

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

January 18, 2011 - 10:08 a.m.  
Concord, New Hampshire

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RE: DE 10-121  
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:  
Reconciliation of Energy Service and  
Stranded Costs for Calendar Year 2009.

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

Sandy Deno, Clerk

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

Reptg. New Hampshire Sierra Club:  
Arthur B. Cunningham, Esq.

Reptg. TransCanada:  
Douglas L. Patch, Esq. (Orr & Reno)

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.  
Steven E. Mullen, Asst. Dir./Electric Div.  
Michael D. Cannata, Jr. (Accion Group)

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

ORIGINAL

## I N D E X

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                             DAVID A. ERRICHETTI  
                             WILLIAM H. SMAGULA  
                             MICHAEL D. CANNATA, JR.

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1                                   P R O C E E D I N G

2                                   CHAIRMAN GETZ:   Okay.   Good morning,  
3   everyone.   We'll open the hearing in Docket DE 10-121.   On  
4   April 30, 2010, Public Service Company of New Hampshire  
5   filed testimony and schedules in support of a proposed  
6   reconciliation of revenues and costs associated with  
7   Energy Service Charge and Stranded Cost Recovery Charges  
8   for calendar year 2009.   Order of notice was issued on  
9   June 1 setting a prehearing conference that was held on  
10   June 28.   An order defining the scope of the proceeding  
11   was issued on July 20th.   And, we have before us today a  
12   Stipulation and Settlement between Staff and the Company  
13   that was issued on January 11.

14                                  Can we take appearances please.

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

18                                 CHAIRMAN GETZ:   Good morning.

19                                 MR. PATCH:   For TransCanada, Douglas  
20   Patch, with the law firm of Orr & Reno.

21                                 CHAIRMAN GETZ:   Good morning.

22                                 MR. CUNNINGHAM:   Arthur B. Cunningham,  
23   New Hampshire Sierra Club, along with Catherine Corkery.

24                                 CHAIRMAN GETZ:   Good morning.

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1 MS. HATFIELD: Good morning,  
2 Commissioners. Meredith Hatfield, for the Office of  
3 Consumer Advocate, on behalf of residential ratepayers.  
4 And, with me for the office is Ken Traum.

5 CHAIRMAN GETZ: Good morning.

6 MS. AMIDON: Good morning. Suzanne  
7 Amidon, for Commission Staff. And, with me today is Steve  
8 Mullen, the Assistant Director of the Electric Division,  
9 and our witness, Michael Cannata, from the Accion Group.

10 CHAIRMAN GETZ: Good morning. Mr.  
11 Eaton, are you ready to proceed? Is there anything we  
12 need to address?

13 MR. EATON: Nothing procedurally. We  
14 had planned to put on a panel of three witnesses from  
15 Public Service Company and Mr. Cannata from the Staff,  
16 where they can answer questions about the filing and  
17 questions about the Settlement Agreement.

18 CHAIRMAN GETZ: Okay. Anything from  
19 anyone else?

20 (No verbal response)

21 CHAIRMAN GETZ: Hearing nothing, then  
22 please proceed.

23 MR. EATON: I'd like to call to the  
24 stand Robert Baumann, David Errichetti, William Smagula,

[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

and Michael Cannata, Jr.

(Whereupon **Robert A. Baumann, David A. Errichetti, William H. Smagula, and Michael D. Cannata, Jr.**, were duly sworn and cautioned by the Court Reporter.)

**ROBERT A. BAUMANN, SWORN**

**DAVID A. ERRICHETTI, SWORN**

**WILLIAM H. SMAGULA, SWORN**

**MICHAEL D. CANNATA, JR., SWORN**

**DIRECT EXAMINATION**

BY MR. EATON:

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

A. (Baumann) My name is Robert Baumann.

Q. For whom are you employed?

A. (Baumann) I'm employed by Northeast Utilities Service Company, and it provides services to the operating subsidiaries of Northeast Utilities, one of which is Public Service Company of New Hampshire.

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

A. (Baumann) I'm the Director of Revenue Regulation and Load Resources. And, my responsibilities encompass all revenue requirement calculations for Public Service Company of New Hampshire, with the preparation and

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 support of those filings.

2 Q. Have you testified before the Commission before?

3 A. (Baumann) Yes.

4 Q. Did you have testimony prepared, which was filed with  
5 the Commission on April 30th, 2010, was that -- do you  
6 have that testimony in front of you?

7 A. (Baumann) Yes, I do.

8 Q. And, was that prepared by you or under your  
9 supervision?

10 A. (Baumann) Yes, it was.

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

13 A. (Baumann) Yes.

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

15 A. (Baumann) No, I don't. I do not.

16 Q. And, you adopt it as your testimony today?

17 A. (Baumann) Yes.

18 MR. EATON: Could we have that marked as  
19 "Exhibit 1" for identification?

20 CHAIRMAN GETZ: So marked.

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

24 BY MR. EATON:

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. Mr. Errichetti, would you please state your name for  
2 the record.

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

4 Q. For whom are you employed?

5 A. (Errichetti) Northeast Utilities Service Company.

6 Q. And, what is your position?

7 A. (Errichetti) I am a Manager in the Wholesale Power  
8 Contracts Department.

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

10 A. (Errichetti) I'm responsible for providing policy and  
11 analytical support to power supply issues for the NU  
12 operating companies. And, I'm administratively  
13 responsible for the bidding and scheduling of our  
14 generation resources into the ISO-New England wholesale  
15 market and for bidding in demand for the ES.

16 Q. Mr. Errichetti, did you prepare prefiled testimony in  
17 this proceeding?

18 A. (Errichetti) Yes.

19 Q. And, was that filed on April 30th, 2010?

20 A. (Errichetti) Yes.

21 Q. And, you have some corrections to make to that or  
22 there's some supplemental testimony?

23 A. (Errichetti) Yes, I do. I submitted a supplemental  
24 testimony on, I believe, early July to correct one of

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 my exhibits, DAE-3. DAE-3 is a summary of purchase  
2 activity. And, the original testimony only looked at  
3 the purchases that went to serve ES load, when that  
4 exhibit should have looked at all of the bilateral  
5 purchases that were made. And, the supplement  
6 corrected that and corrected the text that went along  
7 with that exhibit.

8 MR. EATON: Mr. Chairman, we had  
9 premarked his direct testimony as "Exhibit Number 2", and  
10 we had premarked Mr. Smagula's testimony "Exhibit Number  
11 3". I don't know how you'd like to proceed, but I think  
12 both the direct testimony and the supplemental testimony  
13 of July 2nd should both be marked for identification.

14 CHAIRMAN GETZ: But the -- I'm looking  
15 through the record here. Is it just Mr. Errichetti's from  
16 that date?

17 MR. EATON: Yes. Mr. Errichetti is the  
18 only one that filed supplemental testimony on July 2nd.

19 CHAIRMAN GETZ: Well, let's call that  
20 supplemental testimony "2A".

21 (The documents, as described, were  
22 herewith marked as **Exhibit 2** and **Exhibit**  
23 **2A**, respectively, for identification.)

24 MR. EATON: Thank you. Does the Bench

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1 have copies of that supplemental?

2 CHAIRMAN GETZ: Yes.

3 BY MR. EATON:

4 Q. Mr. Errichetti, with the addition of Exhibit 2A, is  
5 your testimony true and accurate to the best of your  
6 knowledge and belief?

7 A. (Errichetti) Yes.

8 Q. And, you adopt it today as your testimony in this  
9 proceeding?

10 A. (Errichetti) Yes.

11 Q. Mr. Smagula, would -- oh, Mr. Errichetti, have you  
12 previously testified before this Commission?

13 A. (Errichetti) Yes.

14 Q. Mr. Smagula, would you please state your name for the  
15 record.

16 A. (Smagula) My name is William H. Smagula.

17 Q. For whom are you employed?

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

20 Q. And, what is your position?

21 A. (Smagula) I am Director of PSNH Generating Facilities.

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

24 A. (Smagula) I have overall responsibility for the Public

[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Service Company's generating assets, in order for them  
2 to manage their operations and maintenance functions,  
3 as well as comply with all environmental and regulatory  
4 obligations.

5 Q. Have you previously testified before the Commission?

6 A. (Smagula) Yes.

7 Q. Did you have direct testimony prepared or did you  
8 prepare it for submission by the Company on April 30th,  
9 2010?

10 A. (Smagula) Yes.

11 Q. Do you have that testimony before you?

12 A. (Smagula) I do.

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

14 A. (Smagula) No, I do not.

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

17 A. (Smagula) Yes, it is.

18 Q. And, you adopt it as your testimony today?

19 A. (Smagula) I do.

20 MR. EATON: Could we have that marked as  
21 "Exhibit Number 3" for identification?

22 CHAIRMAN GETZ: So marked.

23 (The document, as described, was  
24 herewith marked as **Exhibit 3** for

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1 identification.)

2 MS. AMIDON: Good morning, Mr. Cannata.

3 WITNESS CANNATA: Good morning.

4 BY MS. AMIDON:

5 Q. Would you please state your name and employment for the  
6 record.

7 A. (Cannata) My name is Michael D. Cannata, Jr. And, I am  
8 employed by the Accion Group for this engagement.

9 Q. And, could you explain that engagement for the  
10 Commission?

11 A. (Cannata) Yes. Accion Group has an engineering  
12 contract with the Commission. And, this is one of the  
13 dockets that the Commission has requested Accion be  
14 part of.

15 Q. And, did you review the filing and related materials in  
16 this docket?

17 A. (Cannata) Yes, I did.

18 Q. And, did you prepare testimony, which was filed with  
19 the Commission on November 23rd?

20 A. (Cannata) Yes, I did.

21 Q. And, do you have a copy of that in front of you?

22 A. (Cannata) Yes, I do.

23 Q. And, Mr. Cannata, you have -- have you testified before  
24 this Commission previously?

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 A. (Cannata) Yes, I have.

2 Q. Okay. Do you have any corrections to your testimony?

3 A. (Cannata) There is one I'd like to make. In the  
4 copying of the response of one of the data requests,  
5 the Data Request Staff-057, Page 1 of 1 -- excuse me,  
6 it's Staff-059, Page 1 of 2, appears as 201 --

7 (Court reporter interruption.)

