correspond to low, reference/mid, and high wholesale energy prices. I also used low, reference/mid, and high environmental control requirements that correspond to the range of possible outcomes that should have been expected by a prudent manager in 2008/2009. Exhibit 6: 2008/2009 Environemental Retrofit Assumptions for Merrimack Station provides a summary of the environmental control assumptions used in my analysis.

Figures 5 and 7 show five scenarios with five different combinations of these assumptions:

- Scenario 1: Reference Case: Reference/mid gas price and reference/mid environmental control requirements.
- Scenario 2: Low gas price and low environmental control requirements.
- Scenario 3: High gas price and high environmental control requirements.
- Scenario 4: High gas price and low environmental control requirements.
- Scenario 5: Low gas price and high environmental control requirements.

These five scenarios were chosen to demonstrate the range of likely future net benefits from Merrimack Station in the event that the scrubber was constructed.

Q. Is this typical of how a utility should project future cashflow?

A. Yes.

Q. Based on your analysis as summarized in Exhibit 7: Net Present Value of Net Benefits to Ratepayers of Continued Operation of Merrimack (PDF document), what should a reasonable and prudent utility manager have concluded about whether or not constructing the scrubber would provide net benefits to ratepayers?

A. As shown in Exhibit 7, at Merrimack's 2008 capacity factor of 72 percent four out of five of these scenarios resulted in negative net benefits (that is, net costs) for ratepayers. The only scenario in which building the scrubber resulted in net benefits for ratepayers was one in which both gas prices were high (resulting in high energy replacement costs for PSNH in the Merrimack retirement case) and

environmental control requirements were low (resulting in low capital addition costs for PSNH in the continued operation of Merrimack case). In this scenario, net benefits to ratepayers would be expected as long as the Merrimack's capacity factor did not drop below 40 percent.

A reasonable and prudent utility manager would have concluded that it was more likely than not that contructing the scrubber would result in net costs, and not net benefits, to ratepayers.

Q. Based on your analysis, would it be reasonable and prudent to assume that gas prices would be high and environmental control costs low?

A. It would not. The assumptions represented in the Reference Case are what a prudent manager would have considered most likely in March 2009. But a prudent manager should also have taken into consideration that there was a possibility of higher or lower gas prices and more or less stringent environmental control requirements. An assumption that the low environmental retrofit, high gas price scenarios would take place with certainty would have been unfounded.

Q. Are you familiar with N.H. Rev. Stat. § 369-B:3-a, which provides that: The sale of PSNH fossil and hydro generation assets shall not take place before April 30, 2006. Notwithstanding RSA 374:30, subsequent to April 30, 2006, PSNH may divest its generation assets if the commission finds that it is in the economic interest of retail customers of PSNH to do so, and provides for the cost recovery of such divestiture. Prior to any divestiture of its generation assets, PSNH may modify or retire such generation assets if the commission finds that it is in the public interest of retail customers of PSNH to do so, and provides for the cost recovery of such modification or retirement?

A. Yes.

Q. In your opinion, based on the information that PSNH had available to it in early 2009, before commencing major construction, would it have been economically prudent for the company to consider divestiture or retirement of Merrimack Station?