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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

May 9, 2012 - 8:38 a.m.
Concord, New Hampshire

DAY 4
MORNING SESSION ONLY

NHPUC MAY29'12 AM 8:30

RE: DE 10-261
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
Least Cost Integrated Resource Plan.

PRESENT: Chairman Amy L. Ignatius, Presiding
Commissioner Michael D. Harrington
Commissioner Robert R. Scott

Sandy Deno, Clerk

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

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

Reptg. Granite Ridge Energy:
Maureen Smith, Esq. (Orr & Reno)

Reptg. N.H. Sierra Club:
Arthur B. Cunningham, Esq.

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

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

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

Reptg. Office of Energy & Planning:
Eric Steltzer

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Kenneth E. Traum
Office of Consumer Advocate

Reptg. the PUC Staff:
Alexander Speidel, Esq.
George R. McCluskey, Electric Division
Edward Arnold (Jacobs Consultancy)

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E X H I B I T S

EXHIBIT NO.	D E S C R I P T I O N	PAGE NO.
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TransCanada 14	Testimony of Michael E. Hachey, including attachments (07-27-11)	72
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1 Go ahead.

2 MS. HOLLENBERG: And, I'm number 51 on
3 the agenda. And, I've asked the other parties if it would
4 be okay if Mr. Traum could be the first witness, after the
5 party's panel is -- or, the Company's panel is finished.
6 And, the only issue is whether we'll be able to get
7 through the Company's panel and have a sufficient amount
8 of time to have Mr. Traum up and off the witness stand
9 before I need to leave. So, I guess we'll play it by ear,
10 but I just wanted to advise the Commission.

11 CHAIRMAN IGNATIUS: All right. We'll
12 certainly --

13 MS. HOLLENBERG: And, I apologize for
14 that.

15 CHAIRMAN IGNATIUS: That's okay. We'll
16 certainly make that work. And, maybe after the conclusion
17 of the panel, we'll go off the record for a moment and
18 figure out timing. And, is it correct -- so, redirect of
19 the panel?

20 MS. KNOWLTON: Yes.

21 CHAIRMAN IGNATIUS: Proceed.

22 MS. KNOWLTON: Thank you.

23 MR. SPEIDEL: If I may interrupt just
24 one second, Commissioners. I would like to alert the

1 Commissioners to the fact that there are two outstanding
2 motions to strike, semi-outstanding. They were addressed
3 by a secretarial letter dated February the 3rd. And, I
4 just wanted to put that on your radar screen for today's
5 session. So, I will distribute these for your own
6 reference.

7 CHAIRMAN IGNATIUS: Were they the
8 motions to strike dealing with Mr. Hurley and Dr. Sahu's
9 testimony?

10 MR. SPEIDEL: That is correct.

11 CHAIRMAN IGNATIUS: Because they have
12 come and gone from the stand, and I don't believe are part
13 of the witnesses today. Is it still an issue?

14 MR. SPEIDEL: I had heard from one of
15 the affected parties that they were concerned about it.
16 If the Commissioners might be able to say definitively
17 that it's a closed matter, that might be helpful.

18 CHAIRMAN IGNATIUS: Is anyone seeking to
19 strike the written or oral testimony of Mr. Hurley or Dr.
20 Sahu?

21 (No verbal response)

22 CHAIRMAN IGNATIUS: If not, then I think
23 we can consider it moot.

24 MR. SPEIDEL: Very good. Thank you very

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 much, Commissioners.

2 CHAIRMAN IGNATIUS: Thank you. Ms.
3 Knowlton.

4 (Whereupon *Terrance J. Large, William H.*
5 *Smagula, Elizabeth H. Tillotson, Richard*
6 *L. Levitan,* and *Richard L. Carlson* were
7 called to the stand having been
8 previously sworn.)

9 **TERRANCE J. LARGE, Previously sworn.**

10 **WILLIAM H. SMAGULA, Previously sworn.**

11 **ELIZABETH H. TILLOTSON, Previously sworn.**

12 **RICHARD L. LEVITAN, Previously sworn.**

13 **RICHARD L. CARLSON, Previously sworn.**

14 **REDIRECT EXAMINATION**

15 BY MS. KNOWLTON:

16 Q. Good morning. Mr. Smagula, I will direct this question
17 to you please. If you recall yesterday when you
18 testified, Attorney Speidel asked you a series of
19 questions about the possible installation of an
20 auxiliary boiler at Newington Station. Do you recall
21 those questions?

22 A. (Smagula) I do. Yes.

23 Q. Would the Company only install this auxiliary boiler if
24 the reduction in the fuel expense associated with the

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 installation of that boiler exceeded the revenue
2 requirement associated with that boiler?

3 A. (Smagula) Yes.

4 Q. Mr. Levitan, this question is for you. Attorney
5 Speidel asked you a series of questions yesterday with
6 regard to the non-disclosure agreement issue between
7 Jacobs and Levitan & Associates, do you recall that?

8 A. (Levitan) Yes.

9 Q. And, you were asked by Attorney Speidel to review a
10 response to Data Request Staff 4-3, which was marked as
11 "Exhibit Staff 5" yesterday at the hearing. Do you
12 recall that?

13 A. (Levitan) Yes.

14 MS. KNOWLTON: I'd like to mark for
15 identification, which would be "PSNH 13", a supplemental
16 response to Staff 4-3.

