

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**STATE OF NEW HAMPSHIRE**

**PUBLIC UTILITIES COMMISSION**

**November 30, 2010 - 9:10 a.m.**  
Concord, New Hampshire

**DAY 1**

**RE: DE 10-160**  
**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:**  
**Customer Migration.**

**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. Retail Energy Supply Assn.:**  
Robert J. Munnelly, Esq. (Murtha Cullina)  
Debbie C. Albrecht, Esq. (Murtha Cullina)

**Reptg. Constellation Energy Commodities**  
**Group, Inc. & Constellation NewEnergy:**  
Joseph E. Donovan, Esq.

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

**Reptg. Conservation Law Foundation:**  
N. Jonathan Peress, Esq.

**Reptg. Freedom Energy Logistics &**  
**Halifax-American Energy Company:**  
James T. Rodier, Esq.

**COURT REPORTER: Steven E. Patnaude, LCR No. 52**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**APPEARANCES:** (C o n t i n u e d)

**Reptg. New England Power Generators Assn.:**  
Maureen D. Smith, 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.  
Al-Azad Iqbal, Electric Division

	I N D E X	
		PAGE NO.
1		
2		
3	<b>WITNESS PANEL:            ROBERT A. BAUMANN</b>	
4	<b>                                  STEPHEN R. HALL</b>	
5	Direct examination by Mr. Eaton	9
6	Cross-examination by Mr. Rodier	21
7	Cross-examination by Mr. Patch	48
8	Cross-examination by Mr. Donovan	85
9	Cross-examination by Mr. Peress	109
10	Cross-examination by Ms. Hatfield	115
11	Cross-examination by Ms. Amidon	144
12	Interrogatories by Cmsr. Ignatius	162, 220
13	Interrogatories by Cmsr. Below	183
14	Interrogatories by Chrmn. Getz	216
15		
16	<b>WITNESS:                    SANDI M. HENNEQUIN</b>	
17	Direct examination by Ms. Smith	223
18	Cross-examination by Ms. Hatfield	229
19	Cross-examination by Mr. Eaton	230
20	Interrogatories by Cmsr. Below	231
21	Interrogatories by Cmsr. Ignatius	233
22	*       *       *	
23	<b><i>Official notice taken</i></b> of a report dated	222
24	October 15, 2010 in Docket No. DE 08-103 in response to a Request for Information	

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24

**E X H I B I T S**

<b>EXHIBIT NO.</b>	<b>D E S C R I P T I O N</b>	<b>PAGE NO.</b>
1	Testimony of Robert A. Baumann (07-30-10)	11
2	Rebuttal Testimony of Robert A. Baumann and Stephen R. Hall (10-29-10)	12
3	PSNH response to Data Request TC-01, Q-TC-026 (08-13-10)	56
4	PSNH response to Data Request TC-01, Q-TC-017 (08-13-10)	56
5	PSNH response to Data Request TC-01, Q-TC-010 (08-13-10)	76
6	PSNH response to Data Request OCA-01, Q-OCA-006 (08-13-10)	97
7	PSNH response to Data Request STAFF-01, Q-STAFF-005 in Docket DE 10-257 (10-21-10)	118
8	PSNH response to Data Request STAFF-01, Q-STAFF-001 in Docket DE 10-257 (10-21-10)	118
9	PSNH response to Data Request CLF-01, Q-CLF-003 (08-13-10)	126
10	<b>RESERVED</b> (Record request for the 3rd Quarter 2010 Report re: Migration)	187
11	<b>RESERVED</b> (Record request for the data behind Footnote 6 on STAFF-01, Q-STAFF-001 (Exh. 8))	204
12	Testimony of Sandi M. Hennequin (09-15-10)	223



1 Clean Power Development today. Clean Power is not going  
2 to have any cross-examination and will not have a position  
3 in this proceeding.

4 CHAIRMAN GETZ: Okay.

5 MR. RODIER: Thank you.

6 CHAIRMAN GETZ: Thank you.

7 MR. PATCH: Good morning. Doug Patch,  
8 from the law firm of Orr & Reno, on behalf of TransCanada.  
9 And, with me this morning are Mike Hachey and Cleve  
10 Kapala.

11 CHAIRMAN GETZ: Good morning.

12 MS. SMITH: Good morning. Maureen  
13 Smith, of Orr & Reno, here on behalf of NEPGA. And, with  
14 me is Sandi Hennequin, Vice President of NEPGA. Thank  
15 you.

16 CHAIRMAN GETZ: Good morning.

17 MR. DONOVAN: Good morning, Mr. Chairman  
18 and Commissioners. Joe Donovan, appearing on behalf of  
19 Constellation Energy Commodities Group, Inc., and  
20 Constellation NewEnergy, Inc. And, I've got with me today  
21 is Daniel Allegretti, the Vice President of both entities.

22 CHAIRMAN GETZ: Good morning.

23 MR. MUNNELLY: Robert Munnelly, of  
24 Murtha Cullina, on behalf of Retail Energy Supply

1 Association. And, with me is Debbie Albrecht of my firm.

2 CHAIRMAN GETZ: Good morning.

3 MR. PERESS: Good morning. Jonathan  
4 Peress, on behalf of Conservation Law Foundation.

5 CHAIRMAN GETZ: Good morning.

6 MS. HATFIELD: Good morning,  
7 Commissioners. Meredith Hatfield, for the Office of  
8 Consumer Advocate, on behalf of residential ratepayers.  
9 And, with me for the office is Ken Traum.

10 CHAIRMAN GETZ: Good morning.

11 MS. AMIDON: Good morning. Suzanne  
12 Amidon, for Commission Staff. To my left is Steve Mullen,  
13 who is the Assistant Director of the Electric Division,  
14 and to his left is Al-Azad Iqbal, who's an Analyst in the  
15 Division.

16 CHAIRMAN GETZ: Okay. Good morning,  
17 everyone. Is there any issues we need to address before  
18 we hear from the PSNH witnesses?

19 MR. EATON: Yes, Mr. Chairman. In the  
20 letter that was filed on November 12th, 2010, there was an  
21 issue of whether PSNH would be allowed to present rebuttal  
22 after the intervenors' witnesses. We'll waive that  
23 request now, unless something new comes up during the  
24 testimony of the intervenors. And, we'll put on Mr. Hall,

1 as well as Mr. Baumann. Mr. Hall participated in the  
2 rebuttal testimony. Also, we agreed before the hearing  
3 started, and maybe Mr. Peress wasn't here, that we would  
4 follow the intervenors' witnesses with friendly cross from  
5 the other intervenors, and then PSNH, OCA, and Staff, in  
6 that order, if that's acceptable to the Commission? I  
7 think it was generally acceptable to the parties that were  
8 here at the time.

9 CHAIRMAN GETZ: Anyone want to weigh in  
10 on either of those issues? Ms. Hatfield.

11 MS. HATFIELD: Thank you, Mr. Chairman.  
12 Just with respect to PSNH, if I understand correctly,  
13 reserving their right to take the stand again, I just want  
14 to point out that I think that would be sur-surrebuttal,  
15 because the Company has already filed rebuttal.

16 CHAIRMAN GETZ: I'm taking it that he's  
17 reserving the right to ask.

18 MS. HATFIELD: Okay. Thank you.

19 MR. EATON: And, it only relates to  
20 issues that are brand new today that we haven't heard  
21 before.

22 CHAIRMAN GETZ: Okay. Anything further?

23 (No verbal response)

24 CHAIRMAN GETZ: Hearing nothing, then

1 please proceed.

2 MR. EATON: I'd like to call to the  
3 stand Robert A. Baumann and Stephen R. Hall.

4 (Whereupon **Robert A. Baumann** and  
5 **Stephen R. Hall** were duly sworn and  
6 cautioned by the Court Reporter.)

7 **ROBERT A. BAUMANN, SWORN**

8 **STEPHEN R. HALL, SWORN**

9 **DIRECT EXAMINATION**

10 BY MR. EATON:

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

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

14 Q. For whom are you employed?

15 A. (Baumann) I'm employed by Northeast Utilities Service  
16 Company. And, I'm here on behalf of Public Service  
17 Company of New Hampshire.

18 Q. What is your position and what are your duties?

19 A. (Baumann) I'm the Director of Revenue Regulation and  
20 Load Resources for Northeast Utilities Service Company.  
21 We supply engineering, finance, accounting, regulatory  
22 expertise and backup to all of our operating  
23 subsidiaries, that being Public Service Company of New  
24 Hampshire today. My general responsibilities are

1 associated with the revenue requirements calculations  
2 for Public Service Company of New Hampshire, the  
3 preparation in defense of those calculations, as well  
4 as other revenue requirements calculations for the  
5 Connecticut Light & Power Company and Western  
6 Massachusetts Electric Company.

7 Q. Have you testified before this Commission in the past?

8 A. (Baumann) Yes.

9 Q. Mr. Baumann, I'd like you to look at a document dated  
10 "July 30th, 2010", a cover letter signed by Robert A.  
11 Bersak, Assistant Secretary and Assistant General  
12 Counsel, followed by several pages. Do you recognize  
13 that document?

14 A. (Baumann) Yes, I do.

15 Q. And, please explain what that document is.

16 A. (Baumann) This document was the Company's initial  
17 filing in this docket that outlined the overall issue  
18 that PSNH was bringing to the forefront, that of a  
19 fairness issue associated with the Energy Service rate  
20 as it related to migration of customers to third party  
21 supply.

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

23 A. (Baumann) No.

24 Q. Is it true and accurate to the best of your knowledge

1 and belief?

2 A. (Baumann) Yes.

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

5 CHAIRMAN GETZ: So marked.

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

9 BY MR. EATON:

10 Q. Mr. Hall, could you please state your name for the  
11 record.

12 A. (Hall) Stephen R. Hall.

13 Q. For whom are you employed?

14 A. (Hall) I'm employed by PSNH. I'm Rate and Regulatory  
15 Services Manager.

16 Q. What are your duties in that position?

17 A. (Hall) I'm responsible for pricing and rate design,  
18 regulatory relations, and rate and tariff  
19 administration.

20 Q. Have you testified before this Commission in the past?

21 A. (Hall) Yes, I have.

22 Q. I'd like you to look at a document with a cover letter  
23 signed by you on October 29th, 2010.

24 A. (Hall) I have it.

[WITNESS PANEL: Baumann~Hall]

1 Q. Do you recognize that document?

2 A. (Hall) Yes, I do.

3 Q. And, could you explain what it is?

4 A. (Hall) Certainly. This is the PSNH's rebuttal  
5 testimony sponsored by Mr. Baumann and me, where we  
6 comment on and/or rebut the testimony of the  
7 intervenors in this proceeding.

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

9 A. (Hall) No.

10 Q. Is it true and accurate to the best of your knowledge  
11 and belief?

12 A. (Hall) Yes.

13 Q. Do you agree, Mr. Baumann?

14 A. (Baumann) Yes, I do.

15 MR. EATON: Could we have that document  
16 marked as "Exhibit 2" for identification?

17 CHAIRMAN GETZ: So marked.

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

21 BY MR. EATON:

22 Q. Did you gentlemen participate in discovery and  
23 answering data requests in this proceeding?

24 A. (Baumann) Yes.

{DE 10-160} [Day 1] {11-30-10}

1 A. (Hall) Yes.

2 Q. Mr. Baumann, could you provide a summary of where we  
3 are in this docket.

4 A. (Baumann) Like an opening statement?

5 Q. Like an opening statement, yes.

6 A. (Baumann) Okay. I wanted to make sure I understood the  
7 question. Good morning, Commissioners. I have a brief  
8 opening statement. And, hopefully, we'll just  
9 summarize and get our hands around the issues at hand  
10 here in this docket. Back in 2009, in September, PSNH  
11 introduced an issue that was characterized as  
12 "increasing Energy Service rate as a result of  
13 migration of customers to third party supply." And, in  
14 that testimony, we talked about a 5 percent increase in  
15 the Energy Service rates solely due to migration. And,  
16 we referred to it as an unintended result of  
17 restructuring at the time. We asked in that testimony  
18 that this be -- this issue be vetted by all interested  
19 parties, because we believed that it was a very  
20 fundamental fairness issue to small residential and C&I  
21 customers, who had not migrated to third party supply,  
22 and that their ES rate was too high.

23 The real driver was -- to this filing  
24 again was fairness. And, the portion of the law, and

[WITNESS PANEL: Baumann~Hall]

1 I'll just read it briefly, it's two sentences, and I  
2 quote: "The restructuring of the electric utility  
3 industry should be implemented in a manner that  
4 benefits all customers equitably and does not benefit  
5 one customer class to the detriment of another. Costs  
6 should not be shifted unfairly among customers,".

7 A brief understanding of the Energy  
8 Service rate: The Energy Service rate collects costs.  
9 And, so, it's a simple calculation of costs divided by  
10 sales to get a rate. And, those costs are really two  
11 -- two types of costs in nature; you have your fixed  
12 costs and your variable costs.

13 Variable costs are easy to get your hand  
14 around, because it's -- fuel would be a perfect example  
15 of a variable cost, as sales increase, you use more  
16 fuel or purchased power, and, as sales decrease, you  
17 use less fuel in that sense. So, that's a defined  
18 "variable cost" from an accounting perspective.

19 The fixed costs are those that are fixed  
20 in nature and do not vary significantly or at all as a  
21 result of volumetric change; property tax,  
22 depreciation, debt service costs. Again, they remain  
23 fixed in nature.

24 And, what has happened with migration is

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 that the sales have decreased, the Energy Service sales  
2 have decreased, and the variable costs have decreased.  
3 But, in the formula of the ES rate, the fixed costs  
4 have not. And, again, the fixed costs are the  
5 supporting costs for the PSNH generation, for the most  
6 part. And, so, it's kind of simple math. Where, if  
7 your numerator, the top part of your equation, is not  
8 decreasing as quickly as your sales in your  
9 denominator, you're going to have an increase in your  
10 Energy Service rate. And, that's really what was  
11 happening.

12 Now, further analysis of that issue, we  
13 looked at it and we said "Gee, generation is beneficial  
14 to all customers, in our viewpoint, even those who have  
15 migrated to third party supply." All customers rely on  
16 PSNH generation as backup supply, whether you are  
17 taking Energy Service or third party supply. The  
18 problem is that only the remaining customers on Energy  
19 Service are paying for this backup supply, in our  
20 opinion, because the migrating customers have migrated  
21 to third party supply and are, in effect, avoiding any  
22 type of charge associated with the value of backup  
23 supply. I'll be boldly -- I'll boldly say that I think  
24 there's general consensus here among parties that there

{DE 10-160} [Day 1] {11-30-10}

1 is an issue associated with the migration and the cost  
2 allocations. The OCA, I thought, put it well in their  
3 testimony. They talked specifically about costs  
4 shifting specifically to the smaller customers, who did  
5 not change or migrate to third party supply.  
6 Constellation agreed with the OCA on the cost-shifting  
7 issue. They talked about exposing the customers to  
8 upward pressures on the ES rate in their testimony.  
9 They also frame the issue in their summary as "costs  
10 shifting" as well.

11 TransCanada, they talked about the "free  
12 option" to return to PSNH supply, as they referred to  
13 third party customers who had already switched. And,  
14 they talk about "other customers that should not bear  
15 the costs to maintain the system for these larger  
16 customers." So, we've all -- we've all, in effect,  
17 agreed at a certain level on the issues.

18 So, what is the issue? Well, I think a  
19 simple sentence from Constellation's testimony really  
20 describes it succinctly, and I'll quote from their  
21 testimony: "Customers who do not take their commodity  
22 supply from PSNH do not benefit from the PSNH  
23 portfolio, and should not bear the cost of PSNH  
24 decisions to purchase or produce energy for ES

[WITNESS PANEL: Baumann~Hall]

1 customers." Now, I want to emphasize the first part of  
2 that sentence, "customers who do not take their  
3 commodity supply from PSNH do not benefit from the PSNH  
4 portfolio."

5 Fundamentally, PSNH doesn't believe that  
6 that's true. We believe that migrating customers can  
7 come back at any time to PSNH supply, if they so  
8 choose, and that they are benefiting every day for  
9 having that supply exist, whether they are on Energy  
10 Service rate or whether they have gone to a third party  
11 supply.

12 Small customers, who do not migrate, are  
13 supporting 100 percent of that backup supply all the  
14 time. And, again, as we said, the migrating customers  
15 are avoiding that backup supply, unless they choose to  
16 come back. And, we just introduce that issue as the  
17 fairness issue to the smaller customers who have not  
18 switched.

19 So, what can be done? We put forth in  
20 our testimony an alternative that you would -- you  
21 would dollarize the value of the backup service and  
22 charge that to all customers, as a non-bypassable type  
23 of charge. Certainly, there was outcry from the  
24 suppliers, and for good reason. You know, the general

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 consensus was it wasn't -- it wasn't intended in  
2 restructuring, that this is not the way we wanted to  
3 go. You know, and the issue that we -- when we read  
4 the suppliers' testimonies, we thought about it. And,  
5 I guess the first thing we thought about was, first of  
6 all, PSNH isn't fully restructured. PSNH owns its  
7 generation. And, there is a difference. A lot of the  
8 testimony of suppliers talked about Connecticut,  
9 Massachusetts, and that we were different than  
10 Connecticut and Massachusetts. And, they were correct,  
11 we are different, and for good reason. PSNH has  
12 benefited the customers for many years from lower cost  
13 Energy Service supply based on our backbone generation.  
14 And, you know, that's been evidenced by little to no  
15 migration for many years for PSNH customers.

16 Connecticut and Massachusetts has, in my  
17 opinion, suffered through some years of more expensive  
18 market supply. They sold their generations -- their  
19 generation at the end of the 1990's. And, even  
20 Connecticut today suffers through higher energy service  
21 rates, which they call "Standard Service rates" in  
22 Connecticut, than what the market has to offer today.

23 So, our proposal, you've heard our  
24 proposal, PSNH's proposal, or the structure of our

{DE 10-160} [Day 1] {11-30-10}

1 proposal. The suppliers, much to our disappointment,  
2 really didn't address the fairness issue in their  
3 testimonies. They really just offered kind of, well,  
4 they really offered consistently three options. While  
5 not looking at the fairness issue, they said "look at  
6 an RFP first for excess load over the generation of  
7 your units. So, your excess Energy Service load. Let  
8 us supply an RFP for that." The second thing they did  
9 is they said "well, since there isn't a lot of excess  
10 today because of migration, let's look at -- let's look  
11 at bidding generation into the pool and getting the  
12 energy and capacity and then reserve values for that  
13 generation. And, then, we, the third party suppliers,  
14 would again respond to RFPs for all of the ES load,  
15 100 percent of the ES load that was available to bid  
16 on." And, then, they said "well, that's not  
17 necessarily the best option", which we agree. So, we  
18 should move to divestiture or retirement. And, this,  
19 obviously, concerns PSNH, because you're then losing  
20 the value of the backup service that we believe is very  
21 significant.

22 The overall theme, I think, to summarize  
23 for the suppliers, is that they're -- they didn't  
24 address, in our opinion, they didn't address the

[WITNESS PANEL: Baumann~Hall]

1 fairness issue that's before us today, but they did  
2 address the potential for additional market share.  
3 And, certainly, they are a for-profit type of entities.  
4 And, so, it's consistent with what they have asked for,  
5 but we don't believe it addresses the real issue at  
6 hand, which is the fairness issue.

7 Kind of in summary, we talked about  
8 divestiture of generation. I think the overall theme  
9 that I read from the suppliers' testimonies was that we  
10 should move to full migration -- or, full  
11 restructuring. And, kind of "don't worry, because  
12 you'll get to where we all intended to go ten years  
13 ago." But, in PSNH, in my opinion, the Legislature and  
14 all the supporting bodies were a little smarter than  
15 that, and that's why we haven't moved, at least over  
16 the last ten years, to full requirements -- or, excuse  
17 me, to full restructuring, and we've kept the  
18 generation. So, the suppliers kind of say "Don't  
19 worry. When we move there, you'll only pay market  
20 prices." I guess what PSNH is really trying to say is,  
21 "Be concerned. Because, if you do move in that  
22 direction, you certainly will pay what the market will  
23 bear."

24 PSNH is supportive of migration, and --

{DE 10-160} [Day 1] {11-30-10}

1 if the costs are allocated fairly. But we believe, in  
2 this situation today, that they're not being allocated  
3 fairly. And, we just want to be very cautious that we  
4 develop long-term solutions to the benefit of  
5 customers, and that we don't base those long-term  
6 solutions on short-term issues today.

7 Thanks for the time that you've allowed  
8 me here.

9 MR. EATON: The witnesses are available  
10 for cross-examination.

11 CHAIRMAN GETZ: Okay. Thank you.  
12 Unless there's some other agreement or preference among  
13 the intervenors, I'm going to start with Mr. Rodier, and  
14 go clockwise around the room?

15 MR. RODIER: Thank you, Mr. Chairman.

16 CHAIRMAN GETZ: Mr. Rodier.

17 MR. RODIER: Excuse me.

18 **CROSS-EXAMINATION**

19 BY MR. RODIER:

20 Q. Mr. Baumann, let's go back two and a half years to the  
21 Summer of 2008, okay?

22 A. (Baumann) Summer of 2000 --

23 Q. '08.

24 A. (Baumann) '08?

[WITNESS PANEL: Baumann~Hall]

1 Q. Is that two and a half years? How much is that? Let's  
2 go back to the Summer of 2008. And, I'm talking about  
3 just before the Lehman debacle and the subsequent crash  
4 in energy prices. Do you recall that period?

5 A. (Baumann) Not off the top of my head. I don't remember  
6 when there was the crash, but I'll take it subject to  
7 check.

8 Q. All right. Let's just say that the prices plummeted in  
9 2008. And, I think, certainly, that's been discussed  
10 in a number of other proceedings here having to do with  
11 the Company's locking in of, you know, the above-market  
12 purchase costs. Well, using the benefit of foresight  
13 anyway. Hindsight, the market -- the prices that you  
14 purchase power at over the longer term were greater  
15 than what the market prices turned out, because,  
16 basically, of the plunge of the natural gas prices. Do  
17 you recall that? Is this familiar to you?

18 A. (Baumann) Yes.

19 Q. Okay.

20 A. (Baumann) We do have some forward purchases that are  
21 now above market.

22 Q. Okay. Now, do you recall what the price of natural gas  
23 was during the Summer of 2008?

24 A. (Baumann) No, I don't.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Would you have any idea if it was like \$10 per MMBtu?

2 A. (Baumann) Again, I don't know specifically. I'd be  
3 speculating.

4 Q. Yes. Do you know what it is now? Let's say it's 5,  
5 for sake of discussion, okay?

6 A. (Baumann) Okay.

7 Q. So, over the last two, two and a half years, let's just  
8 say, to keep it simple, the price of natural gas has  
9 been cut in half, okay? And, if you were to assume you  
10 can generate electricity at a heat rate of 10,000 Btus  
11 per kilowatt-hours, you're talking when that gas is 10  
12 cents electricity, when that gas is \$10 per MMBtu,  
13 electricity is 10 cents per kilowatt-hour. Conversely,  
14 at this point, when that gas is \$5 per MMBtu, a rule of  
15 thumb would be that electricity is 5 cents a  
16 kilowatt-hour. So, would you agree with me so far that  
17 this sort of is the underlying context for the  
18 situation you described in your summary?

19 A. (Baumann) Well, I can -- you're throwing out a lot of  
20 numbers here, Mr. Rodier. I certainly agree that, if  
21 gas prices drop 50 percent, then the market -- the  
22 current market price for electricity would drop. It's  
23 not how -- that's not how electricity is priced, in  
24 effect, in New Hampshire, because we have generation

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 and forward purchases. But, if you were on a real-time  
2 situation and you were charging actual electricity  
3 costs based on actual gas costs, which is not the case  
4 in New Hampshire, then, hypothetically, if your prices  
5 dropped, then so would your electric rate.

6 Q. Okay. Well, here's what I'm getting at. In the Summer  
7 of 2008 -- let's make this a hypothetical to make it  
8 easy here. Let's assume that the price of power on the  
9 market was 10 cents per kilowatt-hour, okay? And, PSNH  
10 had an Energy Service rate of what, 9 cents per  
11 kilowatt-hour, let's say, for sake of discussion?

12 A. (Baumann) Okay.

13 Q. All right. So, at that point, maybe only 10 percent of  
14 your customers have migrated, because there was no  
15 benefit to migration?

16 A. (Baumann) Probably --

17 Q. They would have to pay 10 cents, instead of 9.

18 A. (Baumann) Probably even less than 10 percent.

19 Q. Okay.

20 A. (Baumann) Yes.

21 Q. As we're here today, maybe a third of those customers  
22 have gone to the competitive market, is that right?

23 A. (Baumann) That's correct.

24 Q. And, basically, that's because of the dramatic

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 reduction in the natural gas prices has reduced the  
2 price of purchased power down to, on a wholesale basis  
3 anyway, five or six cents per kilowatt-hour, maybe at  
4 retail, seven cents per kilowatt-hour. So, right now,  
5 you know, your ES rate is eight and a half or nine  
6 cents, and they could leave and buy it at six or seven.  
7 You follow me?

8 A. (Baumann) That's an accurate description for a sliver  
9 of the customers that we have at this point, because  
10 only a third have, --

11 Q. Right.

12 A. (Baumann) -- when I say a "sliver", about a third have.

13 Q. Right. That's what migration is all about, this 30,  
14 33 percent that have left.

15 A. (Baumann) Right. But that's not a good description of  
16 100 percent of our customers.

17 Q. Oh, I agree.

18 A. (Baumann) Okay.

19 Q. And, what has -- the situation that has created is  
20 that, I think you said you've got \$40 million in fixed  
21 costs that you are recovering through the ES rate?

22 A. (Baumann) Well, (Baumann) at one point, we defined a  
23 number at approximately 40 million associated with  
24 depreciation, --

{DE 10-160} [Day 1] {11-30-10}

1 Q. Yes.

2 A. (Baumann) -- property tax, and the debt service costs.

3 Q. Didn't I hear you use "40 million" in your summary?

4 A. (Baumann) I don't believe I did.

5 Q. Okay. But, in your testimony, you said -- you pegged  
6 the fixed costs roughly at 40 million? And, I don't  
7 care if it's a different number, I'm just trying to --

8 A. (Baumann) I think in the prefiled testimony, when we  
9 gave a possible alternative, yes, we did say that it  
10 was somewhere around \$40 million, if you were to define  
11 "fixed costs" as "depreciation, property tax and debt  
12 service costs".

13 Q. Okay. So, when the migration increases from, let's  
14 say, 5 percent to 30 percent, over a two and a half  
15 year period, you have fewer units of sales to collect  
16 your Energy Service costs, including the 40 million  
17 that's fixed, is that correct?

18 A. (Baumann) Yes.

19 Q. And, so, that, in your view, has to be paid by  
20 somebody, so it's being -- it would be recovered off of  
21 the other two-thirds that haven't migrated?

22 A. (Baumann) It's currently being recovered by Energy  
23 Service customers. So, yes, it would be those  
24 two-thirds of the customers that have not migrated.

[WITNESS PANEL: Baumann~Hall]

1 Q. Okay. But it's really -- it's the usage associated  
2 with two-thirds of the customers. The actual number of  
3 customer accounts that's migrated is probably a lot  
4 less than one third?

5 A. (Baumann) Correct.

6 CHAIRMAN GETZ: And, could we just  
7 verify that. When you're talking "30 percent of  
8 customers", you're talking 30 percent of load?

9 MR. RODIER: Yes. That was what that  
10 last exchange was all about, Mr. Chairman.

11 WITNESS BAUMANN: I agree.

12 MR. RODIER: Sales load.

13 BY MR. RODIER:

14 Q. Okay. So, that is one effect of migration. But, when  
15 you have 5 percent of your customers in the Summer of  
16 2008 have migrated, 5 percent of the load, -- if I say  
17 "5 percent of the customers", I think the record will  
18 be clear here what I'm talking about. So, 5 percent of  
19 the customers had migrated in the Summer of 2008. So,  
20 the other 95 percent of the load you were purchasing,  
21 you had to serve through your own generation, the IPPs,  
22 and power that you were purchasing at market prices, is  
23 that correct?

24 A. (Baumann) I just don't want to agree on the 5 percent.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 I don't know exactly what the migration rate was.

2 Q. All right. Let's just --

3 A. (Baumann) But, whatever percentage it was, it was low.

4 Q. Right.

5 A. (Baumann) And, you're correct, the remaining customers  
6 on Energy Service were paying the Energy Service costs,  
7 which included all the variable and fixed costs.

8 Q. Right. But what I'm talking about, with 95 percent of  
9 the customers left, you did not have enough electric  
10 energy to serve them, at least, in part, you had to go  
11 out and buy power at the market price and recover it  
12 through the Energy Service rate, is that correct?

13 A. (Baumann) Yes.

14 Q. Supplemental purchases.

15 A. (Baumann) Sure. To the extent, and it's been this way  
16 for a decade, to the extent that the owned generation  
17 for PSNH does not cover the load, --

18 Q. Right.

19 A. -- that we go out in the market and we purchase it,  
20 various different levels.

21 Q. Right.

22 A. (Baumann) As well as day-to-day in the daily market.

23 Q. So, then, when there's low -- little to no migration or  
24 a low amount of migration, you -- the customers are

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 with you in the Energy Service rate, you have to buy  
2 the power to serve them at 10 cents, and you're only  
3 charging 9 cents. Is that correct? Would that be a  
4 correct summary of where this discussion has gone here  
5 this morning so far?

6 A. (Baumann) No, I really don't look at it that way. We  
7 go out and we purchase power at market rates.

8 Q. Yes.

9 A. (Baumann) To the extent that was more expensive than  
10 our own gen costs on average, then, yes, the rate would  
11 be higher than our own gen costs.

12 Q. Right. But what I'm just trying to get at here is a  
13 simple proposition then. When the price of power in  
14 the competitive market is greater than your Energy  
15 Service rate, it has the effect of increasing the  
16 Energy Service rate for all customers, doesn't it? If  
17 there's no migration, you're buying power for a large  
18 customer, High Liner Foods, pick any large customer,  
19 Elliot Hospital. You're buying it at 10 and they're  
20 paying you 9 for it, is that correct?

21 A. (Baumann) The 10 is part of the 9. The 10 --

22 Q. Right.

23 A. (Baumann) The 10 is a specific power source for a  
24 specific segment of the load. Whereas the 9 cents is

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 the average for all of your power sources.

2 Q. Okay. Well, let me ask you this. If High Liner Foods  
3 moved back to Nova Scotia and they weren't there  
4 anymore, it would lower the ES rate for every one of  
5 your customers, isn't that correct?

6 A. (Baumann) You're moving back to Nova Scotia?

7 Q. Yes. In my hypothetical.

8 A. (Baumann) When? Oh, it's a hypothetical. I don't  
9 know. You've moved out of the state, someone else may  
10 move into your house --

11 Q. Let's keep it simple here. If a customer goes out of  
12 business or leaves your service territory, in the  
13 Summer of 2008, when your -- the price in the  
14 competitive market is 10 cents per kilowatt-hour, and  
15 you're only charging 9, if you no longer have to buy it  
16 from them at 10 and sell it to them at 9, then all the  
17 other customers are going to benefit. Is that right?

18 A. (Baumann) If the 10 cent power is -- there's an option  
19 to take or not take. If it's fixed, then that's not  
20 necessarily true.

21 Q. Okay. Let's -- and, let's simplify the paradigm that  
22 we're talking about. Let's assume that there was no  
23 lock-in of purchased power costs, okay? Let's assume  
24 that your supplemental purchases were all from the ISO

{DE 10-160} [Day 1] {11-30-10}

1 spot market. With that simplification, would you agree  
2 with me, if a customer goes out of business or leaves  
3 your service territory, and you don't have to buy the  
4 power at 10, and collect 9 cents from the customer,  
5 then all of the other customers are going to benefit?

6 A. (Baumann) If the marginal load that leaves, if we can  
7 -- if we can save costs at a price that is higher than  
8 the average, --

9 Q. Right.

10 A. (Baumann) -- then the average will go down.

11 Q. Now, let's see if we can just, at the risk of  
12 oversimplification, then what I'm getting at is that  
13 the -- in the situation that has prevailed since  
14 deregulation, up to maybe two and a half years ago, the  
15 presence of the large customers on your system were  
16 increasing the Energy Service rate to all customers,  
17 isn't that correct?

