginal cost of service study, and we welcome the
7 opportunity to explore that. We think, when you look at
8 individual line items and the allocations that are made to
9 street lighting, you will find that the allocations are
10 not appropriate, not reasonable, and that the costs being
11 allocated in each line item should be subject to further
12 questioning.

13 We brought up the example in Newton,
14 Massachusetts. And, while we can argue about the voracity
15 of e-mails that go back and forth and presentations that
16 are made, and, obviously, we're not experts in testifying
17 before the PUC or as intervenors, but, as Deputy Public
18 Works Director, when I talked to one of my colleagues in a
19 different city, with a similar number of street lights and
20 similar load, and they're paying less than one-quarter of
21 the distribution costs, that raises the level of concern.

22 While we realize no two cities are
23 identical, as I mentioned, we have roughly the same number
24 and the type of street lights. We just have an extreme

1 difficulty understanding why these amounts are so
2 dramatically different. And, we have brought this up, we
3 brought this up at the technical session, we also brought
4 this up in our meeting on April 8th with Mr. Goodwin.
5 This is not new information to anybody. And, we have yet
6 to hear any reasons why they could be so disparate.

7 We think their example of taking over
8 ownership and maintenance of street lights is one that
9 ought to be seriously considered here in New Hampshire.
10 Our opinion is that this can be a very simple transaction.
11 And, as you've heard from Mr. Patch, the City has already
12 paid 100 percent of the costs for the street lights, the
13 8,900 street lights that are in Manchester. Every time a
14 street light is replaced, we pay for the capital cost. In
15 the early '80s, when the rate structure went from I think
16 it was an ML-HPS, which is the precursor to the EOL
17 tariff, the City paid the capital cost of all
18 undepreciated PSNH assets that were associated with street
19 lighting. We paid for all the street lights.

20 PSNH, by their own admission, recovers a
21 rate lower than the "system average", I believe was the
22 terminology that Mr. Goodwin used. When we talk about the
23 0.1 percent rate of return on street lights. We'd like to
24 take them over. It seems like a very attractive business

1 venture that PSNH should consider.

2 We recommend you consider directing PSNH
3 to turn over the street lights and let us own and maintain
4 them. We further recommend that you open a separate
5 docket to address what the appropriate distribution
6 charges would be under such a scenario. Again, if this is
7 not a significantly profitable portion of the business,
8 earning a rate lower than the system average, the City
9 welcomes the opportunity to take it over.

10 I thank you again for the opportunity to
11 participate in the docket and look forward to your order.

12 CHAIRMAN GETZ: Thank you. Ms.
13 Hatfield.

14 MS. HATFIELD: Thank you, Mr. Chairman.
15 I'd like to begin by thanking the Settling Parties for all
16 of the work that went into developing the Settlement
17 Agreement. As Mr. Hall I think testified, and I think as
18 evidenced by the many requests that the parties filed for
19 extensions, it took a lot of time and hard work to reach
20 this Settlement Agreement. And, the OCA especially wishes
21 to recognize the efforts of Steve Mullen, because he
22 really did yeoman's work to keep the parties together and
23 keep the settlement moving forward.

24 I wanted to just highlight a few things

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1 that the Commission specifically raised in your
2 cross-examination, to hopefully clarify at least the OCA's
3 understanding. One, Commission Ignatius raised the
4 question of certain references to the parties reviewing
5 different filings that the Company will be making under
6 the Settlement, and the OCA wanted to point out perhaps
7 the obvious, which is that, when something is publicly
8 filed with the Commission, any party can review it. And,
9 so, while we see the Settlement as the OCA and Staff
10 committing to reviewing the Company's future filings, they
11 certainly would be available if there were other parties
12 that wanted to participate in that step review process.