17 (Atty. Knowlton distributing documents.)

18 BY MS. KNOWLTON:

19 Q. Mr. Levitan, do you have that supplemental response in
20 front of you?

21 A. (Levitan) Yes.

22 Q. And, you were the witness on that response?

23 A. (Levitan) Yes, I was.

24 Q. And, is this a more complete depiction of the status of

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 the negotiations between Levitan and PSNH and Jacobs
2 with regard to that NDA?

3 A. (Levitan) It is.

4 CHAIRMAN IGNATIUS: We'll marked that
5 for identification as "PSNH 13".

6 (The document, as described, was
7 herewith marked as **PSNH Exhibit 13** for
8 identification.)

9 BY MS. KNOWLTON:

10 Q. Mr. Levitan, do you recall in your examination
11 yesterday that you pointed out that there is a unique
12 feature with regard to Newington Station with -- to the
13 extent that it's directly connected to a natural gas
14 transmission line?

15 A. (Levitan) Yes, I said that.

16 Q. Do you have any further clarification to that testimony
17 that you'd like to provide today?

18 A. (Levitan) I do. I would like to clarify that the
19 Newington Station is unique in that it is directly
20 connected to an interstate pipeline, one that has slack
21 deliverability throughout the year. So, it can burn
22 natural gas throughout the year.

23 There is one other old-style steam
24 turbine generator that is dual-fuel capable that is

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 also directly connected to an interstate pipeline.
2 That would be the 545 megawatt Canal Unit 2, which is a
3 dual-fuel capable unit constructed by the old
4 Commonwealth Energy System in the mid 1970's. Unit 2
5 is located 7 miles from the terminus of the existing
6 Algonquin G System. So, it is on a pipeline, but it's
7 on a pipeline lateral. The Algonquin G System runs
8 from Mendon, Massachusetts, to Bourne, Massachusetts,
9 at the foot of Cape Cod. And, that G System lateral
10 runs full or nearly full throughout the heating season,
11 November through March. There is slack deliverability
12 on the G System during the non-winter months. But
13 LAI's recent experience, researching the dispatch
14 patterns of the two Canal plants, shows that, when
15 Canal is operated by ISO-New England in the day-ahead
16 market or the real-time market, it runs on residual
17 fuel oil in Unit 1, rather than on natural gas for Unit
18 2.

19 With that distinction, I think that it
20 is again correct to assert that the Newington Station
21 is unique with respect to its location on an interstate
22 pipeline, as opposed to a lateral, a long lateral, from
23 a pipeline to the plant fuel gate.

24 MS. KNOWLTON: The Company has no

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 further questions for this panel.

2 CHAIRMAN IGNATIUS: All right.

3 Commissioner Harrington has a follow-up question.

4 CMSR. HARRINGTON: Yes.

5 BY CMSR. HARRINGTON:

6 Q. Just to follow up on that idea of the location of
7 Newington. And, can you give us the advantages of
8 being connected directly to an interstate pipeline, as
9 compared to not being?

10 A. (Levitan) There are many. The first and most obvious
11 is direct access to natural gas. Rather than being
12 constrained behind the citygate based on the priority
13 call of a gas utility, which predictably runs tight
14 throughout the cold heating season, November through
15 March. By being directly connected to an interstate
16 pipeline, the generation company can typically rely on
17 the line pack swing, the packing and drafting of the
18 pipeline day in/day out. While there can be exposure
19 to penalties for unauthorized gas use, when required to
20 do so, the generation company can typically work out
21 some type of arrangement with a marketer who has
22 portfolio on the pipeline to bring gas to the
23 generation plant on comparatively short notice. It's
24 more complicated to do that when the generation company

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{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 is located behind the citygate, thus requiring the
2 local transportation services of the LDC.

3 Q. So, let me just see if I've got this in the correct
4 context then. If we have a situation like we had, I
5 don't know, whatever it was, seven or eight years ago,
6 the famous cold snap in New England in January, and
7 which resulted in a lot of natural gas being diverted
8 for space heating uses and not for -- and not for
9 electric production. We ended up almost with a
10 shortage of electricity. So, are you saying that
11 Newington would be more likely to be able to get gas,
12 even though they don't buy firm gas, they're still
13 buying it on the spot market?

14 A. (Levitan) They would be better positioned to obtain
15 natural gas, compared to any of the other steam turbine
16 generators that are either located behind the gas
17 utility citygates across New England or, in case of
18 Canal, long behind the G system lateral, which would
19 surely be deliverability-impaired during the cold
20 winter season.

21 Q. So, I see this as a plus to reliability of New England
22 as a whole, because you have a plant that, in a time
23 when you need electric production, it would be able to
24 deliver. But how would it have anything specific to

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 benefit the Public Service ratepayers?

2 A. (Levitan) There would not be any additional local
3 distribution charges associated with local
4 transportation. Although there is the basis adder from
5 Dracut that has historically typified PSNH's incurrence
6 of additional charges from the Dracut pricing point or
7 the Tennessee Zone 6 pricing point to the Newington
8 facility.