18 A. (Baumann) "The presence of the large customers were  
19 increasing the Energy Service rate"?

20 Q. Yes.

21 A. (Baumann) No, I don't -- I don't understand your  
22 statement.

23 Q. What I'm getting at is, if they weren't there, you  
24 wouldn't have to buy the supplemental power at 10

[WITNESS PANEL: Baumann~Hall]

1 cents, and charge 9 for it. That's what I'm getting  
2 at. So, if they are there, and you are buying the  
3 supplemental power at 10 cents, you're only charging 9  
4 cents, and it's going to increase the average rate, the  
5 Energy Service rate?

6 A. (Baumann) Well, we bought the supplemental power for  
7 all customers, not just the large customers.

8 Q. But, if the large customers go, you don't have to buy  
9 supplemental power. I thought that's what the Company  
10 has been saying recently?

11 A. (Baumann) If the small customers go, we don't have to  
12 necessarily as well.

13 Q. Okay.

14 A. (Baumann) I just don't want to pin it on our large  
15 customers.

16 Q. Yes.

17 A. (Baumann) They're not the villains here. In fact,  
18 there are no villains.

19 Q. Okay. So, now, the larger customers, fast-forward two  
20 and a half years or so to where we are now, they have  
21 left. They have left the house, right?

22 A. (Baumann) They have migrated to a third party supplier.

23 Q. Okay. And, because you're charging 9, and they can buy  
24 it at 7, under our simplifying hypothetical, correct?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) They can buy it for cheaper, I assume. I  
2 assume, I don't know what they're paying.

3 Q. Right.

4 A. (Baumann) But, I'm assuming, if they migrate, they have  
5 done it for economic reasons.

6 Q. And, as you've well explained, you've got 40 million in  
7 fixed costs, and you have fewer units of ES sales to  
8 spread that over, so it increases the Energy Service  
9 rate, correct?

10 A. (Baumann) Mathematically, that's correct, yes.

11 Q. Okay. Now, let's assume that, for some unforeseen  
12 reason, power costs go back to 10 cents by this time  
13 next year, the power costs in the competitive market.  
14 Do you have that hypothetical in mind?

15 A. (Baumann) Okay.

16 Q. What happens? A lot of those will, according to your  
17 testimony, a lot of those will return to the Energy  
18 Service rate. Isn't it that simple?

19 A. (Baumann) If the market price exceeds the Energy  
20 Service average cost, --

21 Q. Right.

22 A. (Baumann) -- then it would be logic to assume --  
23 logical to assume that customers, if they could, I  
24 don't know how long-term -- what type of contracts the

{DE 10-160} [Day 1] {11-30-10}

1 migrating customers --

2 Q. Let's assume they're all short, okay?

3 A. (Baumann) If they're all short, then I would assume  
4 that they would again go to the economically best  
5 choice for their businesses.

6 Q. Okay. Would you be happy then, because now you've got  
7 more units to spread your ES costs over?

8 A. (Baumann) It would -- it would begin to alleviate the  
9 unfairness issue.

10 Q. Okay. But what about the fact that you now have to buy  
11 power at 10 cents for these customers that are  
12 returning, which is above the revenue that you're  
13 collecting? That doesn't bother you?

14 A. (Baumann) Again, it doesn't -- I mean, I'm not troubled  
15 by it. We have a generation portfolio. I just don't  
16 know, you know, you make a simplifying assumption we  
17 have to go out and purchase with the market price as  
18 high as it is, there may be other -- other  
19 alternatives. I don't know if the capacity factors of  
20 our generating units, you know, would change, and the  
21 dispatch of the generating units, the value of energy  
22 reserve. Perhaps we would have to go out and purchase  
23 more, but we may also get more value for our energy  
24 from our generating units, because the bid prices would

1 be that much higher. So, it's not a fair assumption to  
2 say that we would just have to go out and purchase at a  
3 higher cost and nothing else would happen. There would  
4 be a drastic change in other costs, if the prices in  
5 your hypothetical go from \$5 to \$10, or 5 cents to 10  
6 cents a kilowatt-hour.

7 Q. Well, in reading your testimony, you did make the point  
8 that, when they go back, you have to buy power at a  
9 price higher than the Energy Service rate, didn't you?

10 A. (Baumann) I don't believe I did.

11 Q. And, you're unwilling, as a basic proposition, to  
12 concede that this morning, under the assumptions that  
13 we're talking about?

14 A. (Baumann) I'm willing to say what I just said.

15 Q. Okay. All right. So, basically, what it comes down to  
16 is that, if the situation flips, to where the market  
17 price for power again becomes 10 cents per  
18 kilowatt-hour, and the customers go back, we no longer  
19 have an unfair situation, because you're recovering  
20 your fixed costs from a greater amount of sales. The  
21 fact that you may have to buy power for them, at a  
22 price that's higher than the average Energy Service  
23 rate, and thereby increase the Energy Service rate for  
24 all the other customers, that doesn't trouble you and

1 that's not unfair?

2 A. (Baumann) Well, again, I don't -- I'm not sure that  
3 would increase the Energy Service rate, because of  
4 other what I'll call "credits" that you might incur as  
5 a result of higher Energy Service revenues, higher  
6 reserve revenues, I just haven't done that analysis.  
7 But I don't think it's fair to say that, when these big  
8 customers came back, --

9 Q. Right.

10 A. (Baumann) -- the overall costs would increase on  
11 average. But you are correct, it would start to  
12 alleviate the fairness issue that PSNH has brought  
13 forth in this docket.

14 Q. Okay.

15 A. (Baumann) It would start to shift back the costs, in  
16 effect.

17 Q. Would you turn to Exhibit 1, Page 8 please. And, would  
18 you read into the record the sentence that -- the first  
19 full sentence that starts on Line 9 and ends on Line  
20 12. It's two sentences. It begins "as supplier".  
21 Would you read those two sentences.

22 A. (Baumann) "As supplier of last resort, PSNH would then  
23 be required to secure supply for these returning  
24 customers during a period of rising market prices. As

[WITNESS PANEL: Baumann~Hall]

1 prices increase, this would translate into even" --  
2 "this would translate into even higher Energy Service  
3 rates for all customers."

4 Q. You don't agree with that any longer?

5 A. (Baumann) That statement says that, if you are  
6 purchasing in a market where the prices are higher than  
7 in the previous market, that that issue alone would  
8 have an increase on your Energy Service rate.

9 Q. Okay.

10 A. (Baumann) But, again, --

11 Q. I think that's --

12 A. (Baumann) -- there are a lot of other factors. If I  
13 understand your question, it was a general that "it  
14 would increase". And, I'm saying there are a lot of  
15 other factors you'd have to take into consideration.

16 Q. Okay. Well, I was just going by your prefilled  
17 testimony, you understand that?

18 A. (Hall) Well, you added a condition that wasn't in  
19 there, Jim.

20 Q. Excuse me?

21 A. (Hall) You added some other conditions that weren't  
22 talked about in the testimony, --

23 Q. All right.

24 A. (Hall) -- and you reached a conclusion that doesn't

{DE 10-160} [Day 1] {11-30-10}

1 necessarily follow.

2 Q. All right. Then, let's, you know, let's move on a  
3 little bit here. What I want to get at here is now  
4 there's the context of this situation. And, I don't  
5 want to have to go find it in your testimony, but you  
6 seem to say that natural gas at \$5 an MMBtu is a  
7 temporary situation?

8 A. (Baumann) My testimony says "we don't know which way  
9 it's going." I never said that "the low gas is going  
10 to go up." I said "do I believe it's permanent?" And,  
11 my answer is "no, I don't believe anything is permanent  
12 in the energy business."

13 Q. Okay. Now, what's the Company assuming the long-term  
14 trajectory of natural gas prices is going to be, do you  
15 know?

16 A. (Baumann) "Long-term", well, what do you define as  
17 "long-term"?

18 Q. Fifteen years.

19 A. (Baumann) I don't know that answer.

20 Q. Okay.

21 A. (Baumann) Today.

22 Q. It's possible it could stay at \$5, right?

23 A. (Baumann) It's possible.

24 Q. Okay. So, as a matter of fact, you have people at the

[WITNESS PANEL: Baumann~Hall]

1 Company that do like marginal cost -- well, avoided  
2 cost calculations, they are quite common. And, so,  
3 you've got avoided costs that are based upon a forecast  
4 of what's going to happen in the natural gas markets,  
5 right?

6 A. (Baumann) We have budgets, five year budgets, that we  
7 forecast that we make some assumptions on.

8 Q. Sure. Probably use -- try to use the same numbers that  
9 you use in your Least Cost Plan?

10 A. (Baumann) I'd say -- I'd say they're consistent, yes.

11 Q. Yes. And, those are sort of based upon the work that  
12 Rich Levitan has done for the Avoided Energy Cost  
13 Group, or something like that, is that correct?

14 A. (Baumann) I'm not sure what Mr. Levitan used.

15 Q. So, you're not familiar with what the Company's  
16 position is on where natural gas prices are headed for  
17 the next 15 years, are you?

18 A. (Baumann) No.

19 Q. Okay. So, then, we have to say "what if?" What if  
20 they stay at \$5, okay? This is a hypothetical. Follow  
21 me?

22 A. (Baumann) Is that a question? I'm following.

23 Q. I'm sorry. You're right. It wasn't a question. Did  
24 you -- do you understand my hypothesis here? Natural

{DE 10-160} [Day 1] {11-30-10}

1 gas is staying at \$5 for the next 15 years?

2 A. (Baumann) Okay.

3 Q. I'm going to follow it up with some questions.

4 A. (Baumann) That's simple enough.

5 Q. Okay. Now, if that's the case, then this migration is  
6 no longer the -- you used the word "phenomenon", I  
7 believe, or it's no longer a temporary situation, it's  
8 unfair. It's chronic, isn't that correct? It's  
9 enduring. It's permanent.

10 A. (Baumann) Well, again, migration is not unfair. You  
11 just put the two together.

12 Q. I meant the results --

13 A. (Baumann) The cost allocation and cost-shifting is  
14 unfair.

15 Q. Okay. It could happen, couldn't it?

16 A. (Baumann) What could happen?

17 Q. That the market price of power is less than the Energy  
18 Service rate for the next 15 years, is that correct? I  
19 mean, it could happen, couldn't it?

20 A. (Baumann) Anything -- anything's possible.

21 Q. And, we have experts in the room, I'm sure, if they're  
22 asked, they would say that may even be "probable" or  
23 "likely". We've got people like Mr. Allegretti, we've  
24 got Mr. Hachey here, we've got others that, if people

[WITNESS PANEL: Baumann~Hall]

1 are interested in what the prevailing wisdom is on the  
2 avoided costs at this point, they could answer that  
3 question. So, --  
4 A. (Baumann) I don't agree with that.  
5 Q. Okay.  
6 A. (Baumann) I just don't agree with that.  
7 Q. All right.  
8 A. (Baumann) "Probable" and "likely"?  
9 Q. Yes.  
10 A. (Baumann) Well, I got a bridge in Brooklyn, you want to  
11 buy it?  
12 Q. Okay. Well, I could be wrong. So, --  
13 A. (Baumann) But anything can happen.  
14 Q. And, if I am, they will correct me. So, again, it's a  
15 -- what do you see the future? What would it look  
16 like, if this migration just keeps growing? Do you  
17 have any plans for this? Have you studied this? Have  
18 you analyzed this?  
19 A. (Baumann) We haven't analyzed --  
20 Q. Are you fearful?  
21 A. (Baumann) -- 100 percent migration or 50 percent  
22 migration.  
23 Q. Okay.  
24 A. (Baumann) We just haven't gotten there.

{DE 10-160} [Day 1] {11-30-10}

1 Q. All right. Well, we've talked about that, let's just  
2 say in our hypothetical here, that it's possible that  
3 the market price of power could be at five cents per  
4 kilowatt-hour based upon natural gas for the next 15  
5 years at \$5 per MMBtu. I want to follow that up and  
6 then ask you, the other thing that we're talking about  
7 here that governs the rate of migration is the  
8 relationship of that, obviously, with the market price  
9 of power, correct? I mean, that's axiomatic.

10 A. (Baumann) I lost your question.

11 Q. Well, if the ES rate is greater than the market price  
12 of power, you're going to have migration?

13 A. (Baumann) It depends on the spread.

14 Q. Okay. So, let's talk about the spread. Where's the  
15 Energy Service rate going, next few years?

16 A. (Baumann) It depends on the price of power.

17 Q. Yes. You got any -- anything that you would be --  
18 capital costs you would be inserting into the ES rate  
19 to recover during the next two years?

20 A. (Baumann) We have environmental capital costs at  
21 Merrimack that everyone is well aware of. The scrubber  
22 that will go into service.

23 Q. Is that going to increase the ES rate?

24 A. (Baumann) All things equal, yes.

[WITNESS PANEL: Baumann~Hall]

1 Q. Okay. What do you mean by that, "all things equal"?

2 A. (Baumann) If market prices were to increase, --

3 Q. Okay.

4 A. (Baumann) -- and customers were to migrate back, I  
5 mean, there are a lot of different variables.

6 Q. Okay. The hypothetical is -- it is a hypothetical.

7 A. (Baumann) But, generally speaking, if you add a large  
8 capital investment into the Energy Service rate base,  
9 then, yes, I agree with you that it would increase the  
10 ES rate.

11 Q. Okay. And, therefore, under these assumptions, the  
12 spread's going to increase?

13 A. (Baumann) Depends on what the market prices are.

14 Q. Well, under this hypothetical, the market price of gas  
15 stays flat for the next 15 years. And, the Merrimack  
16 goes into the Energy Service rate in mid 2012. The  
17 spread between ES and the market price of power is  
18 going to increase and therefore accelerate migration?

19 A. (Baumann) Under that very limited hypothetical, if your  
20 market price stays flat, and your average price goes  
21 up, yes, you would probably increase migration. Or,  
22 let me put it this way, there might be more people out  
23 there that would take advantage of that market spread.  
24 But, again, it depends on what spread is necessary,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1           like I said before, because there's a spread today, but  
2           I don't see a lot of residential customers being  
3           marketed to because of that spread.

4   Q.   Well, you know, that's a good point.  Because it looked  
5           to me like, in Connecticut, though, there's a couple  
6           hundred thousand residential customers that have gone  
7           to the competitive market.  Is that correct?

8   A.   (Baumann) I don't know the exact numbers.  But, yes,  
9           there's a lot more than in New Hampshire.

10  Q.   It's a big number, isn't it?

11  A.   (Baumann) Yes.

12  Q.   So, it can happen?

13  A.   (Baumann) Anything can happen.

14  Q.   All right.  So, let's just pursue this a little bit.  
15           You start to have a migration of residential customers  
16           in a couple of years, it reaches down to that level, it  
17           almost brings back this specter of the "death spiral"  
18           that we used to talk about in connection with the  
19           nuclear plants.  Do you follow me?  That could happen,  
20           couldn't it?

21  A.   (Hall) I don't agree.

22  A.   (Baumann) "Death spiral"?

23  A.   (Hall) I don't agree with you, Jim.

24  Q.   Well, just explain --

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) What you're attempting to do is take one limited  
2 situation, apply all kinds of "what ifs", change  
3 nothing else, and say "Well, that's what's going to  
4 happen." If all of these scenarios -- if this scenario  
5 came true, quite frankly, I don't know what we'd do.  
6 But we'd do something to address the situation. And, I  
7 think all parties would.

8 Q. All right.

9 A. (Hall) So, I can't accept your hypothetical that  
10 "nothing else is going to change."

11 Q. Okay. But, you know, I'm satisfied with that answer,  
12 that you don't know really what you'd do --

13 A. (Hall) I don't think anyone does. Nor does anyone know  
14 what future energy prices are going to be.

15 Q. True. But we have to plan --

16 A. (Hall) And, you've asked us to accept a hypothetical  
17 that they're going to remain unchanged for 15 years.

18 Q. Okay. But you have to plan for uncertainty, don't you?

19 A. (Hall) Everyone does.

20 MR. RODIER: Okay. All right. May I  
21 have a brief moment, Mr. Chairman, just to review my  
22 notes?

23 CHAIRMAN GETZ: Certainly.

24 BY MR. RODIER:

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. So, let's then -- you want to talk about "fairness" and  
2 the competitive suppliers don't want to talk about it.  
3 Is that what you say in your summary?

4 A. (Baumann) I said that the fairness issue, we don't  
5 believe, was addressed in any substantive way by the  
6 suppliers' testimonies.

7 Q. Now, "fairness" is a pretty elusive concept, is it not?

8 A. (Baumann) Not as we have described it in our testimony.  
9 The word "fairness" is a concept. But, as specifically  
10 supplied here in our testimony, we're very succinct as  
11 to what we mean by "fairness".

12 Q. Okay. All right.

13 A. (Baumann) With the "fairness" issue.

14 Q. Does "equitable" mean the same thing to you?

15 A. (Baumann) Not necessarily.

16 Q. How about "just"?

17 A. (Baumann) No. I --

18 Q. All right. How about --

19 A. (Baumann) Not necessarily.

20 Q. How about non-oppressive?

21 A. (Baumann) No.

22 Q. Okay. How about "cost allocation"? How do you  
23 determine "fairness"? Don't you -- in fact, you have  
24 to allocate the costs?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Sure. I mean, the whole cost of service  
2 allocation is, you know, is an allocation methodology  
3 based on certain parameters.

4 Q. Yes. Well, since when, you know, you recover these  
5 40 million in fixed costs, you're recovering them just  
6 across kilowatt-hour sales, isn't that correct?

7 A. (Baumann) Yes.

8 Q. Well, Mr. Hall, you're a rate man of many years. There  
9 are a number of ways to allocate fixed costs to  
10 customer classes, aren't there?

11 A. (Hall) Sure there are. And, ultimately, it's up to the  
12 Commission to determine.

13 Q. In fact, you can use, as I vaguely recall, contribution  
14 to system peak, contribution to non-coincident peaks,  
15 the average in excess demand method, do you recall  
16 that?

17 A. (Hall) There's all kind of methodologies.

18 Q. All right.

19 A. (Hall) Each with their own frailties and each with  
20 their own benefits.

21 Q. Right. That doesn't mean that necessarily the best way  
22 to do it is to just spread it across kilowatt-hours, is  
23 it?

24 A. (Hall) Any methodology you use has benefits and

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 drawbacks. And, ultimately, it's up to the Commission  
2 to determine whether it's reasonable.

3 Q. And, ratemaking is really an art or quite a bit, isn't  
4 it?

5 A. (Hall) I'd agree.

6 Q. And, what I'm getting at here is space heating  
7 customers use only power in the winter, and they pay  
8 the same ES rate as everybody. Air conditioning  
9 customers use it only in the summer. They pay the same  
10 rate as everybody else. So, inherent in ratemaking are  
11 some judgments have to be made based upon a number of  
12 considerations, is that correct?

13 A. (Hall) Sure.

14 MR. RODIER: Okay. That's all I have,  
15 Mr. Chairman. Thank you.

16 CHAIRMAN GETZ: Thank you. Mr. Patch.

17 BY MR. PATCH:

18 Q. I want to begin with a question about how long the  
19 option has existed for PSNH's customers to migrate to  
20 competitive suppliers? And, either one of you can  
21 answer that question. Maybe Mr. Hall would be better.

22 A. (Hall) Sure. Since May 1st, 2001.

23 Q. So, it's been nine plus years. I think I heard  
24 Mr. Baumann refer to a "decade" earlier, but it's close

{DE 10-160} [Day 1] {11-30-10}

1 to a decade?

2 A. (Hall) Yes.

3 Q. And, during that time frame, when migration has been  
4 available to PSNH customers, can you tell the  
5 Commission what strategies PSNH has developed in its  
6 power supply in order to deal with the possibility of  
7 migration to avoid added costs being incurred by  
8 non-migrating customers? I mean, you've had nine and a  
9 half years to think about this and to do something  
10 about it. Can you explain to the Commission what  
11 you've done?

12 A. (Hall) With regard to power supply strategy, neither  
13 one of us is the right witness to answer that question.

14 Q. Okay. Well, I'm going to offer a data request that was  
15 responded to in this docket. And, I think, Mr.  
16 Baumann, your name was on this. And, I'm referring to  
17 TransCanada 26. And, I'm going to hand out copies now.

18 (Mr. Patch distributing documents.)

19 BY MR. PATCH:

20 Q. Now, the question here is a little bit different. But  
21 I think if you look at sort of the second half of the  
22 question, "Please describe all efforts undertaken by  
23 PSNH to minimize price risk to customers, in particular  
24 those customers "that have less of an opportunity to

[WITNESS PANEL: Baumann~Hall]

1 choose a lower cost electric supplier", due to the  
2 option PSNH customers have since deregulation to choose  
3 an [alternative] supplier." And, Mr. Baumann, you're  
4 listed as one of the witnesses there, is that correct?

5 A. (Baumann) Yes.

6 Q. And, would you read the response into the record.

7 A. (Baumann) The entire response?

8 Q. That's fine, or portions of it, if you want. But  
9 everybody's got it in front of them.

10 A. (Baumann) Okay. "Default Service price risk has been  
11 minimized for all Default Service customers by having  
12 Default Service prices set only twice annually, thus  
13 minimizing the number of times per year customers  
14 needed to react to new price signals. Further, Default  
15 Service price risk has also been minimized through  
16 managing over/under recoveries. Principally, this has  
17 been accomplished by purchasing supplemental energy  
18 requirements and fuel such that these costs were  
19 captured in the rate setting process and by managing  
20 capital and O&M generation costs."

21 Q. Now, does that refresh your recollection about whether,  
22 in fact, you're a correct witness to answer a question  
23 about steps that have been taken in order to address  
24 this issue?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Again, I read the generic questions. I  
2 cannot address what specific steps were taken to manage  
3 capital and O&M generation costs. That's why  
4 Mr. Smagula is a witness on here.

5 Q. But, I mean, you're generally competent to respond to  
6 the question about "what steps have been taken in order  
7 to address those issues", apparently, because your name  
8 is on this response, correct?

9 A. (Baumann) I'm one of the co-witnesses, yes.

10 Q. I want to focus for a minute on the language here about  
11 "this has been accomplished by purchasing supplemental  
12 energy requirements and fuel such that these costs were  
13 captured in the rate setting process." What does that  
14 mean?

15 A. (Baumann) Well, maybe Mr. Rodier has rubbed off on me,  
16 but I'll give you an example. If you do not purchase  
17 ahead either for purchased power or for your fuel, and  
18 you buy it currently every day in the market or every  
19 week in the market, you have introduced more price  
20 uncertainty in your forward pricing, i.e., your rates,  
21 because versus purchasing ahead, either power purchases  
22 or purchasing your fuel, you have fuel contracts for  
23 coal and gas and oil ahead, that locks into the  
24 rate-setting process a rate that is much more known and

{DE 10-160} [Day 1] {11-30-10}

1 measurable and has a less of an opportunity to be  
2 variable in the future. And, so, when they talk about  
3 "over/under recoveries", "managing over/under  
4 recoveries", that's part of the process of managing  
5 over/under recoveries. And, by "managing", we mean  
6 minimizing the variation in over and under recoveries.  
7 So, if you lock in more of your costs in the future,  
8 you add value to the process, in that the rates are  
9 more known and measurable and will not be more variable  
10 in the future, with, again, creating over and under  
11 recoveries, if you're in the short-term market for any  
12 of your commodity costs.

13 Q. But, I mean, as that says, "costs are captured in the  
14 rate setting process". So, is it fair to say then that  
15 any risks associated with that are borne by ratepayers,  
16 not by shareholders of NU, is that correct?

17 A. (Baumann) Well, the shareholder -- excuse me, the  
18 customers' rates will be set based on those known  
19 prices. When you characterize the word "risk", risk of  
20 prices going up? Risk of prices going down? I'm not  
21 sure what you mean, but --

22 Q. I'll try to explain then. I mean, risks associated  
23 with decisions that are made by NU or Public Service  
24 Company of New Hampshire that assume that prices are

1 going one way or the other, and it results in a  
2 difference between, say, a market price and the price  
3 that PSNH has paid for power. I think there's a  
4 difference there. And, I'm thinking about the response  
5 you gave to another data request that was attached to  
6 Mr. Hachey's testimony. And, that's -- just give me a  
7 minute, it's Q-STAFF-002, and that points out  
8 above-market costs resulting from purchases that have  
9 been made by Public Service Company of New Hampshire.  
10 So, that's really what I'm referring to, is those  
11 differences in costs. And, whose responsibility those  
12 costs are? It's not the shareholders, you're not  
13 suggesting, is it? If there are decisions made by  
14 Public Service Company of New Hampshire, it's the  
15 ratepayers that pay those costs.

16 A. (Baumann) Well, when PSNH goes out to purchase ahead,  
17 either electricity or fuel, that, in effect, is  
18 managing the ES rate. And, it's really -- I look at  
19 that, that piece alone as a mitigation of risk.  
20 Mitigation of risk that your rate in the future is far  
21 greater than or far less than what the market rates  
22 might be. It gives price certainty to customers. It  
23 doesn't give a guarantee that it's going to be the  
24 lowest price at the time. It's price certainty. And,

1 that's, again, what TC-026 is talking about, in terms  
2 of managing the rate in the regulatory framework.

3 Q. So, there are never decisions that have been made by NU  
4 or PSNH about power purchases that have resulted in  
5 higher costs to ratepayers than what it would have paid  
6 if they had been shopping on the market. Is that what  
7 you're trying to say?

8 A. (Baumann) No.

9 Q. If I understand correctly, your position is that  
10 customers who remain on the ES rate are faced with  
11 higher costs. And, so, basically, as a result of that,  
12 the Commission needs to address the issue. Is that  
13 correct?

14 A. (Baumann) Today, they're faced with a higher allocation  
15 of certain costs. So, overall, their rate has gone up.

16 Q. And, that's a fairly recent occurrence, correct?

17 A. (Baumann) Since migration started.

18 Q. I mean, I think the first time when PSNH raised this  
19 issue, you correct me if I'm wrong, was in I think it  
20 was the 09-180 docket, the ES docket last year. Is  
21 that your recollection as well?

22 A. (Baumann) Right. That was filed on September 24th,  
23 2009.

24 Q. And, at that point in time, I believe the migration

[WITNESS PANEL: Baumann~Hall]

1 level was approximately 23 percent, or it was in that  
2 range. Does that square with your reconciliation?

3 A. (Baumann) Subject to check, I think you're in the right  
4 ballpark.

5 Q. And, so, was that the tipping point, where all of a  
6 sudden PSNH decided "it's just gone too high and we  
7 need to do something about it"? Is 23 percent, you  
8 think, that tipping point?

9 A. (Baumann) It wasn't based on a percentage. We had --  
10 we had discussed, probably in the months leading up to  
11 that filing, we had discussed the issue, when migration  
12 was even lower than that. But it got to the point  
13 that, when we were filing for the new rates for 2010,  
14 that we felt we should bring this issue in front of the  
15 Commission. Because, you know, we had -- we had a  
16 very, very large decrease in gas prices, as Mr. Rodier  
17 pointed out before; we had an economy that some were  
18 saying "it was going to be a short-term recession" and  
19 others were saying "it could be a long-term recession."  
20 So, we just felt it was more -- it was appropriate at  
21 that time to raise the issue to the Commission. And,  
22 we had had some off-line discussions with the Consumer  
23 Advocate's Office as well on those issues. So, it was  
24 a general concern about our customers, and the cost

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 allocation and the cost shift that we were starting to  
2 see.

3 Q. Well, if the -- and I think your position is that you  
4 think migration is probably going to decrease in the  
5 future, is that correct?

6 A. (Baumann) No, I didn't say that.

7 Q. Okay. Well, I'm going to show you a copy of the  
8 response to TransCanada 17.

9 (Atty. Patch distributing documents.)

10 MR. PATCH: I'd ask that this be marked  
11 as the next exhibit.

12 CHAIRMAN GETZ: Well, while we're at it,  
13 let's mark for identification as "Exhibit Number 3"  
14 TransCanada Set 1, Question 26 and the Company's response.  
15 And, we'll mark for identification as "Exhibit 4"  
16 TransCanada Set 1, Question 17.

17 (The documents, as described, were  
18 herewith marked as **Exhibit 3** and  
19 **Exhibit 4**, respectively, for  
20 identification.)

21 BY MR. PATCH:

22 Q. Now, as I understand the response to this question,  
23 your name's on this one, it says: "Please explain how  
24 long you expect the migration levels PSNH is currently

{DE 10-160} [Day 1] {11-30-10}

1 experiencing to last and whether you believe they will  
2 ever be experienced again?" And, if I read your  
3 response correctly, it says "PSNH believes that  
4 migration will decrease." Is that correct?

5 A. (Baumann) If you only take part of the response. But  
6 the question says "how long do you expect the migration  
7 levels PSNH is currently experiencing to last?" So, I  
8 read that to say "Okay, you're at a certain level. How  
9 long do you think that's going to last, and whether you  
10 believe it would ever be experienced again?" So, I  
11 took that to mean "ever experienced again", so that  
12 means "to last or to go down." And, our response says  
13 that, if the economy improves, and, you know, it's tied  
14 to national and global economies, that we believe that  
15 migration would decrease if we had a substantial  
16 improvement in the economy.

17 Q. So, you think it's tied to the economy? It's not tied  
18 to the price of natural gas?

19 A. (Baumann) I think the economy is a large reason why gas  
20 could become more expensive. It's really a simple  
21 economic theory of supply and demand. And, if there's  
22 more demand in the economy for products and goods,  
23 there will be a larger demand for raw materials, and  
24 the prices would increase.

[WITNESS PANEL: Baumann~Hall]

1 CHAIRMAN GETZ: Excuse me, Mr. Patch. I  
2 want to understand, Mr. Baumann, are you talking about  
3 rate of migration or the level, overall level of the load  
4 that has migrated?

5 WITNESS BAUMANN: Well, when I read the  
6 question "migration levels that PSNH is currently  
7 experiencing", I read that as "we're at 30 percent".  
8 "And, whether you believe it would ever be experienced  
9 again." So, I took that to imply that, you know, "if it  
10 went away, would you ever go back to that 30 percent  
11 level?" That's how I read the question. And, then,  
12 again, the response, well, talks about the economy and  
13 such.

14 CHAIRMAN GETZ: Please proceed, Mr.  
15 Patch.

16 WITNESS BAUMANN: Mr. Patch, you know,  
17 just maybe this will help. But we're not sitting here  
18 today saying that we know if migration is going to go up  
19 or migration is going to go down. We just don't know  
20 that. There are a lot of reasons why it might go either  
21 way. Mr. Rodier pointed out the cost pressures on the  
22 Energy Service rate based on capital expenditures. But  
23 the economy, and all this question wanted to say, and I  
24 apologize if it was misleading, is that, to the extent the

{DE 10-160} [Day 1] {11-30-10}

1 global economy and the United States economy increases  
2 dramatically, that would have a material effect, we  
3 believe, on gas prices. And, if that is the case, it may  
4 impact migration.

5 BY MR. PATCH:

6 Q. Well, assume for a minute that the Commission goes  
7 along with your recommendation and implements or  
8 authorizes PSNH to implement a non-bypassable charge.  
9 If migration dips below 23 percent, should the charge  
10 be removed? You didn't ask for it until there was a  
11 23 percent migration.

12 A. (Baumann) Again, I said before, the "23 percent" was  
13 not a magic number. That just happened to be what it  
14 was at the time when we decided that this was a  
15 situation that had to be brought to the attention of  
16 the Commission and all parties.

17 Q. What about 15 percent or 10 percent or 5 percent?  
18 There's no magic number. Is there any number below  
19 which, if migration were to drop, that the Commission  
20 ought to say "No, you know, there's only this bandwidth  
21 within which a non-bypassable charge ought to be  
22 included"?

23 A. (Baumann) I think you probably described it well. It's  
24 a bandwidth, and that bandwidth would really be defined

1 as "what are the costs and how should they be  
2 allocated?" If there's cost-shifting, then there  
3 should be a reallocation of those costs. We could get  
4 into dollar amounts. And, I would certainly argue that  
5 there are material amounts and there are immaterial  
6 amounts. But, my threshold of immateriality, when it  
7 concerns customers and the proper costing and recovery  
8 of those costs is pretty small, and the costs should be  
9 borne by those who are benefiting.

10 Q. But, again, PSNH has had nine and a half years since  
11 migration has been a possibility, correct? And, it  
12 wasn't until, basically, a year ago that you made a  
13 recommendation to the Commission about doing something.  
14 If I'm correct, I don't think there were any  
15 recommendations before that. But, you know, what  
16 you're now saying is, it's at an unacceptable level,  
17 but you hadn't thought that through before a year ago?

18 A. (Baumann) We're not saying "migration is at an  
19 unacceptable level."

20 Q. Okay. You know, that may be an incorrect phraseology  
21 from your perspective. But, obviously, migration had  
22 reached a level where you felt something had to be done  
23 about it. Is that correct?

24 A. (Baumann) No. As a result of migration, there's a cost

1 allocation issue of fairness to customers.

2 Q. Well, wasn't that there nine years ago?

3 A. (Hall) It didn't -- it didn't appear nine years ago,  
4 because, if you don't have any migration, then costs  
5 are allocated to all customers.

6 Q. But there's been migration for some --

7 A. (Hall) And, therefore, -- and, therefore, it was a  
8 non-issue.

9 Q. But there's been migration for some period of time,  
10 correct? And, it wasn't -- it didn't reach a level  
11 where you thought it was important enough to bring to  
12 the Commission's attention until about a year ago,  
13 correct?

14 A. (Hall) Yes, I didn't follow the beginning part of your  
15 question.

16 Q. I'll withdraw the question. Thank you. Now, at one  
17 point in your rebuttal testimony, I'm looking at Page  
18 2, Lines 11 and 12, you say, and I'm quoting, "due  
19 solely to migration of load by large customers to  
20 competitive suppliers, smaller (primarily residential)  
21 customers who remain on the ES rate are faced with  
22 higher costs." Did I read that correctly? Page 2,  
23 Lines 11 and 12.

24 A. (Baumann) Yes.

1 Q. So, the only thing that's causing this is migration.  
2 It isn't higher coal costs at Merrimack Station. It  
3 isn't any other costs associated with your generation.  
4 It isn't, you know, that response to the data request  
5 attached to Mr. Hachey's testimony. It isn't, you  
6 know, increased costs at Merrimack Station that are  
7 coming down the road or costs associated with IPP  
8 contracts or Hydro-Quebec coming down the road. It's  
9 only because larger customers are migrating. Is that  
10 your testimony?

11 A. (Baumann) No. My testimony -- this is the rebuttal, so  
12 it's our testimony, due solely to migration, if you  
13 look at migration on its own, that's having an  
14 increased effect on the Energy Service rate.

15 Q. So, do we need to add that to your testimony then,  
16 "when you look at migration on its own", because I  
17 don't see that there?

18 A. (Baumann) It says "due solely to migration of load."  
19 In other words, due to that one item, the ES rate is  
20 going up. It doesn't address coal prices, purchased  
21 power prices, or any other, O&M. And, I never meant it  
22 to say that "the only reason the ES rate is going up is  
23 due to migration." That would not be a correct  
24 statement.

[WITNESS PANEL: Baumann~Hall]

1 Q. Okay. Do you know what PSNH's savings would have been  
2 if it had waited to buy the supplemental power in  
3 accordance with the written words of the Least Cost  
4 Plan, the most recent one, that said "purchasing to be  
5 conducted in multiple phases during May through the  
6 filing date of the final rate forecast, normally in  
7 November"?

8 MR. EATON: I'm going to object to that  
9 question. I think the issue of the Least Cost Plan was  
10 fully litigated in 09-180. And, that PSNH's Least Cost  
11 Plan had a description of what we had done in the year  
12 prior to filing that Least Cost Plan, and it also had  
13 supplemental parts to the plan that said "we should be  
14 flexible and be able to change as conditions permit." The  
15 issue of the Least Cost Plan has already been litigated  
16 and decided by the Commission in favor of PSNH.

17 (Chairman and Commissioners conferring.)

18 CHAIRMAN GETZ: Mr. Patch, do you have a  
19 response?

20 MR. PATCH: Well, I guess the only thing  
21 I -- I understand, Mr. Chairman, that it was litigated in  
22 that docket, I don't disagree with that. But there is a  
23 specific provision in the statutes that basically says,  
24 and I'm paraphrasing it, because I don't have the language

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 in front of me, that a utility, after a Least Cost Plan  
2 has been approved, is supposed to demonstrate, I think the  
3 Commission has to recognize in the context of the docket  
4 that whatever is being filed by the utility is consistent  
5 with that Least Cost Plan. So, I think it's a relevant  
6 issue. I'm happy to handle it, obviously, however the  
7 Commission would like.

8 CHAIRMAN GETZ: Well, we're going to  
9 permit the question. I think that there's -- I think  
10 you're referring to Sections 378:39, 40, and 41 in  
11 conformity of plans. So, we'll permit the question. You  
12 may need to restate it.

13 WITNESS BAUMANN: That would be helpful.

14 BY MR. PATCH:

15 Q. Do you know what PSNH's savings would have been if it  
16 had waited to buy the supplemental power in accordance  
17 with the written words of its Least Cost Plan, which  
18 say "purchasing to be conducted in multiple phases  
19 during May through the filing date of the final rate  
20 forecast, normally in November"?

21 A. (Hall) Okay. First, I'm going to disagree with the  
22 premise of your question. Because I don't have the  
23 Least Cost Plan in front of me, but, if I recall, there  
24 was other language in the Least Cost Plan that, as

1 Mr. Eaton pointed out, talked about "flexibility". So,  
2 I don't agree that the Least Cost Plan absolutely  
3 required us to do things in a proscriptive basis.

4 The direct answer to your question,  
5 however, is "No." I haven't performed that analysis.

6 Q. Okay. So, in other words, the Commission should just  
7 ignore that language from the plan, because there's  
8 other words in there that suggest that PSNH could do  
9 something different, if I understand you correctly?

10 A. No. I think the Commission has already considered  
11 them. And, in fact, each and every year they've deemed  
12 our purchasing practices prudent. In fact, your  
13 witness, in another docket, has submitted testimony  
14 saying the purchases we made in 2009 were prudent.

15 Q. I don't disagree with that. But these words are from  
16 the Least Cost Plan. And, I guess you're suggesting  
17 "No, don't look at those words. Look at different  
18 words in the Least Cost Plan"?

19 A. (Hall) I think, if the Commission deems our purchasing  
20 practices prudent, they're, in fact, deeming that we  
21 did things in accordance with the Least Cost Plan.  
22 Otherwise, they wouldn't make that decision.

23 Q. On Page 4 of your rebuttal testimony, Line 6 through 9,  
24 you say the use of RFPs "would naturally afford

[WITNESS PANEL: Baumann~Hall]

1 TransCanada and other suppliers [an] additional  
2 opportunity to make more money in an expanded  
3 marketplace."

4 A. (Hall) Okay. Where are you again?

5 Q. Page 4, rebuttal testimony, Exhibit 2, Lines 6 to 9.  
6 Do you see that?

7 A. (Hall) Yes.

8 Q. If an RFP process were used to purchase any power above  
9 and beyond what's supplied by your generating  
10 facilities, wouldn't the amount of supplemental power  
11 needed to serve ES customers be the same, whether it  
12 was done through an RFP or the way PSNH does it now?

13 A. (Hall) I missed something in that question. I am not  
14 quite following what you asked.

15 Q. Well, let's assume for a minute that the Commission  
16 were to do what TransCanada and some other parties have  
17 recommended, and that would basically require that  
18 PSNH, any supplemental power it needed above and beyond  
19 what it generates, were going to be used -- was going  
20 to be purchased through an RFP process, instead of the  
21 way you do it now. I guess I'm trying to understand  
22 why that means suppliers would, as you say, make more  
23 money? I mean, isn't it the same amount of power that  
24 would be out there that would be purchased, whether

{DE 10-160} [Day 1] {11-30-10}

1           it's from suppliers through an RFP process or through a  
2           broker, the way you do it now? So, why would they make  
3           more money?

4   A.   (Baumann) I'm just reading the words here. And, we  
5           talk about "opportunity to make more money." In other  
6           words, if --

7   Q.   So, you don't think the RFP process would work to keep  
8           the price down, is that what you're saying?

9   A.   (Baumann) No. Actually, I'm responding that one of the  
10          testimonies of the suppliers at one point said that  
11          "PSNH had not given them the opportunity to bid on  
12          power in the past." And, this statement goes to the  
13          solution that, if an RFP process, versus PSNH going out  
14          and buying themselves, if an RFP process took place in  
15          lieu of that, that that would give the suppliers an  
16          opportunity to bid on those, as opposed to -- and  
17          responding to somebody's -- one of the testimonies that  
18          said we "did not have the opportunity." "We", meaning  
19          the suppliers, did not have the opportunity. That's  
20          really just saying that it would change -- change the  
21          playing field from PSNH directly purchasing, versus  
22          suppliers having the opportunity to bid.

23   Q.   But explain to me and to the Commission how suppliers  
24          are going to make more money in that scenario? I just

1 don't understand.

2 A. (Hall) If they won the bid, they would presumably bid a  
3 price that would allow them to make money.

4 Q. But what about the suppliers who would not be the ones  
5 who would have been chosen by PSNH to supply that  
6 power. They're losing money, aren't they? So, isn't  
7 that a net zero?

8 A. (Baumann) No. I don't think so. I mean, if PSNH goes  
9 out to purchase power, and we go directly to somebody  
10 that would supply that power, that cost might be  
11 distinctly different than an RFP process, where you  
12 have individual suppliers bidding on that power in the  
13 marketplace. And, again, it would allow them more  
14 opportunity. And, every time, I assume, they bid for  
15 power, they would be -- they would be affording  
16 themselves the opportunity to make money.

17 Q. So, a sole source method of procuring power is better  
18 than an RFP process, is that what you're saying?  
19 Better for ratepayers?

20 A. (Hall) I think it's better for customers. I think I  
21 now understand your question. Are you asking, under an  
22 RFP process, someone wins a bid; but, if you use an RFP  
23 process, you wouldn't use a bilateral arrangement, and  
24 therefore a supplier that would have been in the

[WITNESS PANEL: Baumann~Hall]

1 bilateral arrangement wouldn't make money, yet the  
2 person winning the RFP would? Is that kind of what  
3 you're getting at?

4 Q. Yes.

5 A. (Hall) Now, I understand. First of all, I'll agree  
6 with what Mr. Baumann said. But, beyond that, the way  
7 I understood the RFP process described by suppliers  
8 was, in this case, for load-following service, for the  
9 supplemental piece of load, there's more profit margin  
10 in load-following service than there is in a bilateral  
11 wholesale transaction.

12 Q. Could you just -- I didn't hear that entirely. There's  
13 no what?

14 A. (Hall) There's more profit margin --

15 Q. There's more profit margin?

16 A. (Hall) -- in load-following service, because there's  
17 more risk involved for the supplier. And, therefore,  
18 they have to build in risk and profit into their bid.

19 Q. And, there isn't any in the -- so, you don't think an  
20 RFP process keeps a price down, you think it drives the  
21 price up? Is that what you're saying?

22 A. (Hall) I think an RFP process results in higher prices,  
23 yes.

24 Q. Well, then, Mr. Baumann, what do you do in Connecticut

{DE 10-160} [Day 1] {11-30-10}

1           --

2   A.   (Hall) Over the long term.

3   Q.   Mr. Baumann, what do you do in Connecticut and  
4       Massachusetts then? Do you use an RFP process?

5   A.   (Baumann) Yes. Those -- Both of those states have  
6       divested in their generation, and then there is a --  
7       what they call a "Standard Offer Service", which is  
8       kind of equivalent to the Energy Service, the customers  
9       that have chosen not to switch to third party supply.

10   Q.   So, you agree with Mr. Hall then? Would ratepayers  
11       then, in those states, be better off using a process  
12       that's like the one used by PSNH right now here in New  
13       Hampshire, because it would save money?

14   A.   (Baumann) With generation as well or -- you're really  
15       talking apples and oranges here between Connecticut,  
16       Massachusetts, and PSNH.

17   Q.   Well, we're talking about the purchase of power to  
18       supply the customers who aren't -- who haven't  
19       migrated, aren't we, in those states? I mean, what's  
20       the difference?

21   A.   (Baumann) Well, going back to your question, I agree  
22       with Mr. Hall. I think, if you go out and have a  
23       bilateral purchase made internally by PSNH, versus  
24       going out in an RFP process, that that adds costs to

1 the power.

2 Q. And, even if it's an RFP designed for strips of power?

3 A. (Baumann) Again, that's -- that's my opinion, yes.

4 Q. And, is it your position then the process that you  
5 follow now to purchase power, the brokers don't make  
6 money and the suppliers who are supplying the power  
7 don't make money on that? There's no profit in that?

8 A. (Baumann) No, there would be a profit. People aren't  
9 going to sell unless there's a profit, generally.

10 Q. In your rebuttal testimony, Page 11, Line 13 to 15, you  
11 say that "under the managed portfolio approach...  
12 savings attributable to risk mitigation and cost  
13 reduction redound to customers." Do you see that?

14 A. (Hall) Yes.

15 Q. Isn't the flip-side of that true? I mean, assume for  
16 our purposes that PSNH make some decisions about power  
17 purchases, either over purchases what it needs or  
18 purchases at a time, you know, when the price is at its  
19 peak, isn't it true that that has a negative impact on  
20 customers? So, isn't the flip-side of your statement  
21 true?

22 A. (Hall) Well, sure, to the extent that that happened.  
23 But, you know, earlier in this paragraph we talk about  
24 the study that was introduced in Mr. Allegretti's

1 testimony from LaCapra Associates. And, this kind of  
2 addresses the line that you were asking us just a few  
3 minutes ago, with regard to "whether a bid process is  
4 -- results in higher or lower costs than a managed  
5 portfolio approach?" That LaCapra study concluded that  
6 a managed portfolio approach did result in slightly  
7 lower prices.

8 Q. Then, again, have you recommended in Connecticut and  
9 Massachusetts that the methodology be modified in order  
10 to save ratepayers money?

11 A. (Baumann) I'm sorry, did you say "have we recommended?"

12 Q. Yes.

13 A. (Baumann) No, we haven't.

14 Q. On Page 16, Lines 15 and 16, you say that "suppliers  
15 can choose to withdraw from a market at any time,  
16 leaving [customers] behind to deal with the  
17 consequences."

18 A. (Hall) Yes.

19 Q. Could you explain that statement?

20 A. (Hall) Sure. A supplier at any time can leave the New  
21 Hampshire market. They are not the supplier of last  
22 resort. They don't have to be here. They don't have  
23 to supply customers with power.

24 Q. So, they can --

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) They have a choice.

2 Q. They can just drop customers willy-nilly, whenever they  
3 feel like it, is that what you're saying?

4 A. (Hall) It depends on what the contractual arrangement  
5 is.

6 Q. And, are you familiar with the Competitive Electric  
7 Power Supplier Rules, Chapter 2000 of the New Hampshire  
8 rules?

9 A. (Hall) Somewhat.

10 Q. Are you familiar with the process that other  
11 load-serving entities in New Hampshire use, like Unitil  
12 and National Grid, you know, when they go through an  
13 RFP process in order to obtain a supplier to serve  
14 customers who are on the equivalent of the ES rate? I  
15 mean, don't they have protections built in there in  
16 order to assure that the -- whoever is going to be  
17 supplying the power has the financial wherewithal to  
18 continue?

19 A. (Hall) Sure. And, I'm not suggesting -- we're not  
20 suggesting here that suppliers are going to somehow, in  
21 the middle of a contract they may have with a customer  
22 say "Sorry, no more."

23 Q. What are you suggesting?

24 A. (Hall) We're suggesting that, to the extent that a

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 customer is attempting to build a long-term arrangement  
2 with a supplier, there is no obligation for the  
3 supplier to remain in business in New Hampshire. It  
4 doesn't exist.

5 Q. Well, that sounds to me like migration is a bad thing.  
6 Mr. Baumann, --

7 A. (Hall) No, --

8 Q. -- before you said "there are no villains", you sort of  
9 corrected yourself. First, you made it sound like, you  
10 know, "the villains are the customers who leave", but  
11 then you corrected yourself and said "there aren't any  
12 villains." But it sounds like you're saying there are  
13 villains here?

14 A. (Hall) Who's the villain?

15 Q. I don't know. Is it the suppliers?

16 A. (Hall) I don't think so.

17 Q. Okay. You tell me --

18 A. (Hall) Suppliers are doing -- suppliers in this  
19 proceeding are doing exactly what they should be doing.  
20 Which is attempting to expand their market and  
21 attempting to solicit more business. That, I mean,  
22 that's a good thing from their perspective. And, if I  
23 was in their shoes, I'd probably be doing the same  
24 thing. I think the issue for the Commission to look at

{DE 10-160} [Day 1] {11-30-10}

1 in this docket is, "is that best for customers?" Is  
2 what suppliers are proposing better for customers than  
3 the methodology that PSNH has proposed? That's really  
4 the decision the Commission has to make.

5 Q. But that's not about suppliers so much, is it, it's  
6 about the process?

7 A. (Hall) Well, it's about suppliers --

8 (Court reporter interruption.)

9 BY MR. PATCH:

10 Q. That's not about suppliers being good or bad, that's  
11 about whether the process is good or bad, isn't it?

12 A. (Hall) Sure. And, I didn't -- I'm not suggesting that  
13 there's any bad motives on the part of the suppliers.  
14 I mean, what they're doing is right for their business  
15 model. I completely understand it. What -- all I'm  
16 saying is, in view of what's being proposed in this  
17 docket, I think the Commission has to decide what's in  
18 the best interest of customers.

19 Q. So, any concerns that you might have, and to the extent  
20 the Commission might have about suppliers, you know, as  
21 you phrased it in that portion of your testimony,  
22 "leaving consumers behind to deal with the  
23 consequences" can be addressed through the process,  
24 correct?

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) I don't know, and I don't think the Commission  
2 can require suppliers to remain in business in New  
3 Hampshire. I don't think that's an option for them.

4 Q. What does PSNH do in order to protect customers, when  
5 it goes out and makes purchases above and beyond what  
6 the load is that's needed beyond what your generation  
7 provides? How do you address that issue?

8 A. (Hall) PSNH doesn't make purchases above and beyond  
9 what is needed. PSNH purchases what it believes will  
10 be needed to meet projected load. PSNH has not engaged  
11 in any forward purchases for the last year or more.  
12 So, I don't agree with the premise of your question.

13 Q. Is it PSNH's position that competitive electric choice  
14 is not one of the goals of State policy?

15 A. (Hall) No.

16 Q. Okay. I'm going to show you a response to TransCanada  
17 10.

18 (Atty. Patch distributing documents.)

19 CHAIRMAN GETZ: We'll mark this for  
20 identification as "Exhibit Number 5".

21 (The document, as described, was  
22 herewith marked as **Exhibit 5** for  
23 identification.)

24 BY MR. PATCH:

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. And, I believe the question here is referencing Mr.  
2 Traum's testimony, that "do you agree with [his]  
3 statement that "competitive electric choice is the goal  
4 of State policy"?" And, if I look at the bottom, the  
5 answer is "no".

6 A. (Hall) Okay.

7 Q. So, you don't think "competitive electric choice is the  
8 goal of State policy", is that correct?

9 A. (Hall) I think what this answer says is, you're asking  
10 a legal opinion, and your last question to me is -- was  
11 "do I agree that "competitive electric choice" is not  
12 one of the goals?" My answer to that is "no". It's  
13 clearly one of the goals. The answer to this question  
14 says "competitive electric choice is not the only goal  
15 of State policy. The goals are outlined in all of  
16 those statutes." There is no one goal. And, some of  
17 them are competing.

18 Q. So, it is a goal?

19 A. (Hall) One of them.

20 Q. Okay. And, you're familiar, presumably, with RSA  
21 374-F:1. And, there are a number of statements in  
22 there along these lines. As an example, "The most  
23 compelling reason to restructure the New Hampshire  
24 electric utility industry is to reduce costs for all

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 consumers of electricity by harnessing the power of  
2 competitive markets." You're familiar with that  
3 language, correct?

4 A. (Hall) I've heard it before. I don't have it in front  
5 of me.

6 MR. EATON: And, this response, we  
7 didn't offer a witness on this response. And, Mr. Patch  
8 is asking questions about State energy policy that's  
9 contained in statutes. And, I don't believe it's a fair  
10 question for these witnesses. They're not being offered  
11 as legal witnesses.

12 MR. PATCH: I'll withdraw the question.  
13 I think the point's been made. Thank you.

14 BY MR. PATCH:

15 Q. Now, in response to a data request, I believe PSNH has  
16 stated that it "embraces migration", is that fair to  
17 say?

18 A. (Baumann) Which data request was that?

19 Q. I think it's CLF 01-002.

20 A. (Baumann) Yes. The question asked is, "Is this a  
21 strategy for us to decrease customer migration?" We  
22 say "No, we have not. PSNH embraces migration and is  
23 not looking for steps to decrease customer migration."

24 Q. Do you think then that high levels of migration should

{DE 10-160} [Day 1] {11-30-10}

1 be viewed as a success?

2 A. (Baumann) You know, we have said before that, as long  
3 as it results in the fair allocations of costs, we  
4 support migration. I think I said in my opening  
5 statement that we are supportive of migration, if the  
6 costs are fairly allocated.

7 Q. And, I think, just to point, I don't know that I need  
8 to address it into the record, but there was a response  
9 to TC-023, "Do you think it's appropriate to consider  
10 high levels of migration a success?" And, your  
11 response was, correct me if I'm wrong, "High levels of  
12 migration indicate that certain customer classes are  
13 participating in the competitive market. However, as  
14 smaller customers do not have a similar access to that  
15 competitive market, what may be deemed a "success" for  
16 larger customers is being inequitably financed by  
17 smaller customer classes." Did I read that correctly?

18 A. (Baumann) Yes.

19 Q. Now, what if all classes of customers were  
20 participating in the competitive market? Assume that  
21 the levels of the smaller customers, you know, the  
22 smaller residential and the smaller C&I customers were  
23 equally as high as the larger customers. Then, what  
24 would be an appropriate approach for the Commission to

[WITNESS PANEL: Baumann~Hall]

1 take to the costs that you say are left over under  
2 those circumstances?

3 CHAIRMAN GETZ: Can we get an answer?

4 **BY THE WITNESS:**

5 A. (Hall) I'm sorry. I think the approach would -- the  
6 correct approach would be for the Commission to adopt  
7 what PSNH proposed. And, that is, make sure that the  
8 costs are allocated fairly.

9 BY MR. PATCH:

10 Q. So, even if all customer classes were taking equal  
11 advantage of migration, there would still be a need for  
12 a non-bypassable charge? I just want to make sure I  
13 understand correctly what you said.

14 A. (Hall) It depends on the situation. It depends on a  
15 whole host of factors. Earlier, we talked about what  
16 happened in the early 2000s, where we testified that,  
17 at that point, creating a non-bypassable charge wasn't  
18 an issue, because there wasn't any cost reallocation --  
19 any shifting of costs to customers who hadn't migrated.  
20 So, I can't answer your question "yes" or "no". It  
21 really depends on the circumstances.

22 Q. Do you think the addition of a non-bypassable charge  
23 could have a chilling impact on migration?

24 A. (Hall) No, not if it was correctly designed.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Does either Connecticut or Massachusetts, the other two  
2 states where PSNH affiliates operate, have a  
3 non-bypassable charge?

4 A. (Baumann) There are many non-bypassable charges.

5 Q. Like the one that's being proposed here?

6 A. (Baumann) No, because Connecticut and Massachusetts are  
7 distinctly different than the PSNH recoveries at this  
8 point.

9 Q. And, if I understand correctly, and this is the  
10 response to another data request, it was OCA 1-6, and I  
11 won't take the time to ask that this be marked unless  
12 it's necessary, but that was where you answered a  
13 question about the percentage of load that's migrated  
14 in those other affiliates. And, if I understand  
15 correctly, at CL&P, it's about 56 percent, and, in  
16 WMECO it's about 50 percent, is that correct? And,  
17 that was as of, I think, the end of July 2010.

18 A. (Baumann) If you give me a moment to get there?

19 Q. Sure.

20 CHAIRMAN GETZ: Mr. Patch, how much more  
21 cross? I'm trying to think what our schedule for the rest  
22 of the --

23 MR. PATCH: Yes. I'm just about done, I  
24 think. Thank you.

{DE 10-160} [Day 1] {11-30-10}

1 **BY THE WITNESS:**

2 A. (Baumann) Part (a) talks about the percentage of load  
3 that has migrated to competitive supply, is that what  
4 you were referring to?

5 BY MR. PATCH:

6 Q. Yes.

7 A. (Baumann) For CL&P, it's approximately 56 percent; and  
8 WMECO approximately 50 percent.

9 Q. If PSNH were to run an RFP for its supplemental power,  
10 would that lead to expanded competition?

11 A. (Baumann) You're going to have to define "expanded  
12 competition".

13 Q. I guess I'm thinking competition among suppliers to try  
14 to be the winning bidder or winning bidders. Wouldn't  
15 there be competition to see who's going to be the  
16 winning bidder, so that -- because they would all --  
17 all the suppliers presumably would want to be the  
18 winning bidder on an RFP that were issued, is that  
19 correct?

20 A. (Baumann) I would presume they'd want to win. But, as  
21 far as increased competition, I mean, if PSNH goes out  
22 and solicits purchases from different entities, then,  
23 certainly, I would assume there's a knowledge in the  
24 market that PSNH just doesn't go to one, one broker or

[WITNESS PANEL: Baumann~Hall]

1 one source to get their power. So, there's competition  
2 in that sense as well.

3 Q. That's not the same as an RFP, is it? I mean, I think  
4 you remember the testimony that TransCanada submitted  
5 in the docket last year that they have never been  
6 approached by PSNH with regard to a power purchase.  
7 So, I don't know what the method is that you use for  
8 that, but it's not the same as a general RFP that any  
9 supplier can respond to?

10 A. (Baumann) Oh, certainly different methods. I don't  
11 disagree there.

12 Q. Is there any reason to believe that expanded  
13 competition through an RFP process wouldn't lead to  
14 similar or lower costs for PSNH ratepayers?

15 A. (Baumann) And, again, your premise of expanded  
16 competition, certainly, if you have an RFP, everyone is  
17 bidding against everyone else. But, if PSNH goes out  
18 and solicits power on their own, I would think that  
19 there is a general knowledge that, certainly, if PSNH  
20 approaches an individ -- a company for power, that they  
21 would know that they are potentially competing against  
22 other entities that PSNH also has approached. So, I'm  
23 just not -- I'm falling off the boat with the premise  
24 that it would "enhance competition". I don't

{DE 10-160} [Day 1] {11-30-10}

1 necessarily believe that that's true.

2 Q. I mean, isn't an RFP process something that's used  
3 probably by the town that you live in and the state  
4 government that you work for and so many other -- so  
5 many other entities in our country, in order to keep a  
6 price down? Isn't that sort of a fundamental premise  
7 of an RFP process? You don't go out and sole source it  
8 and you don't just sort of pick a few people, you do a  
9 general RFP in order to keep prices down. Isn't that a  
10 fundamental concept? Or, am I missing something?

11 A. (Baumann) I think that's probably one of the  
12 fundamental concepts. I think, you know, you're into  
13 now, you give an example of towns, you know, there is a  
14 -- other reasons why they might do an RFP process.  
15 And, that's more for transparency from a town  
16 perspective.

17 Q. So, they don't keep it to get the lowest price? They  
18 don't use that process to get the lowest price?

19 A. (Baumann) I said that that's probably one of the  
20 reasons, yes.

21 MR. PATCH: No further questions. Thank  
22 you.

23 CHAIRMAN GETZ: Okay. Thank you. In  
24 terms of schedule, I'd like to take a recess for about 15

[WITNESS PANEL: Baumann~Hall]

1 minutes. Then, I would expect to come back until quarter  
2 of 1:00, 1:00, take the lunch recess, and then resume  
3 around 2:00. And, I'm presuming that we've got a lot of  
4 ground to cover, and then we'll see where we are when we  
5 come back for the afternoon session.

6 So, anything we need to address before  
7 we recess?

8 (No verbal response)

9 CHAIRMAN GETZ: Hearing nothing, then  
10 we're recessed.

11 (Whereupon a recess was taken at 11:01  
12 a.m. and the hearing resumed at 11:27  
13 a.m.)

14 CHAIRMAN GETZ: Okay. We're back on the  
15 record. And, turning to Ms. Smith.

16 MS. SMITH: Yes. NEPGA does not have  
17 any questions for the witnesses. Thank you.

18 CHAIRMAN GETZ: Okay. Thank you. And,  
19 Mr. Donovan.

20 MR. DONOVAN: Thank you, Mr. Chairman.  
21 We do have some cross, although it's been greatly limited  
22 by Mr. Patch today.

23 BY MR. DONOVAN:

24 Q. Mr. Hall, as an initial question, in your testimony

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 earlier today you talked about a "Capra study". Does  
2 that sound familiar?

3 A. (Hall) Yes, sir.

4 Q. "LaCapra", excuse me.

5 A. (Hall) Yes, sir.

6 Q. But, when you reference the "LaCapra study", are you  
7 trying to refer to the "NorthBridge study"?

8 A. (Hall) I was. I misspoke.

9 Q. Okay. So, it's correct to transpose the word  
10 "NorthBridge" for "LaCapra"?

11 A. (Hall) Yes, sir.

12 Q. Okay. Great. Thank you very much. Good morning to  
13 both of you. Mr. Baumann, I'm going to start with you.  
14 I believe in your oral presentation and in your written  
15 materials you've indicated that you have some  
16 experience, as part of your regular job duties, for  
17 both -- in both, not only in New Hampshire, but also in  
18 Massachusetts and Connecticut, is that correct?

19 A. (Baumann) Yes.

20 Q. So, you are familiar with the PSNH's sister companies,  
21 CL&P and WMECO?

22 A. (Baumann) Yes.

23 Q. And, the acronym "WMECO" is for what?

24 A. (Baumann) Western Massachusetts Electric Company.

{DE 10-160} [Day 1] {11-30-10}

1 Q. Okay. Great. Thank you. So, when I refer to "WMECO",  
2 that's the entity that I'm referencing. What role do  
3 you play in those states?

4 A. (Baumann) In Connecticut, I'm responsible for the  
5 revenue requirement calculations associated with the  
6 GSC rate, which is really the equivalent of the Energy  
7 Service rate in Connecticut, but it's for standard  
8 service customers. I'm also responsible for the  
9 revenue requirement calculation of the non-bypassable  
10 FMCC rate, which is federally mandated congestion  
11 costs. That non-bypassable rate is a rate that  
12 recovers all reliability costs, such as reliability  
13 must-run costs, Project 150 costs for new generation,  
14 any additional reliability costs that Connecticut has  
15 deemed appropriate through legislative efforts.

16 Q. So, is it safe to say that your duties in those states  
17 are very similar to your duties here in New Hampshire?

18 A. (Baumann) Well, I don't do the revenue requirements for  
19 the distribution in Connecticut, at least I don't do it  
20 anymore. And, in Massachusetts, it's much more  
21 limited. I'm just -- I'm part of the standard service  
22 reconciliation for any ISO-related costs.

23 Q. Are you familiar with WMECO and CL&P's service  
24 offerings made available to competitive retail

1 suppliers in those states, generally speaking?

2 A. (Baumann) Generally speaking, yes. I'm really involved  
3 more on the administration of the contracts, once they  
4 are put into place for the Standard Offer Service.  
5 There is another group that goes out and does the  
6 solicitations and the bidding and the pricing and the  
7 approvals through the Commissions in each state. And,  
8 then, my group takes over and we administer the  
9 payments for the obligations to the different  
10 suppliers, as well as all the accounting, and then the  
11 regulatory recovery of those costs.

12 Q. Okay. So, the record is clear, though, are you aware  
13 of whether CL&P relies upon a full requirements  
14 structure for its default -- I'll call them the Default  
15 Service customer classes?

16 A. (Baumann) Yes.

17 Q. And, similarly, does WMECO rely upon the full  
18 requirements structure in order to serve its Default  
19 customer classes?

20 A. (Baumann) Yes.

21 Q. And, when I say "Default customer classes", would you  
22 equate those with the ES customer classes here in New  
23 Hampshire, roughly?

24 A. (Baumann) Yes. The customers who choose not to choose.

1 Q. Okay. So, both of those entities rely upon a full  
2 requirements approach?

3 A. (Baumann) Yes, they do. There is -- the generation,  
4 again, in Connecticut and Massachusetts, CL&P and  
5 Western Mass. no longer own generation.

6 Q. So, is it also safe to assume that CL&P and WMECO  
7 and/or the parent company have an organization in place  
8 that is intended to develop and seek procurement  
9 opportunities?

10 A. (Baumann) Yes.

11 Q. They have that structure in place now?

12 A. (Baumann) Yes. There is a -- there's actually a  
13 structure in Northeast Utilities Service Company.

14 Q. The parent company?

15 A. (Baumann) Yes.

16 Q. If this Commission were to adopt a full requirements  
17 approach for New Hampshire for the ES load, would you  
18 anticipate that same existing structure would also  
19 manage the full requirements structure here in New  
20 Hampshire?