13 Secondly, with respect to the step
14 process itself, this is something that is very important
15 to the OCA. And, while the Settlement doesn't
16 specifically dictate the exact process that must be used,
17 we do think it's very important that there is a process
18 required. And, you probably remember, I asked Mr. Traum a
19 question about the WICA adjustment, which stands for the
20 Water Infrastructure and Conservation Adjustment Charge,
21 that you recently approved for a water company back in DW
22 08-098. And, the OCA certainly sees that process, while
23 not exactly the same as this one, certainly a model for
24 this. And, importantly, when the Commission approved the

1 WICA Charge, you found that the way that process works
2 complies with RSA 378:28, which requires that, in order to
3 include amounts in rates, the underlying capital additions
4 must be used and useful. And, you also found that it was
5 in compliance with 378:30-a, the anti-CWIP statute, which
6 says that you can't put assets not yet in service into
7 rates. So, we felt that that was a good model to look at
8 in crafting this step adjustment process in this case.

9 In terms of the issues -- oh, and one
10 other thing on the WICA. The Commission, as I'm sure you
11 know, after the 08-098 final order, the company, in 2009,
12 this is the Aquarion Water Company, filed its first WICA
13 filing, and the Commission issued an order nisi in that
14 case. Which we think is a useful process, because it
15 allows for an expedited process, but then it does allow
16 that 30 day window for someone to ask for a hearing, if
17 they think that one is needed.

18 With respect to the issues that
19 Manchester raises, as I said before, we're very
20 sympathetic to the fact that the City was not aware of the
21 rate case when it was filed, and, in fact, not until the
22 following year became involved. And, we wonder if it
23 might not be a useful thing for Staff and interested
24 parties to talk about the notice process that takes place

1 for utilities, and if there is a way, maybe using the
2 internet or something that's not very costly for us all to
3 work harder at getting the word out when important cases
4 are happening at the Commission. I know, for the OCA,
5 it's something that we try to do. But, obviously,
6 municipalities aren't our focus area. But we do think
7 that, for the most part, there are just too many cases
8 that happen at the Commission without many intervenors.

9 We are also very sympathetic to the
10 energy efficiency issues that the City is raising. And,
11 it really is a conundrum that a customer faces when it
12 continues to make efficiency investments, but still sees
13 rates go up. So, we are very sympathetic to those issues
14 as well.

15 But, in general, a settlement is
16 necessarily a compromise of all of the issues in a case,
17 and we do feel that the Settlement before you is an
18 excellent compromise of all of the issues and provides
19 many benefits to ratepayers, and we ask that the
20 Commission approve it. Thank you.

21 CHAIRMAN GETZ: Thank you. Mr. Fossum.

22 MR. FOSSUM: Thank you. In at least
23 beginning by echoing Ms. Hatfield, I wanted to note that
24 this Settlement Agreement did involve significant work by

1 the Settling Parties over a tremendous amount of time. I
2 also do want to note that, as Commissioner Ignatius had
3 asked, the settlement negotiation process was open to
4 anyone interested in participating. The parties who did
5 end up settling came to the table with different goals and
6 different points of views. And, in the end, came to a
7 Settlement Agreement that we believe is just, reasonable,
8 and in the public interest.

9 The underlying goal in this Settlement
10 Agreement was the duration, to keep the Company from
11 coming back year after year seeking new rate increases,
12 when changes in costs became too much for it to bear.
13 Such cases, such rate cases are a tremendous resource
14 drain on the Company, on the Staff, on the parties and
15 other intervenors. And, to that end, we have crafted what
16 we believe is a fair agreement that, if it can meet all of
17 its expectations, will keep the Company from coming back
18 for at least five years.

19 And, to do so, we have included a number
20 of provisions that the parties have spoken about at
21 length, allowing the Company to earn a return on additions
22 to its plant without a significant delay, and also to
23 protect customers from the Company's over earning or under
24 earning by means of this Earnings Sharing Agreement.

1 As for the steps that lead to the
2 Company adding to its rate base and its rates, as has been
3 noted, the Settlement Agreement doesn't define with great
4 specificity the process necessary. But it's Staff's
5 understanding that whatever process the Commission deems
6 necessary is what is appropriate.