8 **CONTINUED BY THE WITNESS:**

9 A. (Cannata) Yes. Staff-059, in Set 1, appears as Page  
10 201 of my testimony. The second page was omitted  
11 during copying. And, we need to add that to my  
12 testimony to complete that response.

13 BY MS. AMIDON:

14 Q. So, Page 2 of 2 for Staff Data Request 59 could be  
15 added to your testimony as Page 201A?

16 A. (Cannata) Yes.

17 MS. AMIDON: Okay. I would ask that  
18 Mr. Cannata's testimony be marked for identification as  
19 "Exhibit 4", with the correction noted. And, I have  
20 copies of those, the complete response to that data  
21 request for the Commission.

22 CHAIRMAN GETZ: So marked.

23 (The document, as described, was  
24 herewith marked as **Exhibit 4** for

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1 identification.)

2 (Atty. Amidon distributing documents.)

3 BY MR. EATON:

4 Q. Mr. Baumann, do you have in front of you a document  
5 that has a cover letter dated January 11th, 2011, and  
6 in it a document that's titled "Stipulation and  
7 Settlement Agreement"?

8 A. (Baumann) Yes, I do.

9 Q. Do you have the cover letter in your -- in your  
10 materials?

11 A. (Baumann) Yes, I do.

12 Q. Would you please look at the subject line and see if I  
13 have correctly written the reconciliation year?

14 A. (Baumann) Yes. The reconciliation year says "2008",  
15 but that was a typo. That should have been "2009".

16 Q. Thank you. Could you describe what that document is?

17 A. (Baumann) Certainly. I'll give a brief -- brief  
18 summary of the document. The document is a proposed  
19 settlement for 2009 Energy Service and Stranded Cost  
20 Recovery Cost Charges and revenues, the reconciliation  
21 for the year. It has four or five major sections  
22 which, I'll briefly touch on.

23 The first section is related to power  
24 supply and procurement. And, there are three items in

1 that area. One, there's a finding that PSNH filings  
2 did contain accurate representation of the capacity and  
3 energy purchases in 2009. Two, that PSNH made sound  
4 management decisions with regard to such purchases.  
5 And, three, that the capacity factor projections used  
6 in 2009 market purchases were reasonable.

7 The second section in that Settlement  
8 pertains to unit outages. And, within that Settlement  
9 section, PSNH has agreed not to seek recovery of \$244  
10 in replacement power costs associated with Ayers Island  
11 and Wyman 4 outages. There is an additional \$38,000 of  
12 replacement power costs that was noted related to a  
13 2009 Jackman outage, which was a constrained operation  
14 outage related to a 2008 Jackman outage, a  
15 continuation. However, that \$38,000 is not in play  
16 today, because the Company received insurance to cover  
17 both the 2008 and 2009 outage replacement power, and  
18 that insurance was credited against the Energy Service  
19 costs, so there's no cost to customers.

20 In addition, that section talks about  
21 PSNH's claim that we will not seek recovery, but it is  
22 not an admission of imprudence, and it is being done in  
23 an effort to reach settlement on these issues.

24 The third section of the Settlement

1 contains about six recommendations related to capacity  
2 and energy transactions. And, as presented in the  
3 Settlement, Mr. Errichetti is here if there are  
4 additional detailed questions on those recommendations,  
5 that again were made by Mr. Cannata and the Staff and  
6 included in the Settlement.

7 The next section is a set of five  
8 recommendations that -- with respect to the operation  
9 and maintenance of PSNH's generating units. Again,  
10 those recommendations were made by Mr. Cannata and  
11 Staff and are presented in the Settlement. And,  
12 Mr. Smagula is here to discuss those issues.

13 Both of those sections are  
14 recommendations, the capacity and energy, as well as  
15 the generating unit section. PSNH agrees within the  
16 Settlement to implement these recommendations.

17 The next section of the Settlement deals  
18 with four ongoing outstanding recommendations from a  
19 previous approved settlement in docket DE 09-091. And,  
20 these items are ongoing, and the Settlement basically  
21 -- within the Settlement there is agreement that PSNH  
22 will continue to address these issues and complete them  
23 and file the necessary reports with the Commission upon  
24 the completion.



[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 And, the last piece of the Settlement  
2 is, again, one more recommendation by Mr. Cannata and  
3 the Staff, that talks about the GenIS system. And,  
4 there are various detailed recommendations within that,  
5 one recommendation that, again, PSNH agrees to  
6 implement in totality.

7 That concludes the summarization. And,  
8 we would ask that the Commission review the Settlement  
9 and approve it as filed.

10 MR. EATON: Could we have the Settlement  
11 Agreement marked as "Exhibit 5" for identification?

12 CHAIRMAN GETZ: So marked.

13 (The document, as described, was  
14 herewith marked as **Exhibit 5** for  
15 identification.)

16 BY MR. EATON:

17 Q. Do any of the witnesses for Public Service Company have  
18 anything to add to their direct testimony?

19 A. (Smagula) No.

20 MR. EATON: I have completed the direct  
21 examination of the PSNH witnesses.

22 CHAIRMAN GETZ: Ms. Amidon?

23 MR. PATCH: I have no questions. Thank  
24 you. Oh, I'm sorry.

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1 MS. AMIDON: One moment please.

2 MR. CUNNINGHAM: Sierra Club has no  
3 questions.

4 CHAIRMAN GETZ: Well, just hold a  
5 second.

6 (Atty. Amidon conferring with Mr.  
7 Mullen.)

8 MS. AMIDON: Thank you, Mr. Chairman.  
9 As you know, Staff participated and signed the Settlement  
10 Agreement with Public Service Company of New Hampshire.  
11 And, the summary of the recommendations from Mr. Cannata's  
12 testimony are reflected in this document. So, to the  
13 extent that the Commission or any other party has  
14 questions for Mr. Cannata, that's appropriate. But we  
15 believe everything is in his testimony and established for  
16 the Settlement.

17 CHAIRMAN GETZ: Thank you. And, we've  
18 established that Mr. Patch and Mr. Cunningham do not have  
19 questions for the panel. So, Ms. Hatfield.

20 MS. HATFIELD: Thank you, Mr. Chairman.  
21 Good morning, gentlemen.

22 WITNESS BAUMANN: Good morning.

23 **CROSS-EXAMINATION**

24 BY MS. HATFIELD:

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. Mr. Baumann, if you would please turn to your testimony  
2 that's been marked as "Exhibit 1". And, would you  
3 please turn to Bates Page 47, which is your Attachment  
4 RAB-4, Page 12.

5 A. (Baumann) I'm there.

6 Q. And, if we look at Line 12, it states  
7 "Return-Adjusted", do you see that?

8 A. (Baumann) Yes.

9 Q. And, if we look over on the right-hand column at the  
10 "Total", there is a figure of "\$42,838,000", is that  
11 correct?

12 A. (Baumann) Yes. That's correct.

13 Q. And, is that the return that PSNH earned on its  
14 generating plants in 2009?

15 A. (Baumann) Its the total cost of capital rate of return,  
16 which includes an equity portion and a debt portion.  
17 So, when you say "earned", I always hesitate, being an  
18 accountant. A good chunk of that goes towards the debt  
19 service, and then the remainder is what was "earned".

20 Q. And, when you say "a good chunk", what percentage goes  
21 to debt service, if you recall?

22 A. (Baumann) I believe it's 10, 10 million, plus or minus,  
23 you know, subject to check.

24 Q. So, then, the remainder, the roughly 32.8 million would

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1 be returned to the Company?

2 A. (Baumann) Correct.

3 Q. Thank you. Mr. Errichetti, if you would turn to your  
4 testimony, which has been marked as "Exhibit 2" please.

5 Are you at your testimony?

6 A. (Errichetti) Yes.

7 Q. And, in your testimony, I believe you refer to PSNH's  
8 portfolio as including base load plants, is that  
9 correct?

10 A. (Errichetti) Yes.

11 Q. Is it true that, in 2009, there were times when those  
12 plants considered base load did not run because they  
13 were over-market economically?

14 A. (Errichetti) There were times, yes.

15 Q. And, when those plants did not run, do you refer to  
16 those periods as either "reserve shutdowns" or  
17 "economic reserve outages"?

18 A. (Errichetti) They can be referred to that, use that  
19 expression, yes.

20 Q. And, can you just briefly explain what is a "reserve  
21 shutdown" or "economic reserve outage" please?

22 A. (Errichetti) It means that the unit's not on a planned  
23 or forced outage and is not being dispatched, but it's  
24 available for dispatch.

1 Q. Then, on Page 3 of your testimony, at Lines 16 and 17,  
2 you refer to the "relative economics of PSNH's  
3 generation versus purchase alternatives." Do you see  
4 that?

5 A. (Errichetti) Could you point me to the lines?

6 Q. Sure. It's about midway through the line on -- at Line  
7 16, going onto Line 17, on Page 3.

8 A. (Errichetti) Okay. I'm not sure I'm exactly finding  
9 the words, but you can continue with the question.

10 Q. On the next line, you talk about, on Line 17, "PSNH's  
11 supplemental purchase requirement is heavily influenced  
12 by the economics of Newington." Do you see that?

13 A. (Errichetti) Yes.

14 Q. Is it also true that, in 2009, your supplemental  
15 purchase requirements were also influenced by the  
16 economics by some of your other plants?

17 A. (Errichetti) In 2007 and 2008, when we were looking at  
18 our supplemental purchase procurement plan, all the  
19 forward market indicators were that our coal units  
20 would be flat out, limited only by -- would be  
21 dispatched continuously, but for forced outages and  
22 maintenance. As we got into 2009, there were periods  
23 where, because of the commodity collapse that started  
24 in the second half of '08, there were times when it

1       made economic sense to reserve shutdown. So, for 2009  
2       procurement, those units were economic, they were  
3       forecast to be economic, and the purchase plan  
4       reflected that.

5   Q.   Thank you. Mr. Smagula, if you would please look at  
6       your testimony, which has been marked as "Exhibit 3".

7   A.   (Smagula) Yes.

8   Q.   And, beginning at the bottom of Page 2 on your  
9       testimony, you discuss "generating unit operation in  
10      2009", do you see that?