21 A. (Baumann) I would think, based on their expertise in  
22 the other jurisdictions, yes.

23 Q. Okay. Thank you. Are you aware of whether CL&P, in  
24 its Connecticut service territory, offers a Purchase of

1 Receivables Program, similar to what Mr. Allegretti  
2 proposed in his testimony?

3 A. (Baumann) I don't recall offhand if they do or they  
4 don't.

5 Q. Okay. Let's turn to your testimony, Mr. Baumann. And,  
6 we'll start with your initial testimony.

7 A. (Baumann) This is the July 30th, Exhibit 1?

8 Q. This is Exhibit 1. And, I'm turning specifically to  
9 Page 4, at the top, the carryover paragraph. You talk  
10 about a mathematical formula. Do you see that?

11 Starting on Line 1, to the end of that paragraph?

12 A. (Baumann) Yes, I see it.

13 Q. What is that formula? What's the result, when you plug  
14 in numbers in that formula, what is the resulting  
15 number?

16 A. (Baumann) Well, in its simplest form, if you take the  
17 total costs of energy service, divided by the total  
18 expected sales, you come up with an Energy Service rate  
19 that would be billed to customers.

20 Q. So, if this were a mathematical formula, it would be  
21 "Energy Services rate equals total costs divided by  
22 total sales in kilowatt-hours"?

23 A. (Baumann) Yes.

24 Q. All right. So, let's talk about the numerator for a

1 moment. In Line 3, it says "As a partial offset, the  
2 numerator of the ES calculation (costs) drops". Do see  
3 that?

4 A. (Baumann) Yes.

5 Q. What do you mean by the word "costs"? What's included  
6 in that, in that word?

7 A. (Baumann) Well, the "costs", again, are the ES costs.  
8 I outlined them very generally before as the fixed  
9 costs and the variable costs that are defined in the  
10 Energy Service rate.

11 Q. So, in your formula to develop the ES rates, the  
12 numerator of costs is actually the costs of providing  
13 service to the ES customers?

14 A. (Baumann) As defined in the ES tariff, yes.

15 Q. Okay. Are there any costs incurred in this formula and  
16 accounted for in this formula that are not related to  
17 ES customers?

18 A. (Baumann) Well, they're all related to ES customers.  
19 It's a matter of function as to whether they should all  
20 be related to ES customers, in a cost allocation issue.  
21 That's our issue we've raised here today.

22 Q. Do the costs in this formula include the Company's  
23 actual costs?

24 A. (Baumann) The rate is set based on forecast, but then

1 they are ultimately trued up to actual. So, I think  
2 the generic answer to that is "yes". Ultimately, the  
3 customer pays for the actual costs incurred. But the  
4 rates, as you have described here in the formula, are  
5 set based on projected costs.

6 Q. And, the actual costs, as you're referencing there, are  
7 they -- strike that. All right. We can move forward  
8 in your testimony, Mr. Baumann, to Page 9. Question  
9 starting on Line 6, actually, on Line 8, it says "to  
10 first identify what costs should be recovered from all  
11 customers which are now being recovered [only from]  
12 smaller ES customers." Is that correct?

13 A. (Baumann) Yes, that's correct.

14 Q. All right. And, then, further down on that page, on  
15 Line 20, it says "100 percent of the identified costs  
16 could be removed from the ES", meaning "Energy Service  
17 rate" I presume?

18 A. (Baumann) Yes.

19 Q. All right. So, "100 percent of the identified costs  
20 [should] be removed from the Energy Service rate and  
21 included in a non-bypassable rate that would be charged  
22 to all customers." That was your proposed rate  
23 structure in this testimony, is that correct?

24 A. (Baumann) Yes. That was a general, as it's described,

1 a general alternative to cost recovery.

2 Q. Okay. So, has PSNH anywhere in its testimony laid out  
3 what specific costs it feels should be identified and  
4 recovered in this non-bypassable charge?

5 A. (Baumann) In this particular testimony that we're  
6 looking at?

7 Q. Anywhere in your testimony.

8 A. (Baumann) Oh, anywhere.

9 Q. I'm looking for the specific costs that this Commission  
10 should identify and remove from the Energy Service  
11 rates?

12 A. (Baumann) Well, I know we have -- we have, somewhere on  
13 the record, we have talked about -- I talked about this  
14 morning about property taxes, depreciation, and the  
15 debt portion of return. One moment. Yes. Mr. Hall  
16 just pointed out, on Page four of this testimony, --

17 Q. Of the July 30th, Exhibit 1?

18 A. (Baumann) Yes. Line 13. And, we don't have specific  
19 numbers here, but we talk about "the generation costs  
20 that are readily identifiable would be depreciation and  
21 property taxes expenses as well as debt service" -- "as  
22 the debt service component of the capital structure  
23 which supports PSNH generation." And, this morning,  
24 Mr. Rodier was talking about a "\$40 million" item.

1 And, if you add those three up, they're, generally  
2 speaking, in that range, about \$40 million.

3 Q. So, besides depreciation, property tax expenses, and  
4 debt service component of the capital structure, are  
5 there any other specific costs that PSNH is  
6 recommending this Commission identify and remove from  
7 the Energy Service rate, or is that the totality of it?

8 A. (Baumann) I think at this time that would be a fair --  
9 a fair net to put around fixed costs. When you get  
10 into discussion of "fixed costs", you have to look in  
11 kind of a certain structure of -- or a -- I'm  
12 struggling with the words, but, at a certain point in  
13 time, in a certain level of sales, there are fixed and  
14 there are variable. Some costs are quasi-fixed,  
15 quasi-variable. They may, you know, certain costs may  
16 change as result of, say, sales growth or sales  
17 decline. But, generally speaking, they're fixed over a  
18 reasonable period, then they become somewhat variable.  
19 But, I think, for our purposes, when we went through  
20 and looked at the different costs, we felt that these  
21 were really the most easily calculated and readily  
22 definable fixed costs.

23 It's a long-winded answer, but I think  
24 that's more or less a "yes" to your question.

1 Q. Okay.

2 A. (Baumann) I apologize.

3 Q. That's all right. So, just so it's clear in my muddled  
4 the brain, the three costs that you've identified on  
5 Line 13 on Page 4, carrying onto -- excuse me, Line 14  
6 on Page 4, carrying onto Line 15 of Page 4, are the  
7 identifiable costs that you're recommending at this  
8 point?

9 A. (Baumann) In this alternative, yes.

10 Q. In this alternative. All right.

11 A. (Baumann) Yes. Just to be clear, we put this  
12 alternative in our testimony. We thought it was a  
13 reasonable alternative, we call it an "option" in the  
14 testimony. You could do a cost -- fixed cost study and  
15 probably come up with something a little different.  
16 But we felt that it was important, when you talk in  
17 generalities, everybody asks you for specifics, so we  
18 felt we should -- we have talked in generalities about  
19 the issue, and we tried to define something that  
20 everybody could get their hands around and understand  
21 from a fixed cost perspective. I'm not saying this is  
22 the only thing you could do, and you could get cost  
23 experts in here to talk about the quasi-fixed and  
24 variable costs -- cost components of certain costs.

[WITNESS PANEL: Baumann~Hall]

1 But, generally speaking, we thought that this was a  
2 reasonable approach to defining a group of easily  
3 identifiable fixed costs that would be -- that are  
4 subject to this issue of cost-shifting and fairness.

5 MR. DONOVAN: Mr. Chairman, just one  
6 second please.

7 (Short pause.)

8 BY MR. DONOVAN:

9 Q. Would any of your power purchase prices, in your  
10 opinion, be considered a fixed price and included in  
11 the costs to be identified by the Commission?

12 A. (Baumann) I think at one point in our testimony, and  
13 I'd have to find out where we put it, we considered the  
14 purchased power contracts that were, at the time, made  
15 for all customers, because, generally speaking, there  
16 was little to no migration. And, so, we felt that part  
17 of that benefit or costs associated with those  
18 contracts could be allocated. And, here's where you  
19 get into a cost allocation discussion, but that some of  
20 those costs for those fixed purchased power contracts  
21 could argumentatively be allocated to all customers,  
22 similar to what we've suggested in our option with the  
23 other three costs of depreciation, property taxes, and  
24 debt service.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Are you making that proposal as part of your testimony?

2 A. (Baumann) We have not, at this time, no.

3 MR. DONOVAN: Okay. Mr. Chairman, if I  
4 could approach. I have a data request response from Mr.  
5 Baumann.

6 (Atty. Donovan distributing documents.)

7 MR. DONOVAN: I'd like to point, for  
8 identification purposes, this is Mr. Baumann and PSNH's  
9 response to Office of Consumer Advocate Data Request  
10 Number 6. I'd like to mark that for identification  
11 purposes, Mr. Chairman.

12 CHAIRMAN GETZ: Okay. We will mark it  
13 for identification as "Exhibit Number 6".

14 (The document, as described, was  
15 herewith marked as **Exhibit 6** for  
16 identification.)

17 CMSR. IGNATIUS: Mr. Donovan, I think  
18 also the Clerk needs a copy, if you have an extra.

19 MR. DONOVAN: Oh. Little details.  
20 Sorry about that.

21 BY MR. DONOVAN:

22 Q. I draw your attention, Mr. Baumann, specifically to the  
23 Response Number 4, and ask you to read that into the  
24 record, if you would please.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) This is under "CL&P"?

2 Q. Yes. I'm sorry. Yes.

3 A. (Baumann) (4), it says "A Purchase of Receivables (POR)  
4 Program was implemented in October 2007."

5 Q. And, does that statement refresh your memory at all  
6 with regard to a prior conversation about whether CL&P  
7 has a Purchase of Receivables Program?

8 A. (Baumann) Yes.

9 Q. And, what is your statement as to the response to that  
10 one now?

11 A. (Baumann) It appears, based on this response, that they  
12 do have a program.

13 Q. Okay. And, you're identified at the top of this as the  
14 responding witness, correct?

15 A. (Baumann) Yes.

16 Q. All right. If we could, you see that that was the  
17 response to CL&P. Further down on that page there's a  
18 response with respect to WMECO. Do you see that at the  
19 bottom of the first page?

20 A. (Baumann) Yes.

21 Q. And, if you could flip to the second page on Response  
22 Number 4 -- excuse me, Response Number 3. And, if you  
23 could read that into the record.

24 A. (Baumann) Response Number 3. "WMECO will implement a

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 POR in the near future."

2 Q. Do you know whether WMECO has implemented that POR  
3 since you provided this response on August 13th?

4 A. (Baumann) No, I do not.

5 Q. Okay. But it appears, based on this, that WMECO is  
6 planning, if it has not done so already, is planning on  
7 implementing a Purchase of Receivables Program?

8 A. (Baumann) That would be correct.

9 Q. Okay. Thank you. All right. We will move on. If I  
10 could turn your attention to Exhibit 2, which is your  
11 rebuttal testimony, specifically to Page 9. And, draw  
12 your attention to -- well, generally speaking, in the  
13 top paragraph from Lines 3 to Lines 12 you discuss the  
14 FRS approach, and what you referred to as an  
15 "administrative burden for the Commission". Do you see  
16 that question?

17 A. (Baumann) I see the question.

18 Q. And, in your response, you talk about "the Commission",  
19 and it starts on Line 6, carry over to Line 7, "the  
20 Commission would need to review the bidding process,  
21 the language of the RFPs that were issued, and would  
22 also need to review all the bids after the fact to  
23 ensure that the best option [has] been selected"?

24 A. (Baumann) I see that, yes.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Are you aware of other utilities in the State of New  
2 Hampshire that currently require a full requirements  
3 approach in their procurements?

4 A. (Baumann) Yes, I believe Unitil and National Grid.

5 Q. Okay. Would the Commission also, for Unitil and  
6 National Grid, need to review the bidding process, the  
7 language of the RFPs that were issued, as well as  
8 review all the bids after the fact to ensure the best  
9 option has been selected?

10 A. (Hall) I don't know, but I assume that they do.

11 Q. Okay. Assuming that to be the case, --

12 A. (Hall) Uh-huh.

13 Q. -- and that they do perform such services, there really  
14 wouldn't be any invention for the Commission to roll  
15 out such a review for the PSNH full requirements  
16 approach, wouldn't that be correct?

17 A. (Hall) I didn't say there was -- this question is in  
18 response to a statement by Constellation that "the  
19 administrative burden would be reduced" under this  
20 approach. The point of the rebuttal is that it's not  
21 reduced, it's different. It's a different process.

22 Q. Under a full requirements approach, though, would the  
23 Commission require an annual prudency review?

24 A. (Hall) I don't know if they require it or not.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Well, wouldn't they do the review as the auction or RFP  
2 or whatever process is laid out is --

3 A. (Hall) They may do just that, yes.

4 Q. Okay. So, really, there's not an additional layer of  
5 administrative burden, it's just a different focus on  
6 the review?

7 A. (Hall) It's different than what's being done today. I  
8 don't think the administrative burden would be reduced.  
9 I think it would be changed.

10 Q. Okay. Thank you. On Page 12 of your rebuttal  
11 testimony please, starting on Line 14. The question  
12 with regards to whether "PSNH [would] deliver the  
13 output of [its] generation assets to the ES suppliers  
14 who serve ES load." Do you see that?

15 A. (Hall) I do.

16 Q. And, in your response, it indicates you "have been  
17 advised by counsel that such a scheme would not comply  
18 with the requirements of existing law"?

19 A. (Hall) Correct.

20 Q. Can you tell me which counsel made that explanation to  
21 you?

22 A. (Hall) Yes. Mr. Bersak.

23 Q. Mr. Who?

24 A. (Hall) Bob Bersak.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. And, is he an in-house counsel for PSNH?

2 A. (Hall) He is.

3 Q. And, how was that communication made to you?

4 A. (Hall) I sat down in his office and asked him a  
5 question.

6 Q. It was an oral meeting?

7 A. (Hall) Yes.

8 Q. Was anyone else in that meeting?

9 A. (Hall) I don't think so.

10 Q. Just yourself and Mr. Bersak?

11 A. (Hall) Yes, sir.

12 Q. Could you spell Mr. Bersak's last name?

13 A. (Hall) B-e-r-s-a-k.

14 Q. Okay. Carrying over to the next page, starting on Line  
15 3, it says "PSNH would be engaging in a wholesale sale  
16 of power to the ES supplier, who would then be the  
17 supplier of power to the customer." Do you see that?

18 A. (Hall) I do.

19 Q. Is that your opinion or the opinion of your counsel?

20 A. (Hall) I think we reached that conclusion together.

21 Q. Based on the conversation you had outside of -- in Mr.  
22 Bersak's office?

23 A. (Hall) Yes, sir.

24 Q. And, it says, on Line 7, that "A change of law would be

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 required in order to implement Mr. Allegretti's  
2 proposal, correct?

3 A. (Hall) Yes.

4 Q. Again, is that your opinion or the opinion of your  
5 counsel?

6 A. (Hall) Counsel.

7 Q. Based on the conversation --

8 A. (Hall) I agree with it, but --

9 Q. Based on the conversation you had in his office?

10 A. (Hall) Yes, sir.

11 MR. DONOVAN: Mr. Chairman, I'm kind of  
12 in a strange position right here, because this entire  
13 question and answer seems to be hearsay to me. I would  
14 like to move to strike -- striking that response based on  
15 hearsay, out-of-court statement offered for the truth of  
16 the matter asserted. It's classic hearsay.

17 CHAIRMAN GETZ: Well, the technical  
18 rules of evidence don't apply in administrative  
19 proceedings here. And, we're going to permit the answer.  
20 And, to the extent you want to, in brief, argue that the  
21 conclusion is wrong, then you'll have that opportunity.

22 MR. DONOVAN: Fair enough. Thank you,  
23 Mr. Chairman.

24 BY MR. DONOVAN:

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. Are you gentlemen familiar with the Federal Energy  
2 Regulatory Commission, or FERC, F-E-R-C?

3 A. (Hall) I am aware of the FERC, yes.

4 Q. And, what's your understanding of FERC's role?

5 A. (Hall) Of FERC's rule?

6 Q. Role.

7 A. (Hall) Role, I'm sorry. My understanding is that the  
8 FERC regulates wholesale transactions between  
9 utilities. They also regulate transmission and  
10 wholesale power transactions.

11 Q. When you say "regulate wholesale transactions between  
12 utilities", that would be under the federal definition  
13 of a "public utility"? So, it would include a, for  
14 instance, from nomenclature purposes, people consider  
15 PSNH to be a utility. Would you include, say,  
16 Constellation Energy Commodities Group within that  
17 definition of "utility"?

18 A. (Hall) Yes.

19 Q. Okay. So, any transaction between Constellation Energy  
20 Commodities Group and PSNH that involves a wholesale  
21 sale or transaction would be subject to FERC oversight?

22 A. (Hall) That's my understanding.

23 Q. Okay. And, then, obviously, you're familiar with the  
24 New Hampshire Commission here. What's your

{DE 10-160} [Day 1] {11-30-10}

1 understanding of the role of the New Hampshire  
2 Commission?

3 A. (Hall) The New Hampshire Commission is responsible for  
4 regulating the prices, terms and conditions of  
5 transactions with retail customers, between utilities  
6 and customers, retail customers.

7 Q. Okay. When you say "utilities", are you referring to  
8 simply PSNH and Unitil and National Grid or are you  
9 referring also to competitive energy suppliers, such as  
10 Constellation NewEnergy?

11 A. (Hall) I am referring to the former.

12 Q. So, in your opinion, Constellation NewEnergy is not  
13 subject to the jurisdiction of the New Hampshire  
14 Commission?

15 A. (Hall) No. They're not subject to the level of  
16 regulation that PSNH, as a distribution utility, would  
17 be subject to.

18 Q. What would some of the areas be that Constellation  
19 NewEnergy is not subject to regulation?

20 A. (Hall) They don't have an obligation to serve is  
21 probably the largest one.

22 Q. The Constellation NewEnergy -- the Commission has  
23 enacted regulations, you got into this briefly with Mr.  
24 Patch this morning, that do govern the relationship

1 between Constellation NewEnergy and its retail  
2 customers in New Hampshire, isn't that correct?

3 A. (Hall) I think the conversation I had with Mr. Patch  
4 involved supplier rules.

5 Q. Okay. And, would those rules apply to Constellation  
6 NewEnergy?

7 A. (Hall) I assume they do.

8 Q. Okay. And, are you aware of whether Constellation  
9 NewEnergy has a license issued by the New Hampshire  
10 Commission?

11 A. (Hall) I have no idea.

12 Q. Okay. Are you aware of whether there are regulations  
13 in place that impose duties on competitive suppliers,  
14 such as Constellation NewEnergy, as to what needs to be  
15 in their retail bills?

16 A. (Hall) I don't know.

17 Q. Okay. So, turning to Page 14 then, Line 7, you talk  
18 about "suppliers are unregulated entities."

19 A. (Hall) Yes.

20 Q. Consistent with our conversation then, can you explain  
21 what you mean by "unregulated entity"?

22 A. (Hall) Yes. They're not subject to the degree of  
23 regulation that PSNH is subject to as --

24 Q. Are they subject to any regulation by this Commission?

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) I'll leave that -- I think that's a legal  
2 question. I'm going to leave it up to the Commission  
3 --

4 Q. Well, you've opined in your testimony that we are an --  
5 that Constellation NewEnergy is an "unregulated  
6 entity", I'm try to flesh that out a little bit.

7 A. (Hall) Certainly, they're not price-regulated.

8 Q. Their price, their retail price to their retail  
9 customers is not regulated by the Commission?

10 A. (Hall) Correct.

11 Q. But there are other forms of regulate -- other  
12 regulations that this Commission has promulgated that  
13 would apply to Constellation NewEnergy?

14 A. (Hall) There may well be. I don't know.

15 Q. How about you, Mr. Baumann?

16 A. (Baumann) I'm unaware of any as well.

17 Q. So, if there were other regulations that apply to  
18 Constellation NewEnergy this Commission has  
19 promulgated, would it be accurate then to say that they  
20 are -- that Constellation NewEnergy remains an  
21 "unregulated entity"?

22 A. (Hall) Yes. Because the question I would have for you  
23 is, "would it be accurate to say Constellation is a  
24 "regulated entity"?" I think the answer to that is

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 "no". They're not subject to price regulation, they  
2 don't have an obligation to serve, they don't have a  
3 tariff, with terms, conditions, and prices for service.

4 Q. Well, because they don't have a tariff doesn't mean  
5 that they're not regulated?

6 A. (Hall) They're not price-regulated.

7 Q. We've established that. But that's not the question I  
8 have for you. If there are other regulations, such as  
9 billing, terms and conditions that need to be  
10 incorporated into a retail customer's contract, would  
11 those regulations, the fact that they exist, therefore  
12 make Constellation NewEnergy a "regulated entity"?

13 A. (Hall) Not in my opinion.

14 MR. DONOVAN: Okay. Good enough. Mr.  
15 Chairman, I'm done. Thank you.

16 CHAIRMAN GETZ: Thank you.

17 Mr. Munnelly.

18 MR. MUNNELLY: I'll be happy to say, in  
19 light of all the good work that's gone before me, I will  
20 pass on the cross.

21 CHAIRMAN GETZ: Thank you. Mr. Peress.

22 MR. PERESS: Thank you, Mr. Chair.

23 Almost good afternoon, Mr. Baumann and Mr. Hall. I'm  
24 Jonathan Peress, from the Conservation Law Foundation. I

{DE 10-160} [Day 1] {11-30-10}

1 have just a few questions that follow up on the beginning  
2 of Mr. Donovan's cross-examination, primarily with respect  
3 to Mr. Baumann's testimony.

4 BY MR. PERESS:

5 Q. Mr. Baumann, in your oral testimony today, you  
6 testified that "customers who do not take PSNH's Energy  
7 Default Service benefit from PSNH's owned generation  
8 assets as backup supply." Is that correct?

9 A. (Baumann) Yes. I think I used that terminology.

10 Q. Yes. And, I think you also used the terminology that  
11 your proposal, that is PSNH's proposal here, is "to  
12 monetize the value of that backup supply and assess  
13 certain of those costs as a non-bypassable charge." Is  
14 that consistent with your testimony?

15 A. (Baumann) Yes, I believe so.

16 Q. Okay. And, so, on Page 4 and 5 of your written  
17 testimony, as was discussed by Mr. Donovan, you  
18 proposed that certain fixed costs has already been  
19 reviewed, which include depreciation, property tax  
20 expenses, and the debt service component of the capital  
21 structure which supports PSNH's generation should be  
22 taken from the Energy Services Default rate and  
23 included in a bypassable [sic] charge payable by all  
24 ratepayers in PSNH's service testimony [territory?].

1 Do I have that correct?

2 A. (Baumann) Included in a non-bypassable charge?

3 Q. Yes.

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

5 Q. Okay.

6 A. (Baumann) And, that was the "\$40 million" number that  
7 earlier Mr. Rodier alluded to, that I now see on Page 5  
8 of that testimony, --

9 Q. Yes.

10 A. (Baumann) -- Line 2.

11 Q. So, would you agree that the approximately \$40 million  
12 in fixed costs that you referred to in your testimony  
13 are costs -- are actual costs that are prudently  
14 incurred by PSNH to provide the power it generates to  
15 customers within PSNH's service territory?

16 A. (Baumann) When you say the word "customers", they were  
17 -- are you saying "all customers" or --

18 Q. Customers within PSNH's service territory.

19 A. (Baumann) We believe that a portion -- that those costs  
20 are -- should be allocated to all customers  
21 100 percent.

22 Q. Right. And, do you believe that those are actual costs  
23 prudently incurred by PSNH to provide the power it  
24 generates to customers within PSNH's service territory?

1 A. (Baumann) Yes.

2 Q. You had testified earlier that there are "cost  
3 pressure" -- there is "cost pressure" on the Energy  
4 Services rate due to capital improvements and  
5 expenditures at Merrimack Station due to environmental  
6 requirements. Are you -- when you said that, were you  
7 referring to the Scrubber Project and related upgrades?

8 A. (Baumann) Yes, I was.

9 Q. Will the debt service associated with the Scrubber  
10 Project and related upgrades be part of the fixed costs  
11 that you suggest should go into a non-bypassable  
12 charge?

13 A. (Baumann) The capital costs that are part of the Energy  
14 Service rate are, you know, we haven't -- we don't have  
15 specific allocated debt costs for that capital project.  
16 It's really being capitalized through debt and equity.  
17 But, so, I think, generally speaking to your answer,  
18 yes, to the extent the capital structure were to  
19 change, that capital structure would be impacted both  
20 from an equity and a debt perspective. And, to the  
21 extent a portion of the debt service is allocated to  
22 generation, then it would -- it would change  
23 potentially the allocated cost that was calculated for  
24 the debt portion of the return.

1 Q. Thank you. So, putting that simply, some portion of  
2 the debt service component of the capital structure,  
3 which supports PSNH's generation, will increase due to  
4 the capital improvements associated with the Scrubber  
5 Project?

6 A. (Baumann) I'm not sure it will increase, because, you  
7 know, to the extent interest rates are down, it could  
8 have an overall decreasing effect.

9 Q. So, let me restate that. Some portion of the debt  
10 service costs of the capital improvements at Merrimack  
11 Station will be debt service costs associated with the  
12 capital structure, which supports PSNH's generation?

13 A. (Baumann) I think that's accurate, yes.

14 Q. Thank you. For argument sake, if the Commission  
15 rejects your proposal, and if you are unable to pass  
16 certain costs related to PSNH's energy supplies to all  
17 PSNH customers through a non-bypassable charge, do you  
18 believe that added costs and debt service that are  
19 associated with the capital improvements at Merrimack  
20 Station will exacerbate the fairness issue by  
21 increasing the burdens on certain classes of  
22 ratepayers?

23 A. (Baumann) I think, generally, the scrubber is a project  
24 that benefits all customers. And, probably, in my

1 opinion, would be closer to a non-bypassable charge  
2 than a bypassable charge. So, with that in context, I  
3 think it might exacerbate the issue, yes.

4 Q. Mr. Rodier asked some questions earlier about what the  
5 future may hold with respect to the Energy Services  
6 rate and the rate structure. Would you agree that  
7 passing any increased supply costs onto Default Energy  
8 Service customers is likely to increase migration, if  
9 the wholesale market rates and the cost of power  
10 available from competitive suppliers does not similarly  
11 increase?

12 A. (Baumann) Well, if I could rephrase your question. If  
13 you said "the average cost in the ES calculation is  
14 going to increase, where the market prices would remain  
15 flat?"

16 Q. Yes.

17 A. (Baumann) Mr. Rodier gave a 15 year example of  
18 stability for the market prices. My answer this  
19 morning was that, you know, to the extent there was an  
20 additional spread, and to the extent that additional  
21 spread met the criteria of suppliers, and there were  
22 offers out there that customers might take, then it  
23 could quite possibly, and you could always come up with  
24 a hypothetical scenario that it would increase

1 migration.

2 Q. I think you're kind of complicating the question a  
3 little bit.

4 A. (Baumann) Okay.

5 Q. It's a fairly simple question. I asked you, if PSNH  
6 incurred increased Default Energy Service costs, that  
7 is the cost of providing power to customers within its  
8 service territory, but the market did not have similar  
9 increases, the wholesale market did not have similar  
10 increases in costs, and, therefore, the cost of power  
11 available from competitor -- competitive suppliers did  
12 not similarly increase, would you expect there to be  
13 increased migration?

14 A. (Baumann) Again, it would depend on the spread.

15 Q. Well, obviously, based on my question, the spread would  
16 be greater as between the cost of PSNH's Energy Default  
17 Supply rate and the cost of power available in the  
18 market. So, I take it then, therefore, your answer is  
19 "yes"?

20 A. (Baumann) No. My answer is, it would depend on the  
21 spread, and then the customers' reaction to that  
22 spread.

23 Q. And, how do customers react to the spread when PSNH's  
24 costs increase faster than the cost available from

1 competitive suppliers?

2 A. (Baumann) I don't know exactly how, how they react, in  
3 terms of a linear reaction. You're asking me to kind  
4 of come up with a linear reaction. I will agree that,  
5 as the spread increases, theoretically, you'd probably  
6 have more migration. But, I -- you know, because,  
7 without a spread, there would not be as much migration.

8 Q. Would you agree historically that, as the spread  
9 increases, there's been more migration?

10 A. (Baumann) Yes.

11 MR. PERESS: I have no further  
12 questions. Thank you.

13 CHAIRMAN GETZ: Thank you. Ms.  
14 Hatfield.

15 MS. HATFIELD: Thank you, Mr. Chairman.  
16 Good afternoon, gentlemen.

17 WITNESS BAUMANN: Good afternoon.

18 BY MS. HATFIELD:

19 Q. Mr. Baumann, do you recall discussing this morning, and  
20 also in prior testimony, that really the reason that  
21 we're here today is because of your discussion about  
22 the fact that the 2010 Energy Service rate is 5 percent  
23 higher due to costs related to PSNH dealing with  
24 migration?

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Yes. That was part of the September '09  
2 testimony we referred to earlier.

3 Q. And, do you -- have you also filed testimony with the  
4 Commission in the current 2011 Energy Service rate  
5 case?

6 A. (Baumann) Yes.

7 Q. And, that is docketed as DE 10-257?

8 A. (Baumann) Yes.

9 Q. I'd like to show you a data response from that docket.

10 (Atty. Hatfield distributing documents.)

11 BY MS. HATFIELD:

12 Q. And, do you see that this is in DE 10-257, PSNH's  
13 response to Staff 01-001?

14 A. (Baumann) Yes.

15 Q. And, it's dated "October 21st, 2010"?

16 A. (Baumann) Correct.

17 Q. And, if we look at the question, Staff is asking -- I'm  
18 sorry, I am pointing you to the wrong question. Let me  
19 do that again.

20 (Atty. Hatfield distributing documents.)

21 MS. HATFIELD: I will be asking  
22 questions about that one, but that will be later.

23 WITNESS BAUMANN: Do you have an extra  
24 copy for Mr. Hall? Thank you.

{DE 10-160} [Day 1] {11-30-10}

1 BY MS. HATFIELD:

2 Q. And, this response, also in DE 10-257, is PSNH's  
3 response, your response, actually, to Staff 01-005, is  
4 that correct?

5 A. (Baumann) Correct.

6 Q. And, that's also dated "October 21st, 2010"?

7 A. (Baumann) Yes.

8 Q. And, in this question, Staff refers to that number that  
9 you provided back in last year's docket, the "5 percent  
10 higher", and they ask you for an estimate for the 2010  
11 Energy Service rate, is that correct?

12 A. (Baumann) Yes.

13 Q. And, in your response, what you say is that actually  
14 the effect is higher for 2011, and the figure that you  
15 use is "8 percent higher", is that correct?

16 A. (Baumann) Yes.

17 Q. So, actually, the problem is getting worse?

18 A. (Baumann) Yes.

19 Q. Could you briefly describe the second paragraph of your  
20 response, as to how you calculated that number.

21 A. (Baumann) Well, I'll avoid the wordy explanation in  
22 Paragraph 2. Basically, we ran a hypothetical PSNH  
23 Energy Service rate assuming no migration. So, full  
24 load requirements on Energy Service, and came up with a

[WITNESS PANEL: Baumann~Hall]

1 parallel cost calculation. And, we compared those two  
2 rates. We compared those two rates. And, I believe,  
3 subject to my memory, is I think the rate was about 8.7  
4 cents that we filed, and the no migration rate was  
5 about 8 cents. So, that differential of about roughly  
6 seven mills is your 8 percent differential.

7 Q. And, the Company typically files an update to the  
8 proposed rate in December of each year?

9 A. (Baumann) Yes.

10 Q. So, those numbers could change based on that  
11 forthcoming update?

12 A. (Baumann) Yes.

13 Q. Now, turning to the response to Staff 01-001, in  
14 10-257.

15 MR. EATON: Could we mark this last one?

16 MS. HATFIELD: Oh. Could we get that  
17 marked. Sorry.

18 CHAIRMAN GETZ: We'll mark for  
19 identification as "Exhibit Number 7" the Data Request  
20 Staff 01, Question 005, in docket DE 10-257. And, we'll  
21 mark for identification as "Exhibit 8" Staff Question 1 --  
22 Staff Set 01, Question 001.

23 (The documents, as described, were  
24 herewith marked as **Exhibit 7** and

{DE 10-160} [Day 1] {11-30-10}

1                   **Exhibit 8**, respectively, for  
2                   identification.)