9 Going forward, there are reasons to
10 believe that that additional cost will be reduced or
11 reasonably minimized. But it is nevertheless likely to
12 cost more to bring gas to the Newington Station than
13 the Dracut pricing point itself. How that compares to
14 the other steam turbine generators that are gas-capable
15 in New England, is not a question I can answer at the
16 moment. But I do know that, from experience, plants
17 that are located on interstate pipelines enjoy ready
18 access, not just to natural gas transportation and to
19 the fuel itself, but to the load management services,
20 the use of line pack, to provide gas on short notice
21 when market conditions warrant.

22 Q. And, just one more follow-up on that. I want to be
23 sure I got the terminology straight here. Are you
24 saying this is the only steam thermal plant that's

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{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 gas-fired or is it the only plant period? I mean,
2 isn't there a combined cycle gas plant in the immediate
3 area, a merchant plant, of Newington, and do they get
4 their gas off of the same pipeline?

5 A. (Levitan) Yes. I'm addressing this in the narrow
6 context of the dual-fuel capable steam turbine
7 generators. The cohort group of resources that are
8 critical for regional reliability as a hedge against
9 constraints on natural gas transportation across the
10 six pipelines that serve the region.

11 Q. So, in this case, you're saying that, in the case of
12 Newington, it would have better access to natural gas
13 than most other steam turbine plants, and it also, even
14 if it didn't, would have the backup of being dual-fuel
15 could burn oil?

16 A. (Levitan) Yes. And, the other units, for example,
17 Canal, are principally dependent on residual fuel oil.
18 So, when challenging and costly environmental
19 restrictions kick in, if they do kick in, and they are
20 applicable, in the case of the Newington Station, it
21 can avoid certain costly capital outlays simply by
22 using natural gas, rather than RFO. Whereas, many of
23 the other units would be constrained dispatchwise
24 throughout much of the year, because of the existing

{WITNESS PANEL: Large~Smagula~Tillotson~Levitan~Carlson}

1 characteristics of the pipeline network that serves the
2 region.

3 CMSR. HARRINGTON: All right. Thank you
4 very much.

5 CHAIRMAN IGNATIUS: All right. Nothing
6 further from the Bench. I take it the panel is excused.
7 And, we appreciate your time, and glad we got Mr. Smagula
8 out in time for his commitment.

9 The next order of business, I take it,
10 would be for Mr. Traum to testify.

11 MS. HOLLENBERG: Thank you.

12 CHAIRMAN IGNATIUS: And, then, would it
13 be Mr. Hachey after that?

14 MS. KNOWLTON: I'm certainly fine with
15 starting with Mr. Traum. But I'm just wondering what your
16 best estimate is with regard to when you may need to
17 leave? I just want to try to figure out, can we get
18 through all of the cross-examination? Because I would
19 hate to start a witness, and have to stop and have to come
20 back.

21 MS. HOLLENBERG: I'm thinking that they
22 probably won't reach our item until 11:00 at the earliest.
23 I'm having someone go down to keep me posted about their
24 progress. So, I think that, you know, I think that I

1 would be safe until then.

2 MS. KNOWLTON: Do we have any sense for
3 how much time other parties are going to have for Mr.
4 Traum on cross?

5 MR. SPEIDEL: Staff will have, at best,
6 extremely limited cross-examination, likely nothing.

7 CHAIRMAN IGNATIUS: Mr. Patch,
8 cross-examination?

9 MR. PATCH: Maybe a half an hour.

10 CHAIRMAN IGNATIUS: Well, I think it's
11 -- Ms. Knowlton, do you know how long you anticipate?

12 MS. KNOWLTON: I think I may be able to
13 complete my cross-examination in half an hour.

14 CHAIRMAN IGNATIUS: Let's give it a
15 shot. Let's see how we do.

16 MS. HOLLENBERG: Thank you.

17 CHAIRMAN IGNATIUS: Off the record for a
18 second.

19 (Brief off-the-record discussion
20 ensued.)

21 CHAIRMAN IGNATIUS: Please.

22 Ms. Hollenberg.

23 MS. HOLLENBERG: Thank you. May I just
24 ask the Clerk what exhibit number the OCA's testimony is?

{WITNESS: Traum}

1 Thank you.

2 MS. DENO: Two, I think.

3 MS. HOLLENBERG: OCA Exhibit 2? Thank
4 you.

5 (Whereupon **Kenneth E. Traum** was called
6 to the stand, having been previously
7 sworn.)

8 MS. HOLLENBERG: Good morning, Mr.
9 Traum.

10 WITNESS TRAUM: Good morning.

11 **KENNETH E. TRAUM, Previously sworn.**

12 **DIRECT EXAMINATION**

13 BY MS. HOLLENBERG:

14 Q. I'd like to remind you that you're still under oath.

15 And, you testified earlier in this proceeding that you
16 filed prefiled direct testimony on July 27th, 2011, is
17 that correct?

18 A. Yes, it is.

19 Q. And, that testimony has been identified as "OCA
20 Exhibit 2". Do you have a copy of that testimony
21 before you?

22 A. Yes, I do.

23 Q. And, you would agree that that testimony includes a
24 summary of your qualifications and your -- the scope of

{WITNESS: Traum}

1 your participation in this docket, you're testifying as
2 an expert witness on behalf of the OCA?

3 A. That's correct.

4 CHAIRMAN IGNATIUS: Ms. Hollenberg, just
5 for the record, I think you may have misunderstood the
6 answer. His testimony was marked as "1". So, the next
7 one up would be "2". But his is "1".