11  A.   (Smagula) I do. Yes.

12  Q.   And, then, on that following Page 3, and onto Page 4,  
13      you discuss the "high availability and reliability" of  
14      PSNH's plants in 2009, correct?

15  A.   (Smagula) Yes.

16  Q.   Is it also true that, in 2009, despite the high  
17      availability and high reliability factors, those fossil  
18      plants ran less than expected?

19  A.   (Smagula) I would have to review what was expected as  
20      compared to actual. I don't have that data in front of  
21      me.

22  Q.   Do you have Mr. Cannata's testimony with you?

23  A.   (Smagula) A portion of it. What pages are you  
24      referring to?

[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. I'm referring to Mr. Cannata's Exhibit 4, Page 46.

2 A. (Smagula) Yes. I have it in front of me now.

3 Q. Okay. And, if we are on Page 46, and if you look at  
4 the second table that is titled "Actual and Projected  
5 Annual Capacity Factors for PSNH Major Units", do you  
6 see that?

7 A. (Smagula) I do. Yes.

8 Q. And, if we look at the right-hand column of that table,  
9 it's titled "Forecasted", correct?

10 A. (Smagula) Yes.

11 Q. And, if we look at the next column to the left, it's  
12 titled "2009", do you see that?

13 A. (Smagula) Yes.

14 Q. And, if we look at some of the plants ran more than  
15 forecasted, but I believe four of the six ran less. If  
16 you look at "Merrimack 1", for example, it was  
17 forecasted at "88.3 percent", and the actual was  
18 "84.1 percent", is that right?

19 A. (Smagula) Yes.

20 Q. And, then, for "Merrimack 2", it's forecasted "55.7",  
21 and actually ran a little bit more -- excuse me, yes, a  
22 little bit more, at "56.1", do you see that?

23 A. (Smagula) Yes.

24 Q. And, then, "Schiller 4" was forecasted "76.4 percent",

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 but actually ran "59.5 percent", is that correct?

2 A. (Smagula) Yes.

3 Q. And, then, "Schiller 5" ran a little bit more than  
4 forecasted, at "79.6", do you see that?

5 A. (Smagula) Yes.

6 Q. And, then, "Schiller 6" was forecasted at "70.4  
7 percent", but actually ran at "56.9 percent"?

8 A. (Smagula) I do.

9 Q. And, then, "Newington" was a little bit lower than  
10 forecasted, running at "5.2 percent"?

11 A. (Smagula) I see that, yes.

12 Q. So, my question was, despite the fact that you discuss  
13 the "high availability and high reliability" of the  
14 plants, due to economics, they didn't run as much as  
15 they could have?

16 A. (Smagula) There were a very small number of periods  
17 where Merrimack Station didn't run. The capacity  
18 factor here has relevance not only due to economics,  
19 but has to do with forced outages. So, I would have to  
20 analyze this data further to break down why or the  
21 discrepancy or difference between what was forecasted  
22 and actual. It may have been due to economics. At  
23 Merrimack Station, I think there was a limited amount  
24 of that. It may have been also contributed to more

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1       downtime than was planned.

2                   But, in general, I would have to say  
3       "yes". There were periods of time, at Schiller 4 and 6  
4       and Merrimack 1 and 2, where the units were operated at  
5       a lower output. And, there were occasions when the  
6       units were not operating, in order to provide --  
7       because replacement power was more economic at that  
8       time.

9   Q.   Can some of PSNH's units run at less than full capacity  
10       when they are uneconomic, to make it easier for PSNH to  
11       operate the plants?

12   A.   (Smagula) Yes. All the units have an operating  
13       flexibility so that they can operate at their normal  
14       full load, and also each unit has, based on its own  
15       design characteristics, the ability to operate at lower  
16       loads.

17   Q.   And, did PSNH take advantage of that ability in 2009?

18   A.   (Smagula) Yes.

19   Q.   Mr. Cannata, if you would please look at your  
20       testimony, starting with Page 32 please.

21   A.   (Cannata) I'm there.

22   Q.   And, in the center of the page, you are discussing  
23       PSNH's capital expenditures, is that correct?

24   A.   (Cannata) That is correct.

1 Q. And, you found those amounts in 2009 to be prudent, is  
2 that correct?

3 A. (Cannata) As I said further down the page, I find them  
4 to be adequate for reliable and efficient unit  
5 operations.

6 Q. Is that different than "prudent"?

7 A. (Cannata) It could be. But, in this case, I do not  
8 believe it is.

9 Q. And, if we wanted to get a sense of what the capital  
10 expenditures were in 2009, would we look at your  
11 attachments to your testimony, including at Page 232?

12 A. (Cannata) Yes.

13 Q. And, if you turn to that page, you'll see that that is  
14 a copy of PSNH's response to OCA Question 01-014, is  
15 that correct?

16 A. (Cannata) That is correct.

17 Q. And, it looks like the total generation capital  
18 expenditures in 2009 was roughly \$24.3 million?

19 A. (Cannata) That is correct.

20 Q. And, in your testimony, did you also find that the  
21 spending on O&M was also prudent?

22 A. (Cannata) Yes.

23 Q. And, if we look at that same data response on your  
24 exhibit Page 233, we would see the amount spent on O&M

1 in 2009?

2 A. (Cannata) Correct.

3 Q. And, while there isn't a "total" line in that table,  
4 would you accept subject to check that that was roughly  
5 just under \$67 million?

6 A. (Cannata) Subject to check, yes.

7 Q. Thank you. On Page 27 of your testimony, specifically  
8 near the bottom, on Lines 19 to 20 -- actually starting  
9 on Line 18, you talk about the fact that "PSNH operates  
10 in a market environment." Do you see that?

11 A. (Cannata) Yes, I do.

12 Q. And, then, on Line 19, you state "It needs specific  
13 data to perform business cases with regard to repairs  
14 relating to operation of its units." Is that correct?

15 A. (Cannata) Yes.

16 Q. Then, on the next page, 28, at Line 4, you refer to the  
17 Company using its "GenIS system to perform market based  
18 equipment evaluations." Do you see that?

19 A. (Cannata) What my statement is, that I believe  
20 additional information would be needed to be added to  
21 the GenIS system to be able to perform those  
22 evaluations.

23 Q. Thank you. Is it your understanding that PSNH  
24 undertakes those business case analyses for all capital

1 expenditures that it makes?

2 A. (Cannata) That is my understanding.

3 Q. And, have you reviewed those analyses in your review in  
4 this docket?

5 A. (Cannata) No.

6 Q. And, would the same be true for O&M? Would you expect  
7 the Company to do that type of business case analysis  
8 for O&M?

9 A. (Cannata) Yes.

10 Q. Turning to the next page of your testimony, on Page 29,  
11 you provide information, starting on this page and on  
12 the following pages, about the capacity factors for  
13 various plants. Do you see where that begins on Page  
14 29?

15 A. (Cannata) Yes, I do.

16 Q. And, my question is, if I compare some of these numbers  
17 to the table that we discussed earlier with  
18 Mr. Smagula, that appears on Page 46 of your testimony,  
19 some of the numbers look different. So, I wanted to  
20 just walk through those with you, if I could. On Page  
21 29, at Line 17, you state that, with respect to Unit 5  
22 at Schiller Station, in 2009, "its capacity factor  
23 increased to 85 percent." Do you see that?

24 A. (Cannata) "Increased to 85 percent", yes.

[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. Yes. And, then, if we look on Page 46 of your table,  
2 for Schiller 5, it looks like the actual capacity  
3 factor was "79.6"?

4 A. (Cannata) Correct.

5 Q. So, are both of the numbers correct?

6 A. (Cannata) Yes.

7 Q. How is that possible?

8 A. (Cannata) The numbers that you're referring to on Page  
9 46 include unit outages. The numbers that are in my  
10 testimony, on Page 29, are the capacity factors for the  
11 times they were available to run.

12 Q. And, so, if we looked at, on the next page, on Page 30,  
13 where you talk about the capacity factor for Newington  
14 being 7, and we compare that to the "5.2 percent" in  
15 your table on Page 46, that would have the same  
16 explanation?

17 A. (Cannata) Yes.

18 Q. And, then, the same would be true for, on Page 30 of  
19 your testimony, you describe the capacity factor for  
20 Merrimack Unit 2 as "85 percent", but the actual, on  
21 Page 46, is "56.1 percent"?

22 A. (Cannata) Yes. And, that most significantly recognizes  
23 that fact, in the fact that the numbers or capacity  
24 factors on Page 46 include the 18/19 week outage that

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1 was expected. That's why that -- but, when you exclude  
2 that outage, you would come up with 85 to 90 percent  
3 for the remainder of the year.

4 Q. So, the numbers in your testimony are more of the  
5 possible capacity factor that they could have achieved?

6 A. (Cannata) They are the actual capacity factor they  
7 achieved when they were available to run.

8 Q. But I thought that the table on Page 46 provided the  
9 actual capacity factor?

10 A. (Cannata) The table on Page 46 provides the actual  
11 capacity factor, including outages. The capacity  
12 factors in the testimony provide the capacity factor of  
13 the units excluding the outages.

14 Q. Thank you.

15 A. (Cannata) And, we use that to be more reflective. The  
16 Company did not supply this information with its  
17 filing. We use this to be more reflective of how well  
18 a unit is running, when it's available to run.

19 Q. Do you think that the Company should provide that  
20 information in its next reconciliation filing?

21 A. (Cannata) Yes, because it will be a data request, if  
22 I'm doing the review. And, it has been a data request  
23 on previous occasions.

24 Q. Thank you. Mr. Baumann, would the Company have a

1 problem with providing that information in its next  
2 filing?

3 A. (Baumann) No, we would not.

4 Q. Thank you. Mr. Cannata, on Page 32, you have two  
5 footnotes that relate to Newington Station. Do you see  
6 those?

7 A. (Cannata) Yes, I do.

8 Q. And, in the footnotes, you state "the budgets reviewed  
9 by Accion do not reflect the ongoing re-evaluation of  
10 Newington budgets relative to its recent reduced  
11 operation in the market environment." Is that correct?

