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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

November 29, 2011 - 10:11 a.m.
Concord, New Hampshire

NHPUC DEC13'11 AM10:03

RE: DE 11-094
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
*Reconciliation of Energy Service and
Stranded Costs.*

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

Sandy Deno, Clerk

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

Reptg. Residential Ratepayers:
Meredith Hatfield, Esq., Consumer Advocate
Stephen Eckberg
Donna McFarland
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

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 FREDERICK B. WHITE
 WILLIAM H. SMAGULA
 MICHAEL D. CANNATA, JR.

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1 MS. AMIDON: Good morning. Suzanne
2 Amidon, for Commission Staff. With me today is Steve
3 Mullen, who is the Assistant Director of the Electric
4 Division, and to his left is Michael J. -- Michael D.
5 Cannata, Junior, who is the witness we're going to present
6 today. He is employed by Accion Group.

7 CHAIRMAN GETZ: Okay. Good morning.
8 So, are you ready to proceed, Mr. Eaton?

9 MR. EATON: Yes. We've conferred with
10 the Staff, and we're going to present a panel of all four
11 witnesses to discuss the Settlement Agreement and the
12 issue that was not settled.

13 CHAIRMAN GETZ: Okay.

14 MR. EATON: So, I'd like to call to the
15 stand Mr. Robert Baumann, Mr. Frederick White, and William
16 Smagula.

17 MS. AMIDON: And, I call Mr. Cannata to
18 the stand please.

19 (Whereupon **Robert A. Baumann,**
20 **Frederick B. White, William H. Smagula,**
21 **and Michael D. Cannata, Jr.,** were duly
22 sworn by the Court Reporter.)

23 MR. EATON: Mr. Chairman, I'm going to
24 first qualify the witnesses and have them identify their

1 testimony. There's some corrections we filed yesterday to
2 Mr. White's testimony, and I'll have him explain those.
3 And, then, I believe Attorney Amidon will qualify Mr.
4 Cannata and have him identify his testimony. And, then,
5 I'll have Mr. Baumann provide a brief summary of the
6 Settlement Agreement.

7 CHAIRMAN GETZ: Okay.

8 **ROBERT A. BAUMANN, SWORN**

9 **FREDERICK B. WHITE, SWORN**

10 **WILLIAM H. SMAGULA, SWORN**

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

12 **DIRECT EXAMINATION**

13 BY MR. EATON:

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

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

17 Q. For whom are you employed?

18 A. (Baumann) I am employed by Northeast Utilities Service
19 Company. I'm the Director of Revenue Regulation and
20 Load Resources. I provide services to all of our
21 operating companies. And, I'm here on behalf of Public
22 Service Company of New Hampshire today.

23 Q. Have you ever testified before the Commission?

24 A. (Baumann) Yes.

1 Q. Did you have testimony prepared by you or under your
2 supervision that was filed in this proceeding?

3 A. (Baumann) Yes, I did.

4 Q. Do you have it in front of you?

5 A. (Baumann) Yes, I do.

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

7 A. (Baumann) No.

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

10 A. (Baumann) Yes.

11 MR. EATON: I'd like that marked as
12 "Exhibit 1" for identification.

13 CHAIRMAN GETZ: Well, let's mark --
14 well, are you going to propose marking each of the
15 exhibits -- each of the testimonies separately?

16 MR. EATON: Yes.

17 CHAIRMAN GETZ: All right. Well, we'll
18 mark Mr. Baumann's testimony for identification as
19 "Exhibit Number 1".

20 MS. HATFIELD: Mr. Chairman, excuse me.
21 But, since PSNH's filing on May 2nd is Bate stamped and in
22 the proper order, I personally think it would be more
23 useful to just mark the whole May 1st filing as "Exhibit
24 1", rather than breaking out the different testimonies as

1 exhibits.

2 CHAIRMAN GETZ: Any objection?

3 MR. EATON: No objection.

4 CHAIRMAN GETZ: Okay. Well, then, we'll
5 mark the entire filing that was submitted on May 2nd for
6 identification as "Exhibit Number 1".

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

10 BY MR. EATON:

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

13 A. (White) Frederick White.

14 Q. For whom are you employed?

15 A. (White) I'm employed by Northeast Utilities Service
16 Company.

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

18 A. (White) I'm a Supervisor in the Wholesale Power
19 Contracts Department, where I supervise and perform
20 analysis to support ES rate filings and reconciliation
21 proceedings.

22 Q. And, have you testified before this Commission before?

23 A. (White) Yes, I have.

24 Q. And, what is the subject matter -- did you have

1 testimony prepared by you or under your supervision in
2 this proceeding?

3 A. (White) Yes, I did.

4 Q. Do you have it in front of you?

5 A. (White) Yes, I do.

6 Q. And, what is the subject matter of your testimony?

7 A. (White) It provides a description and illustrative
8 exhibits explaining the costs incurred in 2010 to serve
9 ES customers.

10 Q. And, as far as Exhibit 1 is concerned, could you state
11 what the Bates stamp numbers are of your testimony.

12 A. (White) The "date stamped numbers"?

13 Q. The numbers in the lower right-hand page. Do they go
14 from Page 49 to 61?

15 A. (White) Yes, they do.

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

17 A. (White) There are corrections to the testimony. We
18 filed yesterday exhibits that show the corrected
19 numbers in three of the five exhibits, as well as
20 edited testimony, where I think in six different lines
21 numbers are corrected in the testimony as well. These
22 changes are not large changes. They are out of
23 exhibits which are intended to be explanatory and
24 illustrative in nature. They do not affect the

1 financial reconciliation provided in Mr. Baumann's
2 testimony in the RAB exhibits.

3 Q. So, could you first turn to the corrected testimony
4 pages. And, could you tell me what numbered pages
5 those are.

6 A. (White) Okay. There are corrections on Page 51, Line
7 31. There are two corrections on that line. Would you
8 like me to go through them in detail?

9 Q. No. I'd just like you to give me the pages that we
10 filed yesterday.

11 A. (White) Okay.

12 Q. Numbered pages.

13 A. (White) 51, 52, 53, and 54.

14 MR. EATON: Thank you. Mr. Chairman,
15 could we have this marked for identification?

16 CHAIRMAN GETZ: It will be marked as
17 "Exhibit 2" for identification.

18 (The document, as described, was
19 herewith marked as **Exhibit 2** for
20 identification.)

21 BY MR. EATON:

22 Q. Now, could you look at the other filing we made
23 yesterday with your attachments.

24 A. (White) Yes.

1 Q. And, how are the -- how are the changes highlighted in
2 those attachments?

3 A. (White) The numbers which have changed in the exhibits
4 are boxed in, to highlight and identify which numbers
5 have changed.

6 Q. And, the actual attachment numbers that were changed
7 are what attachments?

8 A. (White) There were changes to Attachments FBW-2, 3, and
9 5.

10 MR. EATON: I'd like that filing with
11 the attachments marked as "Exhibit 3" for identification.

12 CHAIRMAN GETZ: So marked.

13 (The document, as described, was
14 herewith marked as **Exhibit 3** for
15 identification.)

16 BY MR. EATON:

17 Q. Now, with those corrections, Mr. White, is the
18 testimony true and accurate to the best of your
19 knowledge and belief?

20 A. (White) Yes, it is.

21 Q. Mr. Smagula, would you please state your name for the
22 record.

23 A. (Smagula) My name is William Smagula.

24 Q. And, for whom are you employed?

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

3 Q. And, what is your position there?

4 A. (Smagula) My position is Director of Generation.

5 Q. And, what are your duties?

6 A. (Smagula) My duties and responsibilities cover
7 oversights of operations and maintenance activities for
8 all of our fossil and hydro generating stations.

9 Q. Have you testified before this Commission before?

10 A. (Smagula) Yes, I have.

11 Q. Mr. Smagula, did you have testimony prepared by you or
12 under your supervision?

13 A. (Smagula) Yes.

14 Q. And, that's been filed in this proceeding?

15 A. (Smagula) Yes.

16 Q. And, do you have any corrections to make to that
17 testimony?

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

19 Q. Is it true and accurate to the best of your knowledge
20 and belief?

21 A. (Smagula) Yes, it is.

22 MR. EATON: Mr. Chairman, I'd like that
23 marked as "Exhibit 5" for identification.

24 CHAIRMAN GETZ: Well, I think we're

1 including Mr. Smagula's testimony in Exhibit 1.

2 MR. EATON: I'm sorry. Right.

3 BY MR. EATON:

4 Q. Your testimony appears at the end of Exhibit 1?

5 A. (Smagula) Yes, in Section D.

6 MR. EATON: Thank you. I have completed
7 my qualifications of my witnesses. And, --

8 MS. AMIDON: Thank you, Mr. Eaton. Good
9 morning, Mr. Cannata.

10 WITNESS CANNATA: Good morning.

11 BY MS. AMIDON:

12 Q. Would you please state your full name for the record.

13 A. (Cannata) Michael D. Cannata, Junior.

14 Q. And, for whom are you employed?

15 A. (Cannata) I'm employed by Accion Group.

16 Q. Could you describe your engagement in this matter.

17 A. (Cannata) Accion Group was retained by the Commission
18 through contract to provide engineering services. And,
19 at Staff's request, Accion Group provided input into
20 the matters contained in this docket.