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

4 BY MS. HATFIELD:

5 Q. Mr. Baumann, in this question, Staff asked you to  
6 provide information that is provided in detail on the  
7 second page of that response, is that correct?

8 A. (Baumann) Yes.

9 Q. And, if you turn to Page 2, you can see two tables  
10 there, correct?

11 A. (Baumann) Yes.

12 Q. And, Table 1, underneath the header it says "The  
13 following summarizes by generating unit the forecasted  
14 costs for 2011 in thousands of dollars." Is that  
15 correct?

16 A. (Baumann) Yes.

17 Q. So, do I understand correctly, if I look at the "Total  
18 Cost" line, the total costs for PSNH's generation in  
19 2011 are projected to be three -- just over  
20 \$341 million?

21 A. (Baumann) Yes.

22 Q. And, you had a discussion earlier this morning about  
23 "fixed costs", do you recall that?

24 A. (Baumann) Yes.

[WITNESS PANEL: Baumann~Hall]

1 Q. And, in your testimony in this docket, in 10-160, you  
2 used a figure of "\$40 million" as fixed costs roughly.  
3 Do you recall that?

4 A. (Baumann) Yes.

5 Q. But, if we look at this table for 2011, could you help  
6 me understand which of these you would consider to be  
7 "fixed costs"?

8 A. (Baumann) Well, consistent with that discussion this  
9 morning, the third line, "depreciation", is  
10 22.6 million; "Property Tax" is 10.9 million; and then  
11 embedded in the rate -- "Return on Rate Base" line,  
12 which is the last line in Table 1, 43 million, there  
13 would be a debt component and an equity component.  
14 And, I believe this morning, when we were talking about  
15 the "40 million" number, and I found it later on in the  
16 response to Staff 01, Question 001 in this docket  
17 today, we gave a break out of that "40 million" number.  
18 And, it was based on the Energy Service calculation  
19 that was filed with the Commission in June of 2010.  
20 And, the debt portion of return was 10.3 million in  
21 that number.

22 So, to go back to your question, I  
23 would, using about 10 million for debt return, and 22.6  
24 million and 10.9 million for depreciation and property

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 taxes, you can add them up as well as I can, but it's  
2 about \$43 million.

3 Q. Now, looking at the list of costs, "fuel costs", is  
4 that something that you would say is generally a  
5 "variable cost"?

6 A. (Baumann) Yes.

7 Q. Because if a unit doesn't run at all, it wouldn't incur  
8 fuel costs?

9 A. (Baumann) Correct.

10 Q. What is included in "O&M costs"?

11 A. (Baumann) The lion share of O&M would be operational  
12 and maintenance costs.

13 Q. And, do those change a lot related to how much a unit  
14 runs?

15 A. (Baumann) I would say no. This is where you get into  
16 the quasi-fixed/quasi-variable. You know, you could  
17 make an argument that, if the units did not run at all,  
18 zero, then those O&Ms would go down. But that's not in  
19 the realm of operational status that I talked about  
20 this morning, in terms of a bandwidth of "normal  
21 operation". So, generally speaking, we consider the  
22 O&M costs as, you know, we didn't put them into the  
23 "fixed" column, because they could be variable. But  
24 there's a very good argument that some of those costs

{DE 10-160} [Day 1] {11-30-10}

1 would have to be maintained if you had a continued need  
2 of your generation, you'd have to maintain the units.

3 Q. So, some portion of that \$116 million should be  
4 considered "fixed" for purposes of developing a  
5 non-bypassable charge?

6 A. (Baumann) I wouldn't use the word "should", I'd say  
7 "could be", "could be used".

8 Q. And, just to further illustrate that, if we look at the  
9 line for O&M costs for Newington, it shows just over to  
10 \$10.3 million, is that correct?

11 A. (Baumann) Yes.

12 Q. And, Newington, what you're proposing for 2011 is a  
13 very low capacity factor, correct?

14 A. (Baumann) That's true.

15 Q. So, that's an illustration of the fact that, even if  
16 the unit doesn't run very much, it still has certain  
17 O&M costs?

18 A. (Baumann) Oh, certainly. Because, if the units are  
19 needed for reliability, you don't have to necessarily  
20 run to be important, especially on those very hot days  
21 in the summer, when the unit is needed to run. So,  
22 that's why I'm saying, most of these, you know, most of  
23 these are embedded costs in operation, really. Are  
24 they "fixed" in nature, "variable" in nature? I would

1 say that they're, Newington might be a perfect example,  
2 if you're incurring costs, so that they're available to  
3 run, then you could argue that that availability is for  
4 the load that they're serving. So, that would lend  
5 itself more to an argument that they're Energy Service  
6 costs, as opposed to general fixed maintenance costs,  
7 such as property taxes and depreciation and debt  
8 service.

9 Q. And, those are considerations that the Commission would  
10 have to undertake if it were to approve a  
11 non-bypassable charge?

12 A. (Baumann) Yes.

13 Q. You also, just a few minutes ago, discussed what you  
14 propose would be in the non-bypassable charge. Do you  
15 recall that?

16 A. (Baumann) I'm sorry, "propose to be in the  
17 non-bypassable charge"? You're talking about our  
18 option that we -- the three costs that we --

19 Q. Yes.

20 A. (Baumann) Yes.

21 Q. And, on Page 4 of Exhibit 1, you -- our attention was  
22 brought to Lines 13 to 15, where you list  
23 "depreciation", "property tax" and "debt service". Do  
24 you recall that?

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Yes.

2 Q. Can you read the next sentence please that starts on  
3 Line 15?

4 A. (Baumann) Purchased power arrangements that were  
5 entered into to minimize future market exposure risk  
6 would also have to be honored, and therefore could also  
7 be classified as fixed in nature.

8 Q. And, then you go onto say that "the fixed portion of  
9 [those] arrangements could be the above market portion  
10 only." Is that correct?

11 A. (Baumann) Yes.

12 Q. But I thought that I heard you testify that that wasn't  
13 the Company's proposal, that you would be wanting to  
14 include over-market costs of power purchases in a  
15 non-bypassable charge. Did I get that wrong?

16 A. (Baumann) I'm sorry.

17 Q. Well, previously, you said -- I thought you said that  
18 "costs related to power purchases were not to be  
19 included in a non-bypassable charge", but maybe I  
20 misheard you?

21 A. (Baumann) Well, the one option we laid out in our  
22 testimony as a -- as just an option would be just the  
23 three costs that we identified previously. But we, as  
24 we've said here, and we've said over and over again in

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 testimony, you know, that this is an issue that has to  
2 be vetted by all parties, and ultimately decided upon  
3 by the Commission as to what is appropriate and not  
4 appropriate to include. There is no one exact answer  
5 here. If there was, we would hopefully have figured  
6 out and propose it. But we did -- we did introduce  
7 this in this testimony, and we did it for a reason,  
8 because it was, you know, one of the items that we  
9 considered. And, you know, those contracts, at the  
10 time, when there was no migration, and gas prices were  
11 at Mr. Rodier's \$10 level, and the economy was doing  
12 fine, those purchases were made for all load. Gas  
13 prices plummeted, the economy went into the toilet.  
14 I'm not sure there's too many people here that  
15 predicted that. But, if they did, hopefully they're  
16 wealthy at this point, or very poor. And, we now look  
17 back on these purchases and say "Gee, they were  
18 purchased for all customers, maybe all customers should  
19 pay for them or the above market portion thereof",  
20 because they were purchased for rate stability reasons,  
21 as we discussed earlier.

22 Q. I'd like to ask you a question about your response to  
23 another data response in this docket.

24 (Atty. Hatfield distributing documents.)

{DE 10-160} [Day 1] {11-30-10}

1 BY MS. HATFIELD:

2 Q. And, this is your response to CLF Set 01, Question 003.

3 CHAIRMAN GETZ: We'll mark that for  
4 identification as "Exhibit 9".

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

8 BY MS. HATFIELD:

9 Q. And, this question asked for "projections of future  
10 Energy Service rates over the next 5 years", is that  
11 correct?

12 A. (Baumann) Yes.

13 Q. And, in your response, you provided many  
14 qualifications, including the fact that you don't  
15 actually have current projections, but nonetheless you  
16 provided a response, is that correct?

17 A. (Baumann) Yes, I worked very hard on that qualification  
18 or paragraph.

19 Q. But nonetheless you did provide a response that shows  
20 that rates look like they will be increasing, almost up  
21 to 12 cents in 2015. So, with all of your  
22 qualifications aside, can you talk about what is  
23 driving that increase?

24 A. (Baumann) Well, I think, fundamentally, the increase in

[WITNESS PANEL: Baumann~Hall]

1 2013 and into '14 is dealing with the Merrimack  
2 scrubber costs. That's certainly a big driver. I  
3 don't recall what the projected costs of the fuel in  
4 the forecast was. But, if you wanted to know what the  
5 major driver was, I would say that is the major driver.  
6 It goes from 10 cents in 2012, to 11.2, then 11.7 in  
7 2014. So...

8 Q. And, I believe, in response to a question by  
9 Mr. Peress, you said that you thought that "the  
10 Scrubber Project provides benefits to all customers",  
11 is that right?

12 A. (Baumann) Yes.

13 Q. So that -- and, then you went on to say that it -- so  
14 that "it might be appropriate to include in a  
15 non-bypassable charge"?

16 A. (Baumann) Yes.

17 Q. Are you aware of the provision in RSA 125-0 that  
18 requires that all costs related to the scrubber must be  
19 recovered through the Energy Service rate?

20 A. (Baumann) Yes.

21 Q. But it sounds like you think that, despite that  
22 requirement, you could take some of the scrubber costs  
23 and put them in a non-bypassable charge to be paid by  
24 all customers?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

- 1 A. (Baumann) No, I think that requirement is very clear.  
2 And, not being a lawyer, but I think you'd have to have  
3 some change to that legislation to enact that.
- 4 Q. I want to move on and talk about some of your testimony  
5 about the use of RFPs. Do I understand that PSNH is  
6 opposed to the use of RFPs for procuring its market  
7 power needs?
- 8 A. (Baumann) Well, we're opposed to any change in what  
9 we're doing today, if it's going to cost more money for  
10 customers.
- 11 Q. And, I think you, on that note, you made comments about  
12 the fact that an RFP doesn't necessarily always result  
13 in the lowest cost, is that right?
- 14 A. (Baumann) Yes.
- 15 Q. And, there's also been some discussion about the  
16 processes that National Grid and Unitil use to procure  
17 power and set their rates, is that correct?
- 18 A. (Baumann) Yes.
- 19 Q. And, are you aware of what the current rates are for  
20 Unitil and National Grid customers right now?
- 21 A. (Baumann) No, we're not.
- 22 Q. Would you accept subject to check that, just in  
23 September of this year, for small customers, the  
24 Commission approved a rate for National Grid of 7 cents

{DE 10-160} [Day 1] {11-30-10}

1 for November 2010 to April 2011, and a rate of 7.6  
2 cents for small customers of Unitil for the same time  
3 period?

4 A. (Baumann) Subject to check, yes.

5 Q. And, what is the current PSNH Energy Service rate?

6 A. (Baumann) Subject to check, 8.78. I see some noddings  
7 out in the audience, so I'll lock it in.

8 Q. This morning, when you started your testimony and you  
9 provided your opening statement, you talked about two  
10 things that I want to explore with you. I think that  
11 you said that you thought there was a consensus among  
12 the parties that the cost-shifting that is occurring  
13 right now is a problem. Did I get that right?

14 A. (Baumann) Well, there was discussion that there was  
15 cost-shifting. And, yes, I interpret that to mean that  
16 that's a problem. And, looking at other -- other  
17 comments in the testimonies, yes, I took that as an  
18 issue that was concerning.

19 Q. Would you also agree then that the parties -- that  
20 there seems to be concurrence that there's a fairness  
21 issue before the Commission that needs to be addressed?

22 A. (Baumann) Yes, I believe so.

23 Q. You also discuss the fact that there wasn't much  
24 support for many of the parties for your non-bypassable

1 charge proposal or option, is that correct?

2 A. (Baumann) I think that's very accurate.

3 Q. And, in your rebuttal testimony, which is Exhibit 2, on  
4 Page 5, you criticize the OCA and the suppliers who  
5 filed testimony for "failing to focus on long-term  
6 strategies for stable rates at reasonable prices for  
7 all customers." And, that's at Line 14 and 15. Do you  
8 see that?

9 A. (Baumann) Yes.

10 Q. But the only proposal that PSNH has made is for a  
11 non-bypassable charge?

12 A. (Baumann) Well, we have -- we propose that there are  
13 costs that should be paid by all customers.  
14 Mechanically, a non-bypassable charge would allow you  
15 to do that.

16 Q. But you've acknowledged that several of the parties in  
17 this case don't support that approach?

18 A. (Baumann) Correct.

19 Q. And, do you know if the BIA has a position or if any  
20 large customers have a position on the non-bypassable  
21 charge?

22 A. (Baumann) We don't have any knowledge at this point.

23 Q. Do you have any other potential long-term strategies to  
24 address this issue?

1 A. (Baumann) Specific proposals, no. We didn't offer any.  
2 But, again, there's a short-term issue here, and the  
3 issue that's relevant today. And, that's really all  
4 we've addressed at this point.

5 Q. And, whose responsibility is it to address that issue?

6 A. (Baumann) I mean, it's the Company's responsibility,  
7 one. But, certainly, it's any other associated party,  
8 the Consumer Advocates, I think, holds responsibility,  
9 the Staff, the Commission, state legislators. I mean,  
10 anyone. It could be the general public, customers, to  
11 bring -- to bring an issue to the forefront. We  
12 brought this issue to the forefront. But, in terms of  
13 -- you say the word "responsibility", I think we're all  
14 in this boat together. So, hopefully, we can steer it  
15 in the right direction.

16 Q. But I think you just said "we all have a responsibility  
17 to bring issues forward, correct?"

18 A. (Baumann) I think that, if something is wrong, I think  
19 everybody is responsible to try to correct the wrong.  
20 It's a matter of degree as to where you stand in the  
21 pipeline as to how you can impact that responsibility.  
22 Certainly, customers versus the OCA have a distinctly  
23 different -- different ability to impact the system.

24 Q. On Page 6 of your rebuttal, you, starting at Line 3,

[WITNESS PANEL: Baumann~Hall]

1 you are discussing what's been described as "Mr.  
2 Traum's second idea" from his testimony. Do you see  
3 that?

4 A. (Baumann) Yes.

5 Q. And, do you recall that that approach deals with trying  
6 to allocate costs to different groups of customers?

7 A. (Baumann) Yes.

8 Q. And, you state, at Line 5, "This is an intriguing  
9 suggestion that perhaps should be explored more fully."  
10 Is that right?

11 A. (Baumann) Correct.

12 Q. When do you think we should explore that more fully?

13 A. (Baumann) If I could throw that to Mr. Hall? Okay.

14 A. (Hall) I think there's an opportunity, as a result of  
15 this docket, for an outcome that would instruct the  
16 parties to work together, at least instruct PSNH,  
17 Staff, and OCA to work together to try to come up with  
18 a potential solution. Really, there's no time bound on  
19 it. It's certainly something that can be done at any  
20 time.

21 Q. But, from a customer's perspective, who is facing  
22 increasing rates each year as a result of these  
23 problems due to migration, I would think a customer  
24 might think that time is of the essence, would you

{DE 10-160} [Day 1] {11-30-10}

1 agree?

2 A. (Hall) Uh-huh. Yes.

3 Q. At the bottom of Page 6 in the rebuttal, at Lines 20  
4 and 21, you state "PSNH's average ES rate is in excess  
5 of the short-term market price for larger customers."  
6 Do you see that?

7 A. (Hall) Yes.

8 Q. And, when you say "for larger customers", you mean  
9 because they actually have access to the market?

10 A. (Hall) Yes.

11 Q. But, if all customers could access the market, it would  
12 really be higher than market for all customers?

13 A. (Hall) Yes, but I don't know what the price would be  
14 for smaller customers.

15 Q. On Page 10 of your rebuttal, on Line 6 through 8, you  
16 state "PSNH implemented a strategy, in consultation  
17 with the Staff and OCA, to procure power on a staggered  
18 basis." Do you see that?

19 A. (Hall) Yes.

20 Q. So, this was something that you implemented in response  
21 to the cost-shifting resulting from migration?

22 A. (Hall) No. This was something that was implemented in  
23 response to significant swings in the price of energy  
24 on the market, wholesale energy.

[WITNESS PANEL: Baumann~Hall]

1 Q. So, when was that implemented?

2 A. (Hall) I would say 2004 time frame, thereabouts.

3 Q. On Page 12 to 13 of your rebuttal, near the bottom of  
4 the page you cite to "RSA 369-B:3", do you see that?

5 A. (Hall) Yes.

6 Q. And, I believe you're citing to that provision for --  
7 to support the proposition that PSNH must use its  
8 generating assets to provide Energy Service to  
9 customers, is that correct?

10 A. (Hall) Yes.

11 Q. Are there any limitations to that requirement in your  
12 mind?

13 A. (Hall) No. I'm not sure I understand your question.

14 Q. Well, what if the cost to serve, using PSNH's  
15 generation, is 100 percent higher than market rates.  
16 Do you think that that provision still applies?

17 A. (Hall) Unless and until it changed -- it changes, yes.

18 Q. So, there's no point where this provision conflicts  
19 with the Company's requirement to provide just and  
20 reasonable rates?

21 A. (Hall) I think, as long as the Commission approves the  
22 rate level, the rates are, by definition, just and  
23 reasonable.

24 Q. And, so, there's no point at which you must divest or

{DE 10-160} [Day 1] {11-30-10}

1 retire your plants in order to provide just and  
2 reasonable rates?

3 A. (Hall) No. I'm not aware of one.

4 Q. So, the cost to serve, using your generation, which  
5 becomes the Energy Service rates, could be ten times  
6 what's available on the market, and PSNH should still  
7 retain its generation for Energy Service purposes?

8 A. (Hall) I can't answer that question. I don't have a  
9 number in mind.

10 Q. On Page 16 of your testimony, of the rebuttal, on Line  
11 4, you state "The Commission should conclude that the  
12 current situation is resulting in an unfair shifting of  
13 costs to customers who have not migrated." Did I read  
14 that correctly?

15 A. (Baumann) Yes.

16 Q. If the Commission does make that finding, how does that  
17 address the cost-shifting that's occurring?

18 A. (Baumann) Well, I think we said in our original  
19 testimony, you have to first believe that there is an  
20 unfair cost-shifting and/or allocation of costs. If  
21 the answer is "We don't believe there is", well, then  
22 you're done. But, if the question -- or, if the answer  
23 is "yes, we do believe there is an unfair shifting  
24 that's occurring", then you go to Issue Number 2, and

[WITNESS PANEL: Baumann~Hall]

1 that is "what do you do about it?"

2 Q. So, that is Part 1 of what you're asking the Commission  
3 to do, I guess?

4 A. (Baumann) Yes, I think that's -- I think it's a  
5 fundamental question that needs to be answered before  
6 you proceed, certainly, with Part 2.

7 Q. You criticize the competitive suppliers for not  
8 addressing the "fairness" issue. Do you recall that in  
9 your rebuttal?

10 A. (Baumann) Yes. I think the word was, I'm not sure  
11 "criticize", I don't like that word, but, yes, we were  
12 disappointed that there wasn't a little more discussion  
13 on that issue.

14 Q. But they -- I think, I'm recalling your opening  
15 statement, you said "they didn't address the "fairness"  
16 issue, but they just offered options to address the  
17 problem." Is that right?

18 A. (Baumann) They -- if I had to really summarize it at a  
19 high level, I'd say they said "Let's just restructure."  
20 I know one of the testimonies said "Well, you could bid  
21 them into the mark. We don't think that's optimal. We  
22 think divestiture is optimal." Certainly, we have no  
23 cost figures or anything on the record in this docket  
24 that you could make a decision on that type of

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 situation in time. But, you know, they really -- they  
2 really just said "Let's just go to an open and  
3 transparent process. Let's let the markets work.  
4 Let's get to where we need to go." And, you know, our  
5 rebuttal was, "I'm not sure we want to go there." And,  
6 you know, we don't want to be necessarily similar to  
7 CL&P and Western Mass. Electric, because their rates  
8 have been very costly for customers, and CL&P they  
9 continue to be costly.

10 Q. So, what do you think that the suppliers should have  
11 done to address the "fairness" issue, if you're correct  
12 that all of the parties agree that what's happening  
13 right now isn't fair? What more should they have done  
14 in their testimony?

15 A. (Baumann) Well, that's a tough question. You know, I  
16 don't think, and that's why I balked at the word  
17 "criticism". You know, the suppliers are a for-profit  
18 organization, looking to sell their products. And,  
19 there is nothing wrong with that. I'm not sure they  
20 had necessarily an obligation to propose something.  
21 But, again, as I said in the testimony, I think the  
22 words were that "we were disappointed" that there  
23 wasn't some type of additional discussion. We don't  
24 believe that going to a full RFP process addresses the

{DE 10-160} [Day 1] {11-30-10}

1 "fairness" issue. We believe it takes you into a  
2 different world, in effect, from a regulatory  
3 perspective and a recovery perspective. And, while we  
4 don't disagree that some people think that's the world  
5 you should be in. We don't believe that that's, at  
6 this point, the cost-effective way to go.

7           However, you really got to get back to  
8 and not cloud the issue. The first issue is the  
9 "fairness" issue. And, do we think making RFPs, you  
10 know, more available to suppliers, as opposed to us,  
11 PSNH, purchasing bilaterals is going to impact the  
12 "fairness" issue? We don't think it will impact the  
13 "fairness" issue, because the migration has caused  
14 that. So, it's -- you know, we've got really two  
15 different issues running in this docket. And, the one  
16 issue we keep pushing to the forefront is the issue  
17 that we try and, you know, open the docket with, and  
18 that's the "fairness" issue.

19 Q. There are several references in your rebuttal to the  
20 motives of the competitive suppliers. Do you recall  
21 that?

22 A. (Hall) Yes.

23 Q. And, you say, on Page 16, at Line 13, "Suppliers are  
24 motivated by one thing -- profit." Do you see that?

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) Yes.

2 Q. But PSNH is a for-profit corporation, is that correct?

3 A. (Hall) Sure.

4 Q. And, you make a profit from providing Energy Service to  
5 your customers?

6 A. (Hall) Yes. But the difference is that PSNH's profit  
7 doesn't change based on how much Energy Service it  
8 provides.

9 A. (Baumann) And, we don't make a profit when we go out  
10 and transact for, say, a bilateral contract.

11 Q. But someone makes a profit when you enter into a  
12 bilateral contract, correct?

13 A. (Hall) Uh-huh.

14 A. (Baumann) Sure.

15 Q. If you're directly from a generator, the generator is  
16 making a profit. And, then, if you buy from what you  
17 call the "middleman", the middleman is also adding a  
18 profit possibly?

19 A. (Baumann) That's true.

20 Q. Mr. Baumann, do you think that rates and the  
21 rate-making process should be transparent to customers?

22 A. (Baumann) You're going to have to define "transparent"  
23 to me. That's one of my other least favorite words.

24 Q. Clear and easily understandable and available to the

{DE 10-160} [Day 1] {11-30-10}

1 public?

2 A. (Baumann) Well, certainly should be available to the  
3 public. You could try to make it as understandable as  
4 possible, but you're well aware of the complexity of  
5 rate-settings. But, I mean, in general, in general,  
6 yes, it should open and accessible to the public, and  
7 hopefully as understandable as possible. But that's  
8 why we're here today, because it's usually not a simple  
9 issue. There's very complex issues. And, there's a  
10 lot of smart people in the room that address them in a  
11 lot of different ways. But, generally speaking, sure,  
12 it should be transparent, even though I cringe at that  
13 word sometimes.

14 Q. If you would turn your attention to what's been marked  
15 as Exhibit 6 please. And, this is your response to a  
16 data request in this docket that is number "OCA Set 01,  
17 Question 006".

18 A. (Baumann) We're there.

19 Q. And, previously, you discussed the percentages of load  
20 as of July in your affiliate companies, correct?

21 A. (Baumann) Yes.

22 Q. And, this question also asks about "programs or  
23 policies that are in place to support or encourage  
24 residential and small customer migration", correct?

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Yes.

2 Q. And, in your response for both Connecticut Light &  
3 Power and Western Mass. Electric, you provide a listing  
4 of those policies and programs that are available in  
5 those states, is that right?

6 A. (Baumann) Yes, we did.

7 Q. And, if we look down under "CL&P", we see that you  
8 provide a list of customers available for a fee under  
9 Number 1, is that right?

10 A. (Baumann) Yes.

11 Q. And, that is provided to competitive suppliers?

12 A. (Baumann) I believe the competitive suppliers can get  
13 that information at this time in Connecticut.

14 Q. And, then, the second item is "quarterly inserts" that  
15 CL&P does?

16 A. (Baumann) Yes.

17 Q. And, then, the third one is a "Customer Referral  
18 Program"?

19 A. (Baumann) Correct.

20 Q. And, then, under "WMECO", I won't go through them, but  
21 there are several things listed there that are similar,  
22 is that right?

23 A. (Baumann) Yes, that's correct.

24 Q. Are any of those in place in New Hampshire for PSNH?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) No.

2 A. (Baumann) No, I don't believe they are.

3 Q. Why not?

4 A. (Hall) New Hampshire is in an entirely different  
5 situation than Connecticut and Massachusetts. Mr.  
6 Baumann has referred to before the fact that CL&P  
7 divested its generation in the late '90s. It's a  
8 completely different model. And, therefore, has  
9 totally different rules.

10 Q. But does PSNH take any steps in New Hampshire to help  
11 customers become aware of opportunities to participate  
12 in the market?

13 A. (Hall) Yes. I know that we have account executives  
14 that meet with customers on a daily basis. What they  
15 say, I don't know. But I know that they talk about  
16 market opportunities.

17 Q. I think I have just one last question, and this is on  
18 Page 2 of the rebuttal. And, it has already been  
19 asked, but I just -- I have to explore it further. On  
20 Line 11, on Page 2, you state "First, due solely to  
21 migration of load by larger customers to competitive  
22 suppliers, smaller (primarily residential) customers  
23 who remain on the ES rate are faced with higher costs."  
24 And, I think that, I can't remember which one of you,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 one of you clarified that you didn't actually mean that  
2 "migration is the cause of the higher costs", did I get  
3 that right?

4 A. (Baumann) Yes. Probably the word "solely" should have  
5 read "specifically". In other words, it was  
6 specifically to migration that there is a  
7 cost-shifting, therefore the rate's higher, and that  
8 translates into higher costs to customers.

9 Q. And, when -- I think we're all using the term or the  
10 word "migration" as shorthand for something other than  
11 actually migration. And, what I mean by that is that  
12 both of you have testified at different times that  
13 "migration isn't the problem, migration is the goal of  
14 state law", and you both have said you "support  
15 migration", right?

16 A. (Baumann) Yes.

17 A. (Hall) Uh-huh.

18 Q. So, the way we're using the word is really shorthand  
19 for the problems that are resulting from how -- the  
20 steps PSNH is taking to try to meet what could be the  
21 demand from all of its customers, if they were taking  
22 Energy Service, is that right?

23 A. (Baumann) Yes, I believe so. That was a long question.  
24 But I'll agree to it, yes.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 MS. HATFIELD: Thank you. I have  
2 nothing further.

3 CHAIRMAN GETZ: Thank you. Ms. Amidon,  
4 approximately how much cross do you have?

5 MS. AMIDON: One moment please.

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

8 MS. AMIDON: Probably about ten minutes.

9 CHAIRMAN GETZ: Let's proceed with your  
10 cross, and then after that we'll take the lunch recess.

11 MS. AMIDON: Okay. Thank you. Good  
12 afternoon.

13 BY MS. AMIDON:

14 Q. This issue arose, as has been stated in this hearing,  
15 in Docket Number DE 09-180, which was PSNH's petition  
16 to establish an Energy Service rate for 2010.

17 A. (Baumann) Correct.

18 Q. And, did you file testimony in that proceeding?

19 A. (Baumann) Yes, I did.

20 Q. And, if I recall correctly, one of your proposals to  
21 address the problem associated with the impacts of  
22 customer migration was a non-bypassable charge, is that  
23 correct?

24 A. (Baumann) That's correct.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. And, you recall that Mr. Mullen filed testimony on  
2 behalf of Staff regarding that proposal, or you may  
3 not?

4 A. (Baumann) I remember he did file testimony.

5 Q. All right. Well, basically, I went back and looked at  
6 Mr. Mullen's testimony. And, he expressed the opinion  
7 that supply-related costs stemming from power  
8 purchases, and I know that you're not asking  
9 necessarily for that directly or indirectly, well,  
10 we'll figure that out, but that costs associated with  
11 the power purchases or from PSNH's generating  
12 facilities do not appear to qualify as a "stranded  
13 cost" under the statute. And, the reference to the  
14 statute is RSA 374-F:2, IV. Do you remember that he  
15 offered that opinion?

16 A. (Baumann) Yes, I do.

17 Q. So, in that instance, how do you distinguish, if you do  
18 at all, the costs that you would propose to include in  
19 this non-bypassable charge in this proceeding, from  
20 those costs that you talked about in DE 09-180? Are  
21 there any differences or are these the same categories  
22 of costs?

23 A. (Baumann) Well, in 09-180, we really -- it was a very  
24 high-level testimony. And, we introduced it, from my

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 perspective, when I hear -- when I hear a cost is  
2 "non-bypassable", it's very clear to me what that  
3 means. And, that's why we proposed or defined the  
4 costs that we were talking about as "non-bypassable",  
5 because every customer pays for it, regardless of where  
6 that customer lies in their supply of electricity. So,  
7 I think -- I think, conceptually, it is the same type  
8 of costs today, as it was back in 2009.

9 Q. Well, do you think you have more, coming down from the  
10 high level, do you think you have a better or more  
11 definite idea of what you would think would be included  
12 in those, in a non-bypassable charge?

13 A. (Baumann) Well, yes. I mean, we, and I remember a data  
14 request, it may have been in that docket, where we kind  
15 of listed a hierarchy of costs. The top of the page,  
16 it was variable costs, fuel being the number one, and  
17 then it kind of progressed down the list of costs.  
18 And, your bottom three costs were your depreciation,  
19 your property taxes, and then your debt service, which  
20 was more the "fixed" end of the spectrum. So, you know  
21 we maintain that those are readily identifiable and  
22 certainly costs that we believe are 100 percent in  
23 fixed cost nature that support a system for all  
24 customers.

{DE 10-160} [Day 1] {11-30-10}

1 Q. Is it the Company's position then, at this point, that  
2 the type of non-bypassable charge that you propose in  
3 this docket is consistent with the definition of  
4 "stranded costs" found in the statute? I can show you  
5 the statute, if you like?

6 A. (Baumann) That probably won't help. Let me take a shot  
7 at it, and then maybe Mr. Hall can help out, too. When  
8 I think of "non-bypassable costs", I don't necessarily  
9 think of "stranded costs". I think they're two  
10 distinct issues. And, I'll give you an example. In  
11 Connecticut, we kind of crossed this bridge at one  
12 point, around the late 1990's, and we actually had  
13 legislation and we created a non-bypassable charge.  
14 Now, Connecticut had a lot more reliability issues than  
15 New Hampshire did, with reliability must-run charges  
16 and as such. But it was the same type of concept.  
17 They were costs that, because of restructuring, and  
18 because of the way the new world was being created,  
19 that we needed the ability to collect certain costs  
20 from all customers. We've talked about that issue  
21 again this morning with respect to scrubber costs.  
22 And, putting aside the legislation, I think it's very  
23 clear. You know, when we wrote the testimony in 2009,  
24 we weren't really talking necessarily about "stranded

1 costs". We may have referred to them as costs that  
2 could be treated such as stranded costs, you know,  
3 through a non-bypassable charge, but I don't think we  
4 were -- I don't think we're wedded to meeting the  
5 "stranded cost" statutes for dealing with these type of  
6 costs.

7 Q. Did you say that in Connecticut they passed legislation  
8 to authorize the implementation of a non-bypassable  
9 charge for the situation you just described?

10 A. (Baumann) Yes. There is specific legislation.

11 Q. Okay. And, to your knowledge, is there any legislation  
12 in New Hampshire authorizing the Commission to  
13 establish a non-bypassable charge?

14 A. (Baumann) Well, certainly not -- certainly not as  
15 specific as Connecticut. But, having read the bits of  
16 the legislations over the last few months, we believe  
17 that the Commission could put another non-bypassable  
18 charge on the bill, if they wanted to. Assuming that  
19 would be the way they go, we believe that that would be  
20 in keeping with their rights and regulations, you know,  
21 to follow the regulations that exist today.