8 MS. HOLLENBERG: Oh. That's okay.
9 Thank you.

10 BY MS. HOLLENBERG:

11 Q. Earlier in the proceeding, Mr. Traum, you testified
12 about the first -- you testified in your direct
13 prefiled testimony about two issues primarily or two
14 concerns primarily, and one was the adequacy of the
15 Least Cost Integrated Plan, and the other was testimony
16 about the Newington Continuing Unit Operation Study, is
17 that correct?

18 A. Yes, it is.

19 Q. And, today, you're here to testify about that second
20 aspect of your testimony, is that correct?

21 A. That's correct.

22 Q. Would you please summarize briefly your position on
23 behalf of the OCA about the Newington Continuing Unit
24 Operation Study.

{WITNESS: Traum}

1 A. Certainly. My testimony indicated that the original
2 study, as included in Exhibit G-12 of the filing,
3 calculated a net PV, net present value of customer
4 benefits due to the continuing ownership and operation
5 of the plant through 2020 of \$152 million. One of my
6 comments and concerns was that ignored the sunk or
7 fixed costs that the Company continues to incur and are
8 passed onto ratepayers. Then, by letter dated
9 April 26, 2011, the NPV was cut in more than half and
10 reduced to roughly 71 and a half million dollars. And,
11 per Exhibit PSNH 11, shows a figure now of
12 \$36.8 million. For the many reasons raised in my
13 testimony, as well as that of Staff and other
14 intervenors, I feel that NPV should be a lot lower, as
15 well as it should recognize sunk and fixed costs. Some
16 of the other reasons that I feel that the NPV should
17 actually be lower is due to capital expenditures,
18 forecasts, modeling assumptions, oil inventory carrying
19 costs, ignoring testing hours, and the issue, which had
20 been discussed considerably in the first phase of this
21 proceeding, of reasonably foreseeable regulatory
22 changes versus PSNH's standards, which I'll term "known
23 and measurable".

24 This all led me to a -- simply to a

{WITNESS: Traum}

1 recommendation that a new study, including divestiture
2 as an option, should be conducted as soon as possible,
3 under the auspices of the Commission, and that study
4 should not just ignore the potential impacts of
5 Northern Pass.

6 Q. Thank you. And, as you did when you were testifying
7 earlier in this proceeding, do you have any comments on
8 the rebuttal testimony filed by the Company,
9 specifically that rebuttal that relates to your
10 prefiled direct testimony?

11 A. Yes, I do. I'll start with Mr. Large, for the Company.
12 On Pages 8 and 9 of his rebuttal testimony, he
13 addressed the issue of whether divestiture --

14 CMSR. HARRINGTON: Excuse me. Could you
15 give us the exhibit number of his --

16 WITNESS TRAUM: This would have been
17 PSNH's rebuttal testimony.

18 MS. HOLLENBERG: PSNH Exhibit 8 -- oh,
19 no. I'm sorry. That was Dr. Levitan -- or, Mr. Levitan
20 and Dr. Carlson's.

21 CMSR. HARRINGTON: Oh, 3? Is 3 the
22 correct one?

23 MR. SPEIDEL: That's Terry Large's.
24 Three is Terry Large's. Terry Large's is 3.

{WITNESS: Traum}

1 MS. KNOWLTON: Yes. That's correct.

2 It's 3.

3 CMSR. HARRINGTON: And, what page were
4 you on again, I'm sorry?

5 WITNESS TRAUM: Okay. On Pages 8 and 9.

6 CMSR. HARRINGTON: Again, we're blessed
7 with double page numbers. So, I guess, are you talking
8 about the middle of the page number or the lower
9 right-hand corner of the page number?

10 WITNESS TRAUM: Okay. If I could have a
11 second to clarify that.

12 MS. HOLLENBERG: Do you have a copy of
13 that testimony, Mr. Traum?

14 WITNESS TRAUM: I have a copy of that.
15 Okay. This will be on Page 8, as labeled in the middle of
16 the page.

17 CMSR. HARRINGTON: Thank you.

18 WITNESS TRAUM: Not the Bates page
19 number.

20 **BY THE WITNESS:**

21 A. And, it's the Q&A that starts on Line 12. And, it just
22 relates to the issue of divestiture, inclusion of that
23 or not. And, I'll simply reiterate my testimony. To
24 me, the issue comes down to the interpretation of the

{WITNESS: Traum}

1 Commission's language quoted on Page 19 of my
2 testimony, which used "continuing the ownership and
3 operation". To me, "continuing the ownership" means,
4 "okay, what if you don't continue the ownership?" You
5 have to look at that. And, without looking at the
6 potential proceeds from divestiture, one cannot
7 conclude whether continued ownership and operation is a
8 better result for PSNH's customers than simply saying
9 "well, the net present value on an incremental basis is
10 a positive or may be a positive."