21 Q. Okay. Thank you. And, have you testified before this
22 Commission prior to this hearing?

23 A. (Cannata) Yes, I have.

24 Q. Thank you. And, further, did you participate in the

1 Settlement Agreement which was reached in this matter
2 between the Staff and the Company?

3 A. (Cannata) Yes, I did.

4 Q. Thank you. And, do you have before you a document that
5 was filed with the Commission on October 14th, 2011,
6 with a cover letter signed by me?

7 A. (Cannata) Yes, I do.

8 Q. And, is this your testimony in this matter, with your
9 observations and recommendations regarding the
10 Company's reconciliation?

11 A. (Cannata) Yes, it is.

12 Q. And, do you have any changes to this document at this
13 point?

14 A. (Cannata) Yes, I do. I do not have pre-prepared
15 changes. But, due to the changes filed with the
16 Commission yesterday, there are some minor changes I do
17 need to make in my testimony --

18 (Court reporter interruption.)

19 **CONTINUED BY THE WITNESS:**

20 A. (Cannata) There are some minor changes I need to make
21 to my testimony, due to the changes filed by Northeast
22 Utilities.

23 BY MS. AMIDON:

24 Q. And, are you prepared to discuss those at this point?

1 A. (Cannata) Yes. There are only a few of them.

2 Q. Please go forward then.

3 A. (Cannata) On Page 47, second paragraph, next to last
4 line, the "64.4 million" should be "64.7". Continuing
5 on that line, the "12.8 million" should be "12.5".
6 And, the next line, the "15.7 million" should be "16".
7 On Page 48, the second paragraph, second line, the
8 "13.1 million" should be "12.9". The fourth line in
9 the paragraph, the "108.5 million" should be "108.4".
10 And, down to the bottom of the page, the second
11 paragraph up, a short paragraph, the third line, the
12 "108.5 million" should be "108.4". And, these are just
13 some of the changes that NU put forth in their filing
14 yesterday.

15 When we had the interviews discussing
16 these matters, we had available the changes to the
17 energy values, and those were incorporated in my
18 testimony. I did not have the capacity values, which
19 is what I -- are the changes I just gave you now.

20 Q. Thank you. Is there anything, any other changes to
21 your testimony?

22 A. (Cannata) No.

23 Q. And, so, if you were asked the same questions, you
24 would answer them as you did on October 14th?

1 A. (Cannata) Yes, I would.

2 MS. AMIDON: Okay. Thank you. I'd like
3 to mark Mr. Cannata's testimony as "Exhibit 4".

4 CHAIRMAN GETZ: So marked.

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

8 MR. EATON: Does that complete your
9 examination at this time?

10 MS. AMIDON: Yes. I have completed the
11 qualification of the witness. Thank you.

12 BY MR. EATON:

13 Q. Mr. Baumann, were the parties able to reach a
14 settlement of most of the issues in this proceeding?

15 A. (Baumann) Yes, we were.

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

17 A. (Baumann) Yes.

18 Q. And, when was that filed?

19 A. (Baumann) November 22nd, 2011.

20 Q. And, the parties to the Settlement are whom?

21 A. (Baumann) It would be the Staff of the Commission and
22 PSNH, respectively.

23 MR. EATON: Mr. Chairman, I'd like to
24 make -- I'd like to mark the Settlement filed on

1 November 22nd as "Exhibit 5" in this proceeding.

2 CHAIRMAN GETZ: Be so marked.

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

6 BY MR. EATON:

7 Q. Mr. Baumann, would you make a brief summary of the
8 Settlement please.

9 A. (Baumann) Sure. Good morning. I'm just going to run
10 through a short summary of the Settlement. As was
11 mentioned before, the Accion Group did review PSNH's
12 power procurement activities and generation stations'
13 activities for 2010. And, this is the subject of
14 today, is the actual costs associated with those 2010
15 activities. And, I'm really looking and summarizing
16 briefly from the Settlement terms, which is on Page 4
17 of the November 22nd filed Settlement Agreement.

18 The first section, in terms of the Power
19 Supply and Procurement sections, it's been found and
20 agreed by the Staff and PSNH that PSNH made sound
21 management decisions with regard to the capacity and
22 energy purchases in 2010. Related to that, PSNH will
23 continue to focus on short-term markets in the near
24 future, regarding, again, the capacity and energy

1 transactions that we enter into.

2 The next section of the Settlement
3 really talks about unit outages and the review that
4 Accion performed with respect to those outages. There
5 were four outages that Mr. Cannata's testimony
6 recommended disallowance of the replacement power
7 costs. We -- PSNH has agreed to forgo the recovery of
8 those replacement power costs. But, as the Settlement
9 states, this is not an admission of imprudence for any
10 of these outages, but we really agreed to that in the
11 Settlement to reach -- to reach a settlement on all of
12 the issues. The total replacement power costs for two
13 of those outages was \$560. Two of the outages did not
14 have replacement power costs, because there was no
15 run-of-river at time for the hydro unit. So, the
16 replacement power cost was zero.

17 The next section of the testimony -- or,
18 the Settlement, excuse me, talked about the improvement
19 to unit outages. And, Mr. Cannata recommended six
20 areas for improvement. We, PSNH, have accepted all six
21 of those areas, and we agree to implement these
22 recommendations. I will not go through them in detail.
23 But, certainly, we have Mr. Cannata and Mr. Smagula
24 here that are able to talk and address those issues.

1 The next portion of the Settlement deals
2 with past issues related to the last two cases. These
3 were stipulated issues that we agreed, "we", as the
4 Company, agreed to address. The Settlement closes
5 fifteen of those issues, as these issues and
6 commitments have been satisfied.

7 And, there are two issues that remain
8 open, and I'm looking at Page 6 now. One related to an
9 insurance deductible of a million dollars that we are
10 pursuing, and then some -- an interconnection issue
11 related to the PSNH generating units. Those two issues
12 are open and continue to be open, and the Company is
13 pursuing both of those issues.

14 And, lastly, there is an unresolved
15 issue. It's noted on Page 8 of the Settlement. Where
16 PSNH and the Staff were unable to agree in principle to
17 the issue. And, what I would like to do to just close
18 my remarks is to defer to Mr. Smagula to just summarize
19 that briefly for us.

20 A. (Smagula) Yes. I may add that I think we were able to
21 agree in principle on the path to follow with regard to
22 this recommendation, and that is to perform a transient
23 stability analysis for a number of our small hydro
24 units, in order to make sure that the electric system

1 that the units are connected to have improved stability
2 capability.

3 The continued dialogue has to do with
4 whether PSNH should obtain the rights to operate the
5 software to perform this analysis and maintain
6 competent and capable people in house to do that work,
7 or whether it would be more cost-effective to utilize
8 the services of an outside engineering company to do
9 this analysis. So, we're not in disagreement of what
10 we want to do. But, rather, we wish to take some time
11 to analyze which path will be easier, to purchase and
12 do it ourselves or to use the services of an outside
13 consultant doing the same work with the same software.
14 And, the issue has to do with, if we don't perform this
15 analysis with high frequency, will we develop the
16 appropriate level of competence internally to perform
17 this work and will that work be done as efficiently or
18 as best as possible.

19 So, we agree that we will perform these
20 functions. We just wish to review the options. And,
21 we will pursue one or the other.

22 CMSR. IGNATIUS: Mr. Smagula?

23 WITNESS SMAGULA: Yes.

24 BY CMSR. IGNATIUS:

1 Q. Just before we go any deeper into how best to respond
2 to the issue, --

3 A. (Smagula) Yes.

4 Q. -- can either you or Mr. Cannata explain a little more
5 what it is we're talking about? "Transient stability",
6 I don't -- it doesn't mean a lot to me. I've read the
7 words, and I don't really know what the details are.
8 So, if somebody could give me a quick lesson in what
9 that is, and then that will help as we talk about the
10 best way to deal with the problem. And, either now or
11 at a later point in the testimony is fine.

12 A. (Cannata) Well, I'll let you respond first.

13 A. (Smagula) Okay. Sure. Right now, there are occasional
14 inadvertent actions in the lines that bring power from
15 some of our hydro units, and they are radial lines
16 going to the unit and bring the power out. There are
17 times when there are inadvertent trips of these
18 generators caused by faults on the distribution system.
19 And, this has to do with settings and relays and other
20 protective devices that are involved on those lines,
21 which, over time, as the line get -- has additions to
22 it or changes are made to equipment, adjustments are
23 made. And, sometimes they're made for the right reason
24 to solve one problem, but they could, in fact, then

1 trigger another weaker stability of other portions of
2 the line. Or, equipment, when added, makes sense on
3 its own, but perhaps isn't analyzed with regard to all
4 of the other equipment for protection on that line.
5 So, it's to step back and look at the whole line, and
6 not just look at different events and the solutions
7 that have occurred.

8 So, it's to do a stability analysis for
9 the line in total, which, as a result, will help not
10 only the availability of the hydro unit, but the
11 availability of the line for other purposes for
12 customers.

