

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

December 4, 2008 - 11:06 a.m.
Concord, New Hampshire

RE: DE 08-113
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
Proposed Default Energy Service Rate Charge
for 2009.

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

Connie Fillion, Clerk

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

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

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

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

1

2

I N D E X

3

PAGE NO.

4

WITNESS PANEL: ROBERT A. BAUMANN
 RICHARD C. LABRECQUE
5 ELIZABETH TILLOTSON

5

6

Direct examination by Mr. Eaton 9

7

Cross-examination by Ms. Hatfield 42, 48

8

Cross-examination by Mr. Mullen 43, 63

9

Interrogatories by Cmsr. Below 44, 67

10

Cross-examination by Ms. Amidon 57

11

12

13

* * *

14

15

CLOSING STATEMENTS BY:

16

Ms. Hatfield 82

17

Ms. Amidon 83

18

Mr. Eaton 84

19

20

21

22

23

24

E X H I B I T S		
EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
1	Initial Default Energy Service Rate for 2009, including the Testimony of Robert A. Baumann, including attachments (09-12-08)	11
2	Updated Default Energy Service Rate for 2009, containing updated exhibits to the Testimony of Robert A. Baumann and the Technical Statement of Richard C. Labrecque and Robert A. Baumann	12
3	PSNH 2009 Energy Service Rate Calculation - KWH Basis [Attachment RAB-1, Page 1a] (12-03-08)	13
4	Dec. 2nd Final Filing - Sales Forecast, along with the Sept. September 12th Preliminary Filing Sales Forecast	15
5	PSNH Response to Technical Session TS-01, Q-TECH-001 (Dated 11-06-08 and filed on 11-20-08)	24
6	Revised Q-STAFF-003, Attachment 1 (12-04-08) [CONFIDENTIAL]	41
7	Spreadsheet "PSNH - Comparison of 2008 & 2009 ES Rate Cost Components	57
8	RESERVED (Re: December 2008 Fossil Fuel Inventory from RAB-3, Page 6, in Exhibit 2)	69
9	RESERVED (Re: Schedule of plant additions for 2008, by sort of plant and type of investment and a schedule for projected capital additions for 2009 as well)	77

{DE 08-113} [REDACTED - for public use] {12-04-08}

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

2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DE 08-113,
4 Public Service Company of New Hampshire, 2009 Energy
5 Service Charge. On September 12, 2008, Public Service
6 Company of New Hampshire filed a petition to establish its
7 Default Energy Service for bills rendered on or after
8 January 1, 2009. We issued a order of notice on
9 September 22nd setting a prehearing schedule that was --
10 prehearing conference that was held on October 6th. And,
11 subsequently, we approved a procedural schedule calling
12 for a hearing on the merits this morning.

13 Can we take appearances please.

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

17 CHAIRMAN GETZ: Good morning.

18 CMSR. MORRISON: Good morning.

19 CMSR. BELOW: Good morning.

20 MS. HATFIELD: Good morning,
21 Commissioners. Meredith Hatfield, for the Office of
22 Consumer Advocate, on behalf of residential ratepayers,
23 and with me, from the office, is Ken Traum.

24 CHAIRMAN GETZ: Good morning.

{DE 08-113} [REDACTED - for public use] {12-04-08}

1 CMSR. MORRISON: Good morning.

2 CMSR. BELOW: Good morning.

3 MS. AMIDON: Good morning. I'm Suzanne
4 Amidon, for the Commission Staff. And, with me today is

5 Steve Mullen, who is the Assistant Director of the
6 Electric Division.

7 CHAIRMAN GETZ: Good morning.

8 CMSR. MORRISON: Good morning.

9 CMSR. BELOW: Good morning.

10 CHAIRMAN GETZ: Mr. Eaton.

11 MR. EATON: We are going to put a panel
12 of three witnesses on this morning. It will be quite
13 customary, explaining what the rate is we're requesting
14 and the changes from the initial filing. We do have some
15 confidential information we would like to put on the
16 record at some point, it will be toward the end of my
17 direct. It will be coming from our witness Elizabeth
18 Tillotson. It has to do with an outage at Merrimack
19 Station, which is still subject to some confidential
20 negotiations with an equipment supplier and insurer. But
21 I'll be quite clear when I would ask the Commission to go
22 into a closed session. And, then, that will complete our
23 direct. We would propose that the cross-examination start
24 with questions of Mrs. Tillotson about that confidential
{DE 08-113} [REDACTED - for public use] {12-04-08}

1 information, so that we could then end the closed session
2 and go back into open session for cross-examination on any
3 other issues.

4 CHAIRMAN GETZ: Is there any objection
5 to the procedure proposed by Mr. Eaton?

6 MS. AMIDON: No.

7 MS. HATFIELD: Mr. Chairman, Mr. Rodier,
8 who is a party to this case, did notify at least me this
9 morning that he would like it to be known to the
10 Commission that he does object. However, I recommended to
11 him that he put his objection in writing to let the
12 Commission know, but I do feel an obligation to report
13 that to you.

14 CHAIRMAN GETZ: And, I hate to put you
15 in the position of doing follow-ups regarding Mr. Rodier's
16 position, but he objects to the confidentiality of this
17 particular information?

18 MS. HATFIELD: There were actually two
19 areas that have been discussed with respect to
20 confidential information; one being what Mr. Eaton just
21 discussed and another relates to details about PSNH's
22 participation in the first RGGI auction. And, my
23 understanding from PSNH is that there are specific rules
24 about what participants in those auctions can disclose.

{DE 08-113} [REDACTED - for public use] {12-04-08}

1 And, I believe that Mr. Rodier's objection may have --
2 actually isn't related to the confidential information
3 about the Merrimack outage, but instead is related to the
4 RGGI information. So, that may not actually be an issue.
5 But I did feel, because he asked that it be brought
6 forward, that I just note that. But I believe he will be
7 putting a letter into the record describing his issue.

8 CHAIRMAN GETZ: Okay. Well, is there
9 anyone in the room here today that's not privy to the
10 information or wouldn't be covered by confidentiality?

11 MR. EATON: I believe there is.

12 CHAIRMAN GETZ: Well, let's get this on
13 the record. And, sir, I guess, when we get to the
14 confidential information, then we would ask you to leave
15 the room, unless you're seeking to intervene or interested
16 in signing some kind of confidentiality agreement?

17 FROM THE FLOOR: No, that's fine.

18 CHAIRMAN GETZ: Okay. But, Mr. Eaton,
19 so, you're intending to address this issue about the
20 outage, but is there -- you do not intend to discuss on
21 the record any of the information regarding the RGGI
22 auctions that you're seeking confidentiality for?

23 MR. EATON: Oh, I'm sorry, Mr. Chairman.
24 I omitted that. There is an exhibit that Mrs. Tillotson
{DE 08-113} [REDACTED - for public use] {12-04-08}

1 prepared, which has some confidential information in it.
2 And, I was going to introduce it through her. And, if
3 anyone has any questions about it, that second issue would
4 be discussed as well in the closed session.

5 CHAIRMAN GETZ: Okay. And, then, let me
6 just follow up again, and this may be a little difficult
7 to deal with, since Mr. Rodier is not here. He's moved to
8 intervene. If he were -- Is there any objection to him
9 having access to these materials as a party to the
10 proceeding?

11 MR. EATON: Yes. Yes, it -- Mrs.
12 Tillotson can probably explain better, but, as I
13 understand it, the operators of the RGGI auction make it
14 clear they don't want any of the details disclosed. We
15 had a Motion for Protective Order about that. And, even
16 the fact of our participation or whether we bought
17 anything at the first auction was supposed to be kept
18 confidential. And, the response that Mrs. Tillotson
19 prepared shows how -- shows what the results of our
20 participation was. And, it's -- the reason is to keep the
21 auction from being manipulated by speculators and having
22 the cost of the RGGI credits go sky high. They're trying
23 to keep it as market-based as possible, as I understand
24 it, and that would be in the best interest of PSNH's
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 customers, to make them no more expensive than they need
2 to be, and certainly not through speculation. So, that's
3 why we requested that information, the response and the
4 testimony on the record concerning the RGGI auction, be
5 kept confidential.

6 CHAIRMAN GETZ: Okay. All right. Well,
7 let's proceed then.

8 MR. EATON: I'd like to call Robert A.
9 Baumann, Richard C. Labrecque, and Elizabeth Tillotson to
10 the stand.

11 (Whereupon Robert A. Baumann, Richard C.
12 Labrecque, and Elizabeth Tillotson were
13 duly sworn and cautioned by the Court
14 Reporter.)

15 ROBERT A. BAUMANN, SWORN

16 RICHARD C. LABRECQUE, SWORN

17 ELIZABETH TILLOTSON, SWORN

18 DIRECT EXAMINATION

19 BY MR. EATON:

20 Q. Mr. Baumann, would you please state your name for the
21 record.

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

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

24 A. (Baumann) I'm the Director of Revenue Regulation & Load

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Resources for Northeast Utilities Service Company.

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

3 A. (Baumann) My overall responsibilities are revenue
4 requirement calculation and filings for Public Service
5 Company of New Hampshire, as well as other revenue
6 requirement filings for the Connecticut Light & Power
7 Company and Western Massachusetts Electric Company.

8 Q. Have you previously testified before the Commission?

9 A. (Baumann) Yes.

10 Q. Do you have in front of you a document with a cover
11 letter dated September 12th, 2008, signed by me and
12 addressed to the Executive Director and Secretary?