11 Continuing on Mr. Large's rebuttal, on
12 Page 18, not "Bates Page 018", regular Page 18, on the
13 issue of Line 5, with regards to the "OCA's assertion
14 that incorrect labor costs were used in the LAI model."
15 And, they say, on Line 5, that "OCA claims that fixed
16 O&M, depreciation expenses, and return on existing
17 plant are not included in the LAI model and thus the
18 model does not adequately analyze the costs and
19 benefits of Newington Station to customers." I would
20 agree that the language in my testimony was misleading,
21 and I thought I had clarified it in my responses to OCA
22 Set 1, Number 36, and OCA Set 2, Number 10 Revised,
23 indicating that the -- what I was getting at was that
24 the Laidlaw [LAI?] model had used lower numbers in

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1 labor costs than PSNH had in a later filing it had made
2 in DE 10-257. And, the information I used was based on
3 my Attachment 30, which was PSNH's response laying out
4 what those forecasted labor costs were in 10-257. And,
5 I'd just add that the use of lower labor costs in the
6 LAI model results in a higher NPV. And, it seems to be
7 that, in many cases, the modeling or the assumptions
8 used will be ones that will be favorable to result in a
9 higher NPV. A higher NPV makes things look better from
10 a continuing unit operation basis. And, I think it can
11 be misleading because of that.

12 I'd also add that the LAI model also
13 includes incremental depreciation expenses and return
14 based on a \$500,000 a year capital budget, which I
15 address separately. But, again, by just looking at the
16 incremental depreciation expenses and the incremental
17 investment of 500,000, the study ignores the
18 depreciation expenses on the fixed plant and return on
19 the fixed plant as it exists today. That's just like,
20 "okay, those are fixed costs the ratepayers are going
21 to have to pay for "period". We're not going to look
22 at it in the study." And that, to me, is a real
23 problem, if you're looking at what's in the best
24 interest of ratepayers.

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{WITNESS: Traum}

1 Okay. Continuing on Page 18, with
2 regards to the capital expenditures estimate which had
3 been used in the study of \$500,000 annually for the
4 next ten years, in my original testimony I had
5 questioned that level of expense, and a lot of time had
6 been spent on it yesterday, that my concern why 500,000
7 was too low was based on historical five year budget
8 levels. Also, the OCA had asked a data request
9 following the filing of the rebuttal testimony as to
10 "what was the capital expenditure level for Newington
11 for 2011?" as a sanity check, and the response we
12 received showed a number in excess of a million
13 dollars. Now, Mr. Smagula yesterday raised questions
14 about his own data response. But, coming into the
15 hearing yesterday, that was the number that we had.
16 And, just for purposes of a sanity check, a million is
17 more than twice what they were forecasting in the
18 budget. Again, to me, it raises a question that says
19 "okay, you should have a new study done."

20 Similarly, on Page 31 of my original
21 testimony, I had referred to the potential need for
22 installation of an SCR in 2017, which Mr. Large did not
23 address in his testimony. I'm not saying an SCR is
24 needed in 2017 or not. I'm just saying that that's

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{WITNESS: Traum}

1 within the ten year period. It's potentially a very
2 large cost. It should be looked at by an independent
3 entity to determine "well, should it be taken into
4 account?"

5 On Page 19, Mr. Large addresses why he
6 believes Northern Pass should be totally excluded from
7 the ten-year study, and I continue to disagree.
8 Instead, I feel that there could be different scenarios
9 developed, with different probabilities and potential
10 dates for Newington -- for Northern Pass to go into
11 service. I realize this may require more effort. But,
12 for planning purposes, not only to PSNH, whether they
13 do actually look at this study in the future or not,
14 but for purposes of informing the Commission, the OCA,
15 the Legislature, you want to have an idea. You don't
16 want to get caught with surprises. You know, say
17 "okay, there's a 10 percent chance that Northern Pass
18 may come into play. It may not."

19 CHAIRMAN IGNATIUS: Ms. Knowlton.

20 MS. KNOWLTON: I want to state an
21 objection for the record. I understand that Mr. Traum --
22 my understanding of his response is that it's limited to
23 new things that were said. And, I really honestly feel
24 that a lot of what he said is just a restatement of what

{WITNESS: Traum}

1 was in his prefiled testimony. My understanding was this
2 was going to be relatively brief. I mean, if we're going
3 to go on like this, we're not going to finish this witness
4 before 11:00. So, you know, I have that double concern.
5 But my primary concern is that this is really extending
6 beyond the scope of what's intended.

7 CHAIRMAN IGNATIUS: Ms. Hollenberg.

8 MS. HOLLENBERG: I'll actually, if I
9 may, I'll ask a question to try and refine the testimony.

10 CHAIRMAN IGNATIUS: Thank you.

11 MS. HOLLENBERG: Thank you.

12 BY MS. HOLLENBERG:

13 Q. Mr. Traum, in terms of -- right now we're addressing
14 your response to the rebuttal of the Company's
15 witnesses as it relates to your testimony. And, I
16 wondered if you could review your thoughts about what
17 issues were raised in that rebuttal testimony that were
18 new and respond to those instead.

19 A. Okay. Then, I'll move onto -- I think I have two
20 points with regards to the testimony of Mr. Smagula and
21 Ms. Tillotson along that line. One of my issues in my
22 prefiled testimony was the oil inventory level that
23 PSNH continues to carry, and as opposed to what's in
24 the Levitan study. It's roughly \$20 million that they

{WITNESS: Traum}

1 continue to carry, versus \$10 million every year out
2 through the ten-year study that Levitan uses. The
3 concern is, "okay, how are you going to get down to
4 10 million?" And, in the rebuttal testimony of the two
5 witnesses, they indicated that PSNH is still looking at
6 that, but hasn't really resolved the issue. So, I
7 think the new information is it still hasn't been
8 resolved. There is still the concern that ratepayers
9 are paying carrying costs on roughly twice what is
10 included in the calculation by Levitan with a NPV
11 impact.