13 Q. That's helpful.

14 A. (Smagula) You know, Mr. Cannata may have additional
15 explanation beyond that.

16 Q. All right. One other question for anyone. Is this
17 something that's particularly needed in hydro units, as
18 opposed to other generators or just other lines?

19 A. (Smagula) I think, because of the small size and the
20 location of these being somewhat off the high voltage
21 transmission system paths, it's a characteristic of a
22 few units in the hydro unit -- in our hydro fleet, more
23 than our other hydro fleet, which is adjacent to
24 substations that are larger.

1 Q. Thank you.

2 A. (Smagula) So, it's more characteristic of hydro, and
3 particularly the two that are identified here are the
4 ones that have had a history of a few of these outages,
5 so it's worthy of being addressed.

6 A. (Cannata) And, if I could add a little bit more detail.
7 First of all, transient stability is a phenomenon with
8 all units. All generating units run at some speed,
9 depending upon the number of poles they happen to have,
10 or, if they have two poles, they run at 3,600 RPMs to
11 give you 60 cycles per second. And, these generators
12 are said to be run "in synchronism". When you put a
13 fault on the system, the voltage collapses to zero, and
14 power can't flow on that line. Well, the power has to
15 go somewhere, so it backs up to the generator, speeding
16 it up. If it speeds up too much, then it will trip
17 off-line.

18 So, as Mr. Smagula stated, there's
19 conditions on the PSNH system that the units are
20 tripping for conditions which they shouldn't, all
21 right, from a system standpoint. There's a fault over
22 here, trips this line, but a unit X miles away trips.
23 There's a reason for that.

24 The transmission and distribution system

1 used to be planned in an integral fashion at Public
2 Service. And, FERC required that the transmission be
3 separated from distribution, and the people that did
4 the stability studies on the system went with the
5 transmission group back X number of years ago. They
6 have lost that expertise. And, Public Service does
7 recognize that, when a new generator comes on the
8 system, say a new wood burner or IPP, that type of
9 thing, that a stability study does have to be done and
10 incorporate those results in the design and the
11 protection of the machine.

12 What is lacking is that, in the
13 development of the system, as Mr. Smagula said, that as
14 you add protective devices in series, say a midpoint
15 recloser on the distribution system, I now have to jack
16 the trip time of the one behind it ensure coordination.
17 And, the more of these you add, the longer the trip
18 time you've got. The longer the trip times become, the
19 longer you leave the zero voltage on the system.

20 So, I can say, with almost surety, 20
21 years ago those faults that are remote were not causing
22 that problem, the system changes now. The reason why I
23 suggest that they have the in-house capability (a) it
24 should be done, and the reason why that we're in this

1 problem is that somebody there did not recognize that
2 there is a problem and designed us into this problem.

3 If that capability is not present, how
4 will you know when you're going to have a problem in
5 the future? And, to address the part about "doing the
6 system analysis on a continuing basis to maintain the
7 expertise", as relay settings are changed, and as new
8 generation is added to the system, however the system
9 develops, these studies will have to be done. And, I
10 believe, in order to recognize that accurately, that
11 that capability should be in-house.

12 CMSR. IGNATIUS: Thank you. That's
13 helpful.

14 WITNESS CANNATA: And, that's the extent
15 of it.

16 **BY THE WITNESS:**

17 A. (Baumann) I think that concludes our introductory. I
18 would ask that the Commission review and approve the
19 Settlement as filed. Thank you.

20 MR. EATON: Thank you. I have no
21 further questions for my witnesses.

22 CHAIRMAN GETZ: Ms. Amidon, do you have
23 anything further?

24 MS. AMIDON: Just a few questions for

1 Mr. White, and some additional clarification from Mr.
2 Cannata. Thank you.

3 BY MS. AMIDON:

4 Q. Mr. White, first of all, I wanted to address the
5 corrections that were filed yesterday by the Company to
6 your exhibits in your testimony. When did the errors
7 come to your attention?

8 A. (White) I believe we discovered them during the
9 discovery phase in answering data requests. And, in a
10 couple of responses, we identified some corrections.
11 That was the June time frame, I believe.

12 Q. All right. And, do you know why it took until
13 yesterday to make these changes known to the
14 Commission?

15 A. (White) I apologize for that. It was my understanding
16 that corrections of this nature it was necessary to
17 present them on the record, which is done at a hearing.
18 And, so, that's what I waited to do. And, in
19 discussions with my attorney, it came up that "well,
20 let's get them in front of people sooner than that."
21 And, in hindsight, it could have been done much sooner.
22 But that's why. I understood it should be done on the
23 record, and that's what I was waiting for. And, I
24 didn't feel that they were of a significant nature that

1 any different conclusions would be drawn. They didn't
2 impact the financial reconciliation of 2010 costs.

3 Q. And, Mr. Baumann, in your testimony, did you rely on
4 the information in Mr. White's testimony that contained
5 errors or did you rely on a different source of
6 information?

7 A. (Baumann) Yes. My information really is based on the
8 financial records of the Company, the general ledger,
9 and how they are presented for the year 2010. So, I
10 didn't -- I didn't rely on Mr. White's numbers at all.

11 Q. So, does your testimony contain any errors as the
12 result of the updated filing from yesterday?

13 A. (Baumann) No. None.

14 Q. Okay. That's what I wanted to get at. Thank you. Mr.
15 Cannata, did you review, as you did testify, you
16 reviewed the changes that came in yesterday, is that
17 correct?

18 A. (Cannata) Yes, it is.

19 Q. Did that change in any way your recommendations or any
20 other observations you made about the Company's
21 reconciliation for 2010?

22 A. (Cannata) It would make no changes whatsoever.

23 Q. Okay. Thank you. And, one thing I wanted to -- I
24 wanted to address again is to go back to your

1 recommendation regarding the necessity for PSNH to
2 obtain the in-house ability to perform the transient
3 stability analysis. The Company has indicated that
4 they, I don't know if it was in the record, but they
5 have indicated that they prefer to wait and evaluate
6 this matter in-house, and then maybe make a proposed
7 recommendation with the next filing, in other words,
8 the filing that we would anticipate to be made in
9 May 2012. Do you agree that this should be put off or
10 would you please elaborate any response that you have
11 to that question?

12 A. (Cannata) Well, if you'll go back to Page 6 of the
13 Settlement, and in the middle of the page there's
14 Recommendation 2009-5, that's the interconnection
15 analysis. The recommendation for transient stability
16 analysis is really part of this recommendation, and
17 part of the solution to the problem. They are still
18 working on ways in order to address the issues that are
19 developing from the result of their investigation, but
20 I'm not sure that waiting a year to develop a
21 recommendation, and have it approved and prolonging the
22 study is worthwhile.

23 I believe that, if we can address the
24 issue now, that this study can move forward and be

1 finalized by the next SCRC reconciliation. It's been
2 two years, and it's going to be 2011 at a minimum
3 before it's done. And, I think, by that time, PSNH
4 should be in a safe position, a solid position, on
5 "Here's the issues. Here's how we want to address it
6 this point, here's how we want to address it at that
7 point." And, right now, these outages still continue.
8 So, the issues that we have identified continued in
9 2010, and they'll continue in 2011, and 2012, if you
10 wait till 2012.

11 Q. In connection with that, Mr. Smagula, the Settlement
12 Agreement indicates, at Page 8, regarding this
13 recommendation, that "PSNH would like to investigate
14 the costs associated with acquiring the tools to
15 perform these studies", referring to the "transient
16 stability analysis studies", "and the details involved
17 with developing and maintaining the in-house
18 expertise." How long do you expect such an
19 investigation to take?

20 A. (Smagula) I don't think this investigation will take us
21 many months. I think we're aware of it now, and the
22 engineering group that is involved with that activity
23 is looking into it now. I guess I'm not going to say
24 whether that will be done in the next few weeks, but it

1 certainly is not going to be a recommendation we're
2 going to make in six months, and then await some
3 decision to move forward. I think we will become
4 active in resolving these analyses quickly, I'm just
5 not sure which path we're going to follow. But we're
6 not going to wait. We're going to make a decision to
7 do this on a path that's most economic, that still gets
8 us the same results. And, I guess I'm not going to
9 tell you it will be done in December or January, but I
10 expect that this will get -- become active very
11 quickly.

12 Q. Mr. Cannata, do you have any comments following
13 Mr. Smagula's remarks?

14 A. (Cannata) Well, the only -- the only comment I'd like
15 to make is there are many programs that are utility
16 industry programs used for power flow analysis, which
17 both the transmission and the distribution people use.
18 Many of those packages already have stability packages
19 in it, like, for example, the PSAEE PTI package. It
20 has short circuit, which distribution has to do; it has
21 power flow, which distribution has to do; and it also
22 has transient stability. If they have that package
23 in-house right now, and that's what they're using for
24 their short circuit analysis and power flow, they have

1 the software capability in-house to do it, but they may
2 not have the manpower trained to utilize it.

3 And, I believe we asked, and we didn't
4 -- the people we asked did not know, which package they
5 were using at the time. And, I don't know, I guess I'd
6 throw that out to you. Do we know what package PSNH
7 uses for power flow and short circuit programs?

