

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

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

NHPUC FEB08'11 PM 1:41

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

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

Sandy Deno, Clerk

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

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

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

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

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Steven E. Mullen, Asst. Dir./Electric Div.
Michael D. Cannata, Jr. (Accion Group)

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

ORIGINAL

1
2 **I N D E X**

	PAGE NO.
4 WITNESS PANEL:	ROBERT A. BAUMANN DAVID A. ERRICHETTI WILLIAM H. SMAGULA MICHAEL D. CANNATA, JR.
7 Direct examination by Mr. Eaton	6
8 Direct examination by Ms. Amidon	12
9 Cross-examination by Ms. Hatfield	19
10 Interrogatories by Cmsr. Ignatius	51
11 Interrogatories by Cmsr. Below	61
12 Interrogatories by Chrmn. Getz	62
13 Redirect examination by Mr. Eaton	65
14 Redirect examination by Mr. Mullen	70
15	
16	* * *
17	
18 CLOSING STATEMENTS BY:	PAGE NO.
19	Mr. Patch
20	Mr. Cunningham
21	Ms. Hatfield
22	Ms. Amidon
23	Mr. Eaton
24	

EXHIBITS		
EXHIBIT NO.	DESCRIPTION	PAGE NO.
1	Prepared Testimony of Robert A. Baumann, including attachments	7
2	Direct Testimony of David A. Errichetti, including attachments	9
2A	Supplemental Direct Testimony of David A. Errichetti, including attachment (07-02-10)	9
3	Direct Testimony of William H. Smagula, including attachments	11
4	Direct Testimony of Michael D. Cannata, Jr., including attachments (11-23-10)	13
5	Stipulation and Settlement Agreement regarding Reconciliation of Stranded Costs and Energy Service Charge for 2009	17
6	Staff response to Request CLF-4 (12-17-10)	40
7	PSNH response to Technical Session TECH-01, Request Number Q-TS-006 (09-09-10)	50
8	Testimony of Michael E. Hachey (11-23-10)	70

P R O C E E D I N G

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

14 Can we take appearances please.

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

18 CHAIRMAN GETZ: Good morning.

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

21 CHAIRMAN GETZ: Good morning.

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

24 CHAIRMAN GETZ: Good morning.

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

5 CHAIRMAN GETZ: Good morning.

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

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

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

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

20 (No verbal response)

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

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

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

1 and Michael Cannata, Jr.

2 (Whereupon **Robert A. Baumann, David A.**

3 **Errichetti, William H. Smagula**, and

4 **Michael D. Cannata, Jr.**, were duly sworn

5 and cautioned by the Court Reporter.)

6 **ROBERT A. BAUMANN, SWORN**

7 **DAVID A. ERRICHTETTI, SWORN**

8 **WILLIAM H. SMAGULA, SWORN**

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

10 **DIRECT EXAMINATION**

11 BY MR. EATON:

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

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

15 Q. For whom are you employed?

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

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

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

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

1 support of those filings.

2 Q. Have you testified before the Commission before?

3 A. (Baumann) Yes.

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

7 A. (Baumann) Yes, I do.

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

10 A. (Baumann) Yes, it was.

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

13 A. (Baumann) Yes.

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

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

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

17 A. (Baumann) Yes.

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

20 CHAIRMAN GETZ: So marked.

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

24 BY MR. EATON:

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

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

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

4 Q. For whom are you employed?

5 A. (Errichetti) Northeast Utilities Service Company.

6 Q. And, what is your position?

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

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

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

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

18 A. (Errichetti) Yes.

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

20 A. (Errichetti) Yes.

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

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

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

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

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

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

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

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

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

24 MR. EATON: Thank you. Does the Bench

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

1 have copies of that supplemental?