12 And, another issue raised on Pages 17
13 and 18 of the Smagula/Tillotson testimony relates to my
14 claim about, if there was a real-world model being used
15 in terms of testing hours for the Newington plant, and
16 they, you know, again reiterate that testing hours had
17 been excluded from the model. So, the OCA asked in
18 discovery, "okay, what were the actual testing hours
19 for last year? We want to do a sanity check whether or
20 not the assumption that no testing hours should be
21 recognized in the model makes sense." And, the
22 response, as I understand it, indicated that roughly
23 100 hours in 2011 were used for testing. Which doesn't
24 seem like a lot, a 100 hours in a year, but it's 100

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{WITNESS: Traum}

1 hours against how many hours that the plant is being
2 forecast to run in a year, and it might be more in the
3 500 to a thousand hours range. So, 100 hours could be
4 15 percent. And, to me, those testing hours are ones
5 when it's not economic to run. So, it has a real drag
6 on the NPV. Again, my concern is, the results of the
7 Levitan model result in a higher NPV than is realistic,
8 thus I think it's appropriate to have a new study done.

9 Q. Mr. Traum, do you have any comments to make about the
10 Levitan/Carlson testimony?

11 A. Okay. If I may, for a second. They aren't -- the
12 issue of the independence of the Levitan study I think
13 has been fully vetted already.

14 MS. KNOWLTON: I'm actually going to
15 move to strike that. I mean, I don't think that there is
16 any point in going through and stating topics that don't
17 warrant -- I mean, that's an indirect way of providing
18 testimony. And, I really think that Mr. Traum needs to
19 limit his testimony to what is, in fact, responsive to new
20 things that he's heard.

21 MS. HOLLENBERG: I'll attempt to direct
22 the witness. Thank you.

23 CHAIRMAN IGNATIUS: All right.

24 WITNESS TRAUM: I'm properly admonished.

{WITNESS: Traum}

1 BY MS. HOLLENBERG:

2 Q. Are there any comments in the Levitan/Carlson
3 testimony, Mr. Traum, that you believe represent a
4 misunderstanding of your prefiled direct testimony?

5 A. On -- with regards to the Levitan rebuttal testimony,
6 on Page 26, and that's not Bates Page 026, the middle
7 of the Page 26, on Line 32, --

8 Q. And, you're talking about PSNH Exhibit 8, I believe,
9 the Carlson/Levitan, is it the rebuttal testimony?

10 A. Levitan rebuttal testimony.

11 Q. Yes.

12 A. Yes. On Page 32 [Line 32?], they have a question that
13 starts with "Mr. Traum suggested that PSNH did a poor
14 job of purchasing natural gas". And, what I would say
15 is that either mischaracterized or misunderstood my
16 testimony. What I actually said on my Page 29, Line 5,
17 was that "the [Levitan] model [was] using a smaller
18 natural gas adder [than was called for based on] recent
19 history." And, that was another reason to have an
20 independent study conducted. And, what is ironic is
21 that, on Page 20 -- just before that, in the Levitan
22 testimony, on Page 24, they agree a larger spread or
23 adder is a reasonable thing to consider. I think I'll
24 stop there.

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{WITNESS: Traum}

1 MS. HOLLENBERG: Thank you. The witness
2 is available for cross-examination. Thank you.

3 CHAIRMAN IGNATIUS: Thank you. Would it
4 be appropriate, I don't know what you worked out among
5 yourselves, unless there's an agreement on who goes next,
6 TransCanada, Mr. Patch?

7 MR. PATCH: Thank you.

8 **CROSS-EXAMINATION**

9 BY MR. PATCH:

10 Q. Mr. Traum, on Page 20 -- well, first of all, I mean,
11 you've heard testimony with regard to the multiple
12 changes in the CUO Study that were made from the time
13 it was originally filed. And, on Page 20 of your
14 testimony, I think you've said that this "does not
15 inspire confidence in the quality or usefulness of the
16 [study]". Do you recall that testimony?

17 A. Could you give me a line number?

18 MS. HOLLENBERG: Nineteen?

19 MR. PATCH: Yes.

20 BY MR. PATCH:

21 Q. Lines 19 and 20, I think.

22 A. Okay. Yes, I do see that. Thank you.

23 Q. Given the testimony that's been presented in this
24 docket so far, do you continue to have that opinion?

{WITNESS: Traum}

1 A. I still have the same concerns about the -- primarily,
2 the usefulness of the CUO. I think it's very limited
3 that, from a perspective of deciding what is the best
4 for ratepayers, that a more complete study should be
5 conducted by an entity that's chosen by the Commission.

6 Q. And, if the Commission, in fact, orders such a study,
7 you've heard the testimony with regard to sort of the
8 lack of information available to Staff about the inputs
9 into the study, to Staff, to the Consumer Advocate, to
10 all the parties, and, ultimately, to the Commission.
11 What would you recommend to the Commission with regard
12 to a new study and the information about inputs that
13 were used?

14 A. Well, to the extent at all possible, I think that the
15 inputs should be available to all parties, as much
16 information as can be made public should be made
17 public. And, to the extent that it was a study
18 conducted under the auspices of the Commission, I would
19 think that, at a minimum, the Commission would have
20 access to all of that information.