8 A. (Smagula) No, I'm not aware of that specific question
9 or that answer. The groups that get involved with this
10 are not groups that are under my direction and
11 oversight. That's why I'm speaking more as a co-worker
12 to these people, rather than their overseer. So,
13 that's why I need to consult with them further. And,
14 my interests are to pursue the solution and get these
15 hydro units so that they are not affected by these
16 kinds of transients. So, it's in my best interest to
17 pursue it promptly, which is what I will be doing over
18 the next -- well, this week or next week I'll initiate
19 some action to get that decision made and get some
20 analysis done. We're not going to wait six months and
21 then start to figure out what we're going to analyze.
22 So, I can't tell you the specific software and the
23 expertise of the people in-house at the moment.

24 A. (Cannata) Perhaps maybe a record request would be in

1 order, to find out what the capabilities of the
2 existing in-house programs are, and maybe set some type
3 of a short time frame in order for Mr. Smagula and the
4 other people at PSNH to perform that analysis and get
5 back at a date specific.

6 A. (Smagula) That is a consideration that could be made.

7 CHAIRMAN GETZ: How do the attorneys
8 feel about this?

9 MS. AMIDON: Well, I have no problem
10 with advancing that record request.

11 BY MS. AMIDON:

12 Q. I think I was going to ask Mr. Smagula, if the
13 Commission agreed with Accion's recommendation and
14 required the Company to acquire this in-house
15 capability, the Company would comply, would it not?

16 A. (Smagula) It would. But I don't know whether that
17 would be cost-effective in order to achieve the same
18 results that utilizing other services would provide.
19 I'm not objecting to what is desired. I fully support
20 it. I think it's the right thing to do. I am just not
21 knowledgeable enough to come to the same conclusion
22 that has been recommended right now. I may agree with
23 that in a few weeks, and I may agree with an
24 alternative path that achieves the same results in a

1 couple of weeks.

2 But we're not objecting to the issue at
3 all. We're just objecting with "How do you resolve
4 it?" I'm not even objecting to that. I'm just
5 offering the fact that there are -- that there are a
6 couple of different paths that I wish to explore first.

7 CHAIRMAN GETZ: Well, let me ask about
8 the timing then. So, I mean, the expectation is that an
9 order will be issued for effect by January 1, or where are
10 we in terms of timing?

11 MS. AMIDON: Generally, Mr. Chairman,
12 the goal was to try to get an order before the end of the
13 calendar year. That's correct.

14 CHAIRMAN GETZ: And, --

15 WITNESS SMAGULA: Mr. Chairman, if you'd
16 like, I will provide a recommendation on this issue before
17 the end of December.

18 MS. AMIDON: Mr. Chairman, I apologize.
19 One further clarification. Because this proceeding does
20 not have a rate impact, if the order were to be issued
21 after the first of the year, it wouldn't be a problem,
22 just for clarification.

23 CHAIRMAN GETZ: Do you have anything on
24 this issue, Mr. Eaton, on timing, whether we try to

1 resolve this before an order is issued in this case?

2 MR. EATON: That probably would be --
3 would be advisable, given the fact that Mr. Smagula has
4 evidenced our agreement with the principle, and that he
5 was going to have this fully explored in a short time
6 frame. So, if we could make a commitment to supply that
7 as a record request what our conclusion was, then the
8 parties could react to it and the Commission could make
9 its final decision.

10 CHAIRMAN GETZ: Ms. Hatfield, do you
11 have any procedural preference here?

12 MS. HATFIELD: It does seem as though
13 the Staff's witness should have the opportunity to review
14 what the Company proposes. But I'm wondering if there is
15 a way for the Commission to rule on the issue in a general
16 way and direct the Company and the parties to work
17 together on the details. That's one possibility.

18 CHAIRMAN GETZ: As I understand, the
19 issue really is whether this work should be done in-house
20 or through a contractor. And, Mr. Smagula, you may agree
21 after some further -- or, the Company may agree after some
22 further investigation whether to do it in-house. So, I
23 just would suggest, if we can get a -- if the Company can
24 investigate this issue, if it agrees with the

1 recommendation, we can get an answer by, you know, within
2 two weeks, is that feasible, Mr. Smagula?

3 WITNESS SMAGULA: At the end of next
4 week? Or, two weeks from today? That would be fine, yes.
5 We'll find a way.

6 CHAIRMAN GETZ: Okay. Let's reserve
7 Exhibit Number 6 for the results of that review.

8 **(Exhibit 6 reserved)**

9 WITNESS SMAGULA: Okay.

10 CHAIRMAN GETZ: And, obviously, if
11 there's agreement, then we can move to issuing a final
12 order. And, well, if there's disagreement, we can move to
13 issuing a final order as well, but we'll know what we're
14 dealing with.

15 Okay. Anything else on that particular
16 issue?

17 MS. AMIDON: I have no further
18 questions. Thank you.

19 CHAIRMAN GETZ: Thank you. Ms.
20 Hatfield.

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

23 WITNESS BAUMANN: Good morning.

24 WITNESS SMAGULA: Good morning.

1 WITNESS WHITE: Good morning.

2 WITNESS CANNATA: Good morning.

3 **CROSS-EXAMINATION**

4 BY MS. HATFIELD:

5 Q. Mr. Baumann, I'd like to begin with you, if I could.

6 If you could turn to what is Exhibit 1 please. And, in
7 looking at your attachments to your testimony, can you
8 identify where the total cost to customers for Energy
9 Service in 2010 is shown?

10 A. (Baumann) We're in Section B of the filing now?

11 Q. Yes.

12 A. (Baumann) In Exhibit RAB-4 or Attachment RAB-4. Your
13 question was "identify the total costs?"

14 Q. (Atty. Hatfield nodding in the affirmative.)

15 A. (Baumann) Could you be more -- when you say "total
16 costs", you want just the total costs in the filing?

17 Q. Yes. If I look, for example, at Bates Page 11, which
18 is your Attachment RAB-3, Page 1 of 2, --

19 A. (Baumann) Right.

20 Q. -- on Line 43 it says "Total Energy Service Cost", and
21 then the column on the right says "Total for the twelve
22 months ended 12/31/10", and that amount is
23 "486,589,000", is that correct?

24 A. (Baumann) That's correct.

1 Q. So, that would be the total Energy Service cost for
2 PSNH Energy Service customers in 2010?

3 A. (Baumann) Yes.

4 Q. And, if you turn please to Bates Page 47. And, Line 1
5 of this table, which is Attachment RAB-4, Page 12,
6 states "Return on Rate Base". Do you see that?

7 A. (Baumann) Yes.

8 Q. What is the percentage annual return applied that is
9 shown on Line 11?

10 A. (Baumann) Well, it varies per quarter, because every
11 quarter it changes. You want an annualization of --

12 Q. Or just what's the last Commission approved return for
13 the Company on generation?

14 A. (Baumann) Well, the latest generation approval rate is
15 9.81 percent. And, that's the equity return embedded
16 in the cost of capital structure for the generation
17 business.

18 Q. So, does the Company take the 9.81 percent and apply it
19 on a monthly basis?

20 A. (Baumann) I believe this return is an overall return
21 for a cost of capital. So, the 9.81 percent was an
22 equity return. This would be the overall cost of
23 capital return, grossed up for taxes. So, they're not
24 -- you know, the 9.81 is a subset of the total return

1 on rate base, because the 9.81 is the return on equity
2 only. And, then, to apply it to the rate base, you
3 have to gross it up for taxes. So that the revenue
4 requirement is higher, because, when you get that
5 revenue requirement, you have to pay taxes on that.

6 Q. And, the return that the Company earns is reconciled,
7 is that right?

8 A. (Baumann) I'm sorry, "reconciled"?

9 Q. Along with all other costs of Energy Service, the
10 Company is basically guaranteed to earn 9.81 percent,
11 unless there's a disallowance?

12 A. (Baumann) Well, the cost of capital is embedded in the
13 costs, and that has both return on equity and return of
14 debt service. And, that is a -- what I consider a cost
15 of the Energy Service rate. So, yes. It's a
16 calculated number, based on the approved formulas, and
17 it's embedded in the rates. And, since the Energy
18 Service rate is a tracked cost rate, it would be
19 tracked dollar-for-dollar.

20 Q. And, the total number on Line 12, in the right-hand
21 column, which is roughly \$41.4 million, that's the
22 total return for 2010?

23 A. (Baumann) Yes. Again, that includes equity, it
24 includes debt service. Total costs.

1 Q. And, you may recall that last year I asked you a
2 similar question about what portion of that amount is
3 used for debt service?

4 A. (Baumann) I've been asked that in the past. Are you
5 asking it now?

6 Q. Yes.

7 A. (Baumann) I don't -- I don't have that breakout.

8 Q. Last year, you estimated that the amount for debt
9 service was "approximately 10 million". Do you recall
10 that?

11 A. (Baumann) Yes. I remember using numbers in that
12 vicinity.

13 Q. Do you think it's roughly the same for 2010?

14 A. (Baumann) You know, subject to check, I'd have to look
15 at it, but it's certainly not materially different. I
16 think we have maybe had a refinancing since then that
17 may have lowered the debt service slightly, but I'd
18 have to look into it. But I don't think it would be
19 materially higher. It might be somewhat lower, but not
20 by that much.

21 Q. And, if it was 10 million, and we subtracted that from
22 the 41.4 million, would that mean that the Company's
23 profit from Energy Service was roughly \$31.4 million?

24 A. (Baumann) I would say that the pretax revenue

1 requirement for the equity return, which I think you
2 referred to as "profit", and that's okay by me, would
3 be approximately 31 million. And, after tax, that
4 would be probably a good deal lower, because of,
5 obviously, the federal/state taxes that would be
6 applied to your earnings. So, it's really a revenue
7 requirement number. When you talk "profit" to me, I
8 think "net income". And, when I think "net income", I
9 think "net of taxes".

10 Q. The scope of this docket, Mr. Baumann, is looking back
11 at 2010, is that correct?

12 A. (Baumann) Yes.

13 Q. And, to the extent that there are items that are
14 forward-looking, is it fair to say that those are
15 limited to, generally, to Mr. Cannata's
16 recommendations?

17 A. (Baumann) As far as this Settlement goes, yes. I mean,
18 there are -- there are a few minor dollars in our case,
19 the 2010 case, when we close the books for 2010, you
20 don't have certain reconciliations that, say, will take
21 place in 2011, maybe related to the final disposition
22 of the REC -- RECs. But, generally speaking, those
23 are, you know, those are things that would be
24 reconciled in 2011, and then adjusted in the 2000 --

1 or, excuse me, 2012, and then reconciled in 2012 costs.
2 But, for all intents and purposes, 2010 costs are --
3 they are the general ledger costs as applied. They
4 probably have -- well, they do have 2009 adjustments
5 that were booked in 2010. So, when you say that things
6 are, you know, the timing and estimates, there are some
7 accounting estimates in 2010 costs for the general
8 ledger, so that you can try to accurately represent
9 that, which would be trued up in 2011.

10 Q. But, to the extent that this is a prudence review of
11 2010, is it fair to say it's not a prudence preview of
12 future years?

13 A. (Baumann) That's true.

14 Q. Mr. Smagula, have you reviewed Mr. Cannata's testimony?

15 A. (Smagula) Yes.

16 Q. Do you have it in front of you?

17 A. (Smagula) I do. I do not have all the attachments.

18 MS. HATFIELD: Perhaps your counsel has
19 a copy?

20 BY MS. HATFIELD:

21 Q. I'm going to be asking you questions about MDC-2, which
22 begins on Bates Page 41. Do you have that?

23 A. (Smagula) No.

24 (Atty. Eaton handing document to Witness

1 Smagula.)

2 BY MS. HATFIELD:

3 Q. And, some of the questions I have may also -- may be
4 helpful to have Mr. White respond to them as well.

5 A. (Smagula) Okay.

6 Q. And, Mr. Smagula, what I -- I wanted to just draw your
7 attention to several of the tables that are in Mr.
8 Cannata's testimony beginning on Page 41. And, there
9 are several that go right through Page 55. And, I
10 wonder, do these look familiar to you as they do to me
11 from his prior years' testimonies?

12 A. (Smagula) I'm familiar with what he's presented. I'm
13 not sure I can recall exactly what has been in prior
14 testimonies.

15 Q. When you reviewed his information and the way he has
16 presented it, did you find any inaccuracies in those
17 tables?

18 A. (Smagula) No.

19 Q. Would the Company be willing, in next year's filing, to
20 provide some of this information in the way that Mr.
21 Cannata presents it?

22 A. (White) To some -- I can address at least some of the
23 tables, without identifying them specifically, but much
24 of this data we provide to Mr. Cannata. So, I don't

1 think we'd have a problem with presenting some of it.
2 I don't know, really, what you have in mind, but we're
3 familiar with and comfortable with many of these
4 exhibits.

5 Q. Okay. Would you accept the proposition that the OCA's
6 review of the case is greatly aided by Mr. Cannata's
7 testimony, but it's not received until October? And,
8 would the Company be willing to work perhaps with the
9 parties before it makes its filing next May?

10 A. (Smagula) We can do that.

11 A. (White) Yes. We can do that.

12 Q. Thank you. Mr. Cannata, I have a few questions for you
13 about your testimony. When you were being qualified
14 earlier, I thought I heard you describe your review in
15 this case as an "engineering review", is that correct?

16 A. (Cannata) I believe I mentioned that we were retained
17 under an engineering services contract that Accion has
18 with the Commission.

19 Q. And, you described the scope of your review beginning
20 on Page 3 of your testimony, is that correct?

21 A. (Cannata) I believe that's correct. Let me just verify
22 that. Yes. It starts on Page 3.

23 Q. And, do you agree with Mr. Baumann that the purpose of
24 this docket is to look back at the year 2010?

1 A. (Cannata) In what aspect?

2 Q. That if the --

3 A. (Cannata) In totality? Out of the areas that I
4 address, is to be able to make a statement on whether
5 unit maintenance is such that the PSNH units are being
6 maintained in a manner such that they will continue to
7 provide benefits to customers in the future. You know,
8 make sure that the oil in the car is being changed so
9 that it can run smoothly. And, so, to that extent, and
10 I think that's the only extent, I look out into their
11 future maintenance budgets, their O&M budgets, capital
12 budgets, and try to make an evaluation of "are they
13 looking at the things that they should be looking for
14 to make sure that the units are capable of performing
15 their best for customers?"

16 Q. Should the Company consider any comments you make about
17 future operations as sort of pre-approval for future
18 years' operations?

19 A. (Cannata) No. No. The operations themselves are
20 looked at just for that year.

21 Q. Are you aware that the Commission required PSNH to
22 conduct a continued unit operation study for Newington
23 Station in its current IRP docket, which is DE 10-261?

24 A. (Cannata) I am aware of that.

1 Q. Are you aware that PSNH has cited to your testimony in
2 this docket regarding Newington Station operations in
3 testimony in the IRP docket?

4 A. (Cannata) I have not read any material in the IRP
5 docket.

6 Q. I'd like to show you two excerpts of testimony from
7 that docket.

8 (Atty. Hatfield handing document to
9 Witness Cannata.)

10 BY MS. HATFIELD:

11 Q. And, what I've provided to you is a few pages of
12 testimony filed by PSNH, it's their rebuttal testimony
13 in the IRP docket, filed on October 26, 2011. And,
14 I've provided to you two pages from the Testimony of
15 Mr. Terrance Large. Do you have that in front of you
16 now?

17 A. (Cannata) Yes, I do.

18 Q. And, if you look at Mr. Large's testimony, beginning on
19 the bottom of Page 18 and going onto Page 19, do you
20 see that he makes a reference to your testimony in this
21 docket?

22 A. (Cannata) Yes.

23 Q. And that, if you look at those two pages I gave you of
24 the Smagula/Tillotson testimony, which is Pages 15 and

1 16 from that same docket, do you see at the bottom of
2 Page 15 they state "We note that, as discussed in Mr.
3 Large's testimony, the Commission Staff's consultant in
4 Docket Number DE 11-094 reached the same conclusion,
5 thus reinforcing the reasonableness of PSNH's capital
6 investment assumptions." Do you see that?

7 A. (Cannata) Yes, I do.

8 Q. And, you just testified that your statements about
9 future operations are not a pre-approval for spending
10 at any particular plant, is that right?

11 A. (Cannata) Yes. What I was addressing in my testimony
12 was that PSNH started at the tail end of 2009, the last
13 reconciliation, changing and evaluating the maintenance
14 procedures at Newington Station, due to the fact that
15 it had very different operational characteristics in
16 the market, and could not look at the change in
17 maintenance schedule to see if it was adequate.

18 Now, as a result, PSNH reduced its O&M
19 and capital expenditures at Newington Station. And, my
20 testimony addressed whether that was a reasonable
21 reduction for the change in the operation on how the
22 unit operates. And, without referring to my testimony,
23 I believe I stated that there have been many capital
24 additions at Newington over the recent time period,

1 because, prior to the recent period, it was running
2 very heavy and it needed some capital improvements.
3 And, that the manner in which they performed the
4 estimates for O&M and capital were reasonable to me.
5 And, I therefore concluded that that maintenance should
6 be sufficient to run the plant in the environment that
7 it's in now.

8 Q. And, if we look on Page 36 of your testimony, that same
9 type of statement appears, correct?

10 A. (Cannata) I hope it's the same. Yes.

11 Q. If you would please turn back to Page 6 of your
12 testimony. In Footnote 2, you define the term
13 "economic reserve shutdown", is that correct?

14 A. (Cannata) Yes.

15 Q. And, is it fair to say that that refers to times when
16 PSNH's plants do not run, because it's more expensive
17 to run the plant, rather than to purchase power from
18 the market?

19 A. (Cannata) Right. From a customer cost basis, yes.

20 Q. Turning back to Page 5 of your testimony, starting at
21 Line 14, you have a sentence that -- where you state
22 "Accion is satisfied with the manner in which PSNH is
23 modeling short reliability outages in 2010 and the
24 impact of economic reserve status on its units

1 beginning in 2011." Do you see that?