13 A. (Baumann) Yes.

14 Q. Could you describe that document.

15 A. (Baumann) This was the initial Energy Service, Default
16 Energy Service rate filing that put forth, based on the
17 information at the time, an Energy Service rate that
18 would possibly be billed beginning January 1st of 2009.
19 This is customarily the rate that's filed early, and
20 then is updated subsequent to this filing with updated
21 market information.

22 Q. And, does that filing contain your testimony?

23 A. (Baumann) Yes.

24 Q. And, are there supporting schedules following that?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Baumann) Yes.

2 MR. EATON: Mr. Chairman, I'd request
3 that the September 12th filing be marked as "Exhibit 1"
4 for identification.

5 CHAIRMAN GETZ: So marked.

6 (The document, as described, was
7 herewith marked as Exhibit 1 for
8 identification.)

9 BY MR. EATON:

10 Q. Mr. Baumann, you mentioned just now that the Company
11 did an update. Could you please put that document in
12 front of you.

13 A. (Baumann) I have it.

14 Q. And, that's dated when?

15 A. (Baumann) December 2nd, 2008.

16 Q. And, what does that filing contain?

17 A. (Baumann) That's the updated information for a proposed
18 Default Energy Service rate that would be effective on
19 January 1st, 2009.

20 Q. And, through that filing, what is PSNH requesting for a
21 rate?

22 A. (Baumann) PSNH is requesting an Energy Service rate of
23 9.92 cents per kilowatt-hour effective January 1st,
24 2009.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 MR. EATON: Mr. Chairman, could I have
2 that document marked as "Exhibit 2" for identification?

3 CHAIRMAN GETZ: So marked.

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

7 BY MR. EATON:

8 Q. And, Mr. Baumann, do you remember at the prehearing
9 conference Commissioner Below requested that we submit
10 the components of the final rate in a cents per
11 kilowatt-hour format?

12 A. (Baumann) Yes.

13 Q. And, did we file that with the Commission?

14 A. (Baumann) Yes, we did.

15 Q. On what date was that?

16 A. (Baumann) It's dated "December 2nd, 2008".

17 Q. Could I correct you. We forgot it and didn't supply it
18 until the following day, December 3rd?

19 A. (Baumann) Sure.

20 Q. And, that is a smaller document, with one attachment to
21 it, that shows the per kilowatt-hour savings or the per
22 kilowatt-hour components?

23 A. Yes. The line items are the costs that are routinely
24 on Exhibit or Attachment RAB-1. And, there was a

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 separate column added for a cents per kilowatt-hour
2 impact on each of those line items.

3 MR. EATON: Mr. Chairman, could we have
4 that December 3rd document marked as "Exhibit 3" for
5 identification?

6 CHAIRMAN GETZ: So marked.
7 (The document, as described, was
8 herewith marked as Exhibit 3 for
9 identification.)

10 BY MR. EATON:

11 Q. Mr. Baumann, could you please describe the Company's
12 filing and its requested rate.

13 A. (Baumann) Certainly. The Company today is requesting a
14 9.92 cents per kilowatt-hour Energy Service rate to be
15 effective January 1st, 2009. That's approximately a
16 2.4 percent increase to overall rates, customer rates,
17 from the existing Energy Service rate of 9.57 cents per
18 kilowatt-hour. The primary reasons for that increase
19 are related to increases in costs of purchases for 2009
20 versus 2008, energy purchases, higher capacity costs
21 for 2009 and 2008, an increase or, actually, new costs
22 associated with the RGGI, R-G-G-I, the Regional
23 Greenhouse Gas Initiative costs. Those are partially
24 offset by a decrease in IPP contract costs and a

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 \$10 million coal inventory adjustment that will be
2 booked in the fourth quarter of 2008. That credit or
3 that \$10,000 is being flowed through to 2009 as a
4 reduction in costs. We also have some incremental O&M
5 and replacement power costs associated with a Merrimack
6 2 outage that has been simulated to occur in the Summer
7 and Fall of 2009 as well.

8 Q. Mr. Labrecque, could you please state your name for the
9 record.

10 A. (Labrecque) Richard C. Labrecque.

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

12 A. (Labrecque) I'm a Principal Engineer in the Wholesale
13 Power Contracts Department of Northeast Utilities
14 Service Company.

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

16 A. (Labrecque) I assist in the various wholesale power
17 procurements that the operating companies conduct,
18 including the purchase of supplemental power for PSNH.
19 I also assist in the preparation of the energy expense
20 forecast for purposes of establishing an Energy Service
21 rate.

22 Q. Have you previously testified before the Commission?

23 A. (Labrecque) Yes.

24 Q. Did you have a sales forecast prepared, updating the

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 sales forecast that was the basis of the initial filing
2 on September 12th?

3 A. (Labrecque) Yes.

4 Q. And, did you prepare an exhibit for today?

5 A. (Labrecque) Yes, I did.

6 MR. EATON: Mr. Chairman, this is the
7 same exhibit that we entered in the previous hearing, but
8 would like it, because the sales forecast is important in
9 both calculations, we'd like to mark it as an exhibit in
10 this proceeding as well. This will be "Exhibit 4" for
11 identification.

12 CHAIRMAN GETZ: It will be so marked.

13 (The document, as described, was
14 herewith marked as Exhibit 4 for
15 identification.)

16 BY MR. EATON:

17 Q. Mr. Labrecque, could you explain any differences that
18 this Exhibit 4 has in this proceeding, as opposed to
19 the previous proceeding?

20 A. (Labrecque) Yes. This exhibit details both a 3 percent
21 drop in total retail sales from the September 12th
22 preliminary filing to the December 2nd final filing.
23 In addition, it also provides details on a revised
24 forecast of competitive supply sales, sales that are

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 attributable to customers migrating to competitive
2 supply options. That forecast has increased from
3 approximately 156,000 megawatt-hours to 427,000
4 megawatt-hours. The net impact on the Default Energy
5 Service sales forecast is approximately an 8.3 percent
6 decline from the initial filing to this final filing.

7 Q. So, the relevant sales figures are the ones under the
8 far right-hand column, "Default Energy Service Sales"?

9 A. (Labrecque) Correct.

10 Q. And, that column entitled "Competitive Supply Sales",
11 that's what's been termed as "migration" in these
12 proceedings?

13 A. (Labrecque) Correct.

14 Q. So, Mr. Baumann, could you please explain all the
15 differences that took place in between the September 12
16 filing and the December 2nd filing?

17 A. (Baumann) Sure. I'd probably direct everybody to the
18 December 2nd filing, to the Technical Statement that is
19 attached at the back of that filing. It's a four-page
20 document, entitled the "Technical Statement of Richard
21 C. Labrecque and Robert A. Baumann". Essentially, from
22 the September filing to the December filing, there was
23 a decrease in overall costs, and, therefore, a decrease
24 in the overall rate that was put forth. In the

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 original filing in September, the rate was
2 10.51 percent [cents?]. And, again, that was a
3 placeholder. Everybody -- We knew we were going to
4 update that. And, from that update, there was a
5 considerable decrease in costs to the current rate of
6 9.92 cents that's been proposed today.

7 The major decreases are listed about
8 halfway down the page. There are a major \$44 million
9 decrease in supplemental purchases. There was also,
10 Item Number 2, a \$38 million decrease in coal
11 generation expenses. Item Number 3 was a \$14 million
12 decrease in ISO capacity costs and RPS compliance and
13 RGGI compliance costs. Item Number 4 was a \$10 million
14 decrease related to the physical inventory that I
15 mentioned before that will be booked in the fourth
16 quarter of 2008, and reflected in 2009. Item Number 5
17 was a \$9 million decrease related to insurance payments
18 for replacement power costs associated with the
19 Merrimack 2 HP turbine damage outage. Those costs,
20 that \$9 million is an offset to additional costs that
21 have been factored into the O&M. So, they're not --
22 net/net, the outage is actually increasing overall
23 costs, but the 9 million is insurance claim estimates.
24 Item Number 6 is a \$7 million decrease related to

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 fossil O&M that was double-counted in the initial
2 filing. It was part of the energy simulation costs,
3 and then it was shown again separately, as we always
4 do, on the Exhibit 1. That was just an error on our
5 part. And, that was basically the ISO Schedule 2 and 3
6 costs, VAR support, a lot of the reliability costs.
7 Item Number 7 was a decrease of a \$4.5 million IPP
8 costs due to the lower forward market prices. In the
9 SCRC hearing, we talked about an increase of about
10 4 million plus, and this is the corresponding decrease
11 in the Energy Service rate. Item Number 8 is a
12 \$4 million decrease, when we trued up the August
13 through October actual data, which was not part of the
14 September filing, because it hadn't happened yet, we
15 had an additional decrease in costs, i.e. primarily
16 related to sales -- to sales decline that's been
17 reflected here. And, then, finally, there was about a
18 million dollars of many other little items that we
19 didn't list for the record.

20 Q. Mrs. Tillotson, would you please state your name for
21 the record.

22 A. (Tillotson) Elizabeth Tillotson.

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

24 A. (Tillotson) I work at PSNH in the Generating

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Department, Generation. I'm the Technical Business
2 Manager. I work with Bill Smagula, who provides
3 testimony in this case. I also am responsible for the
4 regulatory work here. I work with the environmental
5 obligations and with the outages at the station.