21 Q. On Page 21 of your testimony, you said that you do not
22 believe that the RFP that PSNH used to obtain the
23 consultant met the requirements of the Commission's
24 order. Do you recall that testimony?

{WITNESS: Traum}

1 A. Yes.

2 Q. Could you explain that.

3 A. Well, a lot of it goes back to the concern about that
4 the study did not address "continuing the ownership and
5 operation". And, I think PSNH, in its RFP, limited the
6 -- struck the owner -- continuing the ownership, and
7 really just looked at continued operation, and not
8 continued ownership. And that, to me, raises a real
9 concern about, "okay, by doing that, you're ignoring
10 the fixed or sunk costs, which ratepayers are currently
11 responsible for."

12 Q. You heard the testimony, and I'm sure you're aware of
13 the fact that Levitan & Associates assumed that
14 approximately 2,100 megawatts of generation would
15 retire, that was Footnote 26 on Page -- I think it was
16 38 of the CUO. And that, based on the latest Forward
17 Capacity Market filing with the FERC, that
18 approximately 90 percent of the particular generating
19 units that Levitan cited in that footnote have actually
20 -- are now committed through 2016. Did you hear that
21 testimony?

22 A. Yes, I was here in the room yesterday. Yes.

23 Q. Do you have a sense of what that would mean with regard
24 to expected value of capacity market revenues going

{WITNESS: Traum}

1 forward?

2 A. Well, all other things being equal, if there's more
3 capacity, the capacity revenues I would assume would go
4 down on a per megawatt basis or whatever.

5 CHAIRMAN IGNATIUS: Mr. Traum, make sure
6 you keep the microphone close. You know, you're turning
7 away, and it's pointing in the other direction. Thank
8 you.

9 WITNESS TRAUM: It's usually my counsel
10 that tells me that.

11 BY MR. PATCH:

12 Q. On Page 24, you provided -- of your testimony, you
13 provided some detail about why you think Levitan has
14 not accurately captured Newington's recent actual
15 dispatch patterns. Do you recall that?

16 A. Yes.

17 Q. Could you explain that.

18 A. Okay. The biggest concern, in terms of operation in
19 the potential net PV calculations and why the model
20 used by Levitan has a, to me, what's a major flaw, is
21 that PSNH, I guess, made the assumption that there
22 would be no testing hours used in the model, PSNH or
23 PSNH and Levitan made that assumption. And, my
24 understanding is testing hours, when there is -- a

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{WITNESS: Traum}

1 plant is run for testing, it's run at a loss. And,
2 those hours, whether they be 100 in the year or 300 in
3 the year, are not recognized in the model. By not
4 recognizing them in the model, the NPV is higher than
5 would be otherwise.

6 Q. On Page 25, you discuss Newington's heat rates, and the
7 significant increase over the last few years. Could
8 you explain why that is a concern.

9 A. Well, simply, the higher the heat rate, the less
10 efficient the generating unit is at converting Btu
11 energy output into electricity output. If the model
12 uses a lower heat rate than has been the case in the
13 last few years, again, it would be biased in the sense
14 of resulting in a higher NPV.

15 Q. You talked, on Page 26, about the number of starts.
16 Why is that an issue?

17 A. Well, again, the number of starts against the real
18 world leads to the question of how well the model is
19 predicting, and the lower starts could, again, have the
20 impact of resulting in a higher NPV than would be the
21 case if you had a higher number of starts with the same
22 level of generation.

23 Q. On Page 28, you cited the differences between the cost
24 for natural gas that Levitan used and what PSNH

{WITNESS: Traum}

1 actually consumed. Do you recall that testimony?

2 A. You're referring to the "adder" issue?

3 Q. Yes.

4 A. Yes.

5 Q. Why is that a concern?

6 A. Well, if there is a larger adder to the gas price than
7 was assumed in the study, again, the result would be a
8 higher NPV than would otherwise be the case. And, as I
9 stated a few minutes ago, I believe even Levitan has
10 now agreed in their rebuttal that, you know, it may be
11 reasonable to have a higher adder than they originally
12 included.

13 Q. You, this morning in your direct, talked a little bit
14 about capital expenditure assumptions. And, on Pages
15 30 and 31, I believe you have written testimony with
16 regard to that. Is there anything you'd like to add
17 with regard to the capital expenditure assumptions, and
18 again, you know, the impact that they have had on the
19 results of the CUO Study?

20 A. Well, as I stated, the capital budget assumptions used
21 in the model are \$500,000 a year for each of the next
22 ten years. And, my concern is, just from a sanity
23 check basis, "okay, what were the five year budgets
24 prior to this point in time?" They were much higher.

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{WITNESS: Traum}

1 "What was the 2011 capital expenditure level?" It was,
2 again, much higher. Is it realistic to include some
3 probability of a need for an SCR in 2017? Any of those
4 items, which would push the \$500,000 up, would result
5 in a lower NPV from the study. The other issue is,
6 okay, the study does not take into account the sunk
7 costs or the net plant already that ratepayers are
8 paying for.

9 Q. And, I think you pointed this out this morning, nor
10 does it take into account the return that PSNH is
11 earning?

12 A. That's correct.

13 Q. And, so, what would that do to the assumptions that Mr.
14 Levitan includes in his study then, you know? What
15 sort of impact would it have?

16 A. Oh, it would have a -- if you included the all-in
17 costs, I don't think there's any argument that it would
18 result in a negative result or the existence of the
19 ownership of the plants to -- by PSNH cost ratepayers,
20 as opposed to if they did not exist.

21 Q. How can you possibly have a study that would be
22 relevant without taking that into account?

23 A. That's a concern I have.

24 Q. You talked this morning about "fuel inventory". And,

{WITNESS: Traum}

1 I'd like to ask you a few questions related to that.

2 You've heard the testimony from Mr. Smagula, I believe
3 it was yesterday, with regard to that?

4 A. Yes.

5 Q. And, I think we were focused on 2011, and the amount of
6 oil that was being utilized during 2011 versus natural
7 gas. Do you recall that testimony?

8 A. Yes.

9 Q. And, I guess I'd like to ask you to take a look at Page
10 13 of the CUO. And, I'm looking at I believe it's in
11 Exhibit -- PSNH Exhibit 2, although it says "Revised
12 07-08-2011". So, I think that's actually the second
13 revision to the CUO. The first one was in April, this
14 is, at the bottom of the page, it says "07-08-2011".

15 A. I have that.

16 CHAIRMAN IGNATIUS: Before you go on,
17 let's be sure we've got the right exhibit number.

18 MR. PATCH: Okay.

19 CHAIRMAN IGNATIUS: What is the --

20 MR. PATCH: Well, I'm sorry, but I don't
21 know exactly. I thought it was Exhibit -- PSNH Exhibit 2.
22 But, at the bottom of the page, it is Page 13 in the CUO,
23 Bates Page "000196" on the right-hand side. And, then, on
24 the left-hand, at the bottom, it says "Revised

{WITNESS: Traum}

1 07-08-2011". It's Appendix G. There's a chart that shows
2 "Exhibit G.1: Recent Revenue Requirements".

3 MS. KNOWLTON: It's Exhibit 12. PSNH
4 12.

5 CMSR. HARRINGTON: PSNH 12.

6 CHAIRMAN IGNATIUS: Thank you.

7 MR. PATCH: Thank you.

8 CHAIRMAN IGNATIUS: So, those are the
9 revised pages to be inserted into the CUO, is that
10 correct?

11 MR. PATCH: I believe so.

12 CMSR. HARRINGTON: Could you give us the
13 page numbers again please?

14 MR. PATCH: On the bottom right, it is
15 Page "13" of the CUO, and below that it says "000196".
16 And, then, over on the left, at the bottom, it says
17 "Revised 07-08-2011".

18 CMSR. HARRINGTON: And, this, just so
19 we're clear, this is the chart that was subsequently
20 marked up in testimony yesterday after it was handed out?

21 MR. PATCH: I don't know for sure
22 whether that's the chart that was --

23 CMSR. HARRINGTON: I have, under the
24 year "2007", I have a number of figures that were changed.

{WITNESS: Traum}

1 MR. PATCH: Yes. No, you're correct.

2 Yes.

3 CMSR. HARRINGTON: Okay. Thank you.

4 BY MR. PATCH:

5 Q. And, Mr. Traum, I guess I'd like you to take a look at,
6 under "Gross Plant Value", it starts in the second box
7 in Exhibit G.1, there's a line that says "Year End Fuel
8 Inventory"?

9 A. Yes, I see that.

10 Q. And, do you know -- what's your understanding of what
11 those numbers represent for each of those years?

12 A. My understanding is that would be the book value of the
13 fuel inventory, primarily oil. And, it would be based
14 upon the cost PSNH had paid for that fuel, as opposed
15 to what the potential market value of that fuel may be.

16 Q. I mean, is it your understanding that, I mean,
17 depending, of course, on when they bought it, but it
18 could be as much as, the value in this, in today's
19 market, could be as much as three times what they paid
20 for it?

21 A. It could be, if they were capable of selling it off.

22 Q. And, I believe, not necessarily in this docket, but in
23 other dockets, the Consumer Advocate, and you, in
24 particular, have raised this issue before, is that fair

{WITNESS: Traum}

1 to say?

2 A. I think that's fair to say.

3 Q. And, what has PSNH's response to that been?

4 A. I'll paraphrase that they have been investigating
5 whether there are ways to sell off that oil inventory.
6 And, as far as I know, to this point in time, they have
7 not come out with a way to do that.

8 Q. But, to the extent that it was even two times the value
9 of what they originally paid for it, if, in fact, that
10 number, as an example, if you look at "2009", am I
11 reading that correctly, that's over -- that's almost
12 \$27 million?

13 A. You're reading that correctly.

14 Q. And, so, if it were two times, it would be about
15 \$54 million that they could obtain if they were to sell
16 that fuel on the market, and possibly higher,
17 depending, obviously, on what the -- what the amount is
18 they could raise on the market at the time that they
19 sold?

20 A. That's certainly correct. And, if they were able to do
21 that, I would certainly argue that those dollars should
22 go to the benefit of energy service customers, who are
23 paying the carrying costs on that amount currently
24 through rates.

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{WITNESS: Traum}

1 Q. And, is that something that you think ought to be taken
2 into consideration when considering, again, the issue
3 that's before the Commission right now, about whether
4 or not Newington ought to continue to operate?

5 A. Whether -- if you were looