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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

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

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

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

Jody Carmody, Clerk

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

Reptg. Residential Ratepayers:  
Meredith Hatfield, Esq., Consumer Advocate  
Office of Consumer Advocate

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

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

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## I N D E X

3

PAGE NO.

4

WITNESS PANEL:

ROBERT A. BAUMANN

DAVID A. ERRICHETTI

5

WILLIAM SMAGULA (at Page 12)

ELIZABETH TILLOTSON (at Page 12)

6

STEPHEN R. HALL (at Page 45)

7

Direct examination by Mr. Eaton

5

8

Cross-examination by Mr. Mullen

16

9

Cross-examination by Ms. Hatfield

34

10

Interrogatories by Cmsr. Below

48

11

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CLOSING STATEMENTS BY:

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Ms. Hatfield

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Ms. Amidon

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Mr. Eaton

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## E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
10	Testimony of Robert A. Baumann (05-20-09)	7
11	Joint Technical Statement of Robert A. Baumann and David A. Errichetti (05-20-09)	8
12	Revised attachments to the Testimony of Robert A. Baumann (06-19-09)	9
13	Joint Technical Statement of Robert A. Baumann and David A. Errichetti (06-19-09)	11
14	RESERVED (Record request for the reason for the difference between the 9.81 ROE and 12.8 in Form F-1)	47

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

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

15 Can we take appearances please.

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

19 CHAIRMAN GETZ: Good morning.

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

22 CHAIRMAN GETZ: Good morning.

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

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

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

3 CHAIRMAN GETZ: Good morning.

4 MS. AMIDON: Good morning.

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

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

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

14 ROBERT A. BAUMANN, SWORN

15 DAVID A. ERRICHETTI, SWORN

16 DIRECT EXAMINATION

17 BY MR. EATON:

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

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

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

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

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

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

14 Q. And, what are your duties?

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

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

23 A. (Errichetti) Yes, sir.

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

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

1 proceeding?

2 A. (Baumann) Yes.

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

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

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

6 A. (Baumann) Yes.

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

8 A. (Baumann) No.

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

11 A. (Baumann) Yes.

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

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

19 BY MR. EATON:

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

22 A. (Errichetti) Yes.

23 Q. And that was with whom?

24 A. (Errichetti) Mr. Baumann.

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

1 Q. And, when was that filed?

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

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

5 A. (Errichetti) Yes.

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

8 A. (Errichetti) No.

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

11 A. (Errichetti) Yes.

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

16 CHAIRMAN GETZ: So marked.

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

20 BY MR. EATON:

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

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

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

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

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

4 A. (Baumann) Yes.

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

7 A. (Baumann) No.

8 Q. What was the date of that filing?

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

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

13 CHAIRMAN GETZ: Be so marked.

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

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

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

24 CHAIRMAN GETZ: All right. Thank you.

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

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

{DE 08-113} {07-02-09}

[WITNESS PANEL: Baumann|Errichetti]

1 Q. -- Joint Technical Statement?

2 A. (Errichetti) No.

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

5 A. (Errichetti) Yes.

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

8 CHAIRMAN GETZ: So marked.

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

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

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

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

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

24 MR. EATON: Mr. Chairman, I'd like to  
{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

12 WILLIAM SMAGULA, SWORN

13 ELIZABETH TILLOTSON, SWORN

14 DIRECT EXAMINATION

15 BY MR. EATON:

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

6 A. (Tillotson) I did.

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

3 A. (Baumann) No.

4 MR. EATON: Thank you, Mr. Chairman.  
5 The witnesses are available for cross-examination.

6 CHAIRMAN GETZ: Thank you. Ms.  
7 Hatfield.

8 MS. HATFIELD: Thank you, Mr. Chairman.  
9 Staff has kindly agreed to do their cross-examination  
10 first this morning.

11 CHAIRMAN GETZ: Thank you. Ms. Amidon.

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

14 MR. MULLEN: Good morning, all.

15 WITNESS TILLOTSON: Good morning.

16 WITNESS SMAGULA: Good morning.

17 CROSS-EXAMINATION

18 BY MR. MULLEN:

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

23 A. (Baumann) Yes.

24 A. (Errichetti) Yes.

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

4 A. (Errichetti) Yes.

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

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

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 rate back in January and today.

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

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

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

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

18 CHAIRMAN GETZ: Thank you.

19 BY MR. MULLEN:

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

22 A. (Errichetti) Yes.

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

4 A. (Errichetti) Yes.

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

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

11 Q. Yes.

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

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

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

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

23 A. (Baumann) Yes.

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

14    Q.    Sure.

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

4   Q.    So, now, the --

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

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

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

9 A. (Baumann) Yes.

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 four week outage.

2 Q. Right.

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

7 Q. Okay.

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

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

9 Q. Is that 2.5 million a firm number?

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 Q. Good, low cost power?

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

17  A.   (Errichetti) Yes.

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

11 BY MS. HATFIELD:

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

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

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

22 WITNESS ERRICHETTI: Yes.

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

4                                   CMSR. BELOW:  Right.  Okay.

5                                   WITNESS ERRICHETTI:  To be clear.

6       BY MS. HATFIELD:

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

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

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

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

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

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

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1 sticking with the current number?

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1           then you have to know what the overall market

2           comparison is, which is not known really.

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

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

8 A. (Baumann) Yes, I do.

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

12 A. (Baumann) Yes.

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

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

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

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

{DE 08-113}    {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

21 A. (Baumann) I'm there.

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

{DE 08-113} {07-02-09}

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

1           that number?

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

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

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

[WITNESSES: Baumann|Errichetti|Smagula|Tillotson]

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

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

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

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

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

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

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

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

18 STEPHEN R. HALL, SWORN

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

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

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

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

10 MS. HATFIELD: Thank you very much.

11 BY MS. HATFIELD:

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

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

17 Q. Thank you.

18 A. (Baumann) That's correct.

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

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

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

1 --

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

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

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

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

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

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

19 (Exhibit 14 reserved)

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

24 MS. HATFIELD: Thank you, Commissioner

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

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

5 CMSR. BELOW: Okay. Thank you.

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

8 (Short pause.)

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

11 CHAIRMAN GETZ: Thank you.

12 CMSR. BELOW: I do have a question.

13 BY CMSR. BELOW:

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

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

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

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

1 correct?

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

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

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

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

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

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

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

1 A. (Hall) Yes, it is.

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

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

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

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

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

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

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

21 A.    (Hall) Yes.

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

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

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

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

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

23 A. (Hall) Correct. Absolutely.

24 CMSR. BELOW: Okay. Thank you.

{DE 08-113} {07-02-09}

[PANEL of Baumann|Errichetti|Smagula|Tillotson|Hall]

1 CHAIRMAN GETZ: Redirect?

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

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

5 (No verbal response)

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

10 (No verbal response)

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

15 (No verbal response)

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

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

24 However, we are concerned about, as I

{DE 08-113} {07-02-09}

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

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

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

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

14                   CHAIRMAN GETZ: Thank you. Ms. Amidon.

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

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

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

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

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

18 MR. EATON: Yes.

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

22 (Whereupon the hearing ended at 11:25  
23 a.m.)

24