12 A. (Cannata) That's correct.

13 Q. And, you have one footnote with relation to the capital  
14 expenditure budget and another related to the O&M  
15 budget?

16 A. (Cannata) Yes.

17 Q. What do you mean by those footnotes?

18 A. (Cannata) Okay. Newington Station, as a matter of  
19 fact, let's go back to the table on Page 46 as a  
20 reference, if we could. You can see, in 2003 and '04,  
21 Newington ran at over 50 percent capacity factor. It  
22 was running quite a bit. It's a cycling unit, and  
23 that's probably a high capacity factor for a cycling  
24 unit. As the market environment changed through the

1 years, Newington's role has become reduced, through the  
2 price of gas versus the price of oil, I believe. And,  
3 I believe, beginning in 2008, with that reduced  
4 capacity factor, PSNH began to evaluate their  
5 maintenance and capital expenditures at Newington  
6 Station to see what changes needed to be made. Now,  
7 that would entail not only possibly reducing  
8 expenditures, if, in fact, let's say for a motor, you  
9 had to overhaul it every 20 starts. Well, if you're  
10 not running and only started it every -- twice a year,  
11 well, you don't have to overhaul it every year. And,  
12 it also might mean more expenditures, depending upon  
13 how you run the equipment during the year. So, that's  
14 the evaluation they were doing. And, those -- those  
15 reductions and changes, in either O&M or capital, were  
16 not reflected in those numbers, but they would be --  
17 the total numbers would be reduced, in my opinion.

18 Q. And, if we look back again at the response to OCA  
19 01-014 that's on your -- in your attachment at Page 232  
20 to 233, we would see that the Company spent about a  
21 million dollars on capital expenditures at Newington  
22 Station in 2009, and about \$7.2 million in O&M at  
23 Newington in 2009, is that correct?

24 A. (Cannata) Yes. And, you'll notice both of those were



1 below budget. And, I think that reflects some of the  
2 discussion we were just having.

3 Q. But do your footnotes on Page 32 mean that you haven't  
4 reviewed those amounts, in light of the fact that the  
5 Company might be reviewing the plant's usefulness in  
6 the future?

7 A. (Cannata) They were -- they were not reviewed, because  
8 I don't believe the analysis and the study was  
9 completed. That they have not revised, at that time,  
10 they have not revised those expenditures relating to  
11 the market at Newington. I would suspect, in next  
12 year's filing, for 2010, you would see more information  
13 on that.

14 Q. Thank you. If you would look now back at Page 46  
15 please. And, if we look at the first table now, this  
16 table has to do with heat rates of the various units,  
17 is that correct?

18 A. (Cannata) That's correct.

19 Q. Could you please explain the relationship between a  
20 unit's heat rate and its capacity factor? And, what I  
21 mean by that is, does the heat rate go up or down as  
22 the capacity factor drops?

23 A. (Cannata) It's independent. In other words, you could  
24 have a unit that had a 20,000 BTUs per kilowatt-hour

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1 operate with 100 percent capacity factor and a unit  
2 with a 7,000 BTUs per kilowatt-hour operate at a  
3 2 percent capacity factor.

4 Q. So, there isn't a general trend relationship at all?

5 A. (Cannata) No.

6 Q. And, if we look at the right-hand column under that  
7 table, the "Full Load Heat Rate", why is it that some  
8 of those numbers are higher than the actual in 2009?  
9 Like, for example, Schiller 6, the actual 2009 number  
10 is higher than what is labeled as the "full load heat  
11 rate"?

12 A. (Cannata) The "full load heat rate" is the heat rate of  
13 the unit when it's running at full load, at its sweet  
14 spot, if you would. You know, that's the best you can  
15 do. And, any time you vary from that operation, for  
16 whatever reason, it could be a plugged coal feeder or a  
17 pump that's down that limits one of the many things in  
18 a generating station, you wind up going off that heat  
19 rate.

20 Q. And, could going into reserve shutdown and partially  
21 running also have that effect?

22 A. (Cannata) Going into reserve shutdown by itself? I  
23 would say "no". But, on a partial operation, yes.

24 Q. Thank you. If we turn to Page 49 of your testimony

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1 please. And, if you look at the final paragraph on  
2 this page, here you are describing PSNH's purchases and  
3 sales of energy, is that correct?

4 A. (Cannata) That's correct.

5 Q. And, in the fourth sentence, which starts on the third  
6 line, you state "It sold 1 gigawatt-hour of on-peak  
7 energy and 90 gigawatt-hours of off-peak energy from  
8 surplus generation from its own units" -- "owned units  
9 that lost \$2.2 million." Is that correct?

10 A. (Cannata) That's correct.

11 Q. And, can you explain why the Company lost \$2.2 million?

12 A. (Cannata) There was a data request that was asked, and  
13 it talked about, you know, reserve shutdowns. And, my  
14 response went into probably 10 or 15 of the reasons why  
15 one may not or what one must take into consideration in  
16 determining to go into reserve shutdown. And, as a  
17 simple example, suppose a unit was being requested to  
18 go into reserve shutdown by the Pool for four hours.  
19 PSNH most likely would not shut the unit down, because  
20 the cost to customers would be more, in terms of  
21 shutting the unit down and starting the unit up. They  
22 would run it through at a reduced load, therefore  
23 maximizing the benefits to customers, but still losing  
24 money according to the dispatch in the Pool.

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[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. So, in that case, even trying to maximize benefits to  
2 customers resulted in a loss for customers?

3 A. (Cannata) Yes. Had they shut the units down, that loss  
4 would have been higher.

5 A. (Errichetti) May I?

6 Q. Sure.

7 A. (Errichetti) You know, all most -- well, the  
8 overwhelming majority of those sales were in the  
9 off-peak. And, it speaks exactly to what Mr. Cannata  
10 just said. And, to the earlier conversation that,  
11 rather than shut a unit down overnight, you back the  
12 unit down to a low loading, a low dispatch point. And,  
13 that is a less economic dispatch point, but it does  
14 minimize the loss, compared to turning the unit off and  
15 starting it up the next day. Equally important, some  
16 of our units have a pretty long downtime, if you do  
17 take them off, which makes it even more problematic, to  
18 turn it off at night and avoid the situation. I just  
19 wanted to supplement Mr. Cannata, because he made a  
20 very good point.

21 Q. Thank you. Mr. Cannata, turning back to that last  
22 paragraph on Page 49, you then go on to talk about PSNH  
23 selling "unneeded bilateral and spot energy on the spot  
24 market." Do you see that?

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1 A. (Cannata) Yes.

2 Q. And, in the following sentence, you state "These sales  
3 resulted in a loss on on-peak energy sales of  
4 23.1 million and a loss on the sale of off-peak energy  
5 of 14.6 million for a total net loss of \$37.7 million."  
6 Is that correct?

7 A. (Cannata) Yes.

8 Q. And, can you explain why that occurred?

9 A. (Cannata) That's a direct function of the timing in  
10 which purchases were made. If you recall, the majority  
11 of PSNH purchases were made prior to the -- prior or  
12 during the Summer of 2008. And, at that time, that was  
13 prior to the economic crisis that hit the USA, and  
14 loads reduced, leaving their portfolio in excess, which  
15 had to be sold in a lower market. This ties with my  
16 recommendation that they should be looking a little bit  
17 closer on the short-term, rather than the long-term, is  
18 to avoid future losses of this type in the future.

19 Q. So, both the \$2.2 million that we discussed earlier and  
20 this \$37.7 million, those were both included in rates,  
21 is that correct?

22 A. (Cannata) Not yet, I don't think.

23 Q. Are you recommending any disallowances?

24 A. (Cannata) No.

[WITNESS PANEL: Baumann~Errichetti~Smagula~Cannata]

1 Q. So, those amounts, if they haven't already been, they  
2 will be included in rates and paid by ratepayers?

3 A. (Cannata) If approved by the Commission, yes.

4 Q. And, Mr. Baumann, have those amounts been included in  
5 rates already?

6 A. (Baumann) If they're related to 2009 costs, the  
7 reconciliation for 2009, for the most part, has been  
8 rolled into the 2011 rates, yes -- or, 2010 as well.

9 Q. Thank you. Mr. Cannata, I wanted to ask you another  
10 question about when PSNH determines if a unit should be  
11 placed in reserve shutdown status. And, I wanted to  
12 refer to your response to a data request from CLF, and  
13 it's number 4. And, I didn't know if you have that  
14 with you?

15 A. (Cannata) Yes, I have it. I just need a minute. Is  
16 this Set 1 or Set 2?

17 Q. This is CLF's question to you. And, I believe there  
18 was just one set. Your response is dated September --  
19 excuse me, December 17th, 2010.

20 A. (Cannata) That's what I call "Set 2". And, that's the  
21 question that was related to self-supply?

22 Q. Yes. Related to reserve shutdown, and also --

23 A. (Cannata) Okay. Yes, that's Set 2.

24 Q. Okay. Do you have that before you?

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1 A. (Cannata) Yes, I do.

2 Q. And, it is a request from the Conservation Law  
3 Foundation to Staff in this docket, correct?

4 A. (Cannata) Okay. All right. And, I'm sorry I was  
5 picking up CLF/PSNH Set 02. Let me get to the correct  
6 one. Yes. I'm there.

7 Q. And, in the -- referring to that response, you  
8 discussed the review that you did and the analysis that  
9 you did. And, if you would just look at the second to  
10 last sentence of your response in Section (b), you  
11 state "Accion also reviewed the decision-making process  
12 used by PSNH to determine if a unit should be placed in  
13 reserve shutdown status, and found it to be both  
14 reasonable and prudent." Do you see that?

15 A. (Cannata) Yes, I do.

16 Q. But then you say "An analysis of each event as  
17 suggested is beyond the scope of this review." And,  
18 can you explain what you mean by that?

19 A. (Cannata) Yes. This is the data response I was  
20 referring to on the types of things that's taken into  
21 consideration upon making the decision what to do when  
22 faced with a reserve shutdown. These are just some of  
23 the issues that management must include. And, what I  
24 reviewed was, the process they go through, because some

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1 of the items mentioned may or may not be applicable,  
2 you know, it depends on what the condition of the unit  
3 is and all these other factors. And, I found that the  
4 review process they do is prudent. What I believe I  
5 was being requested to do, if I had gone over each  
6 decision in detail, and I consider that more of an  
7 audit, rather than a review.