2 CHAIRMAN GETZ: Yes.

3 BY MR. EATON:

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

7 A. (Errichetti) Yes.

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

10 A. (Errichetti) Yes.

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

13 A. (Errichetti) Yes.

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

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

17 Q. For whom are you employed?

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

20 Q. And, what is your position?

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

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

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

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

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

5 Q. Have you previously testified before the Commission?

6 A. (Smagula) Yes.

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

10 A. (Smagula) Yes.

11 Q. Do you have that testimony before you?

12 A. (Smagula) I do.

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

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

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

17 A. (Smagula) Yes, it is.

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

19 A. (Smagula) I do.

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

22 CHAIRMAN GETZ: So marked.

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

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

1 identification.)

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

3 WITNESS CANNATA: Good morning.

4 BY MS. AMIDON:

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

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

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

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

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

17 A. (Cannata) Yes, I did.

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

20 A. (Cannata) Yes, I did.

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

22 A. (Cannata) Yes, I do.

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

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

1 A. (Cannata) Yes, I have.

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

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

7 (Court reporter interruption.)

8 **CONTINUED BY THE WITNESS:**

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

13 BY MS. AMIDON:

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

16 A. (Cannata) Yes.

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

22 CHAIRMAN GETZ: So marked.

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

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

1 identification.)

2 (Atty. Amidon distributing documents.)

3 BY MR. EATON:

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

8 A. (Baumann) Yes, I do.

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

11 A. (Baumann) Yes, I do.

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

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

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

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

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

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

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

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

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

24 The third section of the Settlement

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

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

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

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

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

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

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

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

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

12 CHAIRMAN GETZ: So marked.

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

16 BY MR. EATON:

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

19 A. (Smagula) No.

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

22 CHAIRMAN GETZ: Ms. Amidon?

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

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

1 MS. AMIDON: One moment please.

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

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

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

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

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

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

22 WITNESS BAUMANN: Good morning.

23 **CROSS-EXAMINATION**

24 BY MS. HATFIELD:

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

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

5 A. (Baumann) I'm there.

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

8 A. (Baumann) Yes.

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

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

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

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

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

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

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

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

- 1 be returned to the Company?
- 2 A. (Baumann) Correct.
- 3 Q. Thank you. Mr. Errichetti, if you would turn to your
- 4 testimony, which has been marked as "Exhibit 2" please.
- 5 Are you at your testimony?
- 6 A. (Errichetti) Yes.
- 7 Q. And, in your testimony, I believe you refer to PSNH's
- 8 portfolio as including base load plants, is that
- 9 correct?
- 10 A. (Errichetti) Yes.
- 11 Q. Is it true that, in 2009, there were times when those
- 12 plants considered base load did not run because they
- 13 were over-market economically?
- 14 A. (Errichetti) There were times, yes.
- 15 Q. And, when those plants did not run, do you refer to
- 16 those periods as either "reserve shutdowns" or
- 17 "economic reserve outages"?
- 18 A. (Errichetti) They can be referred to that, use that
- 19 expression, yes.
- 20 Q. And, can you just briefly explain what is a "reserve
- 21 shutdown" or "economic reserve outage" please?
- 22 A. (Errichetti) It means that the unit's not on a planned
- 23 or forced outage and is not being dispatched, but it's
- 24 available for dispatch.

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

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

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

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

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

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

13 A. (Errichetti) Yes.

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

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

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

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

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

7 A. (Smagula) Yes.

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

11 A. (Smagula) I do. Yes.

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

15 A. (Smagula) Yes.

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

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

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

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

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

- 1 Q. I'm referring to Mr. Cannata's Exhibit 4, Page 46.
- 2 A. (Smagula) Yes. I have it in front of me now.
- 3 Q. Okay. And, if we are on Page 46, and if you look at
- 4 the second table that is titled "Actual and Projected
- 5 Annual Capacity Factors for PSNH Major Units", do you
- 6 see that?
- 7 A. (Smagula) I do. Yes.
- 8 Q. And, if we look at the right-hand column of that table,
- 9 it's titled "Forecasted", correct?
- 10 A. (Smagula) Yes.
- 11 Q. And, if we look at the next column to the left, it's
- 12 titled "2009", do you see that?
- 13 A. (Smagula) Yes.
- 14 Q. And, if we look at some of the plants ran more than
- 15 forecasted, but I believe four of the six ran less. If
- 16 you look at "Merrimack 1", for example, it was
- 17 forecasted at "88.3 percent", and the actual was
- 18 "84.1 percent", is that right?
- 19 A. (Smagula) Yes.
- 20 Q. And, then, for "Merrimack 2", it's forecasted "55.7",
- 21 and actually ran a little bit more -- excuse me, yes, a
- 22 little bit more, at "56.1", do you see that?
- 23 A. (Smagula) Yes.
- 24 Q. And, then, "Schiller 4" was forecasted "76.4 percent",