6 Q. Could you explain the outage, the planned outage in the
7 Summer of 2008 at Merrimack Unit II?

8 A. (Tillotson) The initial planned outage?

9 Q. Yes.

10 A. (Tillotson) Beginning in April and May, Merrimack 2 has
11 an annual scheduled outage that we take in preparation
12 to get the unit ready for summer loads. This
13 particular outage was a longer what we call "major
14 outage", it was eight weeks long. They're more
15 typically four to five weeks. One of the major
16 efforts, and that which drove the critical path during
17 this outage, was the installation of a high
18 pressure/intermediate pressure turbine. It's a cyclic
19 process, such that we were due to have turbine work
20 done in 2008, and we went ahead and did a replacement,
21 to take advantage of some increased efficiencies that
22 we could accomplish by doing a replacement.

23 Q. And, what was the expected result of the installation
24 of the new turbine?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Tillotson) We went into this project to accomplish
2 really three areas of what we thought improvements. We
3 were due for a turbine long outage anyway, so we were
4 going to work within an outage schedule that we already
5 had. We were going to have an opportunity to purchase
6 a more efficient turbine, which would provide annual
7 improvement of costs, because we would use less fuel
8 for the same amount of output. And, it was also an
9 opportunity to increase the output. In 2006, when we
10 started talking about scrubber installations at
11 Merrimack Station, recognizing that they would use
12 generation, we had a plan to be working on our turbine
13 anyways, and we looked for synergies in those two
14 paths, and actually purchased a turbine that would
15 provide additional megawatts to offset the scrubber
16 installation. And, then, the last positive associated
17 with this installation is that it has a much longer
18 maintenance cycle, where we would typically go into our
19 turbines every five years, and do a more major repair,
20 this would allow us a ten year cycle, which would just
21 lower the number of maintenance outage weeks we would
22 have over a period of time.

23 MR. EATON: I should note for the
24 record, Mr. Chairman, that we're offering this only
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 because -- in this proceeding, only because the Merrimack
2 issue has a big effect upon the estimated rate. We're not
3 trying to justify the prudence of the outage or the
4 prudence of the installation or -- and this is not for the
5 purposes of the other docket, I think DE 08-145, that
6 questions whether we needed pre-approval for this. And,
7 we're just trying to have a complete record in this
8 proceeding to explain a major assumption in our rate. So,
9 the prudence of this outage and what Public Service
10 Company did would be brought up in a reconciliation docket
11 later on.

12 BY MR. EATON:

13 Q. What happened after the outage was complete and the
14 unit was returned to service?

15 A. (Tillotson) The unit returned to service on May 22nd,
16 actually a little ahead of schedule and slightly below
17 budget. We, though, immediately recognized that
18 something was amiss. We could see many indicators of
19 that unusual operation. We, obviously, had just
20 installed a new turbine, which introduced a whole lot
21 of options for issues there. Was it design, was it
22 installation, etcetera. We brought in a number of
23 outside experts and people that could help, along with
24 our own folks. And, for about three and a half weeks,

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 we did as much fact-finding as we could with the unit
2 on. At some point, at the end of that three and a half
3 week time, we all came and assessed the situation, and
4 realized there was no more information to be gained by
5 being on, and the decision was made to bring the unit
6 off. That would ensure that we didn't have any kind of
7 catastrophic failure, and it was really the next step
8 to continue our investigation.

9 We brought the unit off on June 20th,
10 and immediately opened it up with the assistance of our
11 turbine installer, many of other contractors that had
12 worked during the outage. And, we, upon inspection of
13 the turbine, identified that there had been wear and
14 tear erosion that looked a lot like we had sandblasted
15 this otherwise brand-new, shiny turbine that had just
16 been installed less than a month before.

17 We actually found material also in the
18 turbine area, as well as many other boiler areas, that,
19 at the time, we knew was debris. We quickly looked for
20 where we would debris coming from, because there would
21 never be that kind of material in the steam path. And,
22 after analysis by three different vendors,
23 interestingly, the material did look almost like a shot
24 blast or machining grit. And, in fact, it had worked

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 just like it was supposed to be for a product in
2 eroding and sandblasting the turbine.

3 First course of action was to look at
4 what kind of damage was done to the turbine, where else
5 had the material gone, such that the rest of the boiler
6 could be operated. We were clearly anxious to, not
7 only fact-find, but get the unit ready to come back on
8 line. The unit was off from June 20th to July 14th.
9 The turbine was repaired to the extent possible. We
10 did some clean-up of the tube, the blades, and we
11 removed all the material, from not only the turbine
12 area, the condenser area, and other valves that were
13 found with material. We also brought in folks that
14 could do the more traditional root cause analysis of an
15 outage that we would be doing anyway for our SCRC type
16 discussion. And, we wanted to determine what the
17 material was and its source.

18 Q. Did you discuss this development with the Staff of the
19 Commission?

20 A. (Tillotson) We did, I would say almost immediately.
21 It's not all that uncommon to have an outage at the end
22 of, you know, being offline for eight weeks, there's an
23 awful lot of work that goes on. But, at some point, we
24 realized that we had a number of items that we were

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 reviewing. We made a couple of phone calls to Staff.
2 And, then, we summed it up for them in a summary on
3 July 15th, talking about not only the original spring
4 outage, our activity between the two outages, and then
5 the forced outage.

6 Q. And, did you include that or did PSNH include that one
7 page write-up in a data request that was generated
8 during a technical session?

9 A. (Tillotson) We did.

10 Q. Is that the data request?

11 A. (Tillotson) Uh-huh. Yes.

12 MR. EATON: I'd like that marked for
13 identification as "Exhibit Number 5".

14 CHAIRMAN GETZ: So marked.

15 (The document, as described, was
16 herewith marked as Exhibit 5 for
17 identification.)

18 BY MR. EATON:

19 Q. Does that conclude your testimony concerning what
20 happened with the outage, the replacement, and what you
21 discovered up until the time you spoke with the Staff?

22 A. (Tillotson) Yes.

23 MR. EATON: Mr. Chairman, at this time,
24 we would like to go into a closed session. We're going to
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 discuss what PSNH is going to do. That's subject to
2 negotiations with both the turbine supplier and an
3 insurer, and those negotiations have not been completed.
4 They are confidential negotiations. And, therefore, we
5 think it's important the Commission understands what we're
6 going to do and how it affects the rate that we've
7 estimated, but we'd rather discuss them in a closed
8 transcript.

9 CHAIRMAN GETZ: Ms. Hatfield.

10 MS. HATFIELD: Thank you, Mr. Chairman.
11 There is some information that has been provided in what
12 is now Exhibit 5, regarding the fact that there is
13 insurance, and that PSNH has been in discussions with its
14 insurance carrier. And, since that's public, the OCA
15 would at least like to have the witness just briefly
16 describe that on the public record, since I believe it is
17 public.

18 CHAIRMAN GETZ: I guess I'm not sure
19 what you intend by that, Ms. Hatfield. That you would
20 like the witness to discuss the background for the
21 confidential negotiations, and then the actual
22 confidential negotiations then would go on the protected
23 record?

24 MS. HATFIELD: Yes. Thank you.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 CHAIRMAN GETZ: Okay. Do you understand
2 that, Mr. Eaton?

3 MR. EATON: I think so. I don't know
4 how to proceed now though about what we go forward with.

5 CHAIRMAN GETZ: Well, you're asking her
6 to give a summary what's basically on the -- in the
7 Exhibit 5?

8 MS. HATFIELD: Well, thus far, she has
9 given a description of what is in the exhibit, with the
10 exception of the fact that there is insurance at play,
11 which I think will come out more later when we do some
12 cross-examination on the public record about how the
13 Energy Service rate was developed. So, I'd be happy right
14 now, if it pleases the Commission, just to do one cross
15 question, public cross question, before we go into the
16 confidential record.

17 CHAIRMAN GETZ: I think that would fine.
18 But I just want to make sure, this Exhibit 5, there's
19 nothing confidential in Exhibit 5, correct?

20 MR. EATON: No.

21 CHAIRMAN GETZ: Okay. Any objection to
22 Ms. Hatfield asking a question?

23 MR. EATON: No.

24 CHAIRMAN GETZ: Ms. Hatfield.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 MS. HATFIELD: Thank you.

2 BY MS. HATFIELD:

3 Q. Ms. Tillotson, on the third paragraph of the response
4 in Exhibit 5, there's a description of the fact that
5 "PSNH has been in discussions with its insurance
6 carriers", and you talk about "two options" for
7 correcting the damage. Can you just very briefly
8 describe what those options are and give us any
9 information about the insurance that you do carry on
10 the turbine?

11 A. (Tillotson) Sure. When we returned MK2 to service on
12 July 14th, clearly, the turbine was safe to be
13 operated. It was operating at 320 megawatts. It was
14 operating more efficiently such that we were using less
15 fuel to accomplish the same output. It was, though,
16 not accomplishing what its original new purchase was to
17 have accomplished. So, with the unit back in service,
18 we did engage both the insurance company, our
19 contractors that we worked with during the outage.
20 And, to get us to that "as new" state that the
21 insurance company was obliged to do, we identified two
22 paths to proceed. One path would be a repair option
23 that would go into the turbine and purchase new pieces
24 and parts, but to primarily assemble it on site. It

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 would also require machining and on-site work that
2 would take a longer time period, but, because you could
3 get some of those parts sooner, and there would be more
4 maintenance on site, you had a longer outage,
5 preliminarily at a little bit lower cost, and a quicker
6 opportunity to complete the repairs.

7 The other path looks like a full
8 replacement. But, as we had experienced with the
9 purchase of the new turbine that went into service,
10 there's about a two year plus lead time. So, to the
11 extent that we analyzed or looked at a replace option,
12 we would not be able to do that until 2010, 2011. We
13 did not refine that completely. A unit would come in,
14 it would get put into the unit, and it would require a
15 much shorter outage.