8 BY MS. HATFIELD:

9 Q. And, the review that you do is not an audit?

10 A. (Cannata) Yes, it's not an audit.

11 Q. And, do you know if that type of an audit is ever  
12 performed?

13 A. (Cannata) I know the Commission from time to time  
14 performs audits at the companies, either financially or  
15 specifically. I know there was a coal issue that  
16 resulted in an audit that was performed in the last few  
17 years, where each of the decisions in the process was  
18 gone through in detail to determine if there were  
19 improvements or imprudence involved.

20 MS. HATFIELD: Thank you. Mr. Chairman,  
21 I'd like to have that marked as I believe "Exhibit 6".

22 CHAIRMAN GETZ: So marked.

23 (The document, as described, was  
24 herewith marked as **Exhibit 6** for

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1 identification.)

2 BY MS. HATFIELD:

3 Q. If we turn now, Mr. Cannata, to Page 52 of your  
4 testimony please. And, if we look at the last  
5 paragraph on that page, here you are discussing your  
6 recommendation about the Company establishing "formal  
7 criteria governing the sales of purchased surplus  
8 supplemental energy into the spot market", correct?

9 A. (Cannata) That's correct.

10 Q. And, then, in the second sentence you say "PSNH appears  
11 to be inconsistent in the treatment of supplemental  
12 energy supplies when deciding to sell perceived  
13 surplus, when compared [to] how the Company employs  
14 purchases." Can you explain that inconsistency please?

15 A. (Cannata) Yes. They use a different, call it "trigger  
16 mechanism", when to sell power that was already  
17 purchased back into the Pool. It generally, at that  
18 time, went back as spot market sales. That is  
19 different than when they purchase power, where they  
20 will make long-term commitments, and not just rely on  
21 the spot market. And, what I'm suggesting is that they  
22 should be applying a similar decision-making process  
23 and be subject to a prudence review of making those  
24 sales, rather than just calling it "dumping" it into

1 the market at spot.

2 Q. And, then, in the next sentence you state "Accion  
3 recommends that the Commission employ the same prudence  
4 review of sales of purchased supplemental energy by  
5 PSNH, as is done for supplemental energy purchases."  
6 Are you suggesting that that prudence review was not  
7 performed in this docket?

8 A. (Cannata) No. What I'm suggesting is that the process  
9 PSNH uses be modified and subject, just as you would  
10 look at the purchase of supplemental energy as we did  
11 in this docket.

12 Q. But did you look at those sales of the supplemental  
13 energy in this docket?

14 A. (Cannata) They were -- the surplus energy was just  
15 basically dumped into the spot market, you know, A  
16 equals B. So, there was no -- there's really no  
17 decision with that type of a process. What I'm  
18 recommending is that maybe they don't wait to sell it  
19 into the spot market, that other means may be available  
20 to increase benefits to customers economically.

21 Q. And, despite that, the way that they were, as you said,  
22 just "dumping" the excess power, you found that to be  
23 prudent?

24 A. (Cannata) Yes.

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1 Q. And, can you quantify the cost to customers of that  
2 approach? Is that within that \$37.7 million that we  
3 discussed earlier?

4 A. (Cannata) Let's see, going back to that page, yes, I  
5 believe the number is on that page. That was the 1  
6 gigawatt-hour and 90 gigawatt-hour total?

7 Q. That's Page 49?

8 A. (Cannata) Yes. That's the 400 gigawatt-hours of  
9 on-peak and the 299 gigawatt-hours of off-peak energy  
10 that was resold into the market. And, that was the  
11 \$37.7 million total lost between the two.

12 Q. Okay. Thank you. Mr. Cannata, I'd like to have you  
13 look at Page 236 of your attachments please. And, is  
14 that PSNH's response to OCA 02-010 in this docket?

15 A. (Cannata) Give me a second to review it. I've got to  
16 go back to the referred to question, Set 01, Staff 021.

17 Q. And, that would be at your Page 148?

18 A. (Cannata) That's the one, yes.

19 (Short pause.)

20 **BY THE WITNESS:**

21 A. (Cannata) Okay. I've reviewed the responses. Could I  
22 have that question again please?

23 **BY MS. HATFIELD:**

24 Q. Sure. Looking at the response that's provided on your

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1 Page 236 in your attachments, I think what this is  
2 showing in the right-hand column is that -- is that  
3 right-hand column is showing savings from PSNH's own  
4 generation, correct?

5 A. (Cannata) Yes.

6 Q. And, the analysis to determine the costs of the owned  
7 generation comes from the second column, which is  
8 "Variable Costs", correct?

9 A. (Cannata) That's part of the calculation.

10 Q. And, in the second sentence of the text response above  
11 the table, the Company says "PSNH does not maintain  
12 fixed and all variable costs on a unit specific basis",  
13 correct?

14 A. (Cannata) That's what it says.

15 Q. So, they're just providing the general variable costs?

16 A. (Cannata) I would think that PSNH would better answer  
17 what they're providing.

18 Q. Mr. Baumann, in providing this analysis, which shows us  
19 the savings from owned generation, does the Company  
20 only include the variable costs of the plants?

21 A. (Baumann) And, again, you're referring to OCA Set 02,  
22 Question 010?

23 Q. Yes.

24 A. (Baumann) That is a -- it looks like a total owned

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1 generation, so that would be total variable costs and  
2 total -- and total, we didn't exclude costs in that  
3 response.

4 Q. But, if it's labeled "variable costs", does it also  
5 include fixed costs?

6 A. (Baumann) No.

7 Q. So, and then you're doing a comparison to the  
8 locational marginal prices in the next column?

9 A. (Baumann) Yes.

10 Q. And, then, the last column, the one that's titled  
11 "Savings from Own Generation", that's where you show  
12 the comparison between the variable costs of your units  
13 versus the LMPs?

14 A. (Baumann) Right. It's a mathematical difference.

15 Q. And, do I read this correctly, by the numbers that are  
16 in parentheses, that in 8 out of the 12 months your  
17 plants did not provide savings to customers?

18 A. (Errichetti) Let me chime in.

19 A. (Baumann) Yes.

20 A. (Errichetti) We used fuel expense and RGGI costs from  
21 Mr. Baumann's prefiled testimony. Those are accounting  
22 fuel expenses. So, it's -- I'm not necessarily certain  
23 that the dollars line -- you know, because it's  
24 accounting dollars, I wouldn't put too much credence in

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1 month-to-month values. But we provided it monthly,  
2 because you had to calculate the day-ahead LMPs from  
3 the hours. The bottom line is the 20 cents.

4 Q. Okay.

5 A. (Errichetti) That, over the year, the units provided --  
6 the total fleet provided savings. Looking at  
7 individual months, we provided it, but, again, you have  
8 to use a little caution because it was an accounting  
9 number that we used.

10 Q. And, what if we factored in the fixed costs of the  
11 plant, as well as the variable costs?

12 A. (Errichetti) You'd have apples and oranges. Because  
13 the LMP is just energy, it's just a variable cost.

14 Q. But, if --

15 A. (Errichetti) There's also the capacity market and other  
16 things to consider -- other market -- other wholesale  
17 power supply components to consider.

18 Q. But, if we're trying to get to the savings or the  
19 benefits to customers, that, as you point out, that 19  
20 cents, wouldn't you also need to factor in the fixed  
21 costs that customers are paying for the plants?

22 A. (Errichetti) That's an additional consideration.

23 Q. And, so, that might reduce that 19 cents?

24 A. (Errichetti) And, if you included capacity value, it

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1 would increase it. So, yes.

2 Q. Mr. Errichetti, when you're making your decision about  
3 whether or not to run a plant to meet energy service  
4 needs, does the Company consider the fixed costs of the  
5 plant or just the variable costs?

6 A. (Errichetti) Just the variable.

7 Q. So, in determining whether it's over-market, you're  
8 just looking at the variable costs?

9 A. (Errichetti) When determining whether it's economic on  
10 a given day to dispatch the unit, we're looking at  
11 variable costs and we're looking at the energy market.

12 Q. And, is that, at least in part, because ratepayers pay  
13 the fixed costs, even if the plant doesn't run?

14 A. (Errichetti) No. It's because you're looking at the  
15 costs you're going to incur at the unit if it runs,  
16 versus the costs you're going to incur if you buy that  
17 same energy from the market. Fixed costs just aren't  
18 an issue. It wouldn't -- if we were a merchant  
19 facility deciding whether to run on a given day, we  
20 would be looking at our variable costs versus what it's  
21 worth in the market. The fixed costs just wouldn't be  
22 a consideration.

23 Q. But you do collect those --

24 A. (Errichetti) You do consider certain O&M implications

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1 of running your unit. If you know you have an issue  
2 with the unit, and you're going to tax the unit, then  
3 you might want to adjust your energy offer to recognize  
4 that risk you're taking. But, I mean, by and large,  
5 fixed costs, like capital recovery, are not something  
6 you factor into an hourly dispatch decision.

7 Q. And, you recover your fixed costs from customers  
8 whether the plant runs or not, is that correct?

9 A. (Errichetti) Yes.

10 Q. Mr. Baumann, I wanted to ask you a question --  
11 actually, Mr. Errichetti, you responded to this  
12 question, so maybe it's better for you. This was a  
13 technical session request that you answered in  
14 September. And, I'm wondering if you have that with  
15 you? It's Tech 01, Question 6. Do you have that with  
16 you?

17 A. (Errichetti) Yes.

18 Q. And, this is your response to that Tech Session 01-006?

19 A. (Errichetti) Yes.

20 Q. And, the question states, it refers back to a prior  
21 question, states "Please describe PSNH's decision  
22 making regarding its purchasing strategy." Do you see  
23 that?

24 A. (Errichetti) Yes.

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1 Q. And, then, in the second paragraph, your response  
2 states "Over time PSNH has developed a general ES rate  
3 setting principal [sic] that over/under recoveries  
4 should be minimized as much as possible in order to  
5 provide for rate certainty for customers." Do you see  
6 that?

