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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

August 11, 2009 - 10:15 a.m.
Concord, New Hampshire

RE: DE 09-033
PUBLIC SERVICE OF NEW HAMPSHIRE:
Petition for Approval of the Issuance
of Long Term Debt Securities.

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Public Service of New Hampshire:
Catherine E. Shively, Esq.

Reptg. Conservation Law Foundation:
Melissa A. Hoffer, Esq.

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

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Thomas C. Frantz, Director - Electric Div.
Steven E. Mullen, Asst. Dir. - Electric Div.

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

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WITNESS: RANDY A. SHOOP

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P R O C E E D I N G

1
2 CHAIRMAN GETZ: Okay. Good morning,
3 everyone. We'll open the hearing in docket DE 09-033. On
4 February 20, 2009, Public Service Company of New Hampshire
5 filed a petition seeking authority to issue up to
6 \$150 million in principle amount of long-term debt
7 securities through December 31, 2009, and mortgage its
8 property in connection with the issuance of long-term debt
9 to enter into an interest rate transaction, to manage
10 interest rate risk, and to increase its short-term debt
11 limit to 10 percent of net fixed plant, plus a fixed
12 amount of \$60 million. The order of notice was issued on
13 March 6, which, among other things, scheduled a prehearing
14 conference for March 29. Subsequently, on June 19th, an
15 order was issued defining the scope of the proceeding.

16 Let's take appearances at this time
17 please.

18 MS. SHIVELY: Good morning. Catherine
19 Shively, for Public Service Company of New Hampshire.

20 CHAIRMAN GETZ: Good morning.

21 CMSR. BELOW: Good morning.

22 CHAIRMAN GETZ: Ms. Hoffer.

23 MS. HOFFER: Melissa Hoffer,
24 Conservation Law Foundation.

1 CHAIRMAN GETZ: Good morning.

2 CMSR. BELOW: Good morning.

3 MS. HOFFER: Good morning.

4 MS. HATFIELD: Good morning,

5 Commissioners. Meredith Hatfield, for the Office of
6 Consumer Advocate, on behalf of residential ratepayers,
7 and with me is Ken Traum.

8 CHAIRMAN GETZ: Good morning.

9 CMSR. BELOW: Good morning.

10 MS. AMIDON: Good morning. Suzanne
11 Amidon, for Commission Staff. And, to my far left is Tom
12 Frantz, who is the Director of the Electric Division, and
13 to my immediate left is Steve Mullen, who is the Assistant
14 Director of the Electric Division.

15 CHAIRMAN GETZ: Good morning.

16 CMSR. BELOW: Good morning.

17 CHAIRMAN GETZ: Is there anything we
18 need to address before we hear the direct presentation
19 from the Company?

20 MS. HOFFER: I just have a few
21 preliminary matters. I just did want to alert the
22 Commission to the fact that CLF plans to file a Motion for
23 Rehearing on the Commission's August 6 denial of our
24 Motion to Compel in this matter. And, we, for the record,

[WITNESS: Shoop]

1 I just would like to note our objection to proceeding here
2 today before the 30 day period for rehearing has expired.

3 CHAIRMAN GETZ: Okay. So noted.

4 Anything else?

5 (No verbal response)

6 CHAIRMAN GETZ: Hearing nothing, then,

7 Ms. Shively.

8 MS. SHIVELY: Okay. I'd like to call

9 Randy Shoop.

10 CHAIRMAN GETZ: Actually, off the record
11 for a second.

12 (Off the record.)

13 CHAIRMAN GETZ: Okay. Back on the
14 record.

15 (Whereupon Randy A. Shoop was duly sworn
16 and cautioned by the Court Reporter.)

17 RANDY A. SHOOP, SWORN

18 DIRECT EXAMINATION

19 BY MS. SHIVELY:

20 Q. Would you please state your name and business address
21 for the record.

22 A. Randy Shoop, 107 Selden Street, Berlin, Connecticut.

23 Q. And, what is your position?

24 A. I am the Treasurer of PSNH, as well as Northeast

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1 Utilities and our other operating companies in
2 Connecticut, CL&P, and in Massachusetts, Western
3 Massachusetts Electric Company.

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

5 A. As a Treasurer, I have several duties. But, generally,
6 it is to assure the financing of those businesses,
7 raising long-term debt, short-term debt, in the capital
8 markets and bank markets, also responsibilities include
9 treasury operations, cash management, claims in
10 insurance areas, and pension investments.

11 Q. Okay. And, are you familiar with the petition the
12 Company filed in this proceeding?

13 A. Yes.

14 Q. And, did you also prepare testimony in this proceeding?

15 A. Yes.

16 MS. SHIVELY: I'd like to mark the
17 Company's petition and Mr. Shoop's testimony as "Exhibit
18 1".

19 CHAIRMAN GETZ: Be so marked.

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

23 BY MS. SHIVELY:

24 Q. And, Mr. Shoop, were certain of the attachments to the

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[WITNESS: Shoop]

1 Company's petition updated as the case proceeded?

2 A. Yes.

3 MS. SHIVELY: Yes. And, actually, in
4 response to a discovery request of the parties. And, we'd
5 like to mark that update as "Exhibit 2".

6 CHAIRMAN GETZ: That will be so marked.

7 (The document, as described, was
8 herewith marked as **Exhibit 2** for
9 identification.)

10 BY MS. SHIVELY:

11 Q. Okay. And, also, did you respond to data requests in
12 this proceeding as well?

13 A. Yes.

14 Q. I'd ask Mr. Hall to show you certain of the data
15 responses. And, were these prepared by you or under
16 your direction and supervision?

17 A. Yes.

18 MS. SHIVELY: And, we'd like to mark
19 those data responses as Exhibit 3.

20 MS. HATFIELD: Mr. Chairman, could we
21 get a copy of Exhibits 2 and 3?

22 MR. HALL: Yes.

23 CHAIRMAN GETZ: Okay. They will be
24 marked for identification as "Exhibit Number 3".

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[WITNESS: Shoop]

1 (The document, as described, was
2 herewith marked as Exhibit 3 for
3 identification.)

4 BY MS. SHIVELY:

5 Q. Now, Mr. Shoop, could you summarize your testimony in
6 the case for the Commission.

7 A. Yes. Sure. Although, I think the Commission
8 summarized it very good and briefly as well. This
9 application is asking generally for three requests:
10 The authority to increase the current short-term debt
11 limit to a fixed amount of \$60 million, that would be
12 10 percent of net fixed plant, plus \$60 million; also
13 for the issuance of long-term debt up to \$150 million
14 through the end of 2009; as well as the potential
15 execution of an interest rate management transaction.

16 Q. Okay. And, Mr. Shoop, is the Company's request
17 something you would consider a routine request, similar
18 to other requests that the Company has made in the
19 past?

20 A. Yes, very similar.

21 MS. SHIVELY: The witness is available
22 for cross-examination.

23 CHAIRMAN GETZ: Okay. Thank you.

24 Ms. Hoffer.

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[WITNESS: Shoop]

1 MS. HOFFER: Good afternoon, Mr. Shoop.

2 WITNESS SHOOP: Good morning.

3 MS. HOFFER: I'm Melissa Hoffer for
4 Conservation Law Foundation.

5 **CROSS-EXAMINATION**

6 BY MS. HOFFER:

7 Q. Can you point me to the place in your testimony where
8 you discuss rate impacts of the proposed financing?

9 A. I don't believe that is included in my testimony.

10 Q. Can you tell me if PSNH has calculated the impact of
11 the proposed financing on either the Energy Service,
12 distribution, transmission rates?

13 A. There was a data request asking for that, and we did
14 provide that.

15 MS. HOFFER: Okay. I happen to have a
16 few copies of that data request.

17 (Atty. Hoffer handing document to the
18 witness.)

19 CHAIRMAN GETZ: Is that part of
20 Exhibit 2 or Exhibit 3 or is this another data response?

21 MS. HOFFER: I don't plan to introduce
22 it as an exhibit.

23 MS. SHIVELY: It is part of Exhibit 3.

24 MS. HATFIELD: It begins on Page 24, I

[WITNESS: Shoop]

1 believe.

2 BY MS. HOFFER:

3 Q. Maybe taking a moment to review this, Mr. Shoop, can
4 you state for the record what you had calculated the
5 impact on Energy Service rates to be?

6 A. As this data request provides that response, I believe
7 that the cost of this bond issue would be very
8 immaterial. As this response calculates, all things
9 being equal, and this gets to be a very specific
10 request, because there's many other things that would
11 go into the cost of Energy Service. But, as it relates
12 to this financing, the increased cost would be
13 approximately two one-thousandths of a cent per
14 kilowatt-hour, 0.00002.

15 Q. Thank you. Did the Company perform a calculation of
16 what the impact would be on the distribution rates?

17 A. We did not provide that. But, generally speaking,
18 distribution rate base is about double generation. So,
19 rough numbers, that number would be about four
20 one-thousandths, 0.00004 cents per kilowatt-hour.