16 So, those were the two paths being
17 investigated, not only by PSNH, but by our vendor, so
18 we understood what they saw as the success pluses and
19 minuses associated with each path. And, then, the
20 insurance company clearly had interest because of their
21 reimbursement opportunity or requirements.

22 MS. HATFIELD: May I ask just one
23 follow-up question?

24 CHAIRMAN GETZ: Please.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 MS. HATFIELD: Thank you.

2 BY MS. HATFIELD:

3 Q. You referred to the fact that, although the turbine was
4 running properly and was running more efficiently, I
5 think you said it was "not accomplishing the output
6 that was expected" from the upgrade. What was the
7 output that you had been hoping to receive?

8 A. (Tillotson) The contract with our turbine vendor had a
9 expected base increase of about 6 megawatts, which
10 would be in addition to the -- or, on top of the 320.
11 This contract was also structured such that it was a
12 pay-for-performance. To the extent that we could find
13 ways to operate the turbine more efficiently and get
14 additional output, the contractor would be providing
15 more costs, they would be paid more money, and the
16 upper range of that was 12 megawatts.

17 MS. HATFIELD: Thank you very much.

18 CHAIRMAN GETZ: Mr. Eaton, I think we're
19 now prepared to go into the confidential portion of the
20 record?

21 MR. EATON: I wish the last two answers
22 could be part of the confidential record. Mrs. Tillotson
23 is a very knowledgeable person, and went into far more
24 detail than I wanted her to do. And, I'd request that
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 those last two answers, those questions and answers be
2 part of the confidential record.

3 CHAIRMAN GETZ: Ms. Hatfield.

4 MS. HATFIELD: Mr. Chairman, what has --
5 what was provided to the parties in the case back on
6 November 20th, as this Tech Response Number 1, was
7 provided publicly, and so has not been treated
8 confidentially up to this point. And, I think the
9 response related to what the expected additional output
10 was of the turbine. I don't see why that warrants
11 confidential treatment either. And, I'm not sure if that
12 information about the additional output was in the
13 response, but it certainly has been discussed at technical
14 sessions, and with all the parties present, including I
15 believe Mr. Rodier has been present in some of those
16 conversations.

17 CHAIRMAN GETZ: Well, let me just ask
18 this question, though. The issue with Mr. Rodier is more
19 about the RGGI information, and not about this
20 information, is that correct?

21 MR. EATON: Yes.

22 CHAIRMAN GETZ: He's a party to this
23 proceeding. So, there's no objection to him having access
24 to the information about the outage, is that correct?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 MR. EATON: There's no problem with him
2 having the tech session -- Exhibit 5 for identification.

3 CHAIRMAN GETZ: Okay. Well, let's do
4 this, just for the time being. We'll make the
5 information, and make life easier for Mr. Patnaude, we'll
6 protect the last two responses to questions from Ms.
7 Hatfield, consider a motion that that's included in the
8 Motion for Protection, and then we'll take under
9 consideration whether those issues, that information
10 should be protected, just as we would with respect to any
11 motion for confidentiality.

12 MS. HATFIELD: Mr. Chairman, I do have
13 to say that I have asked the Company several times,
14 including the day that the OCA learned of this, which was
15 in November at a technical session, the OCA first learned
16 of this outage that happened back in June and July, and we
17 requested this summary. And, at that time, I asked if it
18 was confidential, and the answer was "no". And, then,
19 when was it filed on November 20th, I asked if it was
20 confidential and the answer was "no". And, so, I cannot
21 say that this information has been treated confidentially
22 by the OCA, and it may have been provided to parties
23 outside of this docket.

24 MR. EATON: I think the answer gave much
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 more information than was in Exhibit 5. And, that's why I
2 would like the responses to be part of the protected
3 record.

4 MS. HATFIELD: And, I'd be happy to work
5 with Mr. Eaton and with Ms. Amidon to look at the record
6 and make sure that what has been provided publicly is
7 consistent with what's in the public record. So, I don't
8 object. To the extent that there's additional information
9 that was provided orally, I do not object to that being
10 treated confidentially.

11 CHAIRMAN GETZ: It's just a question of
12 discerning which parts of the answer should be redacted.
13 And, I take it that the parties will make a proposal in
14 writing in that regard?

15 MS. HATFIELD: Yes.

16 MR. EATON: Yes, we will.

17 CHAIRMAN GETZ: Thank you.

18 MS. HATFIELD: Thank you.

19 (Pages 33 through 47 of the hearing has
20 been redacted as it contains information
21 deemed to be "Confidential &
22 Proprietary".)

23

24

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 (Confidential session begins.)

2 BY MR. EATON:

3 Q.

4

5 A.

6

7

8

9

10

11

12 Q.

13 A.

14 Q.

15 A.

16 Q.

17

18 A.

19

20

21

22

23

24 Q.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1

2 A.

3

4

5

6

7

8

9

10

11

12

13

14

15 Q.

16

17

18 A.

19

20

21

22

23

24

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1

2 Q.

3

4 A.

5

6

7

8

9 Q.

10

11

12 A.

13

14

15

16

17

18

19

20

21

22

23

24

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1

2

3 Q.

4

5 A.

6

7

8

9

10

11

12

13

14

15

16 Q.

17

18

19 A.

20

21

22

23

24

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q.

2

3 A.

4

5

6

7 Q.

8

9

10 A.

11 A.

12 Q.

13

14

15

16

17 A.

18

19

20

21

22

23

24

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18 Q.
- 19
- 20 A.
- 21 Q.
- 22 A.
- 23 Q.
- 24 A.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

CROSS-EXAMINATION

BY MS. HATFIELD:

Q.

A.

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

BY MR. MULLEN:

Q.

A.

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

BY CMSR. BELOW:

Q.

A.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q.

2

3

4 A.

5

6

7 Q.

8 A.

9

10 Q.

11

12

13 A.

14 Q.

15

16

17 A.

18 A.

19 Q.

20

21

22 A.

23 Q.

24

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A.

2 Q.

3 A.

4 Q.

5

6 A.

7

8

9

10

11

12

13

14

15

16

17

18 Q.

19

20 A.

21

22

23

24

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1
- 2
- 3
- 4
- 5
- 6
- 7
- 8
- 9
- 10
- 11
- 12
- 13
- 14
- 15
- 16
- 17
- 18
- 19
- 20
- 21
- 22
- 23
- 24

(Whereupon the hearing resumed on the
public portion of the transcript.)

END OF CONFIDENTIAL SESSION

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 (Whereupon the public session resumes.)

2 CHAIRMAN GETZ: Then, let's move back
3 onto the public portion of the record. And, we'll pick up
4 again with Ms. Hatfield.

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

6 CROSS-EXAMINATION

7 BY MS. HATFIELD:

8 Q. Mr. Baumann, if you could turn to Exhibit 2, that's the
9 updated filing, and look at Attachment RAB-1, Page 1.

10 A. (Baumann) I'm there.

11 Q. And, if you look at Line 25 --

12 CHAIRMAN GETZ: Actually, if we could
13 stop for a second.

14 (Brief off-the-record discussion
15 ensued.)

16 CHAIRMAN GETZ: Ms. Hatfield.

17 MS. HATFIELD: Thank you.

18 BY MS. HATFIELD:

19 Q. If look at Line 25, it's entitled "Merrimack
20 Incremental O&M Costs", and there are some other words
21 there, do I understand correctly that you're using the
22 term "incremental" to describe costs related to the
23 problem with the turbine?

24 A. (Baumann) Well, the incremental costs are again the

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 assumption that there will be an extended outage in
2 2009. And, there will be additional O&M costs
3 associated with that outage, because it's a repair, not
4 a replacement. However, because there will be -- there
5 were insurance proceeds assumptions, we've called it
6 the "net" -- well, we call it the "incremental net of
7 insurance proceeds". So, it's a net cost, but it is a
8 net increase.

9 Q. And, you refer to it as "incremental" because it's
10 related to that one incident that you, obviously,
11 didn't expect?

12 A. (Baumann) Yes.

13 Q. And, then, on the next line, the "Merrimack Projected
14 RPC Insurance Proceeds", what does "RPC" stand for?

15 A. (Baumann) "Replacement Power Costs".

16 Q. And, if we look to your Technical Statement, in
17 Exhibit 2, on Page 1 of 4, which is, as you pointed out
18 earlier, is the last four pages of this filing. If we
19 look at Note 2, does that give us more information
20 about Lines 25 and 26?

21 A. (Baumann) I'm sorry, you're on Page 4?

22 Q. I'm sorry. Page 1 of 4.

23 A. (Baumann) Page 1 of 4. Sorry, there are two 2s on that
24 page.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1 Q. The first 2.
- 2 A. (Baumann) We do that to confuse everybody, especially
3 the witnesses. Yes, the first 2 is associated with the
4 Merrimack 2 O&M. So, that 5.5 million is related -- is
5 referring to the 5,480,000 on the RAB attachment,
6 Page 1. It's just been rounded.
- 7 Q. And, that note also states that there will be "an 18
8 week outage in the Fall of 2009", is that correct?
- 9 A. (Baumann) Yes, that's what it says.
- 10 Q. And, then, further down on that page, Note 5, does that
11 correspond with Line 26 on RAB-1, Page 1?
- 12 A. (Baumann) Yes, that's the \$9.1 million of assumed
13 insurance recovery for replacement power costs.
- 14 Q. And, Ms. Tillotson, what was the total cost of the
15 turbine replacement project?
- 16 A. (Tillotson) To date, we've spent 11 -- I don't have the
17 number off the top of my head. I would say
18 \$13 million, subject to check, are more accurate.
- 19 Q. Thank you. Mr. Baumann, looking again at RAB-1, Page
20 1. And, on Line 18 you talk or you have listed the RPS
21 -- estimate for the RPS compliance cost, and on Line 19
22 you have the estimate for the RGGI compliance costs.
23 Are those down from your earlier filing?
- 24 A. (Labrecque) Yes. If I could respond?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q. Absolutely.