22 Q. So, you don't think it's consistent with the definition  
23 of "stranded cost"?

24 A. (Baumann) Well, I've never thought of it that way.

1 Q. Okay. Thank you. Would you expect that the Company  
2 would propose to include other costs for inclusion in  
3 this non-bypassable charge in the future? And, if so,  
4 what kinds of costs?

5 A. (Baumann) Well, I think you'd have -- I think you'd  
6 have to continue to look at the costs that were in that  
7 charge, specifically, the allocation of what are now  
8 defined as "Energy Service costs", that you'd want to  
9 collect from all customers, because they benefit all  
10 customers. If you're alluding to something outside the  
11 Energy Service spectrum, at this point, I don't believe  
12 there are any that we would necessarily look to  
13 collect. There has been discussion about the scrubber  
14 technology that's being put on Merrimack. But, right  
15 now, I think our testimony says that the legislation is  
16 pretty clear on where that's supposed to be recovered.  
17 But that could change. And, if it did change, then I  
18 would suggest that it could be put in a non-bypassable  
19 charge that would be charged to all customers, because  
20 of its overall benefit to all customers.

21 Q. And, I'm trying to get clear on what you're proposing  
22 to do with or if you're still asking the Commission,  
23 and I'm not clear on this, whether you're still asking  
24 the Commission to consider including above-market costs

[WITNESS PANEL: Baumann~Hall]

1 of purchased power agreements in the non-bypassable  
2 charge. Is that something that you're asking the  
3 Commission today?

4 A. (Baumann) Specifically, no.

5 Q. Could you explain further then why it's "specifically,  
6 no"?

7 A. (Baumann) Well, first of all, those above-market  
8 contracts will end within a year, probably, one of the  
9 drivers. They're not a long-term type of cost, such as  
10 depreciation, property taxes, and debt service. I  
11 think that's probably our main driver. You know, we  
12 looked to try and quantify something so that the  
13 parties could get their hands around certain costs that  
14 we think are clearly fixed in nature and clearly  
15 support the system that is available for backup to all  
16 customers. So, I think those are the two real reasons  
17 that we did not include them.

18 Like I said before in testimony, you  
19 know, when you look at the spectrum of fixed versus  
20 variable costs, it gets argumentatively a mixture, in  
21 effect, as you get into the spectrum. Fuel is  
22 variable, certainly, and then the other ones we  
23 identified are all fixed. There is an argument to be  
24 made that the above-market portion of those contracts

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1           could be part of that non-bypassable charge. You know,  
2           we're trying to take small steps at this time. And,  
3           certainly, just introducing the concept has been a  
4           major step. So, we didn't -- we didn't go as far as  
5           dollarizing and putting that into our 40 million  
6           number. But, as we did say, it could be conceptually  
7           considered part of that.

8   Q.    Would it apply to existing contracts or any potential  
9           future purchased power contracts?

10   A.   (Baumann) It could be for both.

11   Q.    And, do you have any idea how the Commission would --  
12           you would request the Commission to make a  
13           determination whether to include those costs?

14   A.   (Baumann) Well, the existing contracts exist today.  
15           And, just as we do in the Energy Service right now, we  
16           have contracts that are above market for the IPPs. So,  
17           there's a calculation that's in place. For future  
18           purchases, you know, we'd have to come up with an  
19           estimate, if there were contracts that are necessary,  
20           with a drop in load, that requirement for bilaterals  
21           has decreased substantially. To the point that there,  
22           you know, at least in today's world, there wouldn't  
23           necessarily be any costs, because there aren't going to  
24           be any more bilaterals until something changes, i.e.,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 the economy turns around, Energy Service load  
2 potentially increases, and then you have to go out and  
3 cover your positions on, you know, using bilateral  
4 contracts, or something similar to that.

5 So, it's kinds of a tough question to  
6 answer, depending on which way you go. I think,  
7 generally speaking, if you agreed on the concept and  
8 you agreed that there was a fairness issue, and a cost  
9 allocation issue or cost-sharing, cost-switching issue,  
10 then you'd have to -- you'd have to be kind of flexible  
11 in the future as to what type of costs go into that  
12 non-bypassable rate.

13 Q. So, you're not foreclosing asking the Commission for  
14 above-market or other costs associated with potential  
15 purchased power agreements to be included in this  
16 non-bypassable charge?

17 A. (Baumann) No, we're not.

18 Q. Okay. I want to talk about the stay-out provision.  
19 And, I think the Company stated, and I think it's been  
20 discussed several times today, that the Company has  
21 said that they "embrace migration" and that migration  
22 is a good thing. And, I think that in the testimony,  
23 and I'm sorry I don't have a reference, and you can  
24 correct me if I'm wrong, that the Company also said

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 that they saw a stay-out provision as an obstruction to  
2 customer movement between PSNH and the third party  
3 supplier, is that correct?

4 A. (Baumann) Do you have a specific reference or --

5 Q. Well, I think if you -- yes. It's Staff Data Request  
6 01, Set 01, Number 003. And, I can give you a copy.

7 A. (Baumann) We have them.

8 Q. Okay. And, that question, I think, directly relates to  
9 the stay-out provision. And, then, the relevant part  
10 of the answer says: "PSNH embraces migration and does  
11 not see anything wrong with customers migrating from  
12 PSNH's supply. PSNH views the stay-out provision as an  
13 obstruction to customer movement between PSNH Energy  
14 Service and third party suppliers that does not resolve  
15 the underlying fairness issue as it relates to the cost  
16 recovery of backup supply." But, if you -- so, are you  
17 with me?

18 A. (Baumann) Yes. Sorry.

19 Q. Okay. Thank you. Has the Company considered that the  
20 existence of a non-bypassable charge would also affect  
21 customers' decisions as to whether or not to move  
22 between PSNH and a competitive energy supplier?

23 A. (Baumann) If you put the costs in the right bucket,  
24 i.e., have the proper customers paying for the proper

{DE 10-160} [Day 1] {11-30-10}

1 costs, and then give what I'll call a more appropriate  
2 comparison of what an Energy Service customer should be  
3 paying versus the market, I don't think there's any  
4 obstruction there.

5 Q. But would it not be more expensive for a customer to  
6 migrate to a competitive supplier, knowing that they  
7 would have to also pay PSNH this non-bypassable charge?

8 A. (Baumann) Well, if the non-bypassable charge is set up  
9 and it's in place, then that customer would be on an  
10 Energy Service rate that would be more appropriate, 5  
11 to 8 percent less than what it is today. And, at that  
12 point, they would then have to make a decision as to,  
13 you know, the non-bypassable charge would be there  
14 either way. So, they would be making the same  
15 decision, but they would be making it from an Energy  
16 Service rate that we believe is more appropriate.

17 Q. However, if a large customer is a customer of Unitil,  
18 they can migrate to a competitive supplier, they can  
19 choose to take competitive supply, and they don't have  
20 any additional costs. So, it creates a different  
21 situation -- a more anti-competitive situation for a  
22 similar customer situated in PSNH's franchise, if they  
23 have to pay the additional non-bypassable charge. I  
24 mean, have you considered whether or not this has some

[WITNESS PANEL: Baumann~Hall]

1 kind of negative effect on migration?

2 A. (Hall) I don't think it would. I view it a little  
3 differently. I don't view it as an additional cost  
4 that the customer would pay if they migrated. I view  
5 it as a cost that all customers would pay. And,  
6 therefore, there's no additional cost associated with  
7 migrating.

8 Q. Well, let's put it this way. The migrating customer  
9 would now pay a cost that, in the present world, that  
10 customer would not have to pay?

11 A. (Hall) As compared to where they are today?

12 Q. Correct.

13 A. (Hall) They would pay the cost through the delivery  
14 portion of their bill. I agree with that.

15 Q. All right.

16 A. (Baumann) Now, your question was difficult to answer,  
17 because you keep comparing the Unitil versus PSNH, and  
18 they're in totally different stages of restructuring.

19 MS. AMIDON: I'm going to ask Mr. Mullen  
20 to further address this particular question.

21 MR. MULLEN: Good afternoon.

22 WITNESS BAUMANN: Hi.

23 BY MR. MULLEN:

24 Q. Well, to keep going on this subject, assuming you have

{DE 10-160} [Day 1] {11-30-10}

1 two similar companies that operate in New Hampshire;  
2 one is in Unitil's service territory and one in PSNH's  
3 service territory.

4 A. (Hall) Uh-huh.

5 Q. Assume that they are both offered the same pricing  
6 terms from a competitive supplier, and the rate is at  
7 below Unitil's default rate and it's also below PSNH's  
8 Energy Service rate. If both companies take service  
9 from the competitive supplier, wouldn't the company in  
10 PSNH's service territory be at a competitive  
11 disadvantage to the other company that's in Unitil's  
12 service territory, because the company in PSNH's  
13 service territory would have to pay not only the  
14 competitive supplier rate, but also the non-bypassable  
15 charge?

16 A. (Baumann) Not necessarily. Would the rates possibly be  
17 different? Yes. But the PSNH customer would be paying  
18 for a backup supply service or a backup supply that  
19 we've been talking about here, whereas the Unitil  
20 customers, there is no backup, i.e., there is no  
21 generation backup. Now, how much value that is? You  
22 know, you'd have to -- you could debate that forever as  
23 to what the value of that is. Certainly, in CL&P, over  
24 the last five, six, seven, eight years, we've turned

1 occasionally and said "gee, I wish there was an  
2 alternative." There wasn't an alternative. So, you're  
3 still kind of comparing two like companies, but they're  
4 getting, in effect, a different value for what they're  
5 paying.

6 Q. I was comparing two like companies who are listing all  
7 their costs, and they're figuring out how to price  
8 their products. And, forgetting the whole idea of, you  
9 know, getting backup service, I'm just looking at it  
10 from a cost perspective.

11 A. (Hall) You could make that argument, though, about any  
12 kind of cost. For example, above-market costs  
13 associated with IPPs, where PSNH was required to  
14 purchase from IPPs, Unitil wasn't, even for those IPPs  
15 in their service territory. I mean, yes, it's a  
16 non-bypassable charge, it's charged to all PSNH's  
17 customers. And, using that logic, one could conclude  
18 "well, PSNH has this non-bypassable charge and Unitil  
19 doesn't, therefore customers are at a competitive  
20 disadvantage in PSNH's service territory." I guess you  
21 could conclude the same thing about any cost that's in  
22 one utility's rates and not in the others.

23 A. (Baumann) You also have to look, and I concluded my  
24 little testimony this morning about "long-term

[WITNESS PANEL: Baumann~Hall]

1 solutions based on short-term issues". And, I think  
2 what you describe very accurately is a short-term issue  
3 that's very important to companies, but, in the long  
4 term, I'm not sure that would be -- that the Company at  
5 PSNH would be at a disadvantage or an advantage. It  
6 would depend on where market prices go. And, you could  
7 just as easily flip that advantage and disadvantage  
8 around, if market prices were to go back to what they  
9 originally were. Then, the cost of backup supply might  
10 be -- might be a lot less expensive than the market.  
11 So, it's a -- we've discussed this internally. And,  
12 it's a very difficult issue to get your hand all around  
13 -- get your hands around, because you don't really know  
14 where the market's going to be. But you can argue on  
15 one side or the other, depending on what your market  
16 assumptions were. And, Mr. Rodier had his nickel gas  
17 for the rest of creation.

18 You know, that's one side you could look  
19 at and one assumption level. But, if you -- if you're  
20 looking long term, we believe that there is certainly a  
21 difference, and you raise a short-term issue. But  
22 we're not sure if that's how we should planning for  
23 this, for these rates for customers.

24 Q. Okay. Well, considering the short-term and long-term,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 I know we went over our ten minutes. Let me try to  
2 wrap this up and we talk about short-term. Ms. Amidon  
3 had mentioned the stay-out provision, and she read from  
4 a response from PSNH that said that weren't in favor of  
5 a stay-out provision. Would the existence of such a  
6 provision aid PSNH in better planning its purchases?

7 A. (Baumann) Well, it would certainly prevent a group of  
8 load from coming back.

9 A. (Hall) Right.

10 A. (Baumann) We'd have to keep track of how much that is.  
11 If it's one year, everybody leaves at certain times.  
12 But it certainly would prevent everyone jumping back  
13 immediately, because there would be a stay-out  
14 provision. So, to that extent, it would help in that  
15 perspective, yes.

16 Q. So, if PSNH is better able to plan its purchases by  
17 knowing that certain customers will not be receiving  
18 Default Service for a certain period of time, would  
19 that help mitigate the costs associated with power  
20 purchases that non-migrating customers are now  
21 responsible for paying?

22 A. (Baumann) I think, generally speaking, it probably  
23 would, yes. You'd have more certainty.

24 Q. If PSNH was to establish a stay-out provision through

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 its tariff, would it be difficult to implement?

2 A. (Hall) I don't think so. But, without talking to the  
3 people in Billing, I hesitate to say "no, it wouldn't."

4 A. (Baumann) And, it would probably -- I mean, it would  
5 create a programming challenge for our IT people in the  
6 C2 system, but, you know.

7 Q. So, would it be costly to implement?

8 A. (Hall) I don't know.

9 Q. Thank you.

10 A. (Baumann) I think it would be more in terms of the  
11 time, you know, how long it would take to do and the  
12 availability of people.

13 MR. MULLEN: Thank you. Staff has  
14 nothing further.

15 CHAIRMAN GETZ: Okay. Let's take stock  
16 of where we are. We'll need to take a lunch recess. I'm  
17 thinking of coming back at 2:30. We'd have questions from  
18 the Bench, and then opportunity for redirect. And, then,  
19 we have four other witnesses. I'm reluctant to predict  
20 how long that's going to take. But we're not -- I don't  
21 think we're going to be in a position to go past 4:30  
22 today. We have the morning available tomorrow to resume.  
23 But I would just suggest, within those parameters, the  
24 parties think about that during the lunch hour, and we'll

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 pick up -- Mr. Donovan, did you have something?

2 MR. DONOVAN: Mr. Chairman, just perhaps  
3 a suggestion. Could we perhaps canvas and see who has  
4 cross for whom, maybe that will help figure out.

5 CHAIRMAN GETZ: Well, why don't you do  
6 that -- I was thinking we could do that after lunch.  
7 We're coming back, and then let me know what you figure  
8 out over the lunch hour, and then we'll just continue to  
9 move through with the witnesses.

10 Okay. We'll resume at 2:30.

11 (Whereupon the lunch recess was taken at  
12 1:15 p.m. and the hearing resumed at  
13 2:40 p.m.)

14 CHAIRMAN GETZ: Okay. We're back on the  
15 record. And, before we resume, is there anything to  
16 report on a meeting of the minds?

17 MS. AMIDON: Yes. The parties have  
18 agreed to resume the hearing tomorrow morning at 9:00 a.m.  
19 But today we're going to revise the list of witnesses.  
20 And, this will be the order of witnesses for the remainder  
21 of the hearing. First, Ms. Hennequin, then Mr. Hachey,  
22 third Mr. Traum, and finally Mr. Allegretti. And, in  
23 addition, the parties discussed when would be a good time  
24 to file legal briefs, and recommend that the Commission

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 require them by January 7th, 2011. And, that's it.

2 CHAIRMAN GETZ: All right. Anything  
3 else? We'll start with Commissioner Ignatius.

4 CMSR. IGNATIUS: Thank you. Good  
5 afternoon.

6 WITNESS BAUMANN: Good afternoon.

7 BY CMSR. IGNATIUS:

8 Q. Let me first start out with just a couple of questions  
9 clarifying, in my mind, the situation that we're trying  
10 to assess and work to resolve. The testimony in both  
11 Exhibit 1 and 2 describes the current situation as  
12 being "short-term", and then today you referred to it  
13 as a "short-term problem". But you've also said that  
14 "no one can predict rates", "no one knows where things  
15 are going". So, help me understand how you come to  
16 think of this as a "short-term problem". And, I won't  
17 put words in your mouth. You just, as open ended as I  
18 can be, just help me understand this.

19 A. (Baumann) Sure. I think I would have characterized it  
20 more as an issue that we need to solve, at least in the  
21 short term. If you get something in place, you know,  
22 some type of a mechanism in place, and the migration  
23 level stays at about this level, it goes up a little,  
24 goes down a little, depending on you knows what's going

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 to happen. Then, you have something in place in the  
2 short term. In other words, I meant it more in terms  
3 of "let's get it done in the near term", as opposed --  
4 maybe "near-term" would have been a better term, to get  
5 something in place now, as opposed to potentially  
6 waiting and going through, you know, like one of the --  
7 well, a couple of suppliers talked about "divestiture".  
8 When we get to divestiture is not necessarily a  
9 short-term issue, with all you have to do to go through  
10 it and study it and then come to a conclusion. So, I  
11 think probably the word "near-term" should have been a  
12 better issue. This is not a short-term issue that is  
13 going to go away. It's a near-term issue that we  
14 believe should be addressed in the near term, which  
15 then hopefully will give us a mechanism to go forward  
16 long term.

17 Q. And, in your testimony, you refer to an "unprecedented  
18 low level of natural gas prices". Do you have a view  
19 on whether that is a short-term situation or long, and  
20 you can define what "long" is, but more than --  
21 something that will be with us for the next few years?

22 A. (Baumann) No, I don't. But I'll relay a little story  
23 briefly. Now, years ago, and this was back in the, oh,  
24 probably late '80s, I was in a hearing. And, there was

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 an individual who had a Ph.D and had -- he was a very  
2 smart individual. And, I was in a hearing, and he was  
3 saying that, "In Connecticut, we don't need a fuel  
4 clause anymore, because oil prices are stable and  
5 probably will remain stable." And, they had been  
6 stable for about five or six years, at about \$17, \$18,  
7 \$19 a barrel. And, I really didn't have the  
8 wherewithal to argue with this individual, who was far  
9 my superior academically, but I sat there and said "I  
10 don't believe it. I don't believe it's going to stay  
11 at \$18, \$19 a barrel", unlike Mr. Rodier's 5 cent  
12 power. Okay. It's a hypothetical, but I don't think  
13 that anybody would bet the ranch on that one. We ended  
14 up prevailing, and the Commission felt that there was  
15 no -- no way of really knowing long term that that was  
16 going to happen, and the Commission found in our favor.  
17 We kept the fuel clause, and about two years later we  
18 had \$70 and \$80 a barrel oil. And, you know, history  
19 repeats itself. You can -- all the cliches you want.  
20 I've seen the gas market over the last 20, 25 years,  
21 you know, I've seen the prices spike to \$8, \$9 in the  
22 winter, and then drop down to \$3 or \$4 in the summer.  
23 We saw them spike two years ago up in the 16, \$15/\$16  
24 range. So, you know, I would be a fool if I said I

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 knew what was going to happen in the future. But I  
2 think I'd be fool if I said that they were going to  
3 remain this low.

4 Q. Do you do any rate trajectories, looking out over two,  
5 three, five years?

6 A. (Baumann) We just take, when we do our budgets, we take  
7 the forward pricing as it exists today. But, bear in  
8 mind, when we do our budgets, the fuel portion of those  
9 budgets are fully tracked. So, whether we budget for  
10 5-cent gas or 10-cent gas, from an earnings  
11 perspective, it doesn't matter, because they're fully  
12 tracked. Everything is deferred for recovery. So,  
13 from a budget perspective, the only significant thing  
14 for us is that we get the cash flow as best we can,  
15 i.e., we're going to have to pay for fuel that's at,  
16 you know, 5 cents, versus 6, 7 cents, but, from an  
17 earnings perspective, there is no impact on a budget,  
18 because they're fully tracked. So, we don't  
19 operationally, other than for cash flow purposes, we  
20 don't really have a need, from an earnings perspective,  
21 to really get the pricings correct, because there is no  
22 earnings impact.

23 Q. But, when you're trying to assess whether to make a  
24 supplemental power purchase, if it's more than a spot

{DE 10-160} [Day 1] {11-30-10}

1 purchase, don't you have to have some expectation of  
2 pricing to know if the offer you're seeing is any good?

3 A. (Baumann) Well, and I believe our -- I know our  
4 purchasing people look at the forward market prices  
5 today. I mean, you buy, you know, you buy based on  
6 your knowledge today, as to what they are. So, when we  
7 bought the power purchases that are out-of-market now,  
8 at the time that was the prevailing rate at that point  
9 in time. I'm sure there were experts that felt that  
10 that rate was going to go down, and I'm sure there were  
11 experts that felt that rate was going to go up.  
12 Because we actually had -- I know a couple of our  
13 purchases were at -- you know, we had a huge spike.  
14 And, as the rates came down, we purchased on the  
15 downside, not on the peak. But that peak may have been  
16 just a plateau. But it wasn't, it was a peak.

17 Q. You said earlier this morning that you were not  
18 interested in any change in your procurement if it  
19 meant greater costs passed onto your ratepayers. Is  
20 that fair?

21 A. (Baumann) Correct.

22 Q. And, are you assuming that an RFP process will have  
23 that result of passing on greater costs to ratepayers?

24 A. (Baumann) Yes. Assuming there was a dialogue about

[WITNESS PANEL: Baumann~Hall]

1           bilaterals and RFPs, and I -- I forget exactly who it  
2           was between, I know Mr. Hall was talking, I think it  
3           was Mr. Patch. But they're two distinct things. I  
4           mean, a bilateral contract, as we were talking about  
5           it, is a known contract for a particular time period,  
6           for a particular level of load. And, whereas an RFP,  
7           if it's a load-following RFP, that's something that's  
8           distinctly different. It has more risk involved,  
9           because you don't know exactly what the load is, if  
10          it's load-following. A bilateral, you'd go out and  
11          typically go out, say, to a broker or to a generator,  
12          and you would transact for a bilateral. With an RFP,  
13          people would bid on that RFP. They would have to go  
14          out and buy power somewhere, either from a generator or  
15          a broker, same as us, but then they would have to put  
16          their mark-up on there for their costs and profit. So,  
17          that's why, when we look -- when we think of doing --  
18          our group doing bilaterals, certainly we have people  
19          who have to, you know, payroll costs to do those  
20          bilaterals. That's no different than the suppliers,  
21          but then the suppliers also have their return that they  
22          have to tack on in an RFP process. And, that's not  
23          even distinguishing between this risk, a risk premium  
24          that might have to be paid, because an RFP, the way

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 we're thinking about, is an RFP is maybe more of a  
2 load-following type of RFP, as opposed to a bilateral,  
3 which might be just a block of power at a defined  
4 level.

5 Q. Mr. Hall, a question for you. You had said this  
6 morning that you didn't think there would be a chilling  
7 effect on customers making choices to go to third party  
8 suppliers, if you designed the bypassable --  
9 non-bypassable charge correctly. "If it was designed  
10 right, it wouldn't have that chilling effect." Is that  
11 correct?

12 A. (Hall) Yes.

13 Q. Can you elaborate on that more please?

14 A. (Hall) Sure. I think -- excuse me. I think, as long  
15 as you were to design a non-bypassable charge, and  
16 that's the same amount paid for by all customers, then  
17 it doesn't have that chilling effect. Because,  
18 regardless of whether you take Energy Service from PSNH  
19 or from a competitive supplier, if you pay the same  
20 amount, then the comparison is still appropriate, it's  
21 between the Energy Service rate versus the market price  
22 that the customers are offered by a supplier.

23 Q. There's certainly a change in the incentive on the part  
24 of customers, under today's system, to go to the

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 outside market, than there would be -- there would be  
2 less they would gain from going to the outside?

3 A. (Hall) Yes. Yes. Because a portion of the costs that  
4 are currently recovered through the Energy Service rate  
5 will be recovered somewhere else. I agree.

6 Q. And, so, is it your view that there is less incentive  
7 on the part of customers to make that switch, but  
8 that's appropriate, because those charges should be  
9 assessed to them, no matter what the mechanism is, they  
10 should be paying that?

11 A. (Hall) Yes. Because of the reasons that Mr. Baumann  
12 described earlier, which is there's always this fleet  
13 of assets ready and able to serve them when they return  
14 and provide price stability.

15 Q. Both of you have talked about price stability as being  
16 very important on the part of customers. And, I guess  
17 I wonder then why, if it's that important, why have we  
18 seen so much migration and going to the outside. You  
19 know, for customers who are facing what could be a much  
20 more volatile set of prices, they're making that  
21 choice. So, how do you square that, the numbers you're  
22 seeing of migration with what you believe to be a real  
23 strong interest on their part for stability?

24 A. (Hall) The Energy Service rate is set for a one-year

{DE 10-160} [Day 1] {11-30-10}

1 period. I think what happens is, when customers see  
2 what the Energy Service rate is going to be, they make  
3 a decision based on what the rate is versus the offers  
4 that they get. And, depending on the nature of the  
5 offer, there may be an open provision for them to  
6 return. It may be a lower rate for a period of a year  
7 or more, where a customer can take advantage of that  
8 lower rate, as compared to today's Energy Service rate.  
9 They may be choosing some extended form of price  
10 stability.

11 Alternative -- in addition, customers  
12 know that, even if they migrate, they always have that  
13 Energy Service rate from PSNH that they can return to  
14 that's going to be a relatively stable rate level. So,  
15 I think what's happening is customers are reacting to  
16 short-term -- relatively short-term price signals, and  
17 making their decision accordingly. They're making  
18 economic decisions, and taking service from the market  
19 from competitive suppliers.

20 Q. So, when you talk about "stability", you mean, did I  
21 follow this right, that what customers are willing to  
22 take the risk of a volatile market, because they know  
23 they can come back to a stable PSNH price, if need be?

24 A. (Hall) Yes. And, the issue of price stability was

[WITNESS PANEL: Baumann~Hall]

1 raised in the context of going to an RFP approach for  
2 Energy Service. If you go to an RFP approach, and you  
3 no longer rely on PSNH's approach, where its got its  
4 generating assets supplemented by market purchases, if  
5 you're entirely subject to the market, now prices can  
6 jump all over the place. History has shown that market  
7 prices are pretty volatile, and can be extremely  
8 volatile over relatively short periods of time. So  
9 that price stability becomes more of a concern when you  
10 no longer are -- have the approach that we've been  
11 using for establishing Default Energy Service rates.  
12 And, it's stability in both directions.

13 Q. How do you mean?

14 A. (Hall) Up, as well as down.

15 Q. Oh. Okay.

16 A. (Hall) Customers -- customers, I believe, are willing  
17 to sacrifice potential reductions in their Energy  
18 Service price in exchange for a relatively stable rate  
19 level. We, as consumers, make those kind of decisions  
20 all the time, when we decide whether we ought to prebuy  
21 our oil, whether we decide on a fixed rate or variable  
22 rate mortgage for a home that we purchase. You make  
23 those kind of trade-offs. It all depends on what  
24 you're looking for; something stable and known or are

{DE 10-160} [Day 1] {11-30-10}

1 you willing to run the risk.

2 Q. Well, it sounds like we've gone full circle then or  
3 maybe I misunderstood. Initially, I thought that's  
4 what you were talking about is price stability.

5 A. (Hall) Okay.

6 Q. And, it didn't square with the fact that so many large  
7 customers have left and are willing to take that risk.  
8 So, I thought then what you were saying is "stability"  
9 meaning, "if it gets really bad, I can always run back  
10 to PSNH"?

11 A. (Hall) Yes. It's really both. They know they can  
12 always come back to PSNH, at a relatively stable price.  
13 Oh, by the way, if, in the next year or two, it looks  
14 like the market is going to be lower, a customer will  
15 take advantage of that. They will select a competitive  
16 supplier and pay a lower rate for a year or more.

17 Q. Both of you have reminded us that the situations in  
18 Connecticut and Massachusetts are different than they  
19 are in New Hampshire, because of the status of  
20 divestiture. Though, I wonder how you compare the two  
21 companies in New Hampshire that are already doing RFPs  
22 who don't have generation assets, and yet provide the  
23 same failsafe return option for customers who find the  
24 volatile market to be more than they can take. In that

[WITNESS PANEL: Baumann~Hall]

1 sense of the ability to return to the regulated  
2 utility, are you any different?

3 A. (Hall) Are we indifferent?

4 Q. Are you different, on that level, independent of your  
5 owning generation assets, from the perspective of  
6 customers who leave, in New Hampshire, and have the  
7 ability to return to the utility if it gets too bad out  
8 there in the competitive market, aren't you the same?  
9 You, Unitil, and National Grid the same?

10 A. (Hall) I think generation ownership puts PSNH in a  
11 significantly different situation. Owning generation  
12 provides a hedge against market pricing swings. And,  
13 as a result, I think that's what makes PSNH different  
14 from the other two utilities. The other two -- the  
15 other two utilities have implemented mechanisms where  
16 they guard against wild swings by laddering portfolios  
17 of purchases. And, that's their way of dealing with  
18 wide price swings and uncertainty. Laddering of a  
19 portfolio works great, if market prices are relatively  
20 stable or increasing. If the prices suddenly turn and  
21 go down, what happens is it takes longer to catch up  
22 reach the market, if you've got a laddered portfolio.  
23 So, you know, there are advantages to that approach, in  
24 that, yes, it does provide price stability. But, when

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 it comes to price downturns, you don't have as much  
2 down -- you don't have as much potential on the  
3 downside in a down market, if you have laddered  
4 portfolios.

5 The difference -- the difference with  
6 PSNH is that, even with wild swings in market prices,  
7 as I said earlier, generation provides a hedge. Yes,  
8 generation costs are going to go up and down with  
9 swings in fuel prices. But, to the extent that we burn  
10 coal, to the extent that we have dual fuel capability  
11 at Newington, to the extent that we burn wood at  
12 Schiller, we're not subject to large swings in prices  
13 due to one commodity. It's a relatively diversified  
14 portfolio, and there are options available even within  
15 the generation portfolio with regard to fuel choice and  
16 dispatchability.

17 A. (Baumann) Commissioner, if I could just add?

18 Q. Please.

19 A. (Baumann) I see a big difference with PSNH and the  
20 other New Hampshire utilities, in that, if the  
21 customers in the other utilities decide, if they have  
22 switched to a third party and decide to come back, they  
23 come back to some type of a market determined rate.  
24 They don't come back to PSNH generation, like Mr. Hall

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 just pointed out. And, if you recall, we had a  
2 discussion in part of my testimony that talked about  
3 the burden -- would it be a burden if we went to full  
4 requirements service and the Commission's burden. We  
5 put that in there for various obvious reasons. But the  
6 one item that would be really extremely critical would  
7 be, do you ladder the market purchases, the fallback or  
8 the safe haven, or whatever you refer to it as?  
9 "Failsafe", I think you said. Do you ladder that? Do  
10 you not ladder that? Connecticut decided to ladder it,  
11 and it worked very well in a rising market. It helped  
12 customers, and we had very little migration. Now, we  
13 have a plummeting market, and the customers have  
14 started to migrate. The rates were up to about 12  
15 cents, and now, come January 1st, they're going to be  
16 down about nine and a half cents. So, you can see now  
17 the laddering, we're on the side where we're starting  
18 to fill in with the future tranches that are cheaper.  
19 And, you know, so, it's not so much the administrative  
20 burden that, okay, the people would come in and we'd  
21 say "these are the lowest bids". And, you'd look at  
22 them and say "Okay, it's market prices, it's low, we'll  
23 take them." But it's a matter of how you're going to  
24 want to take those bids, and will you want to ladder,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 will you want to expose PSNH's customers to the good  
2 side of the ladder, which might be a 7, 8 cent cost or  
3 9 cent, because, you know, there's going to be more of  
4 a mark-up for residential than there would be for large  
5 customers. And, then, also expose them potentially to  
6 a market that might swing significantly within a year  
7 or two, which is very short term. Connecticut didn't  
8 want that. And, Connecticut said "we are going to  
9 ladder." We've been in times when the laddering of  
10 price has been really good, and they have said "no,  
11 we're going to stick with our ladder, because that's  
12 our approach." And, sometimes it works, sometimes it  
13 didn't. But it had really -- really was looking for  
14 rate stability. They didn't want to see huge swings.

15                   Massachusetts has been different.

16 Massachusetts takes a full year's worth of -- takes 50  
17 percent of the load for a full year. So, we're  
18 constantly moving ahead six months on load. So, you  
19 have -- it's much less of a ladder, whereas  
20 Connecticut, it's laddered for about three years. And,  
21 so, in Massachusetts, they didn't benefit as much as  
22 the Connecticut people did in the rising price  
23 scenario, but now they have benefited more in the  
24 falling prices, because they have gotten better quicker

{DE 10-160} [Day 1] {11-30-10}

1 than Connecticut. So, that's a real pivotal decision  
2 process that the Commission and any other interested  
3 parties would have to go through, if they were  
4 designing something for a very large load that PSNH  
5 does have in New Hampshire.