21 Q. Did the Company perform a calculation of what the
22 impact of the proposed financing would be on
23 transmission rates?

24 A. I'm not aware of that. And, I, frankly, can't even

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1 give you a good, rough ballpark.

2 Q. And, so, as of today, do you have or could you tell us
3 what the total rate impact of the proposed financing
4 will be?

5 A. No, I really don't know that, because I don't know the
6 transmission piece. Suffice it to say, I think it
7 would be very immaterial.

8 Q. Thank you. PSNH in this response provided the
9 estimated Energy Service rate impact and the
10 calculation therefore for 2009. Does the Company or
11 can you tell us today what the impact on Energy
12 Service, distribution and transmission rates of the
13 proposed financing will be for the years 2010, 2011,
14 2012, and 2013 will be?

15 A. I don't have that information available for you. But,
16 again, it would be very immaterial, because it's the
17 increase of this financing over the rate base. Without
18 a significant increase in the rate base, it's still
19 going to be an immaterial number, on a per kWh basis.

20 Q. Has PSNH projected the average rate base for 2013?

21 A. I don't have that information with me, no.

22 Q. If you would turn to Workpaper 1, which is attached to
23 the data request that I provided to you.

24 A. Yes.

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[WITNESS: Shoop]

1 Q. Could you walk us through how the calculation was
2 performed?

3 A. Workpaper 1 has the average rate base of about \$384
4 billion -- million dollars -- billion dollars. It then
5 increases or it then takes a 0.04 percent, which is a
6 reference to the Workpaper Number 2, and basically what
7 that 0.04 represents is an increase in the weighted
8 average cost of capital by doing this transaction. So,
9 you have the expected increase in the weighted average
10 cost of capital, times the rate base, is a resulting
11 increase in revenue requirements of about 163 million.

12 CMSR. BELOW: Excuse me, isn't that a
13 thousand there?

14 WITNESS SHOOP: 384 million. I said
15 "billion", didn't I? 384,115,000, that's correct. So,
16 the increase in revenue requirement is about 163,000,
17 divided by sales in kilowatt-hours, gives you the impact
18 on Energy Service of about two one-thousandths of a cent.

19 MS. HOFFER: Thank you.

20 BY MS. HOFFER:

21 Q. Does Line D reflect the forecasted sales across all
22 customer classes?

23 A. I'm not certain of that. But I believe that would be
24 true.

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[WITNESS: Shoop]

1 Q. Focusing on Line D again, "Sales in kilowatt-hours",
2 could you tell us what assumption PSNH used in
3 determining that the 2009 forecasted sales in
4 kilowatt-hours would be 7,963,325,000?

5 A. I don't know all the assumptions that support that
6 number.

7 Q. If Line D were to decrease, the impact of the financing
8 on Energy Service rates would increase, correct? So,
9 for example, if we halved the forecasted sales, we
10 would see an approximate doubling in the impact on
11 rates?

12 A. It certainly would have that impact on rates, the
13 simple math, dividing it over that sales.

14 Q. Has PSNH calculated its rate impacts with an eye toward
15 accounting for synergistic effects of the increase in
16 average rate base and potential decrease in sales?

17 A. Not to my knowledge.

18 MS. HOFFER: Thank you. That's all.

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

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

23 WITNESS SHOOP: Good morning.

24 BY MS. HATFIELD:

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[WITNESS: Shoop]

1 Q. Is it true that the proposed financing will be used to
2 fund projects within generation, distribution, and
3 transmission parts of the Company?

4 A. Not directly, but that's a true statement.

5 Q. Can you expand on that?

6 A. Sure. The use of the proceeds, as I've said in the
7 testimony, and we've asked -- answered a number of
8 interrogatories as well, is used to -- will be used to
9 refinance existing short-term debt, both incurred from
10 our revolving credit facility that PSNH has with a
11 syndication of banks, as well as monies that may have
12 been incurred through the NU System money pool.
13 Conversely, those balances that were drawn on those two
14 facilities were used to fund working capital, as well
15 as capital expenditures, including projects, such as
16 generation, transmission, and distribution. But
17 there's just not a direct link between use of proceeds
18 and a specific project.

19 Q. And, in your testimony in this case that I believe has
20 been marked as "Exhibit 1", do you discuss the uses of
21 the proceeds, in terms of specific projects or even
22 types of projects?

23 A. I'm not sure that that specific uses of proceeds is
24 addressed in the testimony, but it certainly is

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1 addressed in a number of places in the interrogatories
2 that followed.

3 Q. I'd like to show you one of your responses to a data
4 request. If you could just identify that it is a
5 response that you made?

6 A. Yes, it is a response.

7 Q. And, it shows on the upper right-hand corner this is
8 Staff Number 2 -- excuse me, Staff Set 2, and also
9 Question Number 2, dated April 17th, 2009, is that
10 correct?

11 A. Yes.

12 Q. If you would look at the second paragraph of your
13 response, it states "The primary reason that operating
14 revenues have been increased each year is due to the
15 assumed rate relief for all segments to cover
16 [recover?] higher projected operating costs and the
17 return associated with the Company's capital
18 investment." Do you see that?

19 A. Yes.

20 Q. Can you explain what you mean when you use the term
21 here "rate relief"? We usually think of "rate relief"
22 at the OCA as "rate relief for customers". But it
23 sounds like here you're actually using the term in a
24 different way.

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[WITNESS: Shoop]

1 A. Yes, I would agree with that interpretation. And, as
2 it relates to this sentence, "rate relief" would be
3 additional income to PSNH.

4 MS. HATFIELD: Mr. Chairman, I'd like to
5 have this marked as an exhibit.

6 CHAIRMAN GETZ: We will mark it for
7 identification as "Exhibit Number 4".

8 (The document, as described, was
9 herewith marked as **Exhibit 4** for
10 identification.)

11 MS. SHIVELY: Okay. Do you also have
12 the attachment that goes with that?

13 MS. HATFIELD: I don't. I just have
14 this one page. I'd be happy to supplement it, though.

15 MS. SHIVELY: Yes. I would object to it
16 being marked without the attachment that goes with it.

17 CHAIRMAN GETZ: Well, it does say "Page
18 1 of 2". We'll complete it with the second page and we'll
19 mark it for identification.

20 MS. AMIDON: Mr. Chairman, just to let
21 you know, Staff will be offering an exhibit which includes
22 several data requests and responses, and this is one of
23 them, and Page 2 will be in that, --

24 CHAIRMAN GETZ: Okay. Thank you.

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[WITNESS: Shoop]

1 MS. HATFIELD: Thank you.

2 MS. AMIDON: -- in that exhibit.

3 BY MS. HATFIELD:

4 Q. Mr. Shoop, will you be seeking tax-exempt status for
5 any of the financing that's the subject of this
6 proceeding?

7 A. Not at this time, no.

8 Q. And, why not?

9 A. Historically, tax-exempt financing has been more
10 attractive than a taxable financing, which this
11 transaction would be, if we receive such order. Given
12 the current conditions in the credit markets,
13 tax-exempt paper does not have that same historical
14 attractiveness to it. As a matter of fact, near year
15 end 2008, tax-exempt rates were, in fact, even higher
16 than taxable rates. Something you would not expect.
17 Historically, the number has been maybe 80 to
18 85 percent of taxable rates. That number is probably
19 more like 95 percent of taxable rates today. So, the
20 historical advantage doesn't present itself in the
21 market today.

22 At the same time, we're not fully
23 prepared to seek a tax-exempt financing under the IRS
24 Code for a qualifying project of a potential -- of the

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1 potential project that might qualify with the Scrubber
2 Project that is in process. But, again, a lot more
3 work would have to be done to determine if it
4 qualified. And, if it qualified, how much of the
5 project's costs would qualify. But we could certainly
6 do that in the future.

7 Q. And, do you think that the Company will pursue that in
8 the future?

9 A. I think that there's certainly a good opportunity for
10 us to continue to look at that, continue to work with
11 engineers, lawyers, tax lawyers particularly, on
12 whether a significant portion of the project could
13 qualify. You know, and "significant" might be 25,
14 30 percent of those project costs, to make a meaningful
15 transaction of maybe \$100 million would be a nice size
16 transaction that you could go to the market with. But
17 much more work would need to be done to do that.
18 Again, we filed for and received an inducement
19 resolution from the Business Finance Authority at the
20 beginning of this year. And, that's a significant
21 event, in that at least it gets us in the hopper, that
22 costs that have been incurred, if they so qualify,
23 would qualify for a tax-exempt financing.

24 Q. During discovery I believe you stated in response to a

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1 Staff question that "Northeast Utilities was
2 anticipating making a capital contribution to PSNH in
3 June of 2009." Do you recall that?

4 A. Yes.

5 Q. And, I believe Staff will be putting that response into
6 the record. It's Staff 2-001. Did that capital
7 contribution occur?