7 As to the issues raised by the City,
8 specifically we do understand and appreciate their point
9 of view and the issues that they have raised. As has been
10 pointed out, they were late coming to the table, but that
11 doesn't mean that they weren't welcome at it. And, we
12 understand what it is that they are attempting to do, but,
13 at the same time, we support the Settlement Agreement that
14 we have reached and the rate design included therein.

15 With that, I would recommend that the
16 Commission approve the Agreement and allow the rates to go
17 into effect as have been laid out in the Agreement. Thank
18 you.

19 CHAIRMAN GETZ: Thank you. Mr. Eaton.

20 MR. EATON: Thank you, Mr. Chairman. I
21 think this Settlement Agreement is well-balanced. We
22 arrived at an agreement on a cost of capital fairly early
23 and recommend the return on equity that was found in the
24 last rate case as being just and reasonable. I think the

1 focus then turned towards how PSNH could maintain that and
2 have a reasonable opportunity to earn that rate of return.
3 And, there are many things that we agreed on in the
4 Settlement Agreement that go to that.

5 The Earnings Sharing Agreement provides
6 a collar for both protection of customers and protection
7 of the Company, on the low end, that we could come in and
8 request rate relief. The step process, I think as Mr.
9 Baumann pointed out, is fairly easy to understand the
10 costs. We will submit that data to the Commission on the
11 increase to the net plant, the 80 percent of the increase
12 on net plant. The Commission should also be aware that
13 it's up to management to control other expenses, such as
14 salary, benefits, and property taxes, in order to keep
15 earnings up and to not reach the lower level of the
16 collar. So, there is still risk on the backs of
17 shareholders to maintain a sound business and to run it
18 efficiently, so that we're not back in here for rate
19 increases.

20 The exogenous events can go either way.
21 We are required to report things that go down, as well as
22 things that go up. And, if they do occur, that will
23 reduce our costs. And, they're really events that are
24 beyond our control, unlike salaries, benefits, and

1 property taxes that we would -- we would try to control or
2 try to minimize.

3 We're pleased with a settlement about
4 recovery of storm costs, and that goes beyond the
5 five-year period. It's such an unusual event, it should
6 be recovered over many years. And, we adopted a lower
7 rate of return on those costs as part of the Settlement
8 than the average overall rate of return, but that's
9 important. And, you heard an estimate this morning of the
10 costs of the 2010 wind storm. We hope to treat that in a
11 way that also minimizes increased costs to the -- or,
12 rates to the customers, but still allows us to recover our
13 costs in a reasonable manner.

14 With respect to the Manchester Public
15 Works Department, what is fairly obvious to me is they
16 have -- 70 percent of their fixtures are 50 and 70-watt
17 bulbs, but those 50 and 70-watt bulbs have to be attached
18 to a pole or some structure, perhaps as many as 8,000 of
19 those or the 70 percent are attached to our poles and
20 attached to our wires, and we need to recover the cost of
21 delivering electricity to them. That cost doesn't change
22 when you go to a 25-watt bulb or you turn it -- you turn
23 the bulb off at midnight. That cost remains the same, and
24 that's why it looks so disproportionate. But, if we had

1 400,000 residential customers who used, on average, 42
2 kilowatt-hours per month, their rates would look the same,
3 too. It would -- it's a very low-use customer that uses a
4 lot of our system, and it doesn't -- the cost of our
5 systems don't change with respect to usage.

6 We have maintenance costs to repair and
7 replace these, these items on a regular basis. And, those
8 are costs that I don't think that Manchester could avoid.
9 They would have to pay their own employees to do this
10 work. And, I don't know what the safety concerns are of
11 people who are not -- people who are working high up on
12 our poles near high voltage wires is concerned.

13 So, unfortunately, I think we could have
14 dealt with the City much earlier on this and perhaps come
15 to some compromise, but they came in far too late for
16 anything to be done. And, I think you should adopt the
17 Settlement as it is because of the good benefits that it
18 provides to customers, as well as to our investors. Thank
19 you.

20 CHAIRMAN GETZ: Okay. Then, thank you,
21 everyone. We will close the hearing and take the matter
22 under advisement.

23 (Whereupon the hearing ended at 2:45
24 p.m.)

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