7 A. (Errichetti) Yes.

8 Q. And, one thing that I don't see in this response is  
9 that -- is a general Energy Service rate setting  
10 principle to minimize costs for customers and to keep  
11 rates as low as possible. Is that in there and I'm  
12 missing it?

13 A. (Errichetti) With respect to the energy -- with respect  
14 to filling the gap, the evolution was to lock in the  
15 purchase costs going into the rate year, so that there  
16 were -- the goal was to minimize over/under-recoveries  
17 by not having purchased the right volume. And, your  
18 comment about "minimizing overall rates", that wasn't  
19 the main focus of our purchase strategy. Because a  
20 over-recovery was thought to be as bad as an  
21 under-recovery.

22 I mean, it's desirable to minimize rates  
23 and minimize costs. But it was felt that cost  
24 certainty was just as important. And, in fact, this

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1 response, if you continued reading, the next sentence  
2 says that.

3 MS. HATFIELD: Mr. Chairman, I'd like to  
4 have this response marked as "Exhibit 7".

5 CHAIRMAN GETZ: So marked.

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

9 BY MS. HATFIELD:

10 Q. Mr. Cannata, I think I just have one final question.  
11 And, that is how would you explain to a ratepayer why  
12 it is appropriate for them to have to pay for the  
13 losses that PSNH incurred that amount to over  
14 \$39 million due to how they managed their energy  
15 portfolio?

16 A. (Cannata) The energy portfolio is consistent with the  
17 PSNH Least Cost Plan approved by the Commission. And,  
18 the number you're looking at, that's that 37.7 million  
19 in particular?

20 Q. Plus the 2.2 million.

21 A. (Cannata) Plus the 2.2. The 2.2 million specifically  
22 represents good utility practice. They did the proper  
23 things, but it resulted in a loss. Had they done  
24 different than what they did, customers would have lost

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1 more. So, their actions preserved -- preserved  
2 customer rates to the extent they could.

3 The remaining 37.7 million, which was  
4 the sale of the pre-purchased bilateral energy, is a  
5 result of two factors. The financial crisis, which is  
6 out of the control of PSNH, greatly reducing load, and  
7 I believe, in another docket, the Commission actually  
8 kind of steered PSNH to be making longer term  
9 purchases. Because, in prior dockets, waiting until  
10 the shorter term resulted in losses to customers. So,  
11 to reduce those losses, a longer term look was sought.  
12 And, then, the financial crisis also made that a loss.

13 MS. HATFIELD: Thank you. I have  
14 nothing further.

15 CHAIRMAN GETZ: Thank you. Commissioner  
16 Below?

17 CMSR. BELOW: No questions.

18 CHAIRMAN GETZ: Commissioner Ignatius?

19 CMSR. IGNATIUS: Thank you. Good  
20 morning, gentlemen.

21 WITNESS SMAGULA: Good morning.

22 BY CMSR. IGNATIUS:

23 Q. Mr. Cannata, you make a number of recommendations, and  
24 they are picked up in the Settlement Agreement

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1 presented to us, that the Company develop protocols for  
2 a certain percentage of power to be picked up for  
3 supplemental power, I think I'm getting lost in what I  
4 said, a standard applied and some sort of objective  
5 decision-making standards developed for what amount of  
6 power to pick up that isn't in place right now?

7 A. (Cannata) Yes.

8 Q. Have you a percentage in your mind that you think is  
9 appropriate?

10 A. (Cannata) I have done some thinking along that line.  
11 But I have not done an analysis which would give a good  
12 recommendation. The idea was to present something,  
13 something less than all prior to reaching that, to  
14 allow some flexibility that, if the information you  
15 have is not as accurate as you think it is, it doesn't  
16 result in a loss.

17 My opinion would be that, if you get in  
18 terms of a number of around 75 to 85 percent, somewhere  
19 in that order of magnitude, I think would allow the  
20 type of flexibility needed.

21 Q. Do you anticipate development of those kinds of  
22 protocols being done in a separate docket in the future  
23 or to be done as part of the current Least Cost  
24 Integrated Resource Plan docket?

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1 A. (Cannata) There are many issues that we look at in  
2 stranded cost recovery that are really tied to a lot of  
3 other dockets. There's this issue, you know, there's  
4 migration and others. And, I believe there were words  
5 added to the Stipulation that some of these  
6 recommendations may change as a result of the outcomes  
7 of those dockets.

8 Now, my understanding is migration is  
9 being taken care of in a separate docket. I did not  
10 make any specific recommendations. There is also a  
11 Least Cost Planning docket going on. And, if nothing  
12 else, I would think that this type of a recommendation  
13 would be brought up in that docket. And, if that's the  
14 proper place that the Commission thinks it should be  
15 settled, then that's the place to do it.

16 Q. So, you're not assuming that these recommendations  
17 should be taken up after the conclusion of this -- the  
18 currently pending Least Cost Integrated Resources  
19 docket that could be part of the one that's now  
20 pending?

21 A. (Cannata) My thought was that they should use it -- use  
22 these recommendations moving forward from now. And, if  
23 the determinations in those other dockets change, then  
24 they would change their plans at that time. Not

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1 knowing when those dockets were going to end up or when  
2 the results will become effective.

3 Q. Specifically, the Newington plant operation analysis  
4 that you've done is an item that is identified as part  
5 of the pending Least Cost Integrated Resource Plan, is  
6 that correct?

7 A. (Cannata) I am aware that PSNH has done a continued  
8 operation study for Newington. I have not seen it.  
9 That's part of it. And, I believe part of the  
10 maintenance revisions that I talked about would be part  
11 of that analysis on how they adapt the unit and try and  
12 reduce costs in a lower operation environment.

13 Q. I had a question about something that Ms. Hatfield  
14 inquired about with you. On Page 29, in the text of  
15 your testimony that talked about "unit availability"  
16 and with or without outages. And, I understand the  
17 difference between the two, the chart -- the two  
18 sections, the chart on Page 46 and the text on Page 29.  
19 But I just want to be sure I understand. If you look  
20 at, as I take it, your explanation for the numbers on  
21 Page 29, you're saying, let's just take Schiller 5 as  
22 an example, that looking at Line 16, in 2009, it was --  
23 when it was available, it was available 90 percent of  
24 the time?

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1 A. (Cannata) Or more, yes.

2 Q. Okay. That seems like an odd sentence to me.

3 A. (Cannata) No. All right. Okay.

4 Q. So, let's just go through it a little more slowly.

5 And, say, "when it was available, it was available 90  
6 percent of the time", meaning --

7 A. (Cannata) And, I misspoke. It was available in excess  
8 of 90 percent of the time of the year.

9 Q. But that's -- you've already excluded from that any  
10 planned outages.

11 A. (Cannata) No. No. That availability -- let me stop  
12 for one second.

13 (Short pause.)

14 **BY THE WITNESS:**

15 A. (Cannata) All right. I stand corrected. Yes. The  
16 planned outages were excluded from that figure. Such  
17 that, for -- when it was not on its annual maintenance  
18 or a reliability outage that was planned, that for the  
19 remainder of year its availability was in excess of  
20 90 percent.

21 BY CMSR. IGNATIUS:

22 Q. And, so, what would bring it down from 100 percent to  
23 90 percent would be unplanned outages?

24 A. (Cannata) Yes.

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1 Q. And economic dispatch decisions that it's over market?

2 A. (Cannata) If it was shut off for a reserve shutdown,  
3 yes, that would impact its -- no, it would not impact  
4 its availability, because a reserve shutdown, the unit  
5 is available, but not running.

6 Q. All right. Would it affect its capacity factor?

7 A. (Cannata) Yes.

8 Q. So, those kinds of numbers on Page 29, you really have  
9 to clearly see the components you're using to build  
10 those numbers when you read that sort of a sentence, to  
11 know that it's not simply talking about availability,  
12 it's talking about availability after planned  
13 unavailability has been factored in?

14 A. (Cannata) Well, look, there's a lot of complications,  
15 Commissioner. Could we refer to Page 46, that table?

16 Q. Please.

17 A. (Cannata) Please.

18 Q. No, I didn't mean "please" like I tell my children. I  
19 meant "Please do."

20 A. (Cannata) Well, I'm sitting here, like kindergarten,  
21 with those sawed-off legs on the chair. All right. If  
22 we look at that, at the bottom table on Page 46, let's  
23 concentrate on Unit 1 at Merrimack. You see, in 2005,  
24 there's a Note (3), 2007, and 2009, there's a Note (3),

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1       that says "No unit overhaul." Merrimack-1 is on a  
2       two-year schedule, two-year annual overhaul. So, you  
3       can't really compare numbers from year to year. Other  
4       units may have a different schedule. And, that's why  
5       what I said is, "okay, let's take away the planned  
6       maintenance, so we can look at what the true  
7       availability of the units are." Because you can't say  
8       "Oh, the unit ran at 95.7 in 2007, and it was  
9       disastrous in 2008." No, there was a six-week outage  
10      there perhaps taken for planned maintenance, which  
11      distorts the figures. So, these are the actual  
12      traditional values one would talk about in terms of  
13      capacity factor. I try to reflect the real-world  
14      differences in my testimony, to give a better feel of  
15      how well the units are running. Because, when I look  
16      at Merrimack and look at "59 percent", "Merrimack-2",  
17      that says "terrible". But, without taking into  
18      consideration it had an 18-week outage to replace the  
19      high pressure/intermediate pressure turbine, it's  
20      masked by that data.

21   Q.    So, it sounds like either way you do it it's an  
22          incomplete picture? You really need to look at both,  
23          both kinds of calculations?

24   A.    (Cannata) Yes. Because you want to take a look at, you

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1 know, how much forced outages we're adding to the  
2 picture, yes, or planned outages.

3 Q. Mr. Errichetti, you had said that, in not considering  
4 the fixed costs when you're looking at owned generation  
5 decisions compared against the locational marginal  
6 pricing was appropriate. You're really looking at the  
7 variable costs to generate a megawatt of power or to  
8 purchase a megawatt of power, correct?