8 A. Yes, it did.

9 Q. What was the amount of it?

10 A. I'm sorry, I don't have that number in my memory. I
11 think it was \$12 million. I'm sorry, 50 -- No, the
12 June you said was \$52 million; 12 million is September
13 projected.

14 Q. Thank you. In this case, is PSNH requesting the
15 additional \$60 million of short-term debt with no end
16 date to that increase in the short-term debt?

17 A. Yes, we are. And, what we would do is, we would
18 continue to assess that level at the next financing,
19 which, by the way, is probably not too long in our
20 future. 2010 we're currently estimating that we could
21 be looking at an additional \$250 million, \$300 million;
22 in 2011, probably another 250, \$300 million. So,
23 again, to this point, I view this as a normal request,
24 and that we'll come back to the Commission to seek

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1 authority to issue long-term debt. When we do that,
2 we'll do that always with an eye towards the short-term
3 debt authority of PSNH and that net debt plant -- net
4 plant test. But I do believe that the 10 percent, plus
5 the \$60 million, would be sufficient to get us to that
6 next point.

7 Q. Also during discovery you were asked a question about
8 the impact that a credit downgrade would have on PSNH's
9 ability to complete planned capital projects. Do you
10 recall that?

11 A. Yes.

12 Q. And, do you recall stating that "no changes in PSNH or
13 NU ratings or stable outlook are anticipated"?

14 A. I do.

15 Q. Is that still true today?

16 A. There was a -- there was an increase in Moody's rating
17 of PSNH, and, frankly, all of our operating utilities,
18 and, more globally, utilities across the United States,
19 in mid August. It was only about two weeks ago, mid
20 July. What they did is they increased PSNH's secured
21 rating to A3, from BAA, BAA3 -- BAA3 to A3. It was a
22 technical matter. Frankly, it has no impact on the
23 capital markets whatsoever. It was more or less priced
24 in. So, we won't get any benefit from it,

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[WITNESS: Shoop]

1 unfortunately.

2 MS. HATFIELD: One moment please.

3 BY THE WITNESS:

4 A. I'm sorry, I said that wrong, too. It's BAA1 to A3.

5 BY MS. HATFIELD:

6 Q. I'd like to have you identify another response to a
7 data request.

8 (Atty. Hatfield distributing documents.)

9 MS. HATFIELD: I'd like to have this
10 marked as an exhibit.

11 BY MS. HATFIELD:

12 Q. Mr. Shoop, can you see that this is your response to
13 Staff Set 1, number 17?

14 A. Yes.

15 Q. And, do you see that the question asks you "why PSNH
16 uses a more general approach to long-term debt
17 financing rather than an approach using
18 project-specific financings"?

19 A. Yes.

20 Q. And, do you see that, in part, your response states
21 that "PSNH uses a more general approach to long-term
22 debt"?

23 A. Yes.

24 MS. HATFIELD: Thank you.

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[WITNESS: Shoop]

1 CHAIRMAN GETZ: Okay. We'll mark that
2 data response for identification as "Exhibit Number 5".

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

6 MS. HATFIELD: That completes my
7 questions. Thank you.

8 CHAIRMAN GETZ: Thank you. Ms. Amidon.

9 MS. AMIDON: Thank you. I have a
10 compilation of data requests and the responses associated
11 with them. I don't know if the witness has them, so I'm
12 going to see if he has a copy of that?

13 WITNESS SHOOP: I do have these.

14 MS. AMIDON: Okay. And, I'd ask this to
15 be marked for identification as "Exhibit 6".

16 CHAIRMAN GETZ: Be so marked.

17 (The document, as described, was
18 herewith marked as **Exhibit 6** for
19 identification.)

20 MS. AMIDON: Thank you.

21 BY MS. AMIDON:

22 Q. But, to begin with, I have just some general questions
23 regarding your testimony. In your testimony, and it's
24 in Exhibit 1, Bates stamp 90, you indicate that, at

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[WITNESS: Shoop]

1 Line 20, there is a statement that says "If the current
2 market conditions were to exist at the proposed time of
3 issuance, PSNH would most likely issue a \$150 million,
4 10-year, secured, Institutional Debt offering in the
5 second quarter of 2009." Now, the second quarter has
6 passed. But does this statement remain correct today?

7 A. In terms of the structure of a 10-year, secured,
8 institutional transaction, yes.

9 Q. Okay. Thank you. In your testimony, you also indicate
10 that the Company plans to conduct some kind of interest
11 transaction to reduce the risk of fluctuating interest
12 rates. Is that still true?

13 A. We did certainly ask for the potential to do that.
14 Given the passage of time, the likelihood of that
15 changes. Because, hopefully, we're getting nearer to
16 the point of issuing debt. And, you just don't have so
17 much uncertainty as to time. Having said that, I don't
18 know what the rates are tomorrow, I certainly don't
19 know what they are next week. So, I wouldn't want to
20 preclude the fact that we still might consider that.
21 But, as you get closer to the transaction, the
22 likelihood of doing it probably is not as great as it
23 was months ago.

24 Q. But the Company still would request approval to enter

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1 into such a transaction, if necessary?

2 A. Yes.

3 Q. Also in your testimony, and I believe that this was
4 updated in a data request that probably is before you,
5 I think it's Staff 12, you indicated that you were
6 going to request authority for a credit spread up to
7 600 basis points?

8 A. Yes.

9 Q. Has there been any changes in the market that would
10 cause you to change this request?

11 A. I wouldn't change the request, but credit spreads have
12 tightened significantly from the point where I felt
13 uncomfortable with the credit spread that we had, which
14 I believe was 400 basis points. We have seen a market
15 that was exceeding 400, 500, maybe 600 basis points.
16 So, we were at a position where we had authority to do
17 a transaction, but for the credit spread wasn't in that
18 range. So, we came back to the Commission and asked to
19 increase that to what seemed appropriate at the time,
20 600 basis points. I can tell you that that is fair in
21 excess, given to where today's market is on August
22 11th, I think that that number is probably well inside
23 of 225 basis points probably. But, again, I would
24 still like to have that flexibility.

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1 Q. And, the Company would attempt to get the lowest credit
2 spread, is that correct?

3 A. Absolutely.

4 Q. Okay. Thank you. What is PSNH's current outstanding
5 short-term debt and how does that compare with the
6 10 percent of net plant limit?

7 A. The current short-term debt is about \$45 million. The
8 short-term debt test at 10 percent, which, based on
9 June numbers, is I think approximately \$146 million.
10 So, we have flexibility today. As I showed in my
11 testimony, when we filed it back in February, I did
12 anticipate that short-term debt would be higher than
13 where it is today, arguably, maybe some \$75 million
14 higher. It's not to that level. I would still seek to
15 look for the increase in short-term debt authority, as
16 I do believe that our forecasts say that we will still
17 be at a level, as early as maybe mid September, late
18 September, that we could be again pushing against that
19 short-term debt test, and certainly would be there, you
20 know, probably in the October timeframe.

21 Q. And, what are the causes of the Company going up
22 against the limit?

23 A. Primarily, the reason that we aren't where we had
24 expected to be back in February is primarily associated

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1 with our capital expenditure plans. They are running
2 short of where we anticipated being, by probably some
3 50 to \$75 million. We do believe those numbers will
4 catch up before the end of the year. So, I don't
5 believe that it's a permanent issue, I believe it's a
6 temporary issue. What I thought was maybe some
7 pressure in the May timeframe is just extending out to
8 might be September, maybe October, but I do believe
9 it's going to happen, and I'll find myself perhaps
10 outside of the boundaries without the additional
11 60 million request.

12 Q. And, this is not a data request that is in the package
13 before you, but, in response to an initial request
14 regarding the amount of current borrowing under the
15 revolving credit facility, March 31st, 2009, that
16 amount was 45,227,000. Has that changed? Do you have
17 an updated number for that?

18 A. I don't believe we've had any change to that.
19 Fortunately, we have had excess funds in the NU money
20 pool that PSNH has been able to take advantage of and
21 fund itself. You didn't ask the question, but, as of
22 today, they, in fact, have 5 to \$10 million invested in
23 the money pool, as opposed to borrowing it. But that
24 number can change. As a matter of fact, I think we did

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1 respond to a data request that showed that number could
2 fluctuate from an investment of 10, \$20 million, to a
3 borrowing of 50, 60, \$70 million, exactly the purpose
4 of the NU money pool.

5 MS. AMIDON: Uh-huh. Mr. Chairman, I'd
6 like to ask Mr. Mullen to conduct some examination. Thank
7 you.

8 MR. MULLEN: Good morning, Mr. Shoop.

9 WITNESS SHOOP: Good morning.

10 BY MR. MULLEN:

11 Q. As stated in the Company's petition, one of the things
12 that it was seeking approval for is the mortgaging of
13 property. Does the Company currently have its property
14 mortgaged?

15 A. Yes.

16 Q. So, is there any -- what difference would result from
17 this financing if it were to be approved?

18 A. No difference in terms of we would seek to issue a
19 bond, a First Mortgage Bond, which would be a secured
20 financing.