6 Q. Let me ask you, there's a representation in the  
7 Constellation testimony of Mr. Allegretti that hasn't  
8 been testified to yet, but everyone has seen in  
9 prefiled testimony. On Page 9, and you may not have it  
10 here, but I'll read you a sentence that says, and this  
11 is at Line 3, "In this regard, PSNH's performance as a  
12 portfolio manager, 28 percent above market, is not  
13 encouraging." Do you accept the "28 percent above  
14 market" as being a fair representation of where you  
15 are? And, I know it doesn't really give you time  
16 periods on when that's measured. But do you have a  
17 sense of where you are in relation to market pricing?

18 A. (Hall) Yes, I don't agree with the characterization. I  
19 think it's taking -- it's making a comparison that's  
20 not appropriate to make. He was referring to a  
21 response to a data request. And, we answered by  
22 looking at the cost of purchases that were entered into  
23 a year or more prior, and comparing it to today's  
24 short-term locational marginal price, if you will.

[WITNESS PANEL: Baumann~Hall]

1 Locational marginal price really isn't a market. It's  
2 an hourly and it's -- it's a day-ahead market, it's not  
3 the kind of market where one would enter into a longer  
4 term transaction necessarily to purchase at an hourly  
5 price. So, I think the comparison is not correct.

6 When the purchases that PSNH made, which  
7 are above today's comparable market, there's no  
8 question, but, when those purchases were entered into  
9 back in 2008, they were at market. They weren't above  
10 market at the time. What happened in the interim? Gas  
11 prices plummeted, because of the economy, because of  
12 other reasons, the entire market shifted downward. So,  
13 in 2008, when we made a purchase for power, say, in the  
14 Summer of 2009, at a certain price, by the time we got  
15 to the Summer of 2009, one could buy power for that  
16 time period or for that month at a lower price than  
17 what one could have bought it for back in 2008, when  
18 the decision to make the purchase was made.

19 Again, we talked about this earlier, but  
20 the reason we entered into those transactions was to  
21 provide price stability. Had prices continued to  
22 climb, and had market prices continued to shift upward,  
23 the purchases would have been well under market and  
24 would have looked like a great decision. So, you can't

{DE 10-160} [Day 1] {11-30-10}

1 necessarily say "all right, a purchase made a year and  
2 a half ago, it turns out that today's market has  
3 shifted downward, and, therefore, it was a bad  
4 decision." You can't conclude that. That's not a  
5 valid conclusion.

6 Q. Throughout your testimony, the concept of "fairness"  
7 has been front and center, and you've characterized  
8 this as really the heart of the matter to resolve.  
9 And, I struggle with that as well, that something  
10 doesn't feel right about the way -- the way those  
11 remaining customers are left with costs with fewer and  
12 fewer people to share those. There's another  
13 "fairness" concern I have working against that, and  
14 would be interested in your thoughts on this. And,  
15 that's that, for those who choose to leave PSNH and go  
16 elsewhere, they're buying from some entity that also  
17 has fixed prices built in, depreciation and property  
18 tax, the items that you've identified as being fairly  
19 recovered by all customers. So, for those who take  
20 that competitive supply, are they being charged for the  
21 same types of items twice? And, if so, is that fair?

22 A. (Baumann) Well, I think the distinction I see, and I  
23 think we alluded to it this morning, was there's a  
24 benefit to backup supply. And, we've made an attempt

[WITNESS PANEL: Baumann~Hall]

1 to dollarize it. And, I think any way you want to  
2 dollarize it, you can criticize or you can question.  
3 But I don't -- we're just trying to dollarize a benefit  
4 associated with that supply, that safety net that they  
5 have, that they don't have with going to, you know,  
6 that CL&P doesn't have and that the other customers in  
7 New Hampshire of the other utilities don't have. They  
8 don't have a generation safety net or stability, as Mr.  
9 Hall just referred to. I really think that's the  
10 distinction.

11 Now, we struggled with -- we were firmly  
12 committed internally to "there is a big benefit here  
13 that only a portion of the customers are supporting."  
14 But we did go round and round as to how you dollarize  
15 it. And, we felt compelled that we needed to try to do  
16 something to dollarize it. I went to our rates people,  
17 you know, back in Connecticut, and I said, you know,  
18 "Backup service, what is "backup service"?" And, it  
19 has a little different meaning when you're charging  
20 customers for that type of backup service. But it was  
21 -- it was a tough thing to dollarize. And, so, we sat  
22 down and we said "well, look, you know, what are the  
23 foundation fixed costs that support this system?" And,  
24 we did come up with the 40, 44 million, depending on

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 which filing you're looking at, as those costs. I  
2 don't -- I don't look at it as a duplication. I look  
3 at it as a beneficial cost -- as a cost associated with  
4 a benefit that customers are getting, even the ones  
5 that migrate. And, they're not paying anything for it.  
6 I've always thought it's a very hard, logical argument  
7 to refute. And, I really haven't heard anybody refute  
8 it. How to dollarize it? You know, that's a difficult  
9 thing to do.

10 But, I agree 100 percent with you that,  
11 when we first started looking at it, we said  
12 "Something's wrong here. And, why is it wrong?"  
13 "Well, there's a benefit that people aren't paying for  
14 customers, because they have migrated. And, if they  
15 come back, they will get that benefit." And, then, we  
16 kind of scratched our heads for a while and said "How  
17 are you going to dollarize that benefit?"

18 And, if you recall in the first  
19 testimony, where we filed in 2009, we went around and  
20 around. And, initially, that testimony was very vague.  
21 And, we said "No, we've got to get a little more  
22 specificity to this." Because, you know, in a rate  
23 setting proceeding, people like to know how big the  
24 breadbox is. And, so, we did it with and without

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 rates. And, we said "okay, that differential is about  
2 7 mills." And, in today's world, I think I mentioned  
3 this morning "8.7 cents versus 8 cents", that's that  
4 differential. And, then, we said "well, gee, what  
5 would it mean if we took out about \$40 million, and  
6 what would that, you know, what would that impact the  
7 rate? And, would it make the rate -- would it get to a  
8 reasonable level?"

9 So, we kind of selected that "fixed  
10 cost" definition of backup supply benefit as a  
11 reasonable compromise, if you will, to a reasonable  
12 level of costs that we could specify clearly and  
13 accurately, and yet not get into serious cost  
14 allocation questions as to what's really fixed, what's  
15 variable, what's a combination fixed/variable, because  
16 it gets extremely theoretical at that point. So, it's  
17 kind of a mix of everything. But it -- But, I agree  
18 with you, it's something we really believe isn't right.  
19 And, like I said this morning, we want to at least take  
20 a step, a little step towards what we think is better.

21 CMSR. IGNATIUS: Thank you. That's been  
22 very helpful.

23 WITNESS BAUMANN: Thank you.

24 CHAIRMAN GETZ: Commissioner Below.

{DE 10-160} [Day 1] {11-30-10}

1 CMSR. BELOW: Thank you.

2 BY CMSR. BELOW:

3 Q. On Page 4 of Exhibit 2, your rebuttal testimony, at  
4 Line 22, you state that "risk premiums for future price  
5 risk and risk premiums for future volume risk due to  
6 factors such as weather and economic conditions are  
7 inherently included in the price paid by customers."  
8 And, you go on and say "PSNH does not believe these  
9 risk premiums will be free." Is it fair to say that  
10 such risk premiums are, in effect, embedded in PSNH's  
11 Energy Service rate, as well as the idea that was  
12 proposed here for full requirements service?

13 A. (Hall) No.

14 Q. Why?

15 A. (Hall) They're not in PSNH's Energy Service rates  
16 because, to the extent that there are volume  
17 differences or whether, in economic conditions, PSNH's  
18 mechanism is reconciling. So, in effect, customers are  
19 accepting those risks when it comes to Energy Service.

20 Q. So, there isn't a risk premium, the customers just bear  
21 the risk --

22 A. (Hall) Yes.

23 Q. -- is what your saying?

24 A. (Hall) Yes. When it comes to a supplier, a supplier is

[WITNESS PANEL: Baumann~Hall]

1 the one who bears that risk. And, that risk has to be  
2 included in whatever price they charge.

3 Q. But, for instance, in the Summer of 2008, when PSNH  
4 chose to buy blocks and strips of power --

5 A. (Hall) Uh-huh.

6 Q. -- for many months, --

7 A. (Hall) Yes.

8 Q. -- that proved to be well above market, the customers,  
9 there wasn't a risk premium, but the customers paid the  
10 cost of that decision being significantly above market,  
11 is that fair to say?

12 A. (Hall) Yes, subject to prudence review.

13 Q. Okay. In Exhibit 1, at Line -- on Page 3, Line 23, you  
14 say that the problem is "due primarily to the migration  
15 of some customers (mostly larger customers) to third  
16 party supply". What do you mean when you say "mostly  
17 larger customers"?

18 A. (Baumann) What we meant there was, I mean, most of the  
19 -- most of the customers initially who started  
20 migrating were the larger customers. You know, they  
21 had a better load profile, and you can certainly market  
22 a lot easier to one customer, as opposed to 5,000  
23 customers with the same overall load in aggregate.  
24 And, what we have seen in all of our jurisdictions,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 including PSNH, is that the best customers get picked  
2 off first, the largest customers, the better load  
3 profile customers. And, so, it leaves -- it leaves  
4 mostly residential and small C&I with either the last  
5 time -- you know, they're the last people to get  
6 offered an alternative supply or they don't get offered  
7 an alternative supply, because the profit margin isn't  
8 such that it would be worth a third party supplier to  
9 offer them a supply.

10 Q. If we look at the Consumer Advocate's prefiled  
11 testimony, Attachment 3, it has the "2nd Quarter 2010  
12 Report" to the PUC on migration. And, I think that  
13 indicates that maybe almost half of the load is from  
14 the largest class, LG, Large C&I rate customers. Have  
15 you found that?

16 A. (Hall) Yes.

17 Q. How would you characterize the kind of metering you  
18 have for those customers?

19 A. (Hall) Metering?

20 Q. Do you have interval metering for those customers, such  
21 that you might know, for instance, their hourly load  
22 profile --

23 A. (Hall) Yes.

24 Q. -- or a competitive supplier would?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) Yes.

2 Q. And, how do you read those meters for those LG  
3 customers?

4 A. (Hall) I'm not sure I follow you.

5 Q. Do you manually send someone out in the field to look  
6 at their meters or do you have communication with those  
7 LG customers' meters, the very large customers? Do you  
8 have Advanced Metering Infrastructure at all for these  
9 large --

10 A. (Hall) For most of them, no, we do not. For most of  
11 them, I believe we still send the meter reader to the  
12 location to get a reading.

13 Q. For the LG customers, though, can you get hourly  
14 consumption data?

15 A. (Hall) Yes.

16 Q. And, how about GV?

17 A. (Hall) Same. Same thing.

18 Q. And, then G?

19 A. (Hall) Rate G, most customers do not have meters that  
20 are capable of hourly intervals.

21 Q. Okay. Could you -- this is a record request. I guess,  
22 well, first, let me ask, have you prepared the 3rd  
23 Quarter 2010 Report, do you know?

24 A. (Hall) I don't believe I have yet.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 Q. That would be through the end of September. Well, what  
2 I'd like to ask --

3 A. (Hall) I don't believe we have yet.

4 CMSR. BELOW: What I'd like to ask for,  
5 as soon as it's available, is the 3rd Quarter 2010 Report  
6 to be made an exhibit.

7 CHAIRMAN GETZ: Okay. We will reserve  
8 Exhibit 10.

9 **(Exhibit 10 reserved)**

10 CMSR. BELOW: And, if you could provide  
11 in with that the data for the non-migrating customers,  
12 that is the number of customers who are on Energy Service,  
13 or could be the total customers, and the total  
14 kilowatt-hours delivered by the same rate classes for  
15 either the total customers or those who are on Energy  
16 Service. And, then, if you could also provide the  
17 percentages, in much the same way that Unitil and National  
18 Grid do for this third quarter, I would appreciate that.  
19 Can you do that?

20 WITNESS HALL: I missed the very last  
21 part. The percentages?

22 CMSR. BELOW: The percentages, by load  
23 and by number of customers, of -- the percent that have  
24 migrated --

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 WITNESS HALL: Got you. Yes.

2 CMSR. BELOW: -- or the percent of load  
3 that has migrated, by month and by customer class. And, I  
4 said "in much the same manner that Unitil and Grid do". I  
5 think, if you look at those reports that are attached to  
6 the same testimony, you can see that kind of information.

7 BY CMSR. BELOW:

8 Q. It seems like -- would it be fair to say that there's  
9 two, at least two, but there's two distinct problems at  
10 issue here? One seems to be that PSNH's average  
11 embedded cost to providing electricity through its  
12 Default Service rate is above market currently. Is  
13 that a fair statement?

14 A. (Baumann) Yes.

15 Q. And, that results in some of these migration issues and  
16 cost issues. A separate issue seems to be that a  
17 concern is currently the marginal cost is below your  
18 average embedded cost, or to say the market price is  
19 lower than your average embedded cost. And, the second  
20 concern is, at some point in time, whether that's  
21 sooner or later, there could be a change in that  
22 situation. Where the market price or the marginal cost  
23 is higher than your average embedded cost, and then  
24 customers will kind of come flocking back. And, that

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 is they're both -- it sounds like both are of concern  
2 to you, but that second problem is that sort of looming  
3 as something that really provokes the "fairness"  
4 question from your point of view?

5 A. (Baumann) Well, you're right, the second issue, if they  
6 come flocking back, they're going to come flocking  
7 back, because market prices have increased over the  
8 embedded cost of our generation. So, in that  
9 short-term scenario, we are going to be looking for and  
10 making sure we have enough gen -- or, load sources to  
11 meet those requirements, in a market with rising  
12 prices. And, you know, you like to buy power in  
13 markets where the prices are going down, not going up.  
14 And, I think we talked about it a little this morning,  
15 when the other questioners asked the same issue.

16 So, yeah, it's a concern. It's a  
17 concern either way. And, I guess that's -- that's one,  
18 one benefit of a stay-out provision. Although, we  
19 think they're not necessarily that's a real good thing  
20 to do, but that is a benefit of the stay-out provision,  
21 you don't have to -- you mitigate that risk, which  
22 again we talked about earlier this morning.

23 Q. And, that's part of the concern that you were  
24 testifying to in your Exhibit 1, your original

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 testimony, at Page 5, Line 17 and 18 -- or, 18 and 19,  
2 where you refer to "customers do not [have to] pay  
3 anything for this guaranteed backup supply unless and  
4 until they return to ES service." And, then, on the  
5 next page, at Line 10, you point out that, "As a  
6 supplier of last resort, PSNH would then be required to  
7 secure supply for these returning customers during a  
8 period of rising market prices", which would create  
9 this problem of adding a marginal cost to lower average  
10 embedded costs and raising costs for all customers, the  
11 benefit being -- going particularly to the customers  
12 who have migrated back at that point in time, or  
13 relative benefit to them is attractive?

14 A. (Baumann) Certainly would be a benefit for them,  
15 because they would be migrating back to a better  
16 situation. However, if, again, if the variable costs  
17 are above the average embedded cost, then, even though  
18 that would have an increasing effect on the ES rate, if  
19 you had to cover those marginal customers at the  
20 marginal cost, the customers coming back, you'd  
21 probably still then have, on average, an ES rate that  
22 was lower than the current market. Because, if the  
23 embedded cost is higher than market, and the market now  
24 goes the other way, and customers start coming back,

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 you may be paying above -- you'd be paying the higher  
2 market prices, that will increase your average, but the  
3 customers staying, who stayed on the average embedded  
4 all the time, would, in that scenario, have pricing  
5 that was less than the marginal.

6 Q. Right. Less than the marginal, but it would still be  
7 trending up, if you were having to buy additional  
8 supply at greater than your average embedded cost or  
9 variable cost or however you're --

10 A. (Baumann) That's correct.

11 Q. Okay.

12 A. (Baumann) Somewhere along the line they'd be kind of  
13 neutral. And, you know, as the variable cost gets up,  
14 they'd be actually benefited, however, their price  
15 would be increasing, but not at the same rate as the  
16 market price.

17 Q. On Page 2 of your rebuttal testimony, at Line 11, I  
18 think you said you might substitute the word  
19 "specifically" for "solely". But, in any case, it says  
20 "due specifically or solely to migration of load by  
21 larger customers to competitive suppliers, smaller  
22 customers who remain on the ES rate are faced with  
23 higher costs." Did you do anything to, in making that  
24 statement, and part of that seems to be that there's --

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 the marginal cost is lower than the average embedded  
2 cost. So, in a dropping price market, when you have  
3 migration, you're not diluting, essentially, your high  
4 average embedded costs with lower marginal costs to  
5 bring rates down, instead you're losing those lower  
6 marginal costs, and your average cost is going up. But  
7 did you take -- so, that's one sort of underlying cause  
8 of why the migration has that impact. Did you do  
9 anything to control for load shape, i.e., as I think  
10 you just said, some of the customers get picked off  
11 with those with a better load profile. Do you know if  
12 the overall load shape of your customer base as some of  
13 the larger customers who have choice, perhaps had  
14 better load profiles, and meaning they, you know, their  
15 average cost to serve them is less than the typical  
16 load profile? Do you know -- have you looked at  
17 whether your average load profile is getting worse or  
18 better as a result of migration?

19 A. (Baumann) I am unaware that we've looked at that.

20 Q. Okay.

21 A. (Baumann) I know they look at load shapes at various  
22 times, but I haven't seen anything on PSNH's load  
23 profile.

24 Q. On Page 3 of your rebuttal testimony, at Line 15, you

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 state that "Rate stability and predictability are very  
2 important concepts for customers and ones that they  
3 value very much." Is that assertion a -- are you  
4 asserting that as fact or opinion?

5 A. (Baumann) That's kind of a factual opinion. I've met  
6 with customers in the past on occasion, large  
7 customers. And, I've been surprised when they didn't  
8 -- they weren't as concerned about -- the first thing  
9 they were concerned about was "what's the stability of  
10 my rate going to be in the future?" So, I have -- I  
11 guess there is a little practical application behind  
12 this statement, from my perspective. Not a lot, I  
13 don't meet with a lot of customers. But I have seen --  
14 I have met with a couple large customers in Connecticut  
15 that have expressed that concern.

16 Q. So, it's anecdotal based on some large customers?

17 A. (Baumann) Right. Right. I don't have any studies or  
18 questionnaires or, certainly, customers are driven by  
19 price, you know.

20 Q. Would it -- it's probably fair to say there's a  
21 continuum among customers both with the price and  
22 stability variables? I mean, a given customer might  
23 say "I'll take a fixed price that I can predict for  
24 five years." Another customer might say "I'll take a

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 lower price, but I'll take the risk of it being more  
2 volatile. But it's lower now and I'll take my  
3 chances."

4 A. (Hall) Sure.

5 Q. So, different customers may have different desires with  
6 the balance between price stability and predictability,  
7 is that fair so say?

8 A. (Baumann) Yes.

9 A. (Witness Hall nodding in the affirmative).

10 Q. Okay. I think one of your points has been that you  
11 think there's value to your customers who migrate to  
12 having your Default Service as a backup supply. Do you  
13 know of any point in time over the last nine or ten  
14 years, since we've had a restructured market in New  
15 England, that backup supply has not been available  
16 through the wholesale market through, for instance,  
17 same day real-time prices?

18 A. (Baumann) No. No, I don't.

19 Q. So, your point is not that your ownership of generation  
20 provides backup supply, but rather that there's -- it's  
21 a hedged supply, if you will, there's --

22 A. (Hall) Yes.

23 A. (Baumann) At a relatively -- at a stable price, yes.

24 Q. Yes. So, you would say that your Default Service or

{DE 10-160} [Day 1] {11-30-10}

1 Energy Service rate is sort of a hedge product, in that  
2 a bunch of it is -- does have some fixed costs that can  
3 only go up so much, or you only have partial exposure  
4 to the volatility of fuel supplies in the market,  
5 because you own hydro, for instance, or coal is less  
6 volatile than natural gas?

7 A. (Hall) Uh-huh.

8 A. (Baumann) Yes. I think that's an accurate statement.

9 Q. Okay. There's a competitive market for the value of  
10 capacity in New England, is that correct?

11 A. (Baumann) Yes. Although, just to quantify that, and  
12 I'm not an expert in this capacity area, but the  
13 capacity pricing is set through a bid process. So, I  
14 believe that it -- you say "there's a competitive  
15 market", I mean, if you have to go out and purchase  
16 capacity, a lot of those prices are set by the market  
17 pricing.

18 Q. Right. But it's a market-based price. It's not --

19 A. (Baumann) Right. Correct.

20 Q. If you turn to Exhibit 8, which was Staff Data Request  
21 001. There's a couple of tables on Page 2 of that.  
22 And, the second table says "The following summarizes by  
23 generating unit the forecasted revenues for 2011 in  
24 thousands of dollars. The energy revenues were

[WITNESS PANEL: Baumann~Hall]

1 calculated by multiplying forecasted megawatt-hour  
2 output by the forecasted market LMP." So, could you  
3 just explain a little bit about, realizing that you  
4 don't normally, that this aggregate is by unit, but you  
5 have projected revenues from projected generation,  
6 presumably that's the total generation, not just  
7 surplus generation that's not needed for Default  
8 Service load. Technically, what's the mechanism? Do  
9 you actually, in terms of deciding when you dispatch  
10 units, are you actually bidding them into the wholesale  
11 market, getting revenues from the market, and then sort  
12 of reconciling that and crediting that in the Energy  
13 Service reconciliation?

14 A. (Baumann) When you say "revenues", let me take them one  
15 at a time here. I mean, the energy revenues are again  
16 what you would receive from your units as they  
17 generated.

18 Q. So, that's revenue from the wholesale market?

19 A. (Baumann) Right.

20 Q. So, you're essentially selling the output into ISO, the  
21 ISO-New England NEPOOL market, and, essentially, the  
22 revenue requirement you need to make up in your Energy  
23 Service rate, but there's actually a transaction going  
24 on with ISO-New England?

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Right. Right. You get paid at the  
2 locational marginal price for that power.

3 Q. So, in a sense, it's a way to determine the wholesale  
4 market value of the generation from each of these  
5 units. Is that fair to say?

6 A. (Baumann) Yes. Yes, it is.

7 Q. And, is it fair to say that, projecting for 2011,  
8 setting aside, this probably doesn't include any  
9 capacity or ancillary services, maybe it does, I don't  
10 know, it's not apparent from this, these two tables,  
11 but it looks like it's probably fair to say that the  
12 market price, in terms of forecasted market LMP, for  
13 2011 for all types of generation, including your hydro,  
14 is less than the revenue requirement?

15 A. (Baumann) That's shown above?

16 Q. Yes.

17 A. (Baumann) Yes, they are less. You have to be careful.  
18 These, if you compare these two tables, Table 2 is if  
19 you just bid into the markets and receive these  
20 revenues. This presumes that there's no risk premium  
21 built into these pricing. This presumes, you know, if  
22 you were going out to do this, that you wouldn't have  
23 to build in your own profit level. Like, if someone  
24 had said "well, I can go out and do this for much

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 cheaper than your revenue requirements", they're going  
2 to want a return for this. There's no return built in  
3 to the lower numbers. So, to compare the two, you have  
4 to just kind of walk on careful ground.

5 But, generally speaking, because of the  
6 spread now between the market and PSNH's average  
7 embedded cost, the Table 2 is less expensive than  
8 Table 1.

9 Q. Or less revenue than the forecasted cost?

10 A. (Baumann) Right.

11 Q. Back to Commissioner Ignatius's question that she had,  
12 I want to follow up on that. Obviously, if you were  
13 competitive, if you're a merchant generator, and you  
14 had these kinds of cost structure, and you were selling  
15 into this kind of market, you couldn't probably do that  
16 forever. You could only, you know, sustain something  
17 like this for a period of time, where your revenues  
18 were less than your revenue requirements, so maybe you  
19 could forgo some return on equity, depreciation is not  
20 actually cash outlay. But, over time, don't generators  
21 need to make positive cash flow or at least break even  
22 over time to stay in business?

23 A. (Baumann) Your cash flow is probably king, number one.  
24 And, because you could have loss, paper loses, and that

{DE 10-160} [Day 1] {11-30-10}

1 goes to depreciation. But, yes, cash flow is  
2 important. And, I'm just speculating here, but this is  
3 a tough time for generation. And, we've seen some  
4 actually go bankrupt.

5 Q. Right. And, Commissioner Ignatius was asking this  
6 question in terms of the concept of "fairness". If a  
7 customer exercised choice, and maybe they exercised it  
8 five years ago and they have been with a competitive  
9 supplier for five years, if they did that, over time,  
10 aren't they going to pay that competitive supplier  
11 enough revenue to cover property taxes, interest on  
12 debt, as well as variable cost for the generation that  
13 they're supplied with, maybe not in a given year, but  
14 over time, seems like they're going to be paying for  
15 that as part of their competitive energy supply price.  
16 Is that fair to say?

17 A. (Baumann) Yes. You'd have to have that embedded in  
18 your price or you wouldn't make any money.

19 Q. And, would it -- how would it be fair for them to pay  
20 for that, those costs through their competitive supply,  
21 as well as through a non-bypassable charge for a supply  
22 they're not taking? And, I guess I've heard your  
23 argument that "well, there's a backup value to it.  
24 There's a hedge value. They can always come back to

1           it."

2   A.    (Baumann) Uh-huh.

3   Q.    But, setting that aside, do you see a potential  
4           fairness problem, in terms of people paying for energy  
5           supply in two different rates?

6   A.    (Baumann) Do I have to make up another argument, is  
7           that what you're telling me? I understand your logic,  
8           but I -- it's really for -- it's really not property  
9           taxes, *per se*. It's a tangible benefit. The backup  
10          supply is a tangible benefit. It's just a matter of  
11          how you -- how you price that out. We believe that  
12          it's worth more than zero; and they're paying zero  
13          right now. And, if you believe that it is a benefit,  
14          the real crux of the situation is "how do you price it  
15          out?" We just chose those dollars, because it was the  
16          logical what I'll call the "fixed backbone" of the  
17          generation cost, used as a proxy for that value, what  
18          it's costing "the system" to maintain them that backup  
19          generation, that backup supply.

20   Q.    Okay. In the prefiled testimony of Michael Hachey for  
21          TransCanada Power Marketing, there's a copy of Data  
22          Request Staff 01, Staff 002. It's the last page to  
23          that attachment. Let me know when you find that.

24   A.    (Baumann) Yes, we have it.

[WITNESS PANEL: Baumann~Hall]

1 Q. Okay. I realize neither of you prepared this data  
2 response. But it sort of -- it looks like it was sort  
3 of an exercise, after-the-fact, in which you compared  
4 the purchase cost for supplemental power purchases.  
5 And, one of the sentences, it's "The above market  
6 costs", right above the table, "were calculated as the  
7 difference between the firm bilateral energy purchase  
8 price and the day-ahead energy market clearing price at  
9 the contract delivery point times the contract  
10 quantity." So, there's sort of a caveat there. It's  
11 comparing it to the actual wholesale market price, but  
12 it's at a snapshot in time. And, of course, what we  
13 know is those day-ahead prices change every day. But,  
14 if you just assume that over the period of many, many  
15 months and five different years, those average  
16 snapshots happen to represent the average value over  
17 those times. It appears as though it would be safe to  
18 say that, for five -- four of the five years, those  
19 bilateral contracts, which include some hedging risk  
20 premium in them, were above the wholesale price, if you  
21 had bought them simply in the day-ahead market,  
22 assuming that that day-ahead market price was exemplary  
23 of the average price over the period of those  
24 contracts, which is a big "if", but is that fair to

{DE 10-160} [Day 1] {11-30-10}

1 say?

2 A. (Baumann) Yes.

3 A. (Hall) Yes.

4 Q. Okay. And, I think that's the number that adds up to  
5 \$233 million over five years in above market costs.  
6 Which, divided by five, is more than the \$40 million a  
7 year in fixed costs. So, I mean, is it fair to say  
8 that, in retrospect, I mean, in retrospect, you know,  
9 hindsight's everything, you might have been better off  
10 just buying all your supplemental power on the  
11 day-ahead market, and you might have saved customers  
12 100 or \$200 million. Is that a conclusion one might  
13 draw in hindsight?

14 A. (Baumann) Yes, I think that's accurate.

15 A. (Hall) Yes.

16 A. (Baumann) If you were willing to take the market risk  
17 back in 2005, and say "let's just run with the market",  
18 --

19 Q. Okay.

20 A. (Baumann) -- I think that's accurate.

21 Q. Are you aware of any changes in the fundamentals of the  
22 gas market over the past few years?

23 A. (Baumann) Fundamentals, in terms of --

24 Q. Fundamental dynamics of supply and demand.

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Well, certainly, the shale gas has had a  
2 fundamental change in the gas markets.

3 Q. Okay.

4 A. (Baumann) You know, in New York, Pennsylvania, and all  
5 the deposits. I've been reading articles every day  
6 about that, in terms of the good parts and the bad  
7 parts. I actually had an article here before on  
8 "Pennsylvania Shale Boom: Drilling for Trouble."  
9 Depends on who's writing it. But there's certainly a  
10 lot of environmental questions and economic questions  
11 about that. But that has had a distinct impact on  
12 that, as well as the economy.

13 Q. Right. And, certainly, the -- actually, well, it  
14 doesn't matter. I had a little question that I skipped  
15 over. Migration, it's not just migration, there's been  
16 a general economic downturn that has lowered sales as  
17 well?

18 A. (Baumann) Oh, sure.

19 Q. Which has also probably impacted the wholesale market  
20 price, because there's less demand?

21 A. (Baumann) Uh-huh. Exactly.

22 Q. Would you say there's some price elasticity in the  
23 supply and demand of electricity?

24 A. (Hall) Uh-huh.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Baumann) Yes.

2 Q. Okay.

3 A. (Baumann) I know there is in my household,  
4 unfortunately.

5 Q. Okay. I just have a few more questions here. Going  
6 back to, sorry to jump around, Exhibit 8, which was the  
7 two tables comparing forecasted revenue requirement and  
8 forecasted revenues, I want to make another data  
9 request. And, this -- it may be something you want to  
10 provide confidentially. But what I'm wondering is if  
11 you could provide the data behind Footnote (6), the  
12 "forecasted megawatt-hour output times the forecasted  
13 market LMP" for use.

14 CHAIRMAN GETZ: We will reserve Exhibit  
15 11 for that response.

16 **(Exhibit 11 reserved)**

17 CMSR. BELOW: I presume that would  
18 probably be one or a series of forecasted market LMPs, but  
19 different forecasted outputs for the different units or  
20 types of units?

21 WITNESS BAUMANN: Yes. And, I don't --  
22 first of all, the LMP is a published data point. So, I  
23 don't think there's any propriety there.

24 CMSR. BELOW: Okay. It's forecasted

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1        though.

2                    WITNESS BAUMANN: Right. If this is  
3 hourly, you're going to have a lot of data points, but --

4                    CMSR. BELOW: Well, you could aggregate  
5 the forecasted output by month or --

6                    WITNESS BAUMANN: Summarize it somehow.

7                    CMSR. BELOW: Right.

8                    WITNESS BAUMANN: If it's hourly, it's  
9 going to be thousands of lines of data that you're not  
10 going to be interested in.

11                   CMSR. BELOW: Okay.

12                   WITNESS BAUMANN: Okay. So, summarize  
13 it to make it a meaningful --

14                   CMSR. BELOW: Right. And, you can back  
15 into those numbers. I mean, if you actually did the  
16 forecast based on an hourly forecasted LMP and --

17                   WITNESS BAUMANN: Yes.

18                   CMSR. BELOW: -- output, you could back  
19 into it by -- if you do an aggregated number.

20                   WITNESS BAUMANN: Sure. Sure.

21                   CMSR. BELOW: Thank you. One question I  
22 have refers to a document that was filed in another  
23 docket. Maybe, Mr. Eaton, you could pick up some copies  
24 from me and provide them to your witnesses and the Clerk.

{DE 10-160} [Day 1] {11-30-10}

1 (Atty. Eaton distributing documents.)

2 BY CMSR. BELOW:

3 Q. This is - what this is is a report in Docket Number DE  
4 08-103, filed on October 15th, 2010, by Mr. Bersak of  
5 PSNH. And, it was a report in a response to a request  
6 for information on the Merrimack Station Scrubber  
7 Project. And, there's just -- I've only provided a few  
8 of the pages from that report, because I just want to  
9 refer you to a couple of the data points in here. On  
10 Page 7 of that report, there was an estimate of the  
11 cost, the overall average impact on Energy Service  
12 rates from the project for the first full 12 months of  
13 service is estimated to be essentially 1.1 cents a  
14 kilowatt-hour. Does that sound accurate to you?