9 A. (Errichetti) In the day-to-day market, yes.

10 Q. And, that makes sense. How then do you see the fuller  
11 picture of the cost of a unit? If it's not that  
12 comparison of the variable costs to produce at one of  
13 your units, compared against the locational marginal  
14 pricing, what do you look at to give the full picture  
15 of the cost to produce out of a generating unit, if  
16 you've got one that is increasingly not appearing to be  
17 cost-effective?

18 A. (Errichetti) Well, ultimately, you do what we did for  
19 Newington in the Least Cost Plan. I mean, if you're  
20 taking -- you have to take a long view of a capital  
21 decision. And, in order to do that, you have to step  
22 back and do a bunch of analyses. In the short run, you  
23 just try to maximize your operating income, your  
24 operating margin.

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1 Q. And, so, the unit availability study that you performed  
2 recently for Newington takes all of those long-term  
3 components into effect?

4 A. (Errichetti) The Least Cost Plan Report?

5 Q. Yes.

6 A. (Errichetti) Yes.

7 Q. Thank you. One other question on this subject. In one  
8 of the data responses that Mr. Cannata included,  
9 although it was a PSNH response, and it was at Page 236  
10 of his testimony, there was a statement that "PSNH does  
11 not maintain [both the] fixed costs and variable costs  
12 on a unit specific basis." Mr. Errichetti and Mr.  
13 Baumann, you both were signatories to that data  
14 response, I believe. So, either one of you, can you  
15 explain why you don't keep those on a unit-specific  
16 basis?

17 A. (Baumann) I'll give you a good example: Property  
18 taxes. If you have two, three units at a site, we  
19 don't allocate property taxes to each unit. There's  
20 really no operational or economic benefit to do so. It  
21 would just be a little more accounting work that  
22 wouldn't really be of any benefit. So, you know,  
23 shared site costs, those type of items.

24 When you're looking at real operational

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1 issues, in the short-term, like Mr. Errichetti said,  
2 you look at the variable costs. If you look at a  
3 continuing operation study, you look at the long term  
4 with all the costs.

5 But we just -- there's just really no  
6 sound business reason why we would try and come up with  
7 some type of allocation, because whatever allocation  
8 that we used would be a subjective analysis. Do you  
9 use total generation? Do you use total cost of the  
10 capital costs? You know, what percentage do you break  
11 these site type of costs up to? So, we've just never  
12 done it from a business perspective.

13 Q. Your example was of a single site, with multiple  
14 generating units located on it just now, correct?

15 A. (Baumann) Right. But I think the statement was, "we  
16 don't allocate per unit." Unless there was a single  
17 unit at a single site, then you would have the total  
18 costs of that back to that unit.

19 Q. So, for a site with a single generating unit, the fixed  
20 and variable costs will be clearly identified to that  
21 unit?

22 A. (Baumann) Perhaps there might also be some overhead  
23 costs, but they would have already been allocated to  
24 that unit. So, probably, you can probably get a much

1 clearer fix on a single unit operating site.

2 Q. So, the statement on that data response that's at Page  
3 236 of Mr. Cannata's testimony, really is talking about  
4 not maintaining fixed and variable costs on a  
5 unit-specific basis for those locations where you have,  
6 such at Schiller, where you have multiple units on a  
7 single piece of property?

8 A. (Baumann) Right. That was the thought behind that  
9 statement, yes.

10 CMSR. IGNATIUS: Thank you. No other  
11 questions.

12 BY CMSR. BELOW:

13 Q. Well, and just to clarify something, do you recall  
14 perhaps in the Customer Migration docket, DE 10-160,  
15 that perhaps confidentially you might have done an  
16 analysis along these lines of estimating fixed and  
17 variable costs on a unit-specific basis? Not -- maybe  
18 something that you don't maintain, but you did it as a  
19 single instance?

20 A. (Baumann) It doesn't pop back into my brain, but it  
21 wouldn't surprise me if we did do it. And, we  
22 probably, again, took some type of arbitrary splitting  
23 of those costs. If it was done, then that's what we  
24 would have done.

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1 CMSR. BELOW: Okay. Thank you.

2 WITNESS BAUMANN: I try not to think of  
3 that docket too much more than I have to.

4 CHAIRMAN GETZ: Good morning, gentlemen.  
5 I have one line of questions for Mr. Cannata.

6 BY CHAIRMAN GETZ:

7 Q. And, that's turning to Page 52 of your testimony, and  
8 following up on some of the questions from Ms.  
9 Hatfield. It's that last paragraph. It says "Accion  
10 recommends that PSNH establish formal criteria  
11 governing the sales of purchased surplus supplemental  
12 energy into the spot market." And, the next sentence  
13 says "PSNH appears to be inconsistent in the treatment  
14 of supplemental energy supplies when deciding to sell  
15 perceived surplus, when compared [to] how the company  
16 employs purchases." Do I understand correctly what  
17 you're saying there is, the way they treat supplemental  
18 energy supplies, when deciding to sell perceived  
19 surplus, they do it always the same way, but the way  
20 they do that is inconsistent with the way they make  
21 purchases?

22 A. (Cannata) Yes.

23 Q. And, I guess in this case, what we're talking about is  
24 the \$37 million?

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1 A. (Cannata) Yes. The resale of purchased bilateral  
2 energy.

3 Q. And, there was a net loss of 37 million?

4 A. (Cannata) 37.7 million, that's correct.

5 Q. And, if I understand correctly, what you're saying is,  
6 the approach they have taken to those sales was  
7 reasonable under the circumstances, but you think  
8 there's a better way of doing it? Is that a fair  
9 characterization?

10 A. (Cannata) The approach they have is basically the  
11 approach that's been in place for years. And, I'm  
12 suggesting that it be altered. That they look at it,  
13 rather than waiting to sell the excess purchased energy  
14 in the spot market on an hour-by-hour basis, that  
15 perhaps maybe they can make bilateral arrangements with  
16 somebody or do something else that could generate more  
17 dollars for ratepayers.

18 Q. Okay. And, in this case, they could potentially have  
19 mitigated the \$37 million loss?

20 A. (Cannata) Well, my guess is, if the market reflects a  
21 \$37 million loss, that the bilateral is going to  
22 reflect a loss, too. But I want them to be subject to  
23 a prudence review of their actions, rather than just  
24 saying "I sold it to the spot market." And, saying "I

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1       couldn't do anything, because that's what the spot  
2       market was." I want them to think about it and be able  
3       to determine, subject to a prudence review, that this  
4       is how we're going to try and market this energy. If  
5       it, in fact, is a sale to the spot market that winds up  
6       being best to ratepayers, that's fine. But, right now,  
7       there are no alternatives.

8   Q.   That's what I was trying to get a feel for, based on --  
9       whether there's some order of magnitude, more  
10      mitigation that could have occurred, if they had taken  
11      a different process?

12  A.   (Cannata) In this particular market environment, with  
13      the financial crisis, my opinion would be "probably not  
14      much." But --

15  Q.   But, going forward, you just want a more considered  
16      process, is your proposal?

17  A.   (Cannata) Yes. As an example, suppose the Company is  
18      coming out of the recession such that demand is  
19      increasing. That a sale may or may not -- a sale on a  
20      bilateral basis may or may not be more economical for  
21      customers, depending upon how the purchaser views the  
22      future market.

23                   CHAIRMAN GETZ: Okay. All right. Thank  
24   you. Anything on redirect? Ms. Amidon?

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1 MS. AMIDON: Yes. Probably let PSNH go  
2 first, and then we'll follow. Thank you.

3 MR. EATON: I have one question for Mr.  
4 Errichetti.

5 **REDIRECT EXAMINATION**

6 BY MR. EATON:

7 Q. Do you remember you had a series of questions and  
8 answers with Attorney Hatfield about the variable costs  
9 are considered in a determination of whether a plant is  
10 dispatched?

11 A. (Errichetti) Yes.

12 Q. And, she asked you that "you don't consider the fixed  
13 costs in that decision?"

14 A. (Errichetti) Yes.

15 Q. And, she asked you if the fixed costs are recovered  
16 from customers?

17 A. (Errichetti) I remember that question.

18 Q. Are any of the -- how are capacity revenues from  
19 ISO-New England factored into that? Are they  
20 considered to be an offset to fixed costs or an offset  
21 to variable costs?

22 A. (Errichetti) Mechanically, the capacity revenues we  
23 receive are credited against ES costs. I mean, if you  
24 want to say "they offset the fixed costs of the unit",

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1       you could. But, really, they just -- they're an offset  
2       to ES costs.

3   Q.   Are they considered in the decision of whether a plant  
4       got dispatched or not?

5   A.   (Errichetti) No.

6   Q.   Because you're going to collect those Forward Capacity  
7       Markets -- Forward Capacity Market revenues from ISO  
8       regardless of whether the plant runs or not, correct?

9   A.   (Errichetti) Yes. By and large, the only caveat I  
10       would put on that is, during shortage events, those  
11       revenues can be reduced by an availability penalty.

12   Q.   But, if the plant is available, but --

13   A.   (Errichetti) If they're available, that's all that  
14       matters, yes.

15   Q.   Mr. Baumann, you had some questions from Attorney  
16       Hatfield concerning your Exhibit 1, Page 47. Could you  
17       return to that place?

18   A.   (Baumann) I'm there.

19   Q.   And, regarding return, could you clarify what your  
20       response was concerning how much of the return is for  
21       equity and how much is for long-term debt?

22   A.   (Baumann) Yes. I believe I said, when you use the word  
23       "return", that is a very nebulous general term, as is  
24       "earnings". And, specifically, when you have, in this

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1 situation, about \$42 million of what they call "total  
2 return" on the schedule, a large piece of that, and I  
3 said it was roughly 10, \$10 million dollars, based on  
4 my recollection, would be considered the debt  
5 component. The remainder, which was around  
6 \$30 million, was the equity component. But, within  
7 that equity component, probably a third of that is  
8 taxes. So, I don't want anybody walking out of here  
9 thinking that there's \$30 million to the after-tax  
10 bottom line of PSNH. In general, if you wanted to use  
11 general numbers, and we could certainly supply more  
12 specifics, if you had this \$40 million, about 10 of it  
13 would be to debt service, 10 of it would be to the IRS,  
14 and the additional 20 would be your net return after  
15 tax, which would then be used by the Company to meet  
16 its obligations to shareholders, as well as reinvesting  
17 into the Company.