21 Q. Okay.

22 MR. MULLEN: Actually, before I get too
23 far, too, I wanted to, just as a housekeeping matter, for
24 the Exhibit Number 4, Attorney Shively was looking for

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1 Page 2, in the set of responses that Staff marked as
2 "Exhibit 6", I believe Page 2 is Page 15 of that package.

3 CHAIRMAN GETZ: Thank you.

4 BY MR. MULLEN:

5 Q. If you turn to Exhibit 1, Bates stamp Page 91, which is
6 part of your testimony.

7 A. Yes.

8 Q. Between Lines 4 and 5, there's a table in your
9 testimony that gives the Treasury yield, the credit
10 spread, and the coupon rate for a 5-year, 10-year, and
11 30-year institutional debt.

12 A. Yes.

13 Q. Could you -- Do you have available the current yields
14 and spreads and what the coupons would be for those
15 particular maturities?

16 A. I would be able to give you a rough idea, but, as you
17 know, those numbers change constantly. The 10-year
18 rate today, which is listed there as "2.63", is
19 probably 3.75; the 30-year, listed as "3.42", is
20 probably more in the "4.50" area; and the 5-year,
21 "1.66", is probably in the 2.75 area. The credit
22 spreads we show is 300 basis -- 3 percent, and a
23 10-year is likely to be significantly under that, I
24 would say probably in the 150 basis point area. The

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1 30-year is marginally more. It's not significant. You
2 know, maybe upwards of 175 basis points. And, equally,
3 there's not a lot of change in the yield curve on
4 spreads, the 5-year would be probably in the 125 area.
5 So, the resulting coupon today, on a 10-year, versus
6 the "5.63", would be more like a five and a quarter.

7 Q. And, these rates are all indicative of a utility rated
8 BBB, is that correct?

9 A. They would be rated as a BBB+. As I mentioned, there
10 was that ratings increase in Moody's, but that would
11 all be priced in there.

12 Q. If you --

13 A. I should add, though, that both the yields and the
14 spreads have been moving very much, you know, over the
15 past, you know, six months, or mostly probably longer
16 than that, since probably the last quarter of 2008.
17 Treasury yields were much higher than this. They're
18 lower today. You know, they could be widened out, you
19 know, next week.

20 Q. Based on the reduced credit spreads, and I know you
21 stated earlier that you most likely wouldn't revise the
22 request for a 600 basis point spread, but, if the
23 Commission were to stay with the existing 400 basis
24 point spread, do you believe that would cause you any

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1 problems?

2 A. You know, I don't believe that that would cause
3 problems. My only pause is that I've seen those rates,
4 and it hasn't been that long ago. I would not want to
5 find myself in a situation where, you know, we had
6 asked for 600, and on the stand, during testimony on
7 August 11th, I'd say "yes, 400 is probably okay."
8 Having said that, I think 400 is very wide of where I
9 think it could be done today, as I mentioned, that 150
10 area. But I never thought we would get to 600 in the
11 first place. So, I have a little concern that I'm not
12 able to accurately predict credit spreads.

13 Q. Okay. One other request in the petition was for the
14 authority to enter into an interest rate transaction.
15 Included in Exhibit 1, beginning on Page 63, is
16 Northeast Utilities' System Interest Rate Risk
17 Management Policies and Procedures. What types of
18 things does the Company look at to determine whether or
19 not it's going to enter into an interest rate
20 transaction?

21 A. As I mentioned earlier, the whole idea of having the
22 ability to have this tool is the ability to manage
23 interest rates to reduce the volatility related to
24 movements in interest rates. As we build our plan for

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1 the coming year, if we have a proposed debt financing,
2 we will factor in an interest rate for that plan. If I
3 have the ability to lock that in and reduce the
4 volatility around that, that might be something we
5 would consider. It's very difficult, because you
6 really have to consider economic forecasts, what's
7 happening in the economy today, what might be
8 forecasted for the next month, two, three months,
9 whenever you plan to do that issuance. We'd also work
10 very closely with investment banks to get their
11 insights into whether they thought it was an
12 appropriate time to enter into a transaction to manage
13 that volatility. That could be presented as interest
14 rates fluctuate.

15 Q. If you turn to Bates stamp Page 68 of Exhibit 1.

16 A. Yes.

17 Q. At the bottom of that page, there's Section 3.2.1,
18 under "Hedge Effectiveness and Ineffectiveness".

19 A. Yes.

20 Q. And, it says that "The Treasury Department is
21 responsible for measuring the effectiveness and
22 ineffectiveness of derivatives and hedges." How
23 exactly does the Treasury Department evaluate that?

24 A. Measuring hedge effectiveness is very complicated.

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1 FASB 133 dictates how hedge effectiveness has to be
2 measured. The importance of whether something is
3 effective or ineffective and how effective or
4 ineffective it is will bear itself out on whether the
5 accounting change is recorded in the income statement
6 or accounted for in the equity section under the title
7 of "other comprehensive income". So, it's a very
8 complicated set of methodology to determine
9 effectiveness. Basically, what it's trying to do is,
10 if you enter into a hedge transaction to hedge an
11 underlying treasury rate or an underlying swap rate,
12 you want to try to measure the changes in the value of
13 the interest rate versus the changes in the value of
14 what it is you tried to hedge in the first place. If
15 they move in tandem, it's generally effective. Is it
16 effective enough? That's where you go to the FASB to
17 see the methodology that they have in place. Equally,
18 if your hedge goes up and your transaction goes down,
19 it's not effective. It would be ineffective. And,
20 therefore, it might suggest different accounting
21 treatment, either bearing itself out in the income
22 statement or in the equity section under "other
23 comprehensive income".

24 Q. A few pages further, on Page 73, there's Section 5.4,

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1 related to auditing. Do you know if the internal Audit
2 Department of NU has reviewed the policy or, if it
3 plans to, if it has not?

4 A. To my knowledge, they probably have certainly reviewed
5 the policy. They have not done any specific audit of
6 any transactions that may have been done under the
7 policy. I think we answered an interrogatory on that
8 as well. And, I'm not aware of any future near-term
9 plans in regards to a potential audit around interest
10 rate management transactions.

11 Q. Related to specific transactions, if you turn in
12 Exhibit 6 to Page 11.

13 A. Could you help me with Exhibit 6 please?

14 Q. That was the set of responses that Staff introduced.

15 A. Okay. Exhibit 6. What --

16 Q. Page 11.

17 A. I can't read that.

18 MS. SHIVELY: Staff 1-16.

19 BY MR. MULLEN:

20 Q. And, it is a little hard to read. Unfortunately,
21 that's how the original was, too. As you look at it,
22 if you can see that there's a category for company, a
23 column for "company"?

24 A. Yes.

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1 Q. And, over on the right-hand side, the next to the last
2 column says "Settlement Received/Paid"?

3 A. Yes.

4 Q. Now, only the second and the last rows deal with PSNH,
5 is that correct?

6 A. You know, I really need to look at another copy,
7 because I cannot see this that well. I apologize.

8 CHAIRMAN GETZ: Ms. Shively, do you have
9 a cleaner copy?

10 MS. SHIVELY: Do you have that in your
11 book as "Staff Set 1, Question 16, or do you need mine?

12 WITNESS SHOOP: Yes, I am trying to find
13 that right now. Can everybody else see that?

14 MS. SHIVELY: No.

15 MR. MULLEN: If I squint.

16 WITNESS SHOOP: Okay. I do have a
17 better legible copy of it.

18 MR. MULLEN: Okay.

19 BY MR. MULLEN:

20 Q. If I look on the "Settlement Received/Paid" column, --

21 A. Yes.

22 Q. -- there are certain items there that have parentheses
23 and certain items that do not.

24 A. Correct.

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[WITNESS: Shoop]

1 Q. Could you differentiate between the two?

2 A. As it's kind of titled on the column, if it's a
3 bracket, that would mean that the Company paid on
4 settlement. If it was not a bracket, that would be
5 indicative of the Company receiving a payment on the
6 settlement date.

7 Q. So, why would the Company receive a payment, versus
8 when they would make a payment?

9 A. You would receive a payment because you locked in at a
10 rate that was lower than the rate on the settlement
11 date. Conversely, you would make a payment if you
12 locked in a rate that was higher than the rate that you
13 received on the settlement date. So, if I did a
14 transaction and I was trying to lock in an interest
15 rate of 5 percent, and come settlement date the rate is
16 actually 6 percent, then I would owe under that
17 scenario. If the rate on the settlement date was
18 4 percent, I would receive -- I said that backwards. I
19 would receive, if the rate was 4 percent, I would owe.