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

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

2 A. (Smagula) Yes.

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

5 A. (Smagula) Yes.

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

8 A. (Smagula) I do.

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

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

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

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

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

1 downtime than was planned.

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

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

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

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

18 A. (Smagula) Yes.

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

21 A. (Cannata) I'm there.

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

24 A. (Cannata) That is correct.

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

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

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

6 Q. Is that different than "prudent"?

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

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

12 A. (Cannata) Yes.

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

16 A. (Cannata) That is correct.

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

19 A. (Cannata) That is correct.

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

22 A. (Cannata) Yes.

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

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

1 in 2009?

2 A. (Cannata) Correct.

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

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

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

11 A. (Cannata) Yes, I do.

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

15 A. (Cannata) Yes.

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

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

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

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

1 expenditures that it makes?

2 A. (Cannata) That is my understanding.

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

5 A. (Cannata) No.

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

9 A. (Cannata) Yes.

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

15 A. (Cannata) Yes, I do.

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

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

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

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

4 A. (Cannata) Correct.

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

6 A. (Cannata) Yes.

7 Q. How is that possible?

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

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

17 A. (Cannata) Yes.

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

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

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

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

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

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

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

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

14 Q. Thank you.

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

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

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

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

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

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

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

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

7 A. (Cannata) Yes, I do.

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

12 A. (Cannata) That's correct.

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

16 A. (Cannata) Yes.

17 Q. What do you mean by those footnotes?

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

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

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

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

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

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

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

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

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

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

18 A. (Cannata) That's correct.

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

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

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

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

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

5 A. (Cannata) No.

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

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

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

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

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

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

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

4 A. (Cannata) That's correct.

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

10 A. (Cannata) That's correct.

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

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

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

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

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

5 A. (Errichetti) May I?

6 Q. Sure.

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

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

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

1 A. (Cannata) Yes.

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

7 A. (Cannata) Yes.

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

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

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

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

23 Q. Are you recommending any disallowances?

24 A. (Cannata) No.

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

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

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

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

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

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

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

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

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

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

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

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

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

1 A. (Cannata) Yes, I do.

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

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

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

15 A. (Cannata) Yes, I do.

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

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

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

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

8 BY MS. HATFIELD:

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

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

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

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

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

22 CHAIRMAN GETZ: So marked.

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

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

1 identification.)

2 BY MS. HATFIELD:

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

9 A. (Cannata) That's correct.

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

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

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

1 the market at spot.

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

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

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

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

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

24 A. (Cannata) Yes.

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

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

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

7 Q. That's Page 49?

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

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

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

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

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

19 (Short pause.)

20 **BY THE WITNESS:**

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

23 **BY MS. HATFIELD:**

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

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

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

5 A. (Cannata) Yes.

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

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

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

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

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

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

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

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

23 Q. Yes.

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

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

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

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

6 A. (Baumann) No.

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

9 A. (Baumann) Yes.

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

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

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

18 A. (Errichetti) Let me chime in.

19 A. (Baumann) Yes.

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

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

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

4 Q. Okay.

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

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

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

14 Q. But, if --

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

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

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

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

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

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

1 would increase it. So, yes.