18 Q. And, on Page 47, on that Line 11, the "Return", based  
19 upon your memory of the rate case, does that percentage  
20 reflect the weighted cost of capital? The percentage  
21 of, beginning at "0.9001 percent", over to  
22 "0.9279 percent", is that a weighted cost of capital in  
23 that return?

24 A. (Baumann) Yes. That is a -- if you multiply that

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1       number times 12, since it's a monthly number, you come  
2       up with what I call a "pretax", it would be for-tax  
3       weighted cost of capital. So, if you multiply that  
4       number times 12, you'd get roughly 11 percent. And, if  
5       you wanted to look at that 11 percent, about 5 percent  
6       of the 11 would be the equity component after tax;  
7       about probably three and a half percent of the 11 would  
8       be the taxes; and about two and a half percent of the  
9       11 would be the debt component. So, if you added two  
10      and a half, plus three and a half, plus 5 percent, you  
11      would get your ratio, if you will, of the 11 percent.  
12      So, if you really want to look at a return, and, again,  
13      what you're calling "return", you have to talk about it  
14      whether it's pretax or after tax. But, to me, the  
15      capital structure is, really, you pay your debt, you  
16      pay your taxes, and the remaining then you have left  
17      over for shareholders and reinvestment into the  
18      Company.

19                   MR. EATON: Thank you, Mr. Baumann. I  
20      have nothing --

21                   WITNESS BAUMANN: You're welcome.

22                   MR. EATON: I'm sorry, did you have  
23      something more?

24                   WITNESS BAUMANN: No. I said "you're

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1 welcome." It's part of my upbringing.

2 MR. EATON: That's all we have for  
3 redirect.

4 CHAIRMAN GETZ: Anything further?  
5 Hearing nothing, then --

6 MS. AMIDON: No. Excuse me. We have  
7 some redirect for Mr. Cannata. Thank you.

8 MR. MULLEN: Before I do, in the  
9 Settlement Agreement, on Page 3, at the top, there's a  
10 Paragraph B that references TransCanada testimony. That,  
11 as yet, has not been entered as an exhibit here. And, I  
12 just wanted to see if the Commission wanted that in,  
13 because I did have a question for Mr. Cannata that would  
14 refer to that testimony.

15 CHAIRMAN GETZ: Mr. Patch, did you have  
16 a proposal on how to handle Mr. Hachey's testimony?

17 MR. PATCH: I have no objection if you  
18 wish to mark it. I only have one copy with me, so I don't  
19 have copies to provide.

20 CHAIRMAN GETZ: Well, it was submitted,  
21 so I think everybody should have copies. But I guess the  
22 issue is, did anybody have cross-examination for Mr.  
23 Hachey?

24 MR. EATON: No.

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1 MR. PATCH: I checked with all of the  
2 parties ahead of time to see if anybody had questions for  
3 him, and nobody did. That's why he's not here today.

4 CHAIRMAN GETZ: Okay. Well, then, we'll  
5 mark it for identification as "Exhibit Number 8", and if  
6 you have any questions, Mr. Mullen.

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

10 BY MR. MULLEN:

11 Q. Mr. Cannata, do you have Mr. Hachey's testimony?

12 A. (Cannata) I do.

13 Q. And, if you have that, and Page 3 of the Settlement  
14 Agreement in front of you.

15 A. (Cannata) Yes. I have both.

16 Q. If you look at Page 3 of the Settlement, in Paragraph B  
17 at the top, am I correct to say that Mr. Hachey  
18 reviewed PSNH's power purchases?

19 A. (Cannata) That's what it says.

20 Q. Now, if you turn to Exhibit 8, which is Mr. Hachey's  
21 testimony, at Page 4 of that exhibit.

22 A. (Cannata) Yes.

23 Q. I believe earlier, when you were discussing the  
24 supplemental purchases made by PSNH, you stated that

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1 most of them were made either before or during the  
2 Summer of 2008?

3 A. (Cannata) Yes.

4 Q. And, a good reason for the -- one of the reasons for  
5 the loss that was incurred was the market prices at the  
6 time the purchases were made, compared to when the  
7 supplemental power was sold?

8 A. (Cannata) It was the forward-looking market prices at  
9 the time of the purchase, versus the actual market  
10 prices when the energy was sold.

11 Q. Okay. Now, on Page 4 of Mr. Hachey's testimony, could  
12 you read the sentence that starts on Line 5, begins  
13 with the word "after", and finishes on Line 9.

14 A. (Cannata) Yes. "After reviewing the information that  
15 was turned over to TransCanada concerning the power  
16 supply purchases that were made to provide service to  
17 2009 default service customers, I can not find anything  
18 to suggest that the pricing of these particular  
19 purchases was out of line with market pricing at the  
20 time the purchases were made."

21 Q. Thank you. And, does that agree with your assessment?

22 A. (Cannata) Yes.

23 MR. MULLEN: Thank you. Nothing  
24 further.

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1 CHAIRMAN GETZ: Anything further for the  
2 panel?

3 (No verbal response)

4 CHAIRMAN GETZ: Hearing nothing, then  
5 you're excused. Thank you, gentlemen.

6 Is there any objection to striking the  
7 identifications and admitting the exhibits into evidence?

8 (No verbal response)

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

13 (No verbal response)

14 CHAIRMAN GETZ: Hearing nothing, then  
15 we'll begin with Mr. Patch.

16 MR. PATCH: TransCanada has no position  
17 on the Settlement Agreement.

18 CHAIRMAN GETZ: Thank you.  
19 Mr. Cunningham?

20 MR. CUNNINGHAM: I second Mr. Patch's  
21 motion.

22 CHAIRMAN GETZ: Thank you. Ms.  
23 Hatfield.

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

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1 The OCA does not support the Settlement that's currently  
2 before the Commission. Because we believe that further  
3 analysis was needed in several areas in order to support  
4 some of the testimony relating to PSNH's prudence in this  
5 case. There were several areas that were discussed today  
6 where Mr. Cannata, I believe, did state that some areas  
7 were not fully explored, including the Company's capital  
8 expenditures on their plants. And, more importantly, the  
9 loss of especially the \$37.7 million, when PSNH resold  
10 energy that they had purchased from the market. It does  
11 occur to the OCA that more review is needed on those  
12 decisions.

13 And, with all due respect to Mr.  
14 Hachey's testimony, if I recall correctly in the Migration  
15 docket, he was crossed extensively on the meaning of his  
16 testimony in this docket. And, I would urge the  
17 Commission to read his testimony carefully, because he  
18 states that "the pricing of these particular purchases"  
19 that he reviewed "was not out of line with market pricing  
20 at the time the purchases were made." But, I believe, in  
21 the Migration hearing, he made clear that he was not  
22 opining as to whether or not PSNH should have actually  
23 even been making those purchases of that size at that  
24 time.

1                   So, we believe that the Company should  
2     have done more. That, while their IRP is the plan that  
3     they must follow, in other cases they urge that they need  
4     flexibility. That they can't just be locked into  
5     particular approaches, that they need to be flexible, and  
6     be able to respond to the market. And, we think that that  
7     applied in the case where the Company lost \$37.7 million  
8     that has been paid for by ratepayers. And, unfortunately,  
9     we don't know what mitigation the Company could have done,  
10    but it seems as though it is not fair to customers for  
11    that full amount to be recovered from customers. Thank  
12    you.

13                   CHAIRMAN GETZ: Well, do you have a  
14    specific proposal in that regard? That we deny, not  
15    approve the Settlement Agreement, or require further  
16    review, or make a specific disallowance?

17                   MS. HATFIELD: The OCA doesn't have a  
18    specific proposal. The Commission could require further  
19    review, or perhaps the Commission could apportion that  
20    loss, say, 50/50 between the Company and customers, or  
21    something that was more fair to customers, who really have  
22    absolutely no say at all in how the Company manages its  
23    manages its portfolio. But we did not file testimony, we  
24    do not have an expert in this area, so we didn't put forth

1 a particular proposal.

2 CHAIRMAN GETZ: Thank you. Ms. Amidon.

3 MS. AMIDON: Thank you. Staff

4 investigated this docket, and, as you know, retained the  
5 services of Michael Cannata, Jr., with the Accion Group,  
6 to review the reconciliation docket that's conducted every  
7 year. And, you know that we participated in settlement  
8 discussions, and that the Settlement Agreement includes  
9 all of Mr. Cannata's recommendations on a going-forward  
10 basis, and restates the continuing obligations that arose  
11 out of the prior docket, Docket Number DE 09-091.

12 Therefore, we request that the  
13 Commission approve the Settlement Agreement.

14 CHAIRMAN GETZ: Thank you. Mr. Eaton.

15 MR. EATON: Thank you, Mr. Chairman. We  
16 believe the Commission should accept the Settlement  
17 Agreement, because it will result in just and reasonable  
18 rates. And, your decision should be based upon the record  
19 in this proceeding and not the record in the Migration  
20 docket.

21 Both Mr. Cannata and Mr. Hachey have  
22 said that PSNH's decision to make those long-term  
23 purchases were not outside of the market at the time. I  
24 think Mr. Cannata said today that he could not have

1 foreseen the economic collapse and the loss of load and  
2 what happened to the price of power in New England.

3 I think, upon questions from the Bench,  
4 Mr. Cannata said that a bilateral purchase may have made a  
5 slight mitigation factor, but, given the market at the  
6 time, that a bilateral purchaser may not have paid much  
7 more than what the short-term or daily price would have  
8 been. There's nothing on the record here to justify any  
9 calculation of what that -- of what the mitigation would  
10 have been or whether there would have been a willing buyer  
11 for that power and what that price would have been paid.

12 So, we don't believe that any  
13 disallowance should be -- should be made for that, and  
14 that the Commission should approve the costs for 2009 as  
15 submitted, except for the amounts that we have agreed not  
16 to recover as part of the Settlement Agreement.

17 CHAIRMAN GETZ: Thank you. Okay.  
18 Hearing nothing further, then we will close the hearing  
19 and take the matter under advisement. Thank you,  
20 everyone.

21 **(Whereupon the hearing ended at 11:57**  
22 **a.m.)**