20 Q. So, are these looked at as like a form of insurance or
21 some sort of -- basically, what are you paying for?

22 A. It's not insurance. Again, it's a transaction where
23 you can try to attempt to take the volatility out of
24 interest rates. In my example, if I were able to lock

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1 in a 5 percent rate, and I was comfortable with that
2 rate, it might have synched up exactly we my internal
3 operating plans, you know, by viewing the economic
4 conditions, discussions with advisers, including banks,
5 thought it was a good idea to do that, we did a
6 transaction, we locked in at a 5 percent rate. Come
7 three months, six months, whatever it is when that
8 transaction settles, the transaction, in this case the
9 debt, is going to be priced at whatever the market is
10 going to dictate at that time. In my example, say the
11 market priced at 6 percent. Well, I locked in at
12 5 percent. What you do is you figure out the value
13 that the counterparty would have to pay me for that
14 1 percent differential over a cash flow that might be
15 10 years, for a 10 year maturity, or 20 years or 30
16 years. So, it's a net present value computation.

17 Q. All right. Now, turning to the beginning of Exhibit 6,
18 this set of discovery responses.

19 A. Yes.

20 Q. The first one is Staff Set 1, Question 2.

21 A. Yes.

22 Q. And, that goes through Page 4. If I look at Page 2,
23 right in the middle of the page there's a
24 "Capitalization" section.

[WITNESS: Shoop]

1 A. Yes.

2 Q. If I look at the "Long-Term Debt" line, and this goes
3 out from 2009 to 2013, could you tell me what's
4 happening on the "long-term debt" line, as I go from
5 year to year?

6 A. Obviously, the number is growing. It's indicative of
7 PSNH needing to go to the market and incur additional
8 long-term debt.

9 Q. And, those are the type of financings that you were
10 mentioning earlier, in terms of --

11 A. Yes, some 250, 350 per year.

12 Q. Okay. Now, if I move up to the "Common Equity" line,
13 and remembering my accounting, if I look at Page 4, --

14 A. I'm there.

15 Q. -- the top line of Page 4 shows "Net Income".

16 A. Yes.

17 Q. And, am I correct to say that the net income will get
18 rolled into the "Common Equity" line?

19 A. It's one of those components, yes.

20 Q. What else would be in there?

21 A. You know, any other changes in the equity account,
22 whether it would be equity contributions or dividends
23 would ultimately be reflected in there as well.

24 Q. And, I believe you stated that the Company does plan to

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1 make equity infusions as time goes on?

2 A. Yes.

3 Q. And, what's the main purpose of doing that?

4 A. We generally manage the capital structure of PSNH to
5 maintain a rating agency target of approximately
6 55 percent debt/45 percent equity. So, we will use
7 capital contributions to manage that capital structure.
8 Putting in equity when we need to, and taking it out in
9 the form of dividends also, on a quarterly basis,
10 typically, to again manage around that structured
11 target of 55 percent debt.

12 Q. And, what if that -- what if your capital structure
13 were to vary significantly from that target?

14 A. Well, you know, that's something that we manage very
15 closely. So, I would venture to say that's not
16 something that we would take lightly. We would try
17 everything we possibly could to maintain that
18 structure. If you did find yourself falling away from
19 that, ultimately it could have ratings agencies'
20 impacts, it could ultimately impact the cost of
21 financing both debt and equity.

22 Q. If you turn to Page 17 of this exhibit, --

23 A. Yes.

24 Q. -- and this is the beginning of a 13-page response to

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1 OCA Set 1, Question 2.

2 A. Yes.

3 Q. Could you tell us what this response shows?

4 A. This was a response to the question which generally
5 asked to describe the Company's planned capital program
6 for 2009. On Page 18, it would summarize that on an
7 estimated cash requirements for 2009 of approximately
8 \$294 million.

9 Q. How often is this prepared?

10 A. I believe it's prepared annually, and adjusted, you
11 know, as we move through the year. Though, I'm not
12 specifically aware of that.

13 Q. I believe that it says on the cover page of that
14 response that it's filed with the Commission as part of
15 the Monitoring docket.

16 A. Again, I'm not personally familiar with that. But, if
17 that's what is stated, I believe that to be true.

18 Q. Okay. When this budget is prepared, do you know if
19 this is done on a "needs" basis or is it done on "if we
20 get financing approval, here's what we'd like to do"?

21 MS. HOFFER: I just would like to note
22 my objection to the witness's further testimony on this
23 point, if he lacks personal familiarity with the data
24 contained in the exhibit.

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1 CHAIRMAN GETZ: Ms. Shively, do you have
2 a response to the objection?

3 MS. SHIVELY: I think that he's
4 certainly familiar with the construction budget, you know,
5 generally, in terms of what it is and what's in it. If
6 there are specific questions about line items, you know,
7 he may or may not be able to answer them. And, if he
8 can't, we do have witnesses that are competent to do that.

9 CHAIRMAN GETZ: Well, I'm going to
10 permit him to respond, but making it clear of what he has
11 personal knowledge of and what he's unfamiliar with on the
12 record.

13 MS. SHIVELY: I mean, I believe what he
14 said was he was "not familiar whether or not this budget
15 was filed with the Commission." That doesn't equate to
16 non-familiarity with the budget generally.

17 CHAIRMAN GETZ: Okay. You can proceed,
18 Mr. Mullen.

19 **BY THE WITNESS:**

20 A. To answer your question, I was addressing the fact that
21 I didn't know if this was or wasn't filed with an
22 ongoing application. I am generally aware of the 2009
23 Construction Budget, as it's laid out here, 240 --
24 approximately \$294 million, broken out in the various

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1 segments between distribution, generation, and
2 transmission. I don't exactly know the parameters
3 around how the budget is developed. It certainly isn't
4 developed whether we can finance it or not. We develop
5 the budget based on -- based more on "need", to your
6 reference, and then we make sure that we will be able
7 to finance this capital budget. But we don't get the
8 cart before the horse, if you will.

9 BY MR. MULLEN:

10 Q. Okay. Before I continue with this one, if you were to
11 turn to the last page of this exhibit, Page 54?

12 A. Yes.

13 Q. I believe earlier you had some testimony about how PSNH
14 does not engage in project-specific financing, reading
15 from another response?

16 A. Yes.

17 Q. If you could just review the response to Part (b) of
18 this, and then summarize that in terms of how PSNH
19 manages its working capital?

20 A. Yes. This specific question is in response to a
21 question of whether we would consider project-specific
22 financing. And, this indicated in this question, and
23 certainly the other as well, we don't do
24 project-specific financing. It's much more attractive,

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1 from the Company's point of view, vis-a-vis rates, to
2 do a general financing under our First Mortgage Bond.
3 That would be the most beneficial rate we would be able
4 to receive in terms of coupon rate for customers. If
5 we were to do a project-specific financing, which could
6 potentially involve a lot of restrictions, different
7 covenants, different structural components to it, it
8 would come at a cost. And, I assure you it would be
9 higher than a general First Mortgage Bond. So, that's
10 why we wouldn't do it.

11 We generally use the NU System money
12 pool, as well as PSNH's access to its revolving credit
13 facility to fund working capital, as well as capital
14 expenditures. We'll draw off of those facilities as we
15 need financings, pay them back as we have excess cash.
16 Two, as we increase those balances to a significant
17 amount, that are probably, in all likelihood, other
18 than temporary, we would seek to refinance those in the
19 long-term debt markets. So, we finance long-term
20 assets with long-term debt. And, in this case, in this
21 request we would be looking to do \$150 million. We
22 would use the proceeds of that \$150 million issuance to
23 pay back the revolving credit facility. As I said, it
24 only has \$45 million on it today. And, we would also

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1 use it to repay any money pool borrowings, if they were
2 outstanding, and there aren't any today. So, what we
3 would do is we would put the excess cash into the NU
4 System money pool to make available to other
5 participants. Always knowing that that money is
6 available on demand for PSNH, to continue funding its
7 working capital and capital expenditure plans.

8 Q. Okay. If you turn back to the response that starts on
9 Page 17.

10 A. Yes.

11 Q. And, as I flip through the pages, it appears to list a
12 lot of projects in various segments of the Company, is
13 that correct?

14 A. Yes.

15 Q. Looking at this, and taking your testimony that we just
16 discussed about the last page of this exhibit, in terms
17 of how you manage your working capital, if I were to
18 pick out any particular project on this list, would you
19 be able to tell me whether or not it's funded
20 100 percent by debt, partially by debt, or not at all
21 by debt?

22 A. No, I wouldn't.

23 Q. Why is that?

24 A. Well, because, again, we don't track specific sources

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1 of capital -- of financings to specific uses. So, if
2 you looked at a specific project, and that project
3 costs \$40,000, I wouldn't be able to specifically say
4 if we funded that with cash, if we funded that with
5 money pool borrowings, if we funded that with the
6 revolving credit facility borrowings, if we funded that
7 with a portion of equity, a portion of the June equity
8 amount that NU contributed to the Company. It's
9 impractical to be able to trace transactions from
10 sources to uses.

11 Q. If this proposed financing was not approved, and I see
12 a lot of projects on this list, if they still needed to
13 get funded, how would you pay for them?