2 A. (Cannata) Yes, I do.

3 Q. But, then, on Page 6, starting at Line 15, you state
4 "PSNH had forecast no economic reserve shutdowns to its
5 base load units when preparing the 2010 ES rate and its
6 update." Do you see that?

7 A. (Cannata) Yes, I do.

8 Q. There are other places in your testimony where there
9 are statements that are a little confusing, because in
10 some places you refer to them "modeling reserve
11 shutdowns", and then in others you don't. So, I'm
12 wondering if you can help me understand what your
13 understanding is of what the Company did in 2010? And,
14 it might be helpful to look at your Bates Page 138.

15 A. (Cannata) That was the exact data response I was
16 thinking of when you were talking.

17 Q. And, Bates Page 138 is the Company's response to Data
18 Request Staff 1-12, is that right?

19 A. (Cannata) That is correct.

20 Q. And, this shows that they did not model any economic
21 reserve shutdowns for the plants, the fossil plants,
22 other than Newington, is that right?

23 A. (Cannata) That's correct.

24 Q. And, then, this data response also shows the actual

1 economic reserve shutdown status for each plant,
2 correct?

3 A. (Cannata) Right. But, you know, one has to keep in
4 mind, there's two different time frames here. The
5 modeling took place in 2009 at one level of prices. If
6 fuel prices are high, you would have no economic
7 reserve shutdown modeled. And, if they changed before
8 the actual date to the end of 2010, you could see that
9 fuel prices did change such that there was actual
10 economic reserve shutdowns that did take place. But
11 the fuel price of the market of the "modeled" column
12 and the "actual" column are different.

13 Q. Did PSNH experience economic reserve shutdowns in 2009?

14 A. (Cannata) Yes. There was a few. There were some small
15 shutdowns in 2009 as I recall.

16 Q. And, do you recall that that was reflected in the
17 Commission's order in DE 10-121?

18 A. (Cannata) Yes.

19 Q. And, do you recall that that resulted in a loss to
20 customers of \$2.2 million in 2009?

21 A. (Cannata) I'd take that figure subject to check, but it
22 sounds familiar.

23 Q. Do you know if there was a loss experienced by
24 customers in 2010 as a result of economic reserve

1 shutdowns?

2 A. (Cannata) Yes. And, the loss you're referring to I
3 believe is the \$3.3 million that we discussed at the
4 last technical session, and that is a net loss figure.

5 Q. And, that appears on Page 48 of your testimony, is that
6 right?

7 A. (Cannata) Yes.

8 Q. And, that's in the third paragraph down, that starts
9 with "PSNH made two types of spot sales"?

10 A. (Cannata) Correct.

11 Q. And, then, you discuss the sales, and you state that
12 that "resulted in a net loss of \$3.3 million"?

13 A. (Cannata) Correct.

14 Q. And, that is a loss that is paid by customers?

15 A. (Cannata) Yes.

16 Q. And, then, in the next paragraph, you state "PSNH also
17 sold unneeded bilateral and spot energy". Do you see
18 that?

19 A. (Cannata) Yes.

20 Q. And, at the end of that paragraph, you say that was
21 "for a total net loss of \$8.3 million", correct?

22 A. (Cannata) That is correct.

23 Q. And, is that amount also paid for by customers?

24 A. (Cannata) Yes, it is.

1 Q. And, then, in the next paragraph, you state "Purchases
2 are made in advance of expected energy needs." Do you
3 see that?

4 A. (Cannata) Yes, I do.

5 Q. And, then, at the end of that paragraph you have a
6 sentence that says "Sales into the market very often
7 result in unavoidable losses on the transaction." Is
8 that right?

9 A. (Cannata) Yes. And, that's a very important point.
10 It's very, I think, incorrect to just look at the total
11 net loss/gain value. The decision to run a unit
12 uneconomically during an economic reserve shutdown, and
13 you get losses by when you run the economic -- the unit
14 that's on economic reserve shutdown when cheaper power
15 is available. There are many factors that impact the
16 operation of the unit. You know, what the unit's
17 status is. You know, for example, going into a
18 weekend, and it's Friday, and you're supposed to be
19 going on economic reserve shutdown, and you have a
20 vibration in a fan pump motor, maybe you take that
21 reserve shutdown to ensure that your unit is back in
22 service for the following week. If, in fact, a unit
23 may be scheduled for economic reserve shutdown, and you
24 have another unit that has a status problem or a

1 probability of dropping out, you may wish to keep that
2 unit running to provide some type of security to your
3 customers.

4 All the probabilistic values that go
5 into deciding whether a unit should be taken down
6 economically on reserve shutdown are not included in
7 the factual dollar figures.

8 A. (White) If I could attempt to help clarify this
9 question? These figures that you're citing are periods
10 during which, for example, the generation figure of
11 3.3, that occurs during periods where the generation is
12 surplus to load. It's a subset of the total economic
13 picture of a unit's run. And, there are times where
14 you run out-of-rate in, for instance, off-peak hours,
15 so that you're on line to achieve greater benefits
16 during hours where the unit's not surplus, it's serving
17 load; higher loads in those hours, higher prices. So,
18 what we're doing is operating the units to achieve the
19 most economic overall results.

20 This is looking at just the subset where
21 the units are surplus. Those are typically low load
22 hours, with low prices. But, when combined over a
23 unit's total operation, we're achieving benefits for
24 customers by operating units. So -- well, I guess, and

1 it's a similar clarification on the 8.3 regarding
2 purchases. Again, those are periods when the purchases
3 are surplus to load. So, these are identifying subsets
4 of total hours.

5 A. (Cannata) And, I think that Mr. White is just
6 exemplifying the answer that I gave, in that the
7 further example, if you had a few hours in which you
8 should not be running, because you're on economic
9 reserve, you may have a 12 or 14-hour cold shutdown
10 period that you can't start the unit for 14 hours.
11 That cost of shutting the unit down would have been
12 higher to customers. So, therefore, you took a loss
13 for the two-hour period, versus taking a higher loss.
14 And, that smaller loss is incorporated into those
15 figures.

16 Q. And, Mr. White, I think what you're suggesting is that
17 there's a net economic benefit to customers of PSNH
18 operating its plants the way that it does, is that
19 right?

20 A. (White) Yes.

21 Q. Can you quantify the net economic benefit for 2010?

22 A. (White) I don't have those figures. But that's the
23 goal, when we're looking at operations for the unit.
24 There's a lot of operational considerations that Mr.

1 Cannata has mentioned. And, the units are not economic
2 in every hour of every day. There are hours where
3 they're running out of merit. But we attempt to
4 achieve the greatest benefit over several days, a week,
5 or a month. And, a lot of operational considerations
6 go into that, regarding shutdown costs, re-start costs,
7 effects on maintenance requirements of cycling units.
8 All those factors go into regular discussions on
9 operations of the unit.

10 Q. In order to try to quantify or determine if there was a
11 net economic benefit for customers in 2010, would one
12 way to do that be to compare PSNH's Energy Service rate
13 to market rates?

14 A. (White) No. In this context that we're discussing,
15 we're really discussing the variable costs of
16 generation, on whether to operate a unit today,
17 tomorrow, the next day. So, what we're looking at are
18 projected market value of energy only, and fuel
19 costs/maintenance costs associated with running the
20 generation, variable costs of generation. So, that's
21 really the context that we're discussing here. It
22 doesn't encompass everything that goes into an ES rate.

23 Q. So, it doesn't include fixed costs?

24 A. (White) That's correct.

1 Q. Mr. Cannata, your Attachment MDC-1, which begins on
2 Page 37, is your resumé and background, is that
3 correct?

4 A. (Cannata) That's correct.

5 Q. And, you were previously employed by PSNH, correct?

6 A. (Cannata) Until 1990, correct.

7 Q. And, how many years did you work for PSNH?

8 A. (Cannata) About 21.

9 Q. Are you eligible to receive a pension or other
10 retirement or post-employment benefits from PSNH?

11 A. (Cannata) Yes, I am.

12 Q. Are you currently receiving those benefits?

13 A. (Cannata) The paltry benefits that I am entitled to, I
14 am receiving, yes.

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

16 I have nothing further.

17 CHAIRMAN GETZ: Thank you. Commissioner
18 Ignatius.

19 CMSR. IGNATIUS: Thank you.

20 BY CMSR. IGNATIUS:

21 Q. Well, if the people still have the chart on Page 138 in
22 Mr. Cannata's testimony, let me ask Mr. White a couple
23 more questions. I take it from your discussions with
24 Ms. Hatfield, there can be times when it would show an

1 actual reserve shutdown percentage reduction in
2 capacity factor due to reserve -- economic reserve
3 shutdown, correct?

4 A. (White) Yes.

5 Q. And, yet, the plant may have been running, it's just
6 that the amount of generation is excess to the load?

7 A. (White) No, I think that may have been a slight
8 miscommunication. These percentages that represent
9 economic reserve shutdowns are percentages of time, so
10 to speak, when the unit is off line and not running.
11 The numbers that were being discussed were occurring
12 during hours when the units were on line.

13 Q. All right. So, the times when your excess -- your
14 generation is excess to load is in some other set of
15 data somewhere, but it's not on Page 138?