2 A. (Labrecque) I think, if you look on Technical
3 Statement, Page 3 of 4, we describe down towards the
4 bottom of a \$2.4 million decrease from the preliminary
5 filing in RPS expenses and a \$7.8 million decrease in
6 RGGI compliance cost forecast.

7 Q. And, can you tell us why those amounts have decreased?

8 A. (Labrecque) Yes. For RPS, the drop in sales, since
9 your compliance obligation is linked to your sales
10 volume, that's part of the reason. The other
11 contributor is that we've modeled as an owned source of
12 supply for Class IV certain eligible PSNH facilities
13 that were recently declared eligible for Class IV.
14 That's a new bit of information that we hadn't factored
15 into the draft filing.

16 And, for RGGI costs, Page 4 of 4 of the
17 Tech Statement describes primarily the reasons. There
18 is a decrease in the amount of allowances assumed
19 during the '09 period and a decrease in the forecasted
20 cost per allowance.

21 Q. Thank you. Also, on Page 1 of 4 of your technical
22 statement, Note 1 refers to an "increase in Newington
23 fuel oil expense", is that correct?

24 A. (Labrecque) Correct.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q. Can you explain why PSNH has decided to increase the
2 use of the Newington plant for 2009?

3 A. (Labrecque) Yes. There's been a significant decline, a
4 dramatic decline in the cost of residual fuel oil that
5 Newington burns. We were able to purchase some oil at
6 prices which, when you convert it into electricity at
7 Newington, are less expensive than the forecast of
8 making additional firm supplemental purchases. So,
9 between the draft filing and this filing, we've changed
10 the operating plan at Newington, purchased the oil, and
11 we now plan to operate the unit essentially Monday
12 through Friday, following load in January, February,
13 July and August. And, that's the reason for the
14 incremental increase in fuel expense, but it's offset
15 by a more -- a higher decrease in purchase expense.
16 So, it's a net benefit for customers.

17 Q. Thank you. Does the operation of Newington impact the
18 Company's RGGI costs?

19 A. (Labrecque) Yes. We've modeled the incremental RGGI
20 allowances required to support that operation.

21 Q. And, that's been included in your '09 estimate for RGGI
22 compliance costs?

23 A. (Labrecque) Yes.

24 Q. If you could turn back to RAB-1, Page 1. Line 24 shows

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 a "Merrimack Inventory Adjustment", do you see that?

2 A. (Baumann) Yes.

3 Q. And, it looks like it's an adjustment of \$10 million.

4 Can you please explain that change?

5 A. (Baumann) As a result of physical inventory that was
6 taken in the early summer of this year, we are going to
7 book an adjustment that will increase the coal
8 inventory and therefore decrease fuel expense.
9 Historically, -- Well, not "historically", but annually
10 we take physical inventories in all of our fuel
11 inventory areas. The reason we have a \$10 million,
12 that's an even \$10 million, is that we haven't
13 finalized the adjustment at this time. It will be
14 finalized sometime within the next few weeks. And, we
15 will make sure we book it either in the December close
16 or the November close. We may try to get it into
17 November. But it will be booked in the fourth quarter
18 of this year. And, so, we felt we should put it into
19 the update.

20 Q. And, if you turn to Attachment RAB-2, Page 6.

21 A. (Baumann) I'm there.

22 Q. On Line 18, that is your fossil fuel inventory amount.

23 And, I just wanted to check and see if you had made a
24 comparable adjustment to that line item to account for

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 the change in the coal?

2 A. (Baumann) No. What we did really was look at what we
3 felt the overall impact of that coal adjustment would
4 be and captured it in our estimate of the 10 million
5 credit on Page 1 of RAB-1. The numbers you see there
6 are the latest either forecast or budget numbers,
7 depending on which one is most current, that we use.
8 We've historically used those inventory values. And,
9 when we've had updates, as we do in the past, where we
10 always update the Energy Service rate, we haven't gone
11 ahead and updated the inventories. We've always kept
12 them at the same assumption.

13 Q. So, during the reconciliation of 2009 we would see the
14 actuals?

15 A. (Baumann) Oh yes. We would update that to actual.

16 Q. Mr. Baumann, do you recall during discovery the Company
17 changed the retirement date for the Newington plant
18 from 2017 to 2014?

19 A. (Baumann) Yes. There was somewhere in the discovery
20 process that fact was presented.

21 Q. And, can you tell us why that change was made?

22 A. (Baumann) Yes. The simple -- The simple explanation is
23 that it was a typo. The assumed date for depreciation
24 is still 2014, which was assumed, and has always been

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

- 1 assumed, at the 40 year life. The depreciation model
2 also assumed 2014. However, I guess I was informed
3 yesterday, in the heading of that model it said "2017".
4 So, someone who passed the information along to me
5 thought that there had been a change in the capital
6 recovery calculation, and there wasn't a change. It
7 has always been 2014, and remains as such today.
- 8 Q. Thank you. Similarly, the retirement date for
9 Merrimack Station was extended to 2023 in a data
10 request. Do you recall that?
- 11 A. (Baumann) Yes.
- 12 Q. Do you know why that date was extended? I'd be happy
13 to have Ms. Tillotson answer the question, if she
14 wishes.
- 15 A. (Baumann) I think we'd probably both say the same
16 thing. I believe it was the assumption associated with
17 the installation of the scrubber. And, that would
18 materially extend the life of that unit.
- 19 Q. And, what is the age of that unit today?
- 20 A. (Tillotson) MK2 went into service in 1968 and MK1 went
21 into service in 1960.
- 22 Q. Thank you. During discovery, the OCA also asked the
23 Company some questions about whether company use is
24 currently recovered through the Energy Service rate.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Do you recall that?

2 A. (Baumann) Yes.

3 Q. And, do you recall that PSNH estimated that company use
4 included in the 2009 Energy Service rate is
5 approximately \$2.4 million?

6 A. (Baumann) Yes, that was in one of the data responses.

7 Q. Is it correct to say that migrating customers therefore
8 do not have to pay any share of these costs?

9 A. (Baumann) Yes. The costs of supplying that energy is
10 part of the ES rate. And, to the extent you migrate,
11 you would be avoiding that cost, or your proportionate
12 piece of that cost.

13 Q. Would you have any objection to discussing that issue
14 in conjunction with the Company's next base rate case,
15 so that all customers could pay their fair share of
16 company use?

17 A. (Baumann) No, we would not have an objection.

18 MS. HATFIELD: Thank you very much. No
19 further questions.

20 CHAIRMAN GETZ: Ms. Amidon.

21 MS. AMIDON: Thank you. Both Mr. Mullen
22 and I will have questions. My question relates to a
23 document, it's really a spreadsheet, prepared by the
24 Staff. It's entitled "PSNH Comparison of 2008 and 2009 ES
{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Rate Cost Components", which I would like marked for
2 identification as "Exhibit 7".

3 CHAIRMAN GETZ: It will be so marked.

4 (The document, as described, was
5 herewith marked as Exhibit 7 for
6 identification.)

7 MS. AMIDON: And, this is a document
8 that was discussed with the Company yesterday in a
9 technical session. And, I believe -- I will give a copy
10 to each, but this I believe is to Mr. Baumann --

11 (Atty. Amidon handing document to the
12 Witnesses.)

13 WITNESS BAUMANN: Thank you.

14 BY MS. AMIDON:

15 Q. And, you will see in this Exhibit 7 there are some
16 components that are shaded. And, my questions relate
17 to these cost components that are in the shaded areas.
18 I know that RGGI, for example, is a new obligation for
19 the Company. So, you don't have any historical
20 analysis of a trend in that area. But, going forward,
21 what do you see happening with the RGGI cost for the
22 Company?

23 A. (Tillotson) As you point out, not only do we not have
24 any historical basis, but the program as a whole does

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 not. I do believe a lot of folks were glad to get the
2 first auction under their belt, and folks know that had
3 a clearing price of \$3.00. The original New Hampshire
4 analysis done by UNH and DES and PUC folks, I think it
5 had a moderate path of sort of \$2.00 allowance, \$4.00
6 an allowance, \$8.00 an allowance, up over time through
7 the program. However, as far as predicting a high end,
8 because the New Hampshire law does have a rebate type
9 provision for customers, we do understand that that
10 will be limited by the \$6.00 per allowance per ton
11 value. So, I do think that that's something we could
12 put as the higher end, as far as a range goes for our
13 estimate looking forward. And, at this point, the
14 floor price at RGGI is \$1.86, so just under \$2.00.

15 So, to the extent that you can put a
16 range on those costs, we wouldn't expect anything less
17 than the \$1.86, with some opportunity for that to be
18 increased if they see market pressures. And, then,
19 with the customer protection at \$6.00, that certainly
20 would be the range that folks should look at over the
21 next few years.