14 A. If this transaction were not approved, we would
15 certainly have to consider where we would get the
16 financing for our capital projects and plans. Given
17 that we still have short-term debt authority, perhaps
18 that short-term debt authority would be increased, and
19 not have the authority to issue long-term debt. That
20 doesn't give us a lot of leeway, because we don't have
21 access to committed capital to support that short-term
22 debt authority, and by that I mean the revolving credit
23 facility. As I mentioned, PSNH only has access to
24 \$100 million of that facility. So, even if I had a

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1 significantly higher short-term debt limit, I only have
2 committed access through that syndication of banks at
3 \$100 million.

4 So, ultimately, we'd have to get the
5 financing from somewhere. Northeast Utilities, the
6 parent, is an obvious choice that we would have to
7 think about. Is there an ability to lead planned
8 capital contributions? We do plan one in September and
9 we do plan for one in December. May we be able to
10 accelerate that early? Those are some of the things we
11 would certainly consider.

12 However, I should caution that, as I
13 mentioned earlier, I do expect the construction budget
14 to be on plan for the year. I do expect to have some
15 restrictions in the current short-term debt authority.
16 And, as I mentioned, even if we were to simply increase
17 the short-term debt authority, I don't have committed
18 access to funds to draw upon.

19 Q. If you turn to Page 30 of this exhibit.

20 A. Yes.

21 Q. This response deals with short-term debt balances.

22 A. Yes.

23 Q. And, if you turn to the pages beginning on Page 31.

24 A. Yes.

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[WITNESS: Shoop]

1 Q. As I look at this, your short-term debt borrowings can
2 vary significantly from day-to-day?

3 A. They can.

4 Q. And, why is that?

5 A. It's just the nature of the business cycle. You know,
6 how much receipts are coming in, how much requirements
7 are going out on any given day.

8 Q. I believe part of your testimony dealt with impacts of
9 the ice storm in December of 2008. Would any costs
10 related to that be reflected in this response?

11 A. As we had incurred costs related to that ice storm, it
12 would be another requirement on that day that would
13 have to get funded. And, it, like any other funding,
14 would only have to go to the money pool and the
15 revolver, as well as cash balances to be funded. So,
16 yes, those dollars that would have been paid to
17 contractors to restore service would be included in any
18 given day's money pool borrowings.

19 Q. Finally, one of the issues in this case is the impact
20 of the financing on rates, would you agree with that?

21 A. It has certainly been stated that that is a potential
22 scope of questions, yes.

23 Q. Do you see any difference between the impact of the
24 financing on rates and the impact of projects on rates?

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1 A. I don't believe I understand your question. Do I see
2 any difference?

3 Q. Well, I believe you said that --

4 A. In terms of magnitude?

5 Q. Well, let me see if I can rephrase it. I believe you
6 said that, related to this financing, you can't
7 identify which particular projects would be funded
8 totally or partially with this debt, is that correct?

9 A. Yes.

10 Q. So, if, in that view, you calculated an impact of the
11 financing on rates, now if somebody were to look at
12 individual projects, do you think that a impact of the
13 projects on rates might be different?

14 A. I guess it depends on the magnitude of the project.
15 Certainly, a large project, hundreds of millions of
16 dollars, has the potential to impact rates more
17 significantly than what we discussed as this
18 differential in interest cost of this proposed
19 financing.

20 Q. And, as shown by the capital budget, PSNH is planning
21 and constructing projects in its generation,
22 distribution, and, transmission segments, is that
23 correct?

24 A. Yes.

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[WITNESS: Shoop]

1 MR. MULLEN: Thank you. I have nothing
2 further.

3 BY MS. AMIDON:

4 Q. Mr. Shoop, if the Commission should approve the
5 Company's petition, when would you plan to go out to
6 secure the long-term debt?

7 A. I would like to be able to gain access to the markets
8 as soon as possible. As we prepared our budget for
9 2009, you know, I was hopeful that we would be able to
10 access the markets probably around mid year of 2009, as
11 I stated in my initial testimony. Now, obviously, June
12 has come and gone. The markets are really attractive
13 right now. Credit spreads, as we discussed, have
14 surprisingly come down to some significantly reduced
15 levels from where I thought just a short eight months
16 ago. I would like to be able to access the markets as
17 soon as I possibly could.

18 Equally, I have concerns about the
19 short-term debt restrictions, that I could find myself
20 putting -- hitting up against those levels. The faster
21 I can go out and issue a transaction, you know, we
22 certainly could alleviate that pressure. As we have
23 talked about, you could simply alleviate the pressure
24 by increasing the short-term debt test, but that

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1 doesn't in and of itself help me a lot, if I don't have
2 committed access to draw upon, in terms of the
3 revolving credit facility. We do have money pool
4 balances. But, as we also discussed, it's not a good
5 reliable source of financing.

6 So, short answer to your question, I'd
7 like to access the capital markets as soon as I
8 possibly could.

9 Q. So, if the Commission issued an order say in September,
10 you would be going out -- I'm just trying to understand
11 how quickly --

12 A. Yes. In all likelihood, if I had an order in hand
13 today, I would be issuing tomorrow morning.

14 MS. AMIDON: All right. Thank you. I
15 don't have anything further.

16 CHAIRMAN GETZ: Thank you.

17 BY CMSR. BELOW:

18 Q. Did you say that the proposed \$150 million in long-term
19 debt would or would not be secured with First
20 Mortgages?

21 A. We do plan to secure it with First Mortgages.

22 Q. Okay. How would that collateral affect existing First
23 Mortgages? How does that relate?

24 A. It doesn't affect it. We have -- we have outstanding

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1 debt, which is secured. We can continue to secure
2 additional debt to a certain level.

3 Q. Is that because you have asset value that's in excess
4 of what's already collateralized?

5 A. That's correct.

6 Q. So, this would be additional first mortgage on some
7 existing --

8 A. Assets.

9 Q. -- assets?

10 A. Correct.

11 Q. As well as some of these new capital additions that
12 are, in effect, not all already encumbered?

13 A. That's correct.

14 CMSR. BELOW: Okay. Thank you.

15 CHAIRMAN GETZ: Good morning, Mr. Shoop.

16 WITNESS SHOOP: Good morning.

17 BY CHAIRMAN GETZ:

18 Q. I just want to turn back to some of the questions that
19 Ms. Hoffer had for you about the impact of the
20 financing on rates. And, I think she was -- there was
21 a discussion with respect to OCA Set 1, Question 10.

22 A. Yes.

23 Q. Which is towards the back of what's been marked for
24 identification as "Exhibit 3". And, with respect to

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1 Energy Service rates, I guess the response indicates
2 that the cost of the financing would have approximately
3 a two one-thousandths of a cent per kWh effect on
4 rates. But then I want to make sure I understood
5 correctly what you said with respect to distribution
6 rates.

7 A. Yes.

8 Q. I think you said the distribution rate base is --

9 A. Approximately twice as large.

10 Q. Twice as large as the Energy Service rate base, and,
11 therefore, the effect would be four one-thousandths of
12 a cent, is that what you said?

13 A. Roughly, yes.

14 Q. And, then, with respect to transmission rates, --

15 A. Yes, I don't have that data.

16 Q. You don't have the data in mind or --

17 A. Yes, just I'm not -- I don't have that, I don't have
18 that transmission rate base in mind.

19 Q. How would you go about calculating it? Based on what's
20 --

21 A. I think it would be a very similar calculation. What
22 is the rate base and what is the incremental weighted
23 average cost that you'd be looking to spread over that
24 rate base?

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[WITNESS: Shoop]

1 Q. And, is that rate -- would those numbers be in this
2 record or would you have to turn to a FERC Form 1 or --

3 A. No, I'm not aware of the transmission rate base in
4 these numbers.

5 CHAIRMAN GETZ: All right. Ms. Shively,

6 --

7 CMSR. BELOW: Could I follow up on that?

8 BY CMSR. BELOW:

9 Q. Is most of what you're calculating as cost of the
10 financing sort of the transaction cost and how that
11 incrementally adds to rates?

12 A. It's the whole weighted average cost, considering the
13 coupon, as well as issuance costs.

14 Q. Compared to -- what is the alternative? Compared to
15 the short-term debt?

16 A. It would be compared to what's in our projections
17 already, in terms of the weighted -- projected weighted
18 average cost of debt.

19 Q. Okay.

20 A. So, we're already projecting a weighted average cost of
21 debt. We already assume something. If we factor in
22 this transaction at whatever an assumed rate would be,
23 if it's different than that in this case, it would be
24 higher than. We'd spread that over the rate base, and

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1 that would result in the two one-thousandths of a
2 percent increase.

3 Q. But, if you financed essentially the same set of
4 assets, say, with equity instead of debt, would that be
5 a higher -- likely be a higher impact on rates?

6 A. Yes, it would be. Under the principle that the cost of
7 equity is higher than the cost of debt.

8 Q. And, that calculation, *per se*, doesn't take into
9 account the addition to rate base, *per se*, it's just
10 looking at the cost of the financing, is that correct?