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

6 A. (Errichetti) Just the variable.

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

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

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

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

23 Q. But you do collect those --

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

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

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

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

9 A. (Errichetti) Yes.

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

17 A. (Errichetti) Yes.

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

19 A. (Errichetti) Yes.

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

24 A. (Errichetti) Yes.

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

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

7 A. (Errichetti) Yes.

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

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

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

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

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

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

5 CHAIRMAN GETZ: So marked.

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

9 BY MS. HATFIELD:

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

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

20 Q. Plus the 2.2 million.

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

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

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

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

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

15 CHAIRMAN GETZ: Thank you. Commissioner
16 Below?

17 CMSR. BELOW: No questions.

18 CHAIRMAN GETZ: Commissioner Ignatius?

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

21 WITNESS SMAGULA: Good morning.

22 BY CMSR. IGNATIUS:

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

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

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

7 A. (Cannata) Yes.

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

10 A. (Cannata) I have done some thinking along that line.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1 A. (Cannata) Or more, yes.

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

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

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

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

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

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

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

13 (Short pause.)

14 **BY THE WITNESS:**

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

21 **BY CMSR. IGNATIUS:**

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

24 A. (Cannata) Yes.

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

- 1 Q. And economic dispatch decisions that it's over market?
- 2 A. (Cannata) If it was shut off for a reserve shutdown,
- 3 yes, that would impact its -- no, it would not impact
- 4 its availability, because a reserve shutdown, the unit
- 5 is available, but not running.
- 6 Q. All right. Would it affect its capacity factor?
- 7 A. (Cannata) Yes.
- 8 Q. So, those kinds of numbers on Page 29, you really have
- 9 to clearly see the components you're using to build
- 10 those numbers when you read that sort of a sentence, to
- 11 know that it's not simply talking about availability,
- 12 it's talking about availability after planned
- 13 unavailability has been factored in?
- 14 A. (Cannata) Well, look, there's a lot of complications,
- 15 Commissioner. Could we refer to Page 46, that table?
- 16 Q. Please.
- 17 A. (Cannata) Please.
- 18 Q. No, I didn't mean "please" like I tell my children. I
- 19 meant "Please do."
- 20 A. (Cannata) Well, I'm sitting here, like kindergarten,
- 21 with those sawed-off legs on the chair. All right. If
- 22 we look at that, at the bottom table on Page 46, let's
- 23 concentrate on Unit 1 at Merrimack. You see, in 2005,
- 24 there's a Note (3), 2007, and 2009, there's a Note (3),

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

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

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

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

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

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

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

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

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

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

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

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

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

5 Q. Yes.

6 A. (Errichetti) Yes.

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

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

24 When you're looking at real operational

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

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

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

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

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

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

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

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

1 clearer fix on a single unit operating site.

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

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

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

12 BY CMSR. BELOW:

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

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

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

1 CMSR. BELOW: Okay. Thank you.

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

4 CHAIRMAN GETZ: Good morning, gentlemen.

5 I have one line of questions for Mr. Cannata.

6 BY CHAIRMAN GETZ:

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

22 A. (Cannata) Yes.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

5 **REDIRECT EXAMINATION**

6 BY MR. EATON:

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

11 A. (Errichetti) Yes.

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

14 A. (Errichetti) Yes.

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

17 A. (Errichetti) I remember that question.

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

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

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

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

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

5 A. (Errichetti) No.

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

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

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

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

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

18 A. (Baumann) I'm there.

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

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

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

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

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

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

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

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

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

21 WITNESS BAUMANN: You're welcome.

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

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

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

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

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

4 CHAIRMAN GETZ: Anything further?

5 Hearing nothing, then --

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

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

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

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

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

24 MR. EATON: No.

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

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

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

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

10 BY MR. MULLEN:

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

12 A. (Cannata) I do.

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

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

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

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

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

22 A. (Cannata) Yes.

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

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

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

3 A. (Cannata) Yes.

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

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

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

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

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

22 A. (Cannata) Yes.

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

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

1 CHAIRMAN GETZ: Anything further for the
2 panel?

3 (No verbal response)

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

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

8 (No verbal response)

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

13 (No verbal response)

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

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

18 CHAIRMAN GETZ: Thank you.

19 Mr. Cunningham?

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

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

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

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

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

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

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

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

1 a particular proposal.

2 CHAIRMAN GETZ: Thank you. Ms. Amidon.

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

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

14 CHAIRMAN GETZ: Thank you. Mr. Eaton.

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

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

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

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

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

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

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