22 Q. But you can't at this point predict if the costs for
23 2010 or 2011, how much they will be above the
24 7.6 million that you forecast for 2009?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Tillotson) At this point, I wouldn't estimate a new
2 different price for allowance based on anything that I
3 would be able to tell you that is why. The amount we
4 expect to emit would be somewhat predictable. But, as
5 far as the cost, I would be comfortable giving you that
6 same range.

7 Q. Okay. With respect to the New Hampshire RPS, again,
8 that's a new program, but those costs per year I
9 believe are in the statute. Going forward, how do you
10 see these costs increasing?

11 A. (Labrecque) I can answer that.

12 Q. Yes. Thank you.

13 A. (Labrecque) Yes. As the requirement in certain classes
14 increases each year, these costs, if you assume the
15 market that develops, that may develop for each of
16 these classes, is at the Alternative Compliance
17 Payment, that's a big assumption. But, under that
18 assumption, and the scheduled increases, the
19 \$10.8 million charge you see in '09 could increase by
20 as much as 8 million for 2010. I'm assuming
21 quantitative numbers are fine for the response.

22 Q. Yes.

23 A. (Labrecque) I've just done a rough calculation, and
24 these are rough, but it would be an increase, it could

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 be. So, we're talking 18 million in 2010. You could
2 forecast as high as 30 million in 2011. And, it may be
3 as much as a \$10 million increase per year. This is
4 primarily associated with the incremental Class I
5 requirement each year, at an assumed escalating ACP as
6 the cost of all your required certificates, which is
7 the worst case. But that's what I've got.

8 Q. Thank you. Another line in here that is experiencing a
9 significant increase between 2008 and 2009 are capacity
10 costs. What has been the historical trend on capacity
11 costs, and how do you see that trend -- do you see that
12 trend or another trend continuing in the future?

13 A. (Labrecque) Yes. As noted on this exhibit, in 2006,
14 those costs were relatively insignificant. There was a
15 completely different market structure in 2006, where
16 the ISO-administered auctions were clearing with prices
17 very close to zero most of the time. So, we were still
18 -- we still had a supplemental capacity requirement,
19 but it was a very low cost. The market design is in a
20 transition stage now, which began, I believe, in
21 December of 2006. So, all of 2007 costs, you see on
22 the exhibit the "27.8 million", were attributable to
23 that first year of this transition capacity market, the
24 first full year.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 The administratively determined
2 transition period rates for capacity ratchet up every
3 12 months. In addition, the current transitional
4 market design is such that ISO is required to pay all
5 eligible capacity resources that show up, for lack of a
6 better term. So, they're currently paying
7 approximately 35,000 megawatts of capacity in the
8 summer and almost 39,000 megawatts of capacity in the
9 winter at administratively determined fixed rates. The
10 increase from '08 to '09 is related primarily to that
11 increase, that annual increase in transition payment
12 rates.

13 Now, to answer your real question, going
14 forward, 2010, we would expect a further increase. The
15 transition rate will ratchet up once again. And, in
16 the second half of 2010, we'll enter the first phase of
17 the hopefully final capacity market design, which has
18 an even higher clearing price associated with it. For
19 the future, in '11, 2012, and beyond, we're subject to
20 "as yet to be determined" auction clearing prices. But
21 my speculative answer right now would be similar costs,
22 perhaps even declining, for a few years following 2011.

23 Q. Thank you. Well, the next thing we're looking at is
24 the "IPP costs above market". Is that right? "At

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 market", I'm sorry. I didn't realize that the "above
2 market" goes into a different docket. Okay. And,
3 those are declining. And, how long do you see these
4 obligations continuing into the future? And, are they
5 going to continue to decline? This is a pretty
6 dramatic decline from 2008 to 2009.

7 A. (Labrecque) A big piece of the decline from '08 to '09
8 is triggered by the volume of IPP megawatt-hours. The
9 other portion relates to approximately a one cent per
10 kilowatt-hour decrease between the actual price paid in
11 '08 and the forecasted price to be paid in '09. Of
12 course, in '09, it will be actual market, not what we
13 forecast today. Going forward, I believe the volume is
14 fairly constant for the next few years. And, the at
15 market rate for IPPs is completely subject to the
16 volatility of the market.

17 Q. And, so, absent having a crystal ball, you can't really
18 tell where the market will go?

19 A. (Labrecque) Correct.

20 Q. And, these are all subject to reconciliation in any
21 event, is that correct?

22 A. (Labrecque) Correct.

23 Q. And, then, "Purchases and Sales", I'd like that line
24 item to be addressed as well.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Labrecque) Again, from '08 to '09, we have an increase
2 in the volume of purchases. So, part of the change in
3 costs you see is related to increase in volume. The
4 other part is related to a higher average cost of the
5 purchases that we're forecasting for 2009. Again,
6 going forward, the volume will remain, it will remain a
7 significant part of our power supply. So, you know,
8 the volume is significantly influenced by the extent to
9 which we utilize Newington. But, if you neutralize
10 that fact, as sales increase year over year, the
11 purchase volume would increase year over year. The
12 average cost of the purchases, again, is subject to the
13 volatility of the market.

14 Q. Would the purchases and sales for 2009 include the
15 replacement power costs associated with the anticipated
16 outage of Merrimack 2?

17 A. (Labrecque) Yes.

18 MS. AMIDON: I'm going to turn it over
19 to Mr. Mullen at this point.

20 BY MR. MULLEN:

21 Q. Following up on the discussion of "Purchases and
22 Sales", what do you expect for your load forecast going
23 forward, because that in somewhat will also drive your
24 amount of purchases, correct?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Labrecque) Correct. I don't have the numbers in front
2 of me, but I believe it's a year over year increase. I
3 don't believe we're currently forecasting a year over
4 year decrease in sales, if that's your question. But I
5 don't know if it would be increasing 1 percent or
6 2 percent per year, I don't have that exact number.
7 But I believe it's an increase.

8 Q. So, just going forward then, if you have a year to year
9 increase, the amount that you would have to purchase
10 would therefore increase, because your own generation
11 fleet can only produce so much?

12 A. (Labrecque) That's right. Assuming the same
13 contribution from the fleet, which also varies year to
14 year, with outage schedules or hydro output and
15 Newington Station. But, assuming we filter that out of
16 the equation, you're correct.

17 Q. And, if we look at Exhibit Number 4, which is the sales
18 forecast, one other factor that plays in, of course, is
19 the column that's labeled here "Competitive Supply
20 Sales", correct?

21 A. (Labrecque) Correct.

22 Q. Just looking at that column, can you say, in terms of
23 how much load, in terms of megawatts, the
24 September 25th [12th?] filing included and the

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 December 2nd filing included, roughly?

2 A. (Labrecque) Yes. Roughly, the September 12th filing
3 had 23 megawatts of essentially large customers. And,
4 in the December 2nd filing, that number has increased
5 to approximately 102 megawatts.

6 Q. Now, was that all known information? Is that actuals?
7 Or, is that your estimates based on information that
8 you have?

9 A. (Labrecque) That is actual as of the time we prepared
10 each filing. So, essentially, on November 20th, just a
11 few weeks ago, the level of migration had reached
12 approximately 102 megawatts.

13 Q. But, with those actuals, you don't know how long any of
14 those customers may be going to a competitive supplier?

15 A. (Labrecque) Correct. We do not have access to that.

16 Q. Now, I'll try not to bounce around too much, but a lot
17 of the things have been covered before. If you look at
18 the Technical Statement included in Exhibit 2, Page 4
19 of 4. If you look at Note C, on Line 5 of Page 4,
20 could you explain what that note -- what that means,
21 about the "uncommitted NWP", meaning "Northern Wood
22 Power Project", "RECs"?

23 A. (Labrecque) Do you want to take that?

24 A. (Tillotson) Previously, when we've determined the value

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 of the Northern Wood REC revenue target value, we have
2 put in committed REC value, and then we looked at the
3 Settlement Agreement's breakeven price associated with
4 a REC price or the market price. And, what we have
5 here is a recognition that RECs in the region have
6 declined over the early years. In the early years,
7 they were over \$50, then they were in the \$45 range.
8 Currently, REC prices in the Massachusetts/Rhode Island
9 market are mid 30s, some low 30s, some a little bit
10 higher, but in that range. So, for purposes of this
11 forecast, we have used a mid 30 range consistent with
12 that market today.

13 Q. Okay. So, when it said "current bilateral market", you
14 were basically looking at, as you said,
15 Massachusetts/Rhode Island?

16 A. (Tillotson) Correct.

17 Q. Okay. On that same page, on Line 40, Note J, regarding
18 your RPS costs. At the end of that line, it talks
19 about "the modeling of certain Class IV eligible PSNH
20 facilities". And, I think the discussion was that the
21 Commission had recently certified some of those
22 facilities. There's currently a case going on
23 regarding those certifications, correct?

24 A. (Tillotson) An LSR is being developed right now to

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 address that. And, yes, there's a case going here at
2 the PUC.

3 Q. Okay.

4 A. (Tillotson) Okay.

5 Q. So, my question is basically, if, for some reason, the
6 certification status of those plants were to change, do
7 you have any idea what that would do to your RPS costs
8 in this filing?

9 A. (Tillotson) Increase them.

10 Q. Any idea how much?

11 A. (Labrecque) Yes. I think it's about a million dollars.
12 If the four assets that are currently eligible, subject
13 to check, are declared ineligible, it's approximately a
14 million dollars of higher Class IV expense.

15 MR. MULLEN: Thank you. I have nothing
16 further.

17 BY CMSR. BELOW:

18 Q. Let's start with the fossil fuel inventory question
19 that Ms. Hatfield asked. If you'd turn to Exhibit 2,
20 the 12/2/08 filing, Attachment RAB-3, Page 6. That's
21 the Energy Service calculation for 2008 actual through
22 October, with estimates for November and December, is
23 that correct?

24 A. (Baumann) Yes.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q. And, earlier, when Ms. Hatfield asked you about this, I
2 think you were looking at the '09, 2009 projection,
3 does that seem right?

4 A. (Baumann) Yes, we were.

5 Q. Right. And, if you look at "Fossil Fuel Inventory", on
6 Line 18, it runs typically -- it starts at 43 million,
7 drops as low as 36 million in October '08 and November
8 '08, and then jumps up to 54 million in December '08,
9 an \$18 million increase. Might that be where the other
10 part of the accounting transaction that decreases the
11 inventory expense by 10 million, might it be increasing
12 the inventory asset between November '08 and December
13 '08?

14 A. (Baumann) Well, we were told that the -- I would assume
15 the December '08 increase is just increase in purchases
16 and volumes getting ready for the winter. And that,
17 again, that we did not -- these were budget numbers
18 that did not have that incremental \$10 million in
19 there. So, subject to check, I don't believe that the
20 10 million is in that 54 million. That would be --

21 Q. Could you check that?

22 A. (Baumann) Sure.

23 Q. Just because it doesn't look like, you know, from last
24 year's filing, for instance, it doesn't look like there

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 was that kind of \$10 million adjustment between
2 November and December fossil fuel inventory. Maybe you
3 could follow up on that.

4 A. (Baumann) Sure.

5 CHAIRMAN GETZ: Let's reserve Exhibit
6 Number 8 as the record response.

7 (Exhibit 8 reserved.)

8 BY CMSR. BELOW:

9 Q. And, as part of that response, maybe you could just
10 further clarify what that \$10 million Merrimack
11 inventory adjustment, how that's handled from an
12 accounting point of view, if it's not showing up as an
13 adjustment in the asset as well.

14 A. (Baumann) Well, when we make the adjustment, it's been
15 determined, for the physical inventory, that there is
16 more inventory on the ground. So, the strict
17 accounting interpretation would be that you would write
18 up inventory, you would debit inventory and you'd
19 credit the fuel expense.

20 Q. Right. That's what I assumed, which is why I thought
21 it should show up somewhere probably in the inventory
22 basis, which it appears it might be in this RAB-3, Page
23 6, but you'll follow up on that.

24 A. (Baumann) Yes, we'll follow up on that.

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 Q. Okay.

2 A. (Baumann) Yes, we didn't -- we didn't even have the
3 final number. So, we -- we certainly, while we were
4 doing the update, we wanted to get something in there.
5 And, we took a look at some preliminary numbers, we did
6 some preliminary calculations, and we came to somewhere
7 in the \$10 million range.

8 Q. But what you're saying is that's what will actually
9 happen, on an accounting basis, once you figure out --
10 once you conclude what that number really is, you'll
11 adjust that you hadn't actually consumed that coal, I
12 presume this is coal, --

13 A. (Baumann) Yes.

14 Q. -- and that, in fact, you have it in inventory instead?

15 A. (Baumann) Right.

16 Q. Okay.

17 A. (Baumann) Right. So, the 10 million is really a direct
18 O&M credit to the revenue requirements. If the
19 inventory were, in theory, 10 million too low, that
20 revenue requirement impact is about a tenth of the
21 10 million, because you're really looking at only the
22 return on the inventory.

23 Q. Right.

24 A. (Baumann) So, you could have a million dollar impact,

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 which would be a legitimate argument. But, then, you'd
2 have to turn around and consider "okay, if we have more
3 inventory on the ground, would we have to rerun all
4 these simulations to lower our coal purchases during
5 2009, because we now have more inventory." So, maybe
6 you lower your coal purchases, which has a tendency to
7 lower your inventory. And, we didn't really want to
8 get into that horror show initially, because we didn't
9 have the information and we didn't have enough time to
10 go through that. So, there would be a -- there would
11 probably be a write-up of the inventory, but then a
12 slowdown in the purchasing, because of the additional
13 inventory. And, net/net, you might not really have an
14 overall average inventory change for 2009. That's why
15 we didn't get into, really, fine-tuning the detail that
16 we didn't have the fine-tune for.

17 Q. Okay. Turning to RGGI, Ms. Tillotson, or anybody else,
18 are you aware whether any other purchasers or any
19 purchasers of allowances have disclosed whether they
20 have purchased allowances or not?

21 A. (Tillotson) The only place I have access to that kind
22 of information is what has been in the general media.
23 And, I believe an environmental organization offered
24 some information. I don't have the particulars on the

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 quantities that they were referring to, because the
2 price clearly would have been a known.

3 Q. Right. And, so, just to be clear, is it your
4 understanding that, in fact, PSNH and NU does not have
5 any contractual obligation to RGGI, Inc. or the State
6 of New Hampshire, or anybody else for that matter, to
7 not disclose whether or not you have purchased
8 allowances or how many you may have purchased?

9 A. (Tillotson) Correct.

10 Q. So, you're requesting that this, that information
11 concerning whether or not you've purchased allowances,
12 and, if you have, how many, you're requesting that to
13 be confidential not on the basis that you have an
14 obligation, but rather that you have a privacy interest
15 in that information, is that correct?

16 A. (Tillotson) Correct. A company -- a business
17 confidential, we wouldn't share fuel costs, RGGI costs,
18 and, being consistent with the RGGI Program, it's not
19 providing that information, then it behooves us to be
20 consistent with that.

21 Q. Right. So, what you're observing is that it's -- it's
22 your understanding that it's not the intent of RGGI,
23 Inc. or the states to volunteer information about who
24 purchased how many allowances exactly, is that correct?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Tillotson) Correct. And, I have cautioned people that
2 that has been a moving target a bit, as folks have
3 worked through what's the right final solution to that.
4 So, I've warned people that could change. But I
5 believe we're consistent with where the program is
6 today.

7 Q. Okay. Turning to Exhibit 5, in the next to last
8 paragraph it states, roughly in the middle of the
9 paragraph, "The repair option is expected to have a
10 lower cost, but would require a 17 to 18 week planned
11 outage." In that statement that it would "have a lower
12 cost", does that include both the sort of the repair
13 cost itself, plus factoring in the impacts on
14 replacement power costs, the effect on capacity
15 revenue, things like that, or is that just referring to
16 the repair cost versus the replacement cost itself?
17 Or, is that still something you're figuring out? I
18 mean, I think it's sort of obvious that the repair cost
19 in itself would be lower, and it goes on to say
20 "replacement would be a higher cost". But is that also
21 true when you factor in those other costs, the
22 replacement power or perhaps lost revenue for capacity?

23 A. (Tillotson) I was just making sure I didn't
24 mischaracterize what was written or that my lawyer

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 didn't throw anything at me. I would say, given the
2 level of information we have now, that the two, when
3 you sum all of those cost components, are close enough
4 that we get to making sure we have to refine it more to
5 be clear. That the repair cost being lower cost, but,
6 obviously, having higher replacement costs, put you
7 into what I'll call a "ballpark" of a replacement,
8 which is more expensive, but less repair. So, you can
9 then refine your analysis to make sure what else is a
10 plus or a positive or a negative associated with both
11 those scenarios. And, we're still looking at that to
12 make sure we consider everything in that full analysis,
13 as well as insurance treatment, and also our vendor
14 treatment, under both scenarios.

15 Q. Okay. And, I think earlier you referenced the
16 proximate, the rough capital expenditure that was
17 involved. I can't recall whether that's a public
18 figure or not.

19 A. (Tillotson) It is.

20 Q. But, in any case, it is what it is, in terms of the
21 transcript at this point. But my question is, is that
22 -- that's the cost that was capitalized as sort of
23 addition to plant, as opposed to being expensed as a
24 maintenance expense, is that roughly correct?

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Tillotson) Correct. The turbine project initially was
2 a capital project. And, when it went into service at
3 the end of the outage, that cost was capitalized.

4 Q. Okay. And, you reference that, although the output
5 hasn't increased as expected, it has, because of some
6 of the problems discussed in Exhibit 5, that it hasn't
7 proved a deficiency, because the same outputs have been
8 achieved with less fuel, is that correct?

9 A. (Tillotson) Correct.

10 Q. Okay. If we turn to Exhibit 2, RAB-3, Page 6, and we
11 look at the first line of data, Line 15, "Net Plant".
12 What it shows is, from January '08 to December '08
13 estimated, at the end of the year, the net plant
14 increases over those 11 months approximately
15 \$36 million. Does that sound correct?

16 A. (Baumann) Yes.

17 Q. And, if we turn back a page to RAB-3, Page 5, Line 14,
18 has depreciation cost for the year, which is
19 approximately 20.4 million, is that correct?

20 A. (Baumann) Yes.

21 Q. Would it be fair to say, if we took that 20.4 million
22 and added it to the 36 million increase in net plant,
23 that would total about 57 million, which would
24 represent your gross plant additions over the course of

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 the year. Is that about -- Is that a fair statement?

2 A. (Baumann) You're going a little quick for me there.

3 Q. Okay.

4 A. (Baumann) But, I think what you're saying, that your
5 beginning balance, less your depreciation, plus you're

6 plant adds, and that number you said was like

7 "57 million" or somewhere?

8 Q. About. I think I'm off by a month, because I'm not
9 looking at the end of December '08, I'm looking at
10 January '08. But, assuming that January '08 is
11 approximately the same as December '07, it looks like
12 you had about \$57 million in plant additions. And,
13 then, you took -- you had about 20.4 million in
14 depreciation. So, you had a net increase in plant of
15 36 million.