11 A. Yes. All things being equal, if you looked at cost of
12 equity versus cost of debt. If you did this
13 transaction and assumed \$150 million in equity, it
14 would -- it would generate a higher per kWh cost,
15 because the cost of equity is higher than the cost of
16 debt.

17 Q. Right. But altogether you'd get a different result if
18 you simply assumed the capital expenditures didn't
19 occur? I mean, that's a much more complicated
20 analysis.

21 A. Yes, I guess you could say, "well, if it didn't occur
22 in the first place, you don't have revenue requirements
23 to cover."

24 Q. Right. Right, but there would be other implications

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1 potentially, in terms of deferred maintenance or other
2 costs --

3 A. By not doing that, yes.

4 CMSR. BELOW: Okay. That's all.

5 CHAIRMAN GETZ: Ms. Shively, redirect?

6 MS. SHIVELY: Yes. Excuse me just a
7 minute.

8 CHAIRMAN GETZ: Would you like a five
9 minute recess?

10 MS. SHIVELY: That would be great.

11 CHAIRMAN GETZ: Okay. Let's take a
12 brief recess.

13 (Whereupon a recess was taken at 11:32
14 a.m. and the hearing reconvened at
15 11:39 a.m.)

16 CHAIRMAN GETZ: Ms. Shively.

17 MS. SHIVELY: Yes, I just have a couple
18 of questions on redirect.

19 **REDIRECT EXAMINATION**

20 BY MS. SHIVELY:

21 Q. Mr. Shoop, a number of questions were asked about the
22 impact of this financing on PSNH's transmission rate.
23 And, is it your understanding that transmission rates
24 are regulated by FERC?

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[WITNESS: Shoop]

1 A. Yes.

2 Q. And, that the calculation of transmission rates in New
3 England is not a simple calculation as it is for PSNH's
4 Energy Service and distribution rates?

5 A. Yes, it is a more comprehensive calculation.

6 Q. And, I would also ask, is it your understanding that
7 capital additions that are constructed by PSNH fall
8 under the mortgage's after acquired property?

9 A. Yes.

10 CHAIRMAN GETZ: Okay. Then, nothing
11 further for this witness, then you're excused. Thank you.

12 Ms. Shively, does that complete the Company's direct?

13 MS. SHIVELY: Yes, it does.

14 CHAIRMAN GETZ: I take it, any other
15 witnesses?

16 (No verbal response)

17 CHAIRMAN GETZ: Okay. Then, any
18 objection to striking the identifications and entering the
19 exhibits into evidence?

20 (No verbal response)

21 CHAIRMAN GETZ: Hearing no objection,
22 they will be admitted into evidence. Anything before an
23 opportunity for closings?

24 MS. HATFIELD: Just one question, Mr.

1 Chairman. Should OCA supplement Exhibit 4 or perhaps we
2 can withdraw it and just use that -- that same response I
3 believe appears on Page 14 and 15 in Staff Exhibit 6. So,
4 it might be simpler to just not have it in two places.

5 CHAIRMAN GETZ: Yes. Let's just, I
6 guess, withdraw or strike it, Exhibit Number 4, as it's
7 contained in its entirety in Exhibit Number 6, and note
8 that for the record.

9 (Exhibit 4 stricken from the record.)

10 MS. HATFIELD: Okay. Thank you.

11 CHAIRMAN GETZ: Anything else?

12 (No verbal response)

13 CHAIRMAN GETZ: Then, let's begin with
14 Ms. Hoffer.

15 MS. HOFFER: Thank you. The
16 Commission's June 19th order issued in this case
17 unequivocally rejected PSNH's argument that an *Easton*
18 review is not applicable in this case. The order further
19 provided that "in this financing docket, we will consider
20 the economic impact of the proposed financing, its effect
21 on PSNH's capital structure, and its potential impact on
22 rates". The Commission, therefore, must now review the
23 economic impact of the proposed financing, its effect on
24 PSNH's capital structure, and its potential impact on

1 rates.

2 Even under the more limited application
3 of *Easton* the Commission has determined is appropriate in
4 this case, consideration of the rate impacts must take
5 into account the capitalization that will result from the
6 use of the proceeds in the proposed financing. And, here
7 I am citing to *Appeal of Conservation Law Foundation*, 127
8 New Hampshire 606, decided in 1986. "It follows that in
9 an *Easton* hearing, the commission's responsibility to
10 address the rate implications of a decision approving a
11 utility's financing request is not solely a responsibility
12 to determine what the rates will actually be if the
13 financing is allowed. Rather, the commission's
14 responsibility is to determine whether, at a later
15 ratemaking proceeding, a reasonable rate can be set that
16 will allow the Company to support the capitalization that
17 will result from the use of the proceeds of the proposed
18 financing. So, since a reasonable rate is, by definition,
19 a rate derived from a process that balances investor and
20 customer interests, the commission may find that a
21 reasonable rate can be set in the future if it finds that
22 there will be a genuine opportunity to recognize the
23 interests of customers as well as the interests of
24 investors without bankrupting the utility. Hence, in this

1 proceeding, the commission was obliged to determine
2 whether the probable range of rates would provide genuine
3 scope to resolve the competition between the interests and
4 to determine whether a rate set within the range would
5 allow the Company to support the anticipated
6 capitalization."

7 In this case, the probable rate of range
8 took into account several major assumptions, including
9 full dollar -- whether or not there would be a full dollar
10 inclusion in the rate base of the project costs to which
11 the financing would be applied. It also included, among
12 other factors, loss of load that was potentially to occur.

13 CHAIRMAN GETZ: I'm sorry, when you said
14 "in this case", you're talking about the --

15 MS. HOFFER: In the *Appeal of the CLF*
16 case. Thank you. There is no evidence in the record
17 today to support a conclusion that PSNH has met its burden
18 pursuant to the Commission's June 19th order to the case
19 -- and also with respect to the application of the case of
20 *Easton* and under the *Appeal of CLF*. There is insufficient
21 evidence to permit the Commission to conduct an *Easton*
22 review as set forth in the June 19th order. Testimony
23 elicited by Staff today runs generally to the terms of the
24 financing, and we know that, based on the Commission's

1 order, that's insufficient.

2 So, in closing, CLF would emphasize the
3 fact that we do not have a record here sufficient to
4 support any finding with respect to *Easton* as set out
5 pursuant to the Commission's June 19 order.

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

8 MS. HATFIELD: Thank you, Mr. Chairman.
9 As Ms. Hoffer just noted, on June 19th, 2009, the
10 Commission issued Order Number 24,979, which addressed the
11 scope of the Commission's review in this docket. And, in
12 citing to the *Easton* case, the Commission stated that "it
13 is not within the scope of the Commission's authority to
14 consider whether the use of the financing proceeds for the
15 scrubber is for the public good or whether there are
16 reasonable alternatives to the scrubber."

17 In *Appeal of Easton*, the Supreme Court
18 reaffirmed that the PUC has a duty to determine whether,
19 under all the circumstances, the financing is in the
20 public good, a determination which includes considerations
21 beyond the terms of the proposed borrowing.

22 In addition, in *Appeal of CLF*, which the
23 Supreme Court cites in the *Easton* case, the Court stated
24 that it emphasized the test that must be applied, and that

1 is "whether the object of the financing was reasonably
2 required for use in discharging a utility company's
3 obligation, which is to provide safe and reliable
4 service." The Court went on to state "moreover, we
5 specifically decided that the Commission was obliged to
6 determine whether the Company's plans to accomplish that
7 object were economically justified when measured against
8 any adequate alternatives."

9 It seems clear to the OCA that the
10 Commission's scoping order therefore requires a full
11 *Easton* review for all projects to be financed in this
12 case, other than the scrubber. As the Commission knows,
13 several statutes are also applying in this case, which
14 require specific findings by the Commission related to
15 PSNH's request, including RSA 369:4, which requires the
16 PUC to determine whether long-term debt is consistent with
17 the public good, and RSA 369:1, which also requires a
18 public good finding, and which states "such approval shall
19 extend to the amount of the issue authorized and the
20 purpose or purposes to which the securities or the
21 proceeds thereof are to be applied and shall be subject to
22 such reasonable terms and conditions as the Commission may
23 find necessary in the public interest."

24 Therefore, in this case, the Commission

1 must determine that the terms of the financing are
2 consistent with the public good, that the use of the
3 proceeds of the financing is consistent with the public
4 good, and also determine that the effect on rates of the
5 financing and the projects financed is consistent with the
6 public good. And, despite Mr. Shoop's testimony that the
7 impact of the financing on rates has been brought up in
8 this case as a potential scope issue, in fact, it's an
9 issue that's clearly set forth in the statute and in the
10 case law.

11 PSNH has not provided sufficient
12 information for the Commission to make these findings with
13 respect to the uses of the financing and the impact on the
14 rates. As the Company stated in discovery, response to
15 Staff 1-17, which is found in Exhibit Number 5, the
16 Company uses "a more general approach to long-term debt
17 financing because the use of the proceeds are not uniquely
18 identifiable to a specific project or end-use, which would
19 be more restrictive." We certainly understand that PSNH
20 would like to have a less restrictive review of its
21 financing proposals. Unfortunately, that approach simply
22 doesn't meet the statutory requirement, case law,
23 including *Easton*, or the Commission's recent order on
24 scope.