15 A. (Hall) Yes.

16 Q. Okay. And, then it starts declining after the first  
17 year due to depreciation, correct?

18 A. (Baumann) Correct.

19 Q. And, on the next -- or, on Page 9, there is a  
20 "Forecasted Energy Service Rate" at the bottom of the  
21 table on that page. And, I just wanted to compare that  
22 with Exhibit 9, because Exhibit 9 was CLF First Request  
23 Series, CLF-003. And, it had a projection of Energy  
24 Service rates from 2011 through 2015, which is the same

[WITNESS PANEL: Baumann~Hall]

1 time period that you provided in the October 15th  
2 report. And, in Exhibit 9, they go from 9.1 cents next  
3 year to 10. -- 10 cents for 2012, and goes up to 11.8  
4 in 2015. In the October 15th report, it's "8.68" for  
5 2011, "9.27 cents" in 2012, and goes out to "10.12  
6 cents" in 2015, which is about a whole penny less in  
7 the updated response. Are these sort of, to the best  
8 of your knowledge, or maybe you don't know, are these  
9 sort of apples-to-apples or is the October 15th just an  
10 updated estimate based on more recent wholesale market  
11 prices? Or, if you don't know, maybe that would be  
12 another data request to provide some reconciliation  
13 between these two estimates.

14 A. (Baumann) I had something to do with putting Mr.  
15 Bersak's report together from a summary position. I  
16 would say, because I'm looking at 2011 and '12, they're  
17 different dollars for the Energy Service rate. The  
18 scrubber's impact is not in there at that point, so  
19 they have to be different decks, different forecast  
20 decks, different point in time.

21 Q. Right.

22 A. (Baumann) So, I'm assuming all five years are  
23 different. So, there's a -- it looks like the --  
24 Bersak's report is less than the data request. So, I

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 think you have that inherently throughout the report.  
2 As far as the scrubber impacts, let's see, we put --  
3 yes, we put the CLF response together back in August,  
4 and I know Mr. Bersak's was later than that, because I  
5 remember the pain, it wasn't that long ago,  
6 October 15th. So, they come from different decks, from  
7 an energy perspective, they will be a little different.  
8 And, probably -- I know we really, really scrubbed, not  
9 to use the term "scrub", I didn't do that on purpose,  
10 in the Bersak report.

11 Q. So, at this point, would you say the October 15th  
12 numbers are more up-to-date, more -- something more to  
13 be relied upon as the current forecast than the  
14 August 13th data response?

15 A. (Baumann) Yes.

16 Q. Okay.

17 A. (Baumann) Definitely.

18 Q. I had some questions on Exhibit 6. That was OCA-006.  
19 And, I was wondering if you could tell me anything more  
20 about what you know about the Purchase of Receivables  
21 Program in Connecticut and how that works?

22 A. (Baumann) Sorry, Commissioner, I don't, I don't have a  
23 lot of knowledge in that area.

24 Q. Okay. On the second page, it says -- the last sentence

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 says "The POR pays the supplier based on what the  
2 customer is billed and not what the customer pays. A  
3 discount of 0.92 percent is applied for CL&P." So, I  
4 take it that means that the discount, CL&P pays less  
5 than -- pays 99.08 cents on the dollar, and the  
6 difference is presumably for the cost of administration  
7 or maybe some bad debt, but you don't know exactly?

8 A. (Baumann) I don't know exactly, but that is what  
9 happens. We do not pay them dollar-for-dollar, because  
10 then we would be taking on the entire -- the entire  
11 debt. I would say it's probably administration and bad  
12 debt expense.

13 Q. And, right now, if a customer is on competitive supply  
14 at PSNH, doesn't pay their bill or only pays part of  
15 the bill, how do you apply that partial payment, in  
16 terms of you've got, assuming you're billing for the  
17 energy supplier, the competitive energy supplier, but  
18 you've got your own distribution rate, transaction  
19 rates, Stranded Cost Charge, *etcetera*?

20 A. (Hall) It's in accordance with Commission rules, but I  
21 don't offhand recall what those rules say.

22 Q. Okay. In your testimony, you expressed a lot of  
23 concern about this POR program. Was that concern, in  
24 part, that bad debt might be recovered, you know, there

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 might be an unfair cost-shifting of the bad debt, from  
2 competitive customers over to Default Service customers  
3 or that kind of concern?

4 A. (Hall) Yes, or to all customers.

5 Q. Or to all customers. I mean, right now, if you have  
6 all the -- if customers weren't migrating, you'd be  
7 exposed to all of that bad debt risk?

8 A. (Hall) Yes.

9 Q. Yes?

10 A. (Witness Hall nodding in the affirmative).

11 Q. So, I guess I want to understand your basis for your  
12 assertion that you don't think that this is a good idea  
13 for New Hampshire, but it seems to be an acceptable  
14 idea in Connecticut and Massachusetts?

15 A. (Hall) I don't know why it was implemented in  
16 Connecticut and Massachusetts, first of all. I don't  
17 know what the underlying rationale was. With regard to  
18 New Hampshire, this would expose PSNH, and ultimately  
19 its customers, to a new risk. And, I just found it  
20 somewhat ironic that, in some of the suppliers'  
21 testimony, they talked about how adept they were at  
22 managing risk, yet this isn't a risk that they want to  
23 manage. They want to put this risk onto the utility  
24 and its customers.

{DE 10-160} [Day 1] {11-30-10}

1 Q. Did you get a chance to review the NorthBridge report  
2 in Mr. Allegretti's -- that was attached to Mr.  
3 Allegretti's testimony?

4 A. (Hall) I did. It was a while ago.

5 Q. Do you recall that they compared three different  
6 approaches to procuring Standard Offer Service?

7 A. (Hall) Yes. I think it was an RFP approach, a managed  
8 portfolio approach, and spot purchases, perhaps.

9 Q. Yes, spot purchases. And, I think what they noted, if  
10 you look on Page 6, I don't know if you have that  
11 handy, and they describe the "Spot Market Procurement  
12 Approach that has become more prevalent for large C&I  
13 customers based on customer-specific hourly usage."  
14 And, it notes that the key features are "real-time or  
15 day-ahead energy spot prices; promotes efficient  
16 customer consumption decisions (for example, EE and  
17 DR)", meaning "demand response" and "energy  
18 efficiency"; "supports retail market development;  
19 usually no significant cost deferrals; generally not  
20 considered "acceptable" for small customers due to rate  
21 volatility concerns; [and] not feasible absent  
22 metering/communications/data management." Then, it  
23 shows across five different states in the Northeast and  
24 Illinois, and 19 different utilities, the threshold, in

1 terms of kilowatts of demand, typically at least 500  
2 kilowatts of demand for large C&I customers who were  
3 put on spot market -- spot procurement for Standard  
4 Offer Service. And, then, on Page 11, it shows that,  
5 under their Monte Carlo forecasting of I think about  
6 2,000 different scenarios, if you will, that over that  
7 range of possible probabilities, the spot market was  
8 the lowest cost approach, although it did have higher  
9 risk, if you will, volatility, a part of the scenarios,  
10 if you will, resulted in much higher costs, whereas  
11 parts of the scenarios resulted in much lower costs.  
12 But, on average, it was the lowest cost form of  
13 procurement.

14 What I'm wondering about, in looking at  
15 your rebuttal testimony to Mr. Traum's testimony, and  
16 the idea of a stay-out or you expressed some interest  
17 in the idea of perhaps something that was based on  
18 marginal cost, plus a mark-up, I'm not finding it right  
19 now, but I believe you talked about that --

20 A. (Hall) Yes.

21 Q. -- in your rebuttal testimony. What I was wondering  
22 about is, if you've considered or might be interested  
23 in considering exploring, for your largest customers  
24 who have interval metering, perhaps some way of

[WITNESS PANEL: Baumann~Hall]

1 addressing at least part of the problem, which is what  
2 happens if they try to return to Default Service in a  
3 rising market cost regime, maybe, instead of just a  
4 total stay-out, they would have a different Default  
5 Service, which was just based on that marginal cost, or  
6 maybe marginal cost, plus a mark-up, that might be the  
7 hourly real-time price. If you had interval metering,  
8 you could just then actually bill them what it actually  
9 cost. And, if you use that in a situation where that  
10 didn't raise -- you know, you might help avoid raising  
11 costs for other Default Service customers. You might  
12 elect not to do that, if it would actually help lower  
13 costs for other Default Service customers. Or, you  
14 might do something where you said "if you've been out  
15 for a year on a competitive supplier, you've got to  
16 stay on this special marginal cost rate for a year  
17 before you can get back into regular Default Service",  
18 match it to the amount of time they have been away.

19 Does there seem like there might be a  
20 possibility that addresses at least part of the  
21 problem, do something like that?

22 A. (Hall) Yes. And, that was the whole point of the  
23 testimony. We didn't -- we didn't say specifically for  
24 customers who returned or as part of a stay-out

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 provision, rather, in the testimony, we were suggesting  
2 generically the largest customer class perhaps should  
3 be billed under this type of approach. That approach  
4 might work and might address the problem. And, the  
5 beauty of that approach is it works regardless of  
6 whether the market is going up or down.

7 Q. Could it -- are you familiar with the concept of a  
8 "block-and-swing rate"?

9 A. (Hall) I'm not familiar with that term.

10 Q. Well, it strikes me that part of your portfolio for  
11 serving Default Service customers is your existing  
12 generation fleet, which has sort of an average cost, --

13 A. (Hall) Yes.

14 Q. -- embedded cost. And, a swing -- a block-and-swing  
15 rate is where part of the rate is fixed and then part  
16 of it swings or varies with the marginal cost.

17 A. (Hall) Yes. Okay.

18 Q. And, from what I understand, it's used both in -- it's  
19 a competitive product that's offered, some ski areas in  
20 New Hampshire by it on the competitive market. And, in  
21 some vertically integrated utilities, like the Southern  
22 Companies, they mandatorily put large customers on  
23 that, so that their sort of fixed amount of their load  
24 is at a stable, secure price, part of the load that

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 they can control maybe engage in demand response, they  
2 put on a variable price that's directly tied to  
3 marginal cost.

4 A. (Hall) Yes.

5 Q. And, in your case, you have kind of got both components  
6 in your supply. You've got some stabilized hedge,  
7 because it's backed up by physical assets, and then  
8 you've got a part that's variable, because you have to  
9 go to the market and get it. And, so, is that  
10 something to possibly consider for your largest  
11 industrial sized customers?

12 A. (Hall) Yes. I don't fully understand the concept, but,  
13 generally, based on your description, I understand it.  
14 And, it's definitely something to think about. With  
15 regard to the largest class, what we said in testimony  
16 was "marginal cost, plus an adder." The idea behind  
17 that is, if one assumes that 100 percent of the largest  
18 class has migrated, and it's close to that, it's not  
19 exactly 100 percent, it's slightly less. But, if you  
20 operate under the assumption that 100 percent of the  
21 class either has migrated or will migrate, then any  
22 contribution you get above marginal cost, to the extent  
23 that they return, benefits all other customers. If you  
24 have that type of approach in place, then, even if they

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 return and costs go up, they're still charged that  
2 marginal cost, and, therefore, it doesn't harm other  
3 customers as a result of them returning.

4 CMSR. BELOW: Okay. Thank you. That's  
5 all.

6 CHAIRMAN GETZ: Okay. Thank you.

7 BY CHAIRMAN GETZ:

8 Q. Mr. Hall, I think this is for you primarily. I'm going  
9 to follow up somewhat on the context of PSNH owning the  
10 generation and hydro assets.

11 A. (Hall) Okay.

12 Q. And, it's fair to say that, pursuant to the  
13 restructuring statutes and the restructuring proceeding  
14 initially for PSNH, that, originally, the plan was that  
15 PSNH would divest itself of those hydro and fossil  
16 assets?

17 A. (Hall) Yes. When the Restructuring Settlement  
18 Agreement was originally signed, that's the case.  
19 That's true.

20 Q. Then, the Legislature, and I'm not going to ask for a  
21 legal opinion, but 369-B:3-a was enacted in 2003 that  
22 said "The sale of PSNH fossil and hydro generation  
23 assets shall not take place before April 30, 2006."  
24 So, essentially told PSNH you had to hold onto it for

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 at least another three years? That's your  
2 recollection?

3 A. (Hall) Yes.

4 Q. And, then, it says "Notwithstanding RSA 374:30,  
5 subsequent to April 30, 2006, PSNH may divest its  
6 generation assets if the Commission finds that it is in  
7 the economic interest of retail customers of PSNH to do  
8 so, and provides for the cost recovery of such  
9 divestiture." So, what I'm trying to understand is  
10 your position here and the rebuttal testimony with  
11 respect to the OCA posing divestiture as one approach  
12 that can be taken. In responding to questions from  
13 Commissioner Ignatius, I think you pointed out the  
14 benefit of owning these assets, provides a hedge and  
15 provides for stability. But, historically, there's  
16 been another benefit, correct? That the cost of  
17 Default Service, and now Energy Service, has been --  
18 has been lower than an alternative market price,  
19 correct?

20 A. (Hall) Yes.

21 Q. So, I mean, isn't the -- and that the symptom that  
22 you're talking about here the fact that, as more  
23 customers go off of Energy Service, there are these  
24 fixed costs that need to be collected over a smaller

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 base. I mean, isn't that -- the only way that that  
2 would not happen is if, basically, the market price  
3 stayed above the Energy Service rate or the Energy  
4 Service rate stayed below the market price. Isn't it  
5 inevitable that this effect occurs, if customers  
6 actually go to another alternative?

7 A. (Hall) Yes, if you assume that the market price is  
8 always going to be low. But, you're right, --

9 Q. Well, so, I guess that's where I'm trying to  
10 understand, if you're looking at this as a short-term  
11 effect, and this is just a symptom that needs to be  
12 dealt with in the short-term, --

13 A. (Hall) Uh-huh.

14 Q. -- and the benefit -- the hedging benefit is so great  
15 that we should stay with this particular issue of just  
16 dealing with the symptom. The other question I have in  
17 mind is, is there a time when you're concerned that the  
18 Energy Service rate is going to be persistently below  
19 the market rate, and you should start looking at  
20 divestiture as an option? How does that play out?

21 A. (Hall) I don't know how to give you an answer to that  
22 question, because it really depends on one's  
23 perspective. Some people might think "two or three  
24 years, gee, that's about the right time." Other people

{DE 10-160} [Day 1] {11-30-10}

1 might think --

2 Q. Two or three years what? Two or three years'  
3 experience of that --

4 A. (Hall) Yes.

5 Q. -- of that delta?

6 A. (Hall) Right. Other people might think that, in view  
7 of the hedge benefit that generation provides, that it  
8 might be a longer time frame. It really depends on  
9 one's perspective. My belief is that, over the long  
10 term, generation will continue to provide benefits, but  
11 I don't have any hard data or analysis to demonstrate  
12 that. I'm basing it on history, since 2001. I'm  
13 basing it on relatively recent economic events, the  
14 economic downturn, the downturn, the drop in gas  
15 prices, and the corresponding decrease in market  
16 prices. The question that one has to ask is, "is the  
17 situation we've seen in the last year or two a  
18 long-term phenomenon or not?" I can't answer that. I  
19 don't know.

20 Q. But you don't disagree with Mr. Traum that divestiture  
21 eliminates this symptom?

22 A. (Hall) It does. The thing to remember is, once you  
23 divest, there's no going back. Once plants are sold,  
24 they are gone forever. And, to the extent that the

[WITNESS PANEL: Baumann~Hall]

1 situation changes, there now is no longer the hedge  
2 benefit, because the assets are gone.

3 Q. So, your position is that the situation is not so grave  
4 or you don't know if it's grave enough to pursue  
5 divestiture?

6 A. (Hall) Correct. Correct.

7 CMSR. IGNATIUS: I'm not sure we ever  
8 quite got to a meeting of the minds on the question and  
9 answer there. If I could just ask one more way at it?

10 BY CMSR. IGNATIUS:

11 Q. I thought Chairman Getz was asking "is there a point at  
12 which the hedge benefit of your own generation may flip  
13 and become a liability, and is no longer a benefit to  
14 have your own generation, but becomes a greater  
15 pressure on rates than just working with the market?"  
16 Is that -- and, "how do you assess when that point  
17 might come?" Is that the question you were getting at?  
18 If not, is it a question that I guess I'd be interested  
19 in hearing an answer to, even if it wasn't your  
20 question.

21 A. (Hall) Could I object? No, I'm just kidding. I think  
22 there's always going to be a hedge benefit to  
23 generation. I think the issue becomes whether one  
24 believes the hedge benefit isn't sufficient to warrant

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 continued ownership and operation of generation,  
2 because one believes that the market has fundamentally  
3 changed. If you believe that, then, yes, I think you  
4 proceed down the path of saying "All right, let's  
5 explore divestiture." The admonition I would give is  
6 "it's a one-way street."

7 And, ultimately, if you believe that  
8 other generation is going to retire, and no one is  
9 going to build new generation long term, the generators  
10 will go out of business because they can't make ends  
11 meet in the market as it exists today. Ultimately,  
12 market prices will have to rise. And, ownership of  
13 generation during that time will be very beneficial, as  
14 it was in the early 2000's.

15 The question that I can't answer, and  
16 I'm not sure anyone can, is "when have we reached that  
17 point?" Because no one knows what's going to happen in  
18 the future.

19 Q. But you're assessing both changes to the market and  
20 changes to the generating assets themselves, neither of  
21 those are fixed.

22 A. (Hall) True.

23 Q. Fully depreciated plants that need significant work to  
24 go forward --

{DE 10-160} [Day 1] {11-30-10}

[WITNESS PANEL: Baumann~Hall]

1 A. (Hall) True.

2 Q. -- are no longer, you know, they don't present quite  
3 the same economic picture they might have?

4 A. (Hall) I agree.

5 CMSR. IGNATIUS: Thank you.

6 CHAIRMAN GETZ: Redirect, Mr. Eaton?

7 MR. EATON: No thank you.

8 CHAIRMAN GETZ: Then, the witnesses are  
9 excused.

10 WITNESS HALL: Thank you.

11 CHAIRMAN GETZ: Thank you, gentlemen.

12 Let me just note, as an administrative matter, we will  
13 take official notice of the documents referred to by  
14 Commissioner Below, that being the October 15, 2010 PSNH  
15 report in docket DE 08-103, the Merrimack Station Scrubber  
16 docket.

17 (Official notice taken.)

18 CHAIRMAN GETZ: And, I think next for  
19 direct is Ms. Hennequin.

20 (Whereupon *Sandi M. Hennequin* was duly  
21 sworn and cautioned by the Court  
22 Reporter.)

23 **SANDI M. HENNEQUIN, SWORN**

24 **DIRECT EXAMINATION**

{DE 10-160} [Day 1] {11-30-10}

[WITNESS: Hennequin]

1 BY MS. SMITH:

2 Q. Please state your name for the record.

3 A. My name is Sandi Hennequin.

4 Q. And, your position, where you are employed?

5 A. I work for the New England Power Generators  
6 Association, NEPGA, in the position of Vice President.

7 Q. Are you the same Sandi Hennequin that prepared prefiled  
8 testimony in this docket dated September 15, 2010?

9 A. Yes, I am.

10 Q. And, is this the prefiled testimony that you submitted?

11 A. Yes, it is.

12 MS. SMITH: I'd like to have this marked  
13 for identification.

14 CHAIRMAN GETZ: Be marked as "Exhibit  
15 12".

16 (The document, as described, was  
17 herewith marked as **Exhibit 12** for  
18 identification.)

19 MS. SMITH: Thank you.

20 BY MS. SMITH:

21 Q. Could you briefly identify the major issues that you  
22 touched upon in your testimony.

23 A. Sure. Basically, we made four main recommendations.

24 And, I'll just quickly tick through those. First, we

[WITNESS: Hennequin]

1 recommended that the PUC should not create a  
2 non-bypassable mechanism for the recovery of any of the  
3 excess energy service cost for PSNH.

4 Second, we also made the recommendation  
5 that we didn't think that the PUC should reach a  
6 conclusion in some of the other dockets that address  
7 procurement issues, and specifically we were referring  
8 to Docket 09-067, the Clean Power, we were also  
9 referring to 10-195, the Laidlaw PPA, and we were  
10 referring to the Least Cost IRP that we knew was coming  
11 down, though, I think that that procedurally probably  
12 won't be an issue. But our recommendation was that a  
13 lot of the procurement issues that are being decided in  
14 160 are really larger policy issues. And, if decisions  
15 were made in these other dockets that are more specific  
16 applications of that policy, that that probably  
17 wouldn't be the correct order.

18 Our third recommendation was that the  
19 process by which PSNH would procure their additional  
20 supply should be through a competitive RFP process,  
21 that's a competitive, transparent, open process. This  
22 is counter to the position that we heard earlier, that  
23 sole sourcing would be better for customers, and that  
24 an RFP process would actually lead to higher costs.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS: Hennequin]

1                   And, our fourth recommendation was that  
2                   New Hampshire policymakers should really evaluate the  
3                   hybrid model that we have here in New Hampshire, and  
4                   its long-term feasibility, and really evaluate if it is  
5                   still feasible, if changes need to be made, and whether  
6                   New Hampshire should really move forward with a more  
7                   fully restructured model.

8                   Those were our main recommendations and  
9                   the main points of our testimony.

10          Q.     And, do you have any corrections or updates to that  
11                 testimony?

12          A.     Yes, I do. I have, mainly, I have three clarifications  
13                 or very quick updates to our testimony. And, I'll just  
14                 refer to the pages. The first is Page 8, Line 17.  
15                 And, this refers to the "lowest costs to ratepayers".  
16                 And, this is a really important, really essential point  
17                 of our testimony. And, what we're trying to say is  
18                 that the use of a competitive, open, and transparent  
19                 process for procuring power will not lead necessarily  
20                 or promise lower costs, but it will deliver the lowest  
21                 cost option.

22                   And, when I was thinking about an easy  
23                   way for myself to really conceptualize this, I thought  
24                   of an analogy. In my household, I'm the person that

[WITNESS: Hennequin]

1 goes to the grocery store and does the shopping. So,  
2 on Saturday mornings, I make my list and I go. And, we  
3 usually like to buy a lot of chicken soup. And, so, I  
4 go and I look at four or five different types of  
5 chicken soups. And, I look at the different brands.  
6 And, there's no guarantee that what I buy will be lower  
7 cost than what I bought the week before. You don't  
8 know what sales there are, you don't know if, I don't  
9 know, the cost of noodles or chicken went up that week  
10 or the cost of gas to deliver it. So, I can't  
11 guarantee it's going to be lower, but I can guarantee  
12 I'm going to get the lowest cost, because it's all  
13 there. It's transparent, it's open, I can look at the  
14 prices and I can compare. So, I know I'll get the  
15 lowest cost. It may not be lower than what I got the  
16 week before.

17 And, if I put that back in the context  
18 of what we were talking about in our testimony, there's  
19 two different areas. If you look at the delta between  
20 the generation resources that PSNH owns and their  
21 demand, or you look at their decision to seek a  
22 long-term contract, it's the same principle. There's a  
23 lot of different options out there. And, what we're  
24 saying is that you need to look through a competitive

{DE 10-160} [Day 1] {11-30-10}

[WITNESS: Hennequin]

1 process at those different options, because at least at  
2 that point in time you know you'll get the lowest cost  
3 that's available.

4 The second clarification that I wanted  
5 to make was on Page 7, Line 21 through 22. And, in  
6 that, we state "NEPGA strongly recommends that the  
7 Commission cannot allow the other dockets to continue  
8 and reach a conclusion that is contrary to the outcome  
9 of Docket 10-160." And, the clarification that I  
10 wanted to make is that we're not trying to delay any  
11 proceeding. We're not trying to stop any proceeding or  
12 delay any proceeding. All we're saying is, Docket 160  
13 is really the generic policy issue. So, you really  
14 need to decide this and let this decision really  
15 provide the guidance on how to proceed with some of  
16 these more specific dockets.

17 And, then, finally, I wanted to go to  
18 Page 9, Line 16 through 17, and actually had an example  
19 that I wanted to talk about. In this, we state "This  
20 proposal", and that was referring to PSNH's  
21 non-bypassable proposal, "would serve as a disincentive  
22 for competitor migration." And, I think this has come  
23 up a couple of times, and we wanted to just offer an  
24 example.

{DE 10-160} [Day 1] {11-30-10}

[WITNESS: Hennequin]

1                   So, if you think about energy rates,  
2                   there's really two main components. There's,  
3                   obviously, the wires charge or the non-bypassable,  
4                   which right now is transmission, distribution, electric  
5                   consumption tax, stranded cost recovery. So, let's use  
6                   an example that this is set at 8 cents right now, these  
7                   are just hypothetical numbers. So, PSNH, whether you  
8                   get your power from PSNH or a competitive supplier,  
9                   that's 8 cents. So, let's look at the second  
10                  component, energy. And, just for hypothetical  
11                  purposes, say that it costs 10 cents for PSNH's power  
12                  and it costs 8 cents to go to a competitor. So, your  
13                  all-in cost for PSNH would be 18 cents, your all-in for  
14                  a competitor would be 16 cents. So, your incentive to  
15                  switch would be about 11 percent. So, that's a real  
16                  incentive. But, if we look at what PSNH is proposing,  
17                  and we adopt that, and we basically take their energy  
18                  cost of 10 cents, take a penny away in this example and  
19                  put it on the non-bypassable, all of a sudden you get  
20                  PSNH's power is still 18 cents, they have just shifted  
21                  the costs, but now it's 17 cents. It's a cent more to  
22                  get it from a competitor. So, now, that 11 percent  
23                  savings is cut in half, so that it clearly creates a  
24                  disincentive to switch, because you're going to realize

{DE 10-160} [Day 1] {11-30-10}

[WITNESS: Hennequin]

1 less overall savings.

2 So, I wanted to provide that example as  
3 well. And, those were the three clarifications that we  
4 had.

5 Q. Do you adopt today under oath your prefiled testimony  
6 as you have just clarified?

7 A. Yes, we do.

8 MS. SMITH: The witness is available for  
9 cross-examination.

10 CHAIRMAN GETZ: Okay. Thank you.

11 Mr. Patch?

12 MR. PATCH: No questions. Thank you.

13 CHAIRMAN GETZ: Mr. Donovan?

14 MR. DONOVAN: I have no questions, Mr.  
15 Chairman.

16 CHAIRMAN GETZ: Mr. Munnelly?

17 MR. MUNNELLY: No questions.

18 CHAIRMAN GETZ: Ms. Hatfield?

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

20 Good afternoon, Ms. Hennequin.

21 WITNESS HENNEQUIN: Hi.

22 **CROSS-EXAMINATION**

23 BY MS. HATFIELD:

24 Q. Have you had a chance to review Mr. Traum's testimony?

[WITNESS: Hennequin]

1 A. I have.

2 Q. And, do you recall that, of the four ideas that he  
3 discussed, the fourth one included the idea of a  
4 stay-out provision, combined with possibly a different  
5 Default Energy Service rate for customers who return  
6 from a competitive supplier?

7 A. I do recall that.

8 Q. And, does your association have a position or any  
9 thoughts on whether the Commission should consider  
10 implementing that as maybe a short-term solution?

11 A. We don't have a position on that. That's really  
12 probably more of a retail supplier issue, rather than a  
13 merchant generation issue. So, we don't have a  
14 position on that.

15 MS. HATFIELD: Thank you. I have  
16 nothing further.

17 CHAIRMAN GETZ: Thank you. Ms. Amidon?

18 MS. AMIDON: Staff has no questions.

19 CHAIRMAN GETZ: Mr. Eaton?

20 BY MR. EATON:

21 Q. Ms. Hennequin, I do the shopping for our family, too.  
22 And, there isn't much choice in the market. There's  
23 Progresso and Campbell's and the store brand where I  
24 go. Is it worth it to you that the store has these

[WITNESS: Hennequin]

1 products available, including the store brand?

2 A. Actually, in my store, we often have Healthy Choice,  
3 too. And, it is, I find it -- I find it good to have  
4 the choices. I always find it helpful.

5 Q. But you would -- you would eliminate the store brand?

6 A. No. Often, the store brand is what I buy. I look at  
7 all four options. I look at what's the cheapest,  
8 what's on sale, and that's what I go with.

9 Q. And, the store, obviously, adds costs to each of these  
10 products to cover their cost of electricity and labor  
11 and property taxes and depreciation and those type of  
12 fixed costs, they're added to every product, wouldn't  
13 you think?

14 A. I would assume. I don't know the -- I don't know the  
15 details.

16 MR. EATON: Thank you. That's all I  
17 have.

18 CHAIRMAN GETZ: Commissioner Below.

19 BY CMSR. BELOW:

20 Q. On Page 5 of your testimony, at Line -- I guess it  
21 starts at Line 7, you have a sentence that reads "PSNH  
22 was allowed to keep a portion of its generation  
23 resources to provide default service to its customers  
24 but it was very clear that any costs associated with

[WITNESS: Hennequin]

1 providing this service would be recovered through the  
2 energy service portion of the rates, not a  
3 non-bypassable component of rates." My question is,  
4 why do you say "it was very clear"? How do you know  
5 that or what evidence is there that that's very clear?  
6 Or, it says "it was very clear". Does it continue to  
7 be clear?

8 A. In my -- in our position, it is still very clear. I  
9 mean, that was -- part of restructuring was to unbundle  
10 the rates and to that which is competitive to make it  
11 competitive. And, when PSNH was allowed to keep their  
12 generation, it was that it would be like another  
13 utility that perhaps sold off their generation, that it  
14 would be part of their cost to providing energy. And,  
15 so, it would be in the energy costs, that it wouldn't  
16 be in the non-bypassable or in the wires charge. The  
17 wires charge was really meant for the transmission and  
18 distribution and any of the stranded costs or any of  
19 the what I call the kind of "societal benefit charges"  
20 that are also part of a wires charge.

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

22 CMSR. IGNATIUS: I have a couple of  
23 questions.

24 BY CMSR. IGNATIUS:

[WITNESS: Hennequin]

1 Q. Along those lines, on Page 6, you, at the top of the  
2 page, said that your association "questions the  
3 legality of creating" the kind of mechanism that PSNH  
4 has proposed. Can you elaborate any more on that?

5 A. Sure. What we were saying there is that we would -- we  
6 felt, before the Commission or before it would just  
7 create the bypassable [sic] charge, that that would be  
8 something that was unclear to us that that was  
9 something that the Commission would do or if that would  
10 require an act of the Legislature. And, so, we were  
11 just questioning that before, if that path were chosen,  
12 that those items, you know, that that would have to be  
13 thought through. So, we just weren't even sure if  
14 that's something that could be done that simply.

15 Q. So, you're not concluding that it is illegal or legal,  
16 just that it's a question to look at?

17 A. No. No. We just said that that would be something  
18 that we thought would have to be looked at.

19 Q. And, on Page 4 of your testimony, at Lines 11 and 12,  
20 you make a reference to a "competitive procurement" --  
21 "alternative procurement strategies for PSNH should be  
22 implemented in order to better insulate ratepayers from  
23 PSNH's imprudent generation charges." What are  
24 specific generation charges that you find to be

[WITNESS: Hennequin]

1           imprudent?

2   A.   We weren't specifically saying that there were  
3       imprudent charges, we said that "if there were".  Or,  
4       perhaps a better way to have put it, instead of  
5       "imprudent", would have been "excess energy charges and  
6       costs".  Perhaps that wasn't the best choice of  
7       wording.

8                           CMSR. IGNATIUS:  Thank you.  Nothing  
9       else.

10                          CHAIRMAN GETZ:  Okay.  Redirect  
11   Ms. Smith?

12                          MS. SMITH:  I think that we're all done.  
13   Thank you very much.

14                          CHAIRMAN GETZ:  The witness is excused.  
15   Thank you.  Okay.  Is there anything to address before we  
16   recess for the day, and we're anticipating resuming at  
17   9:00 tomorrow morning?

18                           (No verbal response)

19                          CHAIRMAN GETZ:  Okay.  Hearing nothing,  
20   then we're recessed until tomorrow morning.  Thank you,  
21   everyone.

22                           **(Whereupon the hearing was adjourned at**  
23                           **4:27 p.m. and the hearing to resume on**  
24                           **Dec. 1, 2010, commencing at 9:00 a.m.)**