16 A. (Baumann) On an annual basis, that's correct.
17 Remember, when you do add plant, you may have a half
18 year convention on your depreciation. But, normally,
19 when you add a material piece of plant, you account for
20 it on a monthly basis. Whereas, a less material piece
21 of plant, whether it's added in January or December,
22 you do a half year convention.

23 Q. Right. Could we have as an additional data request and
24 reserve an exhibit, could you provide a sort of

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 schedule of what those plant additions over the course
2 of 2008 are, by sort of plant and type of investment,
3 roughly, you know, something that would fit on roughly
4 a page?

5 A. (Baumann) Sure.

6 Q. Okay.

7 CHAIRMAN GETZ: We'll use Exhibit 9 for
8 that record response.

9 (Exhibit 9 reserved)

10 BY CMSR. BELOW:

11 Q. And, if we go back to RAB-2, Page 6, that's the
12 projection for 2009, we would see that there's -- using
13 the same sort of simplified math, there's roughly a
14 \$20 million increase in net plant, from the previous
15 schedule, RAB-2, Page 5, there's about 20.9 million in
16 depreciation for the year. So, there's somewhere on
17 the order of 41 million in plant additions projected
18 for 2009. Is that roughly correct?

19 A. (Baumann) I'm sorry, did you say "about 40 million"?

20 Q. About 40, 41 million.

21 A. (Baumann) Yes, that's correct.

22 Q. Okay. Do you have a schedule or could you produce a
23 schedule that would indicate roughly where you expect
24 those \$40 million in newly capitalized plant additions

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 to occur?

2 A. (Baumann) Sure. I mean, we could put it in with Record
3 Request 9 [Exhibit 9?].

4 Q. Sure. Okay. If you look at Exhibit 4, and the
5 increase in competitive supply sales, which, from a
6 megawatt-hour basis, is a little less than tripling the
7 September 12th preliminary filing to the most recent
8 filing, but roughly a quadrupling of the megawatts of
9 demand. Would any of you venture to offer why you
10 think this has increased to this extent and why you're
11 projecting that to continue?

12 A. (Labrecque) Yes. The drop in the current markets and
13 the drop in the forecasted forward markets, where you
14 can procure, over the last, say, two months, has
15 created opportunities for competitive suppliers to put
16 together packages for, you know, good load factor
17 customers, larger customers, at rates I assume that
18 beat our current rate, and any projection that they may
19 have had, including our draft filing for a 2009 rate.
20 So, I think that's the primary motivation for these
21 customers to migrate. And, that situation persists
22 today. And, if anything, it's maybe notched up a
23 degree or two. So, to answer the second part of your
24 question, why we're forecasting it to continue, we're

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 not forecasting it to grow. And, as I said earlier,
2 this is kind of a stable forecast, based on where the
3 market or where the quantity stood on November 20th.
4 We think that's about the extent to which we have the
5 ability to forecast, you know, because that quantity
6 will rise and fall with different market conditions,
7 with different term lengths that the suppliers are
8 offering and whatnot. So, that's where we're at today.

9 Q. Is it fair to say that your Default Service costs,
10 although some of them are sort of a fixed nature, like
11 return on rate base, that, on the margin, that is, as
12 your total Default Service sales go up or down, your
13 expenses on the margin are pretty much proportionate to
14 that? In that, if you -- your purchased power
15 obligation goes down or what you're buying on the
16 margin goes down proportionate to the increase or
17 decrease in Default Energy Service, is that correct?

18 A. (Labrecque) Our marginal cost, as sales go up or down,
19 is similar to the current market? Is that your
20 question? Similar to what, you know, current retail
21 offers might look like at any given time?

22 Q. Yes, in part. Yes.

23 A. (Labrecque) Yes, that's accurate.

24 Q. And, has it been --

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 A. (Labrecque) Although, I'm sorry.

2 Q. Yes.

3 A. (Labrecque) Let me add one more thing.

4 Q. Sure.

5 A. (Labrecque) Our marginal costs are straight costs.

6 They don't include -- obviously, a competitive supplier

7 would have a similar cost basis to serve a new

8 customer, but they would have a certain level of risk

9 premium or risk mitigation, potentially a higher

10 expense, in addition to profit.

11 Q. And, historically, or at least anything in the past few

12 years, has it been the case that your -- the power that

13 you generate yourself, both fixed and variable costs,

14 has typically had a lower average cost than what you've

15 had to buy on the margin?

16 A. (Labrecque) That's correct.

17 Q. And, do you think that will continue to be true in

18 2009?

19 A. (Labrecque) At this current snapshot in time, the

20 marginal cost has flip-flopped, and it's now cheaper

21 than the average cost. Whether that continues

22 throughout much of '09 is, you know, subject to where

23 the market goes.

24 Q. But it's close, because otherwise you'd see a lot of

{DE 08-113} [REDACTED - for public use] {12-04-08}

[WITNESS PANEL: Baumann|Labrecque|Tillotson]

1 migration one would think?

2 A. (Labrecque) It's close, yes.

3 CMSR. BELOW: Okay. Okay, that's all.

4 CHAIRMAN GETZ: Redirect, Mr. Eaton?

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

6 CHAIRMAN GETZ: Is there anything

7 further for these witnesses?

8 MS. AMIDON: No.

9 CHAIRMAN GETZ: Hearing nothing, then
10 the witnesses are excused. Thank you. Any objection to
11 striking identifications and admitting the exhibits into
12 evidence?

13 (No verbal response)

14 CHAIRMAN GETZ: Hearing no objection,
15 they will be admitted into evidence. Is there anything we
16 need to address before providing an opportunity for
17 closings?

18 MR. EATON: I might want to ask the
19 witnesses when we think they can get those other two
20 exhibits in. Probably by -- before mid week next week,
21 we'll have those two exhibits.

22 CHAIRMAN GETZ: Okay. Thank you. I
23 didn't really hear you ask them anything, but we'll take
24 the representation. Ms. Hatfield.

{DE 08-113} [REDACTED - for public use] {12-04-08}

1 MS. HATFIELD: Thank you, Mr. Chairman.
2 Generally, the OCA does not object to PSNH's 2009 Energy
3 Service Rate request. We would like to ask that, in the
4 future, if there is any type of major issue with
5 generating units, such as what happened with Merrimack
6 Unit 2, that the OCA also be notified of that when Staff
7 is notified.

8 We do not think that ratepayers should
9 have to pay the costs related to the turbine issue, with
10 respect to the repair costs or the replacement power costs
11 in 2009 rates, because ratepayers have already paid for
12 insurance for the turbine. And, it's our hope that PSNH
13 does receive full recovery for those costs. And, we think
14 it's more fair for ratepayers if the Company waits and
15 sees how much insurance recovery it receives, and comes
16 back to the Commission and seeks recovery for those, for
17 any costs not covered by insurance at a future date. But
18 we don't think it's fair for ratepayers to have to pay for
19 those costs in 2009, especially in this economy, if the
20 Company achieves an even better insurance recovery later.
21 And, then, we would have a situation where there would be
22 an over recovery, and customers would get the money back
23 later.

24 So, you know, we didn't have a chance,
{DE 08-113} [REDACTED - for public use] {12-04-08}

1 because of the timing of how quickly these dockets take
2 place, to really present you with any numbers for that
3 proposal. But, conceptually, we think that would be more
4 fair for ratepayers, because, you know, the operation of
5 the plants and the replacement of that turbine are
6 obviously beyond ratepayers' control. Thank you.

7 CHAIRMAN GETZ: Thank you. Ms. Amidon.

8 MS. AMIDON: Thank you. Staff has
9 reviewed the filing. And, we believe that the Company has
10 presented sufficient information to support its proposed
11 rate of 9.92 cents per kilowatt-hour for the Default
12 Service Charge for 2009. We're also sensitive to the
13 issues which were raised by Ms. Hatfield. However, we're
14 very mindful of the fact that PSNH comes in mid year for a
15 review of its Default Service rate. And, we are hopeful
16 that at that point they will have more information
17 regarding the disposition of the insurance claim and the
18 insurance proceeds that will be coming from that claim.

19 And, again, we also recognize that the
20 2009 -- strike that, the 2008 year will be subject to
21 review and the reconciliation of the Energy Service and
22 SCRC charge next year, and we believe that those
23 mechanisms are sufficient to allow for adequate review by
24 the Commission of the charges associated with the
{DE 08-113} [REDACTED - for public use] {12-04-08}

1 Merrimack 2 outage and the turbine repair or replacement.

2 Thank you.

3 CHAIRMAN GETZ: Thank you. Mr. Eaton.

4 MR. EATON: Mr. Chairman, I think the
5 Company understands that this is a large and a complex
6 item. And, we will keep the parties informed when we are
7 sure of developments reached and reached agreements with
8 both the turbine supplier and the insurance folks.
9 Because we'd rather, if we know something quite different
10 than what we know today, we would like to tell the parties
11 well before our mid year correction.

12 But I think the costs that we've shown
13 you are reasonable. We tried to do the best we could in
14 making these projections. And, we ask you to approve the
15 rate that was filed on December 2nd. Thank you.

16 CHAIRMAN GETZ: Okay. Then, there's
17 nothing further to consider this afternoon, so we'll close
18 the hearing and take the matter under advisement. Thank
19 you, everyone.

20 (Whereupon the hearing ended at 1:14
21 p.m.)

22

23

24