1 In addition, the fact that the Company
2 characterizes this as a "routine financing" simply is not
3 relevant. Even routine cases still must meet the
4 statutory and case law requirements.

5 There is no analysis or detailed
6 information in the record about the uses of the proceeds
7 of the financing. The Commission does have the 10 page or
8 so list of projects that the Company has provided, which I
9 believe they describe as their "Capital Expenditure
10 Program". However, the OCA is not aware of any analysis
11 that has been done on any of these projects. And, we
12 would respectfully request that, if any analysis has been
13 or will be performed, that we receive a copy of it, if it
14 forms the basis of the Commission's decision.

15 The Company also seems to argue that it
16 is simply refinancing short-term debt with long-term debt,
17 which allows it to avoid the review required for use as
18 long-term debt. The Company should not be allowed to do
19 this. If it is allowed to do so, ratepayers never have
20 the chance to have the Commission conduct a very important
21 review that's required for long-term debt.

22 The Company has also testified that it
23 simply can't do project-specific financings. And, I
24 think, if we take that to its logical conclusion, that

1 means we will never get an *Easton* review. Ratepayers rely
2 on the review and analysis required by the statutes and
3 case law, including *Easton*, in order to ensure that
4 projects undertaken by a utility that are funded by
5 ratepayers are necessary, reasonable, and in the public
6 interest. If such a review has been performed, it is not
7 in the record.

8 Therefore, the Commission should reject
9 PSNH's request for a long-term financing, because the
10 Company has not met its burden and has not provided
11 sufficient information to the Commission or the parties in
12 order to undertake this analysis.

13 I also wanted to add that we are
14 sympathetic to CLF's objection made at the beginning of
15 the proceeding that, because they're -- they have not
16 exhausted their remedies with respect to the discovery
17 dispute, and it does put this case in a difficult
18 procedural position. Thank you.

19 CHAIRMAN GETZ: Well, let me follow up
20 on a couple of things. That last question, and I guess
21 Ms. Hoffer, that last point, maybe Ms. Hoffer can reply as
22 well. Is it, Ms. Hatfield, the position that, as a matter
23 of course then, in any case where a Motion to Compel is
24 made, that one party is going to lose, if there's a Motion

1 to Compel. That we then would be required to halt the
2 proceedings while a Motion for Rehearing, and I guess,
3 presumably, an appeal to the Supreme Court were going to
4 occur?

5 MS. HATFIELD: It certainly is a
6 question that doesn't come up often, because usually the
7 discovery in a proceeding is contemplated, you know, far
8 before the hearing date. And, I think some of us thought
9 that, because that discovery dispute was playing itself
10 out that the hearing would not be held today. But I do
11 think that a party, who still has a right to seek further
12 review, whether it be rehearing or an appeal, could suffer
13 irreparable harm, if they are, in the end, entitled to
14 have the information that's at issue in the discovery.
15 And, I don't know what recourse a party would have. I
16 guess they could appeal your final order in the case, and
17 that could be a part of their appeal on procedural
18 grounds.

19 CHAIRMAN GETZ: I guess, and,
20 ultimately, if we were wrong, then it would be remanded?

21 MS. HATFIELD: That's possible.

22 CHAIRMAN GETZ: Do you have anything
23 further on that issue, Ms. Hoffer? You brought it up in
24 the first instance. Do you have --

1 MS. HOFFER: I have --

2 [Court reporter interruption]

3 CHAIRMAN GETZ: You've got to let me
4 finish the question.

5 MS. HOFFER: Okay.

6 CHAIRMAN GETZ: Is your argument based
7 on anything in the rules or the statute or any case law?

8 MS. HOFFER: Well, the statute does
9 provide us with 30 days for a Motion for Rehearing, any
10 party who has been aggrieved by a decision, I have the
11 specific citation here, it's RSA 541:3, "Within 30 days
12 after any order or decision has been made by the
13 commission, any party to the action or proceeding before
14 the commission, or any person directly affected thereby,
15 may apply for a rehearing in respect to any matter
16 determined in the action or proceeding, or covered or
17 included in the order" --

18 CHAIRMAN GETZ: Yes, I'm familiar with
19 that statute. But, I mean, in terms of a procedural
20 motion or a Motion to Compel, whether that applies? Are
21 you aware of any precedent for --

22 MS. HOFFER: I haven't looked at that
23 legal question. I do think it is interlocutory in nature,
24 because the outcome of the decision on our Motion to

1 Compel we would take the position could be relevant to
2 your ultimate determination.

3 CHAIRMAN GETZ: All right. And, Ms.
4 Hatfield, going back to the second issue you raised about
5 the other possible capital additions, and I think you
6 referred to the 10 page list of possible projects that
7 some of the financing proceeds could be used for. Is it
8 your argument under *Easton* that we need to basically do a
9 pre-approval review of every one of those projects to make
10 sure that they are permissible uses of funds as part of a
11 case like this?

12 MS. HATFIELD: Mr. Chairman, the order,
13 the Commission's scoping order does say that "the use of
14 the proceeds must be in the public good" and that there
15 "must be a review of whether there are reasonable
16 alternatives". I can't say for sure what the Commission's
17 review should be. I think, you know, the Commission Staff
18 does it in a variety of different industry areas in
19 different ways. But, up to this point, I don't believe
20 that this list has been subjected to any type of review,
21 as to whether there are different alternatives and whether
22 the particular uses of any of the financing proceeds are
23 in the public good.

24 CHAIRMAN GETZ: Okay. Thank you. Ms.

1 Amidon.

2 MS. AMIDON: Thank you. As you know,
3 the Company filed this petition back in February, and the
4 Staff commenced discovery following that, the filing of
5 the petition, in March. We have reviewed the filing. We
6 believe that it comports with the requirements of RSA
7 369:1 and RSA 369:6, which is the long-term debt. We
8 believe the terms and conditions of the financing are
9 appropriate. And, we would recommend approving the
10 petition, with one modification, and that is with respect
11 to the credit spread. Based on the testimony of Mr. Shoop
12 today, it seems that authorizing a credit spread up to 600
13 basis points is not warranted by current market
14 conditions, and we would recommend that the Commission
15 maintain its current order with respect to the financing
16 to limit that to 400 basis points.

17 CHAIRMAN GETZ: Thank you. Ms. Shively.

18 MS. SHIVELY: The Commission's
19 obligation in this proceeding is to determine, under all
20 the circumstances, whether the proposed financing is in
21 the public good. And, I think it's important, with that
22 obligation, to focus on the circumstances of this case.
23 The Company is seeking approval to increase its short-term
24 debt for a routine \$150 million First Mortgage Bond

1 financing, to retire the short-term debt, and for working
2 capital needs, as well as authority to enter into an
3 interest rate transaction.

4 The proposed financing is related to a
5 wide variety of generation, transmission, and distribution
6 expenditures. And, the Company has identified
7 expenditures that are proposed in detail in its 2009
8 Construction Budget. I think it's very clear that the
9 Company has met its burden of production in producing
10 detailed information about the projects that are being
11 proposed. I don't think that the Company has a legal
12 burden to provide a three-page analysis for every single
13 project in its Construction Budget. I think that, if the
14 parties -- other parties to this case had an objection to
15 a particular project, they have an obligation to either
16 raise that issue in data responses or by presenting
17 witnesses to object to the proposed expenditures. It
18 would be an extreme burden for everyone if the standard
19 was that, you know, nauseous detail of every single
20 project the Company is doing in the state were required as
21 part of a financing proceeding.

22 I think that it's clear also that the
23 real objection in this case is to the scrubber, and the
24 Commission has determined that, you know, whether PSNH

1 should construct the scrubber or what the alternatives are
2 to that is not a matter in this case.

3 I think the Company has very clearly
4 demonstrated the economic impact of the financing on the
5 capital structure and on rates, and that that impact is
6 very small. Two one-hundredths [one-thousandths?] of a
7 cent per kilowatt-hour, \$163,000, is not a particularly
8 substantial impact, in a company whose revenues are in the
9 hundreds of millions or billion.

10 No parties to this proceeding have filed
11 sworn testimony or presented witnesses supporting their
12 claim that this financing is not in the public good. And,
13 as indicated in Mr. Shoop's testimony, the Company's
14 position is that it is in the public good and the Company
15 is entitled to issue the securities. We had originally
16 hoped to access the financial markets in the second
17 quarter of 2009. And, at this point, we do need a prompt
18 Commission decision in order to be able to complete this
19 financing in the fourth quarter. Now, if there are any --
20 I'll just stop there.

21 CHAIRMAN GETZ: Okay. Then, hearing
22 nothing else, we will close this hearing and take the
23 matter under advisement. Thank you, everyone.

24 (Whereupon the hearing ended at 12:00 p.m.)