16 A. (White) That's correct.

17 Q. And, looking at the big picture here, it's clear that,
18 although the Company did not model economic reserve
19 shutdown for any of the units except for Newington, it
20 did occur to some degree in each of them?

21 A. (White) But I would point out, that's true to the
22 extent that we -- we, in theory, we did model them.
23 It's that the forecasted market prices at the time the
24 modeling was performed was greater than the cost of

1 running the generation. So, it was always economic to
2 run the generation when we ran the modeling. If a
3 different set of prices had been utilized at that time,
4 reserve shutdowns would have been modeled. But,
5 because of the time periods during which the modeling
6 was done, the price relationships were such that the
7 units were economic to run all the time. And, so,
8 that's why it was modeled that way.

9 Q. And, so, for the Evington -- excuse me, the Newington
10 modeling that shows month-by-month projected capacity
11 factor reductions, that's because that same modeling
12 exercise you went through resulted, because of
13 Newington costs, resulted in projected times that it
14 would be in economic shutdown?

15 A. (White) Yes. That's correct.

16 Q. And, in fact, it turned out to be reduced less than you
17 had modeled during 2010, is the right?

18 A. (White) That's right. And, some of that, a fair
19 portion of that, I'm not going to guess, it was
20 dispatched by ISO-New England for reliability purposes.
21 So, they decided to run it out-of-rate, for which we're
22 fully compensated. But that's a big reason why the --
23 the difference between those two columns.

24 Q. Thank you.

1 A. (White) So, a portion of that 3.3 million, when
2 Newington was run out-of-rate, that 3.3 million
3 quantifying out-of-merit generation does not include
4 revenues that PSNH receives from ISO for the periods I
5 just described, where they have dispatched the unit
6 out-of-rate, but they fully compensate us for our offer
7 costs. So, there's a portion of money coming into PSNH
8 that's for those periods of time that are not included
9 in the 3.3 million out-of-merit figure.

10 Q. Are they included in the reconciliation overall?

11 A. (White) They are, yes.

12 Q. You're just saying that there isn't -- that that 3.3
13 isn't a net figure?

14 A. (White) Correct. That particular analysis doesn't
15 include those dollars.

16 Q. Mr. Cannata, in the Settlement Agreement, there's
17 reference to an ongoing desire and recommendation on
18 your part that there be more focus on short-term
19 purchases or short-term planning, let me see if I can
20 find the right reference, "short-term market", I'm
21 looking at Page 4. How short is "short", in your
22 definition?

23 A. (Cannata) I don't know if it's the "short-term" or
24 "near term", but I think it's the same for the purposes

1 of the discussion. What I'm relating to here, if gas
2 prices are -- well, first of all, let me start over.
3 New England is almost 100 percent marginal on gas.
4 And, if gas prices remain, you know, at their current
5 levels or near their current levels, one would not
6 expect the incremental cost or the market price to
7 change that much. And, if that's the case, that's what
8 I call "near term".

9 Now, to the extent that, and I think I
10 have in my testimony, I talk about "world events". To
11 extent that world events don't change, that's fine.
12 But, in the meantime, where I have my difficulty is,
13 when I'm writing my testimony in October of 2010, I'm
14 talking about looking forward from 2009 for the short
15 term. And, it's really the 2010/2011 time frame. I
16 would go no more than one to two years. And, it's very
17 hard to go even beyond the one year, because you don't
18 know what the actual prices are.

19 But, when I look at that, I'm also
20 looking at the trends of where the current gas prices
21 are. You know, we have the 2010 prices as filed. And,
22 I'm looking as to what's happening in the market right
23 now, trying to make an evaluation "Are they going to
24 stay there or are they going to rise?" And, my

1 evaluation was that they're going to stay low for the
2 short term, the next year or so. And, therefore, to
3 minimize losses to customers, or costs to customers,
4 PSNH should focus on the near term and do not make five
5 year purchases as got us into trouble before.

6 Q. And, the "short-term market in the near future", as
7 phrased in the document here, that doesn't mean the
8 "spot market"?

9 A. (Cannata) No. No. No, no. That's a time frame.

10 Q. There was some discussion earlier about earnings on
11 Energy Service. And, to any of the witnesses, I think
12 we have on the record what the last found equity return
13 was, of "9.81 percent", is that right?

14 A. (Baumann) Yes, that's correct. That's the allowed
15 equity return.

16 Q. And, as you said, that's embedded in the cost of
17 capital overall. Given debt and equity, do you know
18 what the last found -- last allowable cost of capital
19 was?

20 A. (Baumann) I don't have the figures. I know the pretax
21 amount or the amount grossed up for taxes is over 11
22 percent. So, I would -- I would say it's somewhere in
23 the 10 percent range.

24 Q. What I'm wondering, and my question may not be

1 accurate, so I'll tell you what I'm looking for, --

2 A. (Baumann) Yes. And, if I can just -- that's not
3 correct.

4 Q. Okay.

5 A. (Baumann) Never get me when I'm not thinking right,
6 which is often. Yes, it would be -- I mean, it would
7 be lower. The cost of equity is about 9.81 percent,
8 and the cost of debt is much lower than that. So, net
9 net, the weighted cost would be somewhere the debt
10 weighting and the equity weighting. So, probably in
11 the 7 percent range, pretax -- or, excuse me, after
12 tax. So, if you had to gross that up from 7 percent,
13 you'd get up to somewhere in the a little above 11
14 percent.

15 Q. What's the correct number to compare against your Page
16 47? This is the "Summary 12 Months ES" Ms. Hatfield
17 went through with you, Line 11, the return that was
18 being applied. What's the correct number to compare
19 against, if we wanted to look at the last allowed
20 amount that we'd be comparing apples to apples?

21 A. (Baumann) When you say "latest allowed", and, again, I
22 don't have the exact numbers in front of me, so -- but
23 let's just say, just so we have a frame of reference
24 here, if the allowed return on rate base is 7 percent,

1 and within that there is an equity return of
2 9.81 percent, then the debt component would probably be
3 let's just say 4 percent. If you took -- let's take
4 December 2010, because we update this, you can see we
5 update this return quarterly in this calculation. But,
6 if you took the 0.9212 times 12, since that's a monthly
7 return, you get just over 11 percent. So, that
8 11 percent, on an annual basis, if you took the 0.9212
9 times 12, that 11 percent is your pretax weighted cost
10 of capital, which includes both debt and equity. That
11 11 percent, in my example, is probably after tax about
12 7 percent weighted cost of capital.

13 Within that 7 percent is your equity
14 component at 9.81, and your debt component at about 4.
15 So, if you wanted to do a valid comparison, that's how
16 I would do it. I would take that number times 12, get
17 me to 11 percent, and then say "what's my allowed
18 pretax weighted cost of capital?" Which might be
19 around 11 percent, after tax it's the 7 percent, and
20 then embedded in all that mess is your equity piece and
21 your debt piece, at 9.81 and about 4 percent.

22 CMSR. IGNATIUS: Thank you. I know, Mr.
23 Cannata, this isn't your area. Perhaps, if Staff has any
24 other comments on that in its own understanding of the

1 numbers, on redirect might be able to further inquire, if
2 there's a disagreement with Mr. Baumann's rough
3 calculations. I have no other questions. Thank you.

4 CHAIRMAN GETZ: Okay. Thank you.

5 BY CHAIRMAN GETZ:

6 Q. Mr. Cannata, I have one area I'd like to explore. So,
7 if you could turn to two places; one is Page 12 in
8 Exhibit 4, your testimony, and the other is Page 5 of
9 Exhibit 5, the Settlement Agreement. And, these were
10 about -- I want to make sure I understand what's going
11 on with the -- it's the Canaan hydro unit outages and
12 the Garvins Fall outages.

13 A. (Cannata) Okay. Please provide me the reference that
14 you would like to address first.

15 Q. All right. I want to make sure I understand what the
16 proposal is here. Because under both --

17 A. (Cannata) You're in the Settlement Agreement, excuse
18 me?

19 Q. Yes. I'm going to be going back and forth between Page
20 5 of the Settlement Agreement and Page 12 of your
21 testimony.

22 A. (Cannata) Okay. All right. I'm all set.

23 Q. Okay. And, basically, I'm just trying to understand
24 how this is going to work. So, in both Item Number 3

1 and Item Number 4 on Page 5 of the Settlement
2 Agreement, it says the recommendation is that "a final
3 determination of recoupment of replacement power costs
4 associated with the outages be deferred to the 2012
5 filing."

6 A. (Cannata) Correct.

7 Q. And, in both instances, when I look at Page 12 of your
8 testimony, in looking at the outages on these lines
9 going to the hydro units, I think your testimony is
10 that the -- there's a suggestion that the outages were
11 caused by "either danger trees were not identified and
12 removed or that deadwood above the conductors was not
13 removed." So, I'm just wondering how -- so, basically,
14 if either of those things happened, and those actions
15 were unreasonable, then there wouldn't be recoupment?

16 A. (Cannata) That is correct.

17 Q. But these actions occurred back in 2010. I mean,
18 what's the process for working through these issues, to
19 determine whether there will be recovery or not
20 recovery?

21 A. (Cannata) You know, let's just maybe talk about Garvins
22 Falls first. The majority of the outages that occurred
23 occurred directly after completion of vegetation
24 control for the circuits. It had just been completed.

1 And, to have two, three, four outages take place
2 because of vegetation raises the question on "was the
3 circuit maintained properly for a vegetation management
4 basis?" Those investigations are a little bit beyond,
5 you know, what I'm doing in terms of the unit outage.
6 So, what I requested was, that they go back to 2011, do
7 a full vegetation management inspection. Did the trees
8 get trimmed according to specs? Did danger trees get
9 identified and removed? If "yes", fine. If "no",
10 well, there may be an issue. And, I was not ready to
11 sign off on the dollars on each of these, the Canaan
12 and the Garvins case, because of that.

13 Q. And, what are the dollars that are involved here?

14 A. (Cannata) They, again, would be small. I mean, these
15 are hydro outages. Some of them may be zero. And,
16 it's more of a principle thing. If vegetation
17 management is not taking care of this circuit, there
18 may be other circuits. And, one of the benefits of
19 having another pair of eyes look at this is that, well,
20 here's an instance we discovered that cost zero
21 dollars, in terms of a problem. But we now identified
22 a process problem that now may save additional money
23 somewhere else. So, that's why I kind of home in on
24 these issues, even though they may be low cost.

1 Q. And, if it's deferred to 2012, you would also be
2 looking at the performance in 2011 of these particular
3 lines?

4 A. (Cannata) This is one of the time problems we have with
5 the SCRC docket. By the time we get to review it, 2011
6 is gone. You know, even if PSNH were to immediately
7 look at the circuits, it's already the end of 2011.
8 And, therefore, any corrections that they made would
9 not be evident in the 2011 filing. It would not show
10 till 2012. It's a problem we have to deal with in
11 every SCRC. And, we have that with the studies that,
12 even the analysis that PSNH made on the voltage/relay
13 problems that they're having, they started to make
14 changes at the end of 2010. Well, it had no impact for
15 the outages during 2010. We won't even see that until
16 the next time those outages are reviewed. There's just
17 a year's time delay.

18 CHAIRMAN GETZ: Okay. I don't have
19 anything further on those issues. Any redirect?

20 MR. EATON: Yes. I have a couple of
21 questions for Mr. White.

22 **REDIRECT EXAMINATION**

23 BY MR. EATON:

24 Q. I think, in questioning, you said that there are two

1 reasons why a plant might run out-of-rate. One was a
2 decision by PSNH and one was a decision by ISO?

3 A. (White) Yes. That's correct.

4 Q. And, would that operation displace any bilateral
5 purchases that you had made in advance of that time?

6 A. (White) Well, I don't know if "displaced" is the right
7 word. A bilateral purchase that was made would flow --
8 would be delivered regardless whether generation was
9 operating or not. In our analysis of what resources
10 are serving load, in that sense it would displace it,
11 and perhaps push in our analysis the bilateral purchase
12 higher up the load curve.

13 Q. And, it would make sense, if that bilateral purchase
14 was surplus, to sell it?

15 A. (White) It's either -- if it's surplus to our load,
16 it's either sold through the ISO spot market or we may
17 make a determination on our own to sell it bilaterally.

18 MR. EATON: Thank you. That's all I
19 have.

20 CHAIRMAN GETZ: Anything further?

21 MS. AMIDON: Yes.

22 CHAIRMAN GETZ: Ms. Amidon.

23 MS. AMIDON: Right. And, I'd like to
24 defer to Mr. Mullen, if I may.

1 BY MR. MULLEN:

2 Q. Mr. Baumann, could you -- I want to just talk to you a
3 little about the pension plan and how that works.

4 A. (Baumann) Mr. Cannata's pension plan or --

5 Q. Just in general, --

6 A. (Baumann) Sorry, I couldn't resist.

7 Q. -- how that works.

8 A. (Baumann) Sure.

9 Q. The pension plan is a defined benefit plan, is it not?

10 A. (Baumann) Yes.

11 Q. And, how are benefits determined under those, generally
12 speaking, how are benefits determined?

13 A. (Baumann) Well, the benefits under those plans are
14 determined through a formula. And, those benefits are
15 -- take into consideration an applicant's age, time
16 with the Company, and there are limitations, i.e., how
17 early you can retire. There are penalties, if you
18 retire earlier than a certain age.

19 Q. They're not -- the benefits, once determined, do they
20 change based on outcomes of any proceedings?

21 A. (Baumann) No.

22 MR. MULLEN: Thank you.

23 CHAIRMAN GETZ: Okay. If there's
24 nothing further, then the witnesses are excused. Thank

1 you, gentlemen.

2 Is there any objection to striking the
3 identifications and admitting the exhibits into evidence?

4 (No verbal response)

5 CHAIRMAN GETZ: Hearing no objection,
6 they will be admitted into evidence. Is there anything we
7 need to address before opportunity for closings?

8 (No verbal response)

9 CHAIRMAN GETZ: Hearing nothing, then
10 we'll begin with Ms. Hatfield.

11 MS. HATFIELD: Thank you, Mr. Chairman.
12 The OCA would like to begin by thanking the Company for
13 its willingness to discuss the next filing, which would be
14 due in May of 2012, for review of the 2011 year. We have
15 found Staff's testimony to be extremely helpful in
16 understanding the Company's filing. And, we appreciate
17 their willingness to at least discuss the possibility of
18 them providing some of the information as it has been
19 organized by Staff.

20 We request that in its order the
21 Commission make clear that Mr. Cannata's testimony about
22 future spending, future budgets, or anything of that
23 nature is not a pre-approval of future amounts to be spent
24 in future years, as the Company has suggested in the IRP

1 docket.

2 We believe that, because the Company
3 knew in 2009 that economic reserve shutdowns were
4 occurring due to lower market rates, they should have
5 modeled and planned for those shutdowns in 2010. As a
6 result, we do not believe it's fair that customers should
7 have to pay the full total net loss of \$11.6 million that
8 resulted from the sales that PSNH made of energy that they
9 did not need. At a minimum, we think it would be fair if
10 shareholders shared in the costs with ratepayers, perhaps
11 splitting it between ratepayers and shareholders.

12 And, finally, we request that the
13 Commission issue an RFP next year for the reconciliation
14 docket for consulting services. And, we specifically
15 request that part of that RFP specify that the consulting
16 team should not only have engineering experience, but also
17 should have significant experience with running and
18 managing plants in what Staff has referred to as a "market
19 environment". Thank you.

20 CHAIRMAN GETZ: Thank you. Ms. Amidon.

21 MS. AMIDON: Thank you, Mr. Chairman.
22 I'd like to thank the Company for working with Staff on
23 the Settlement Agreement. And, I'd like to thank Mr.
24 Cannata for his contribution in the review of the

1 reconciliation filing.

2 Having said that, we request that the
3 Commission approve the Settlement Agreement. And, with
4 respect to the outstanding issue regarding the acquisition
5 of in-house capability for transient analysis, we await
6 the Company's response, which we understand will be
7 available in two weeks. And, we'll comment to the
8 Commission at that point about Staff's review of such
9 recommendation.

10 CHAIRMAN GETZ: Okay. Thank you. Mr.
11 Eaton.

12 MR. EATON: Thank you, Mr. Chairman. We
13 appreciate the cooperation from the OCA and Staff in this,
14 in this proceeding. The discussions went quite well, and
15 the discovery was without any incidents.

16 I'd like to first state that the record
17 shows that PSNH did model for economic shutdowns, as noted
18 in the fact that there were models of economic shutdown
19 for the Newington plant. But Mr. White stated that the
20 Company's projection of the market was that the coal
21 plants would run all the time that they were available.
22 And, it's been characterized that these were -- these were
23 "losses". In many cases, the overall benefit was
24 positive, in the fact that PSNH decided to operate a

1 plant, like Merrimack Station, throughout the night, when
2 it would otherwise be shut down for economic purposes, was
3 running out-of-market during the low cost peak periods.
4 But, to shut Merrimack down, requires a reduction --
5 requires the plant to actually come down to a cold period,
6 and then heat up again, which may make it not available
7 for when loads return in the morning. So, it's although
8 not reflected in the actual costs of the periods involved,
9 it's an overall benefit to keep it running.

10 And, then, secondly, sometimes it runs
11 out-of-rate because ISO requires it to do that. And, when
12 ISO requires it to run out-of-rate, the Company is fully
13 compensated. It's perhaps reflected in the ISO bill and
14 the ISO costs that are reflected in a different part of
15 the filing. And, so, it may appear that a base load plant
16 ran out-of-rate and there was a loss there, but it was not
17 -- it was not an actual loss. So, these are economic
18 decisions we make based upon all of the circumstances
19 involved. And, therefore, the recommendation that we were
20 somehow at fault, because we didn't model economic
21 shutdowns, is not correct. And, I don't think there's a
22 record to reflect that.

23 And, therefore, I'd ask the Commission
24 to accept the Settlement as it's filed, and make such

1 other orders that are just and reasonable. Thank you.

2 CHAIRMAN GETZ: Okay. Thank you,
3 everyone. Then, we'll close the hearing and take the
4 matter under advisement.

5 (Whereupon the hearing ended at 11:53
6 a.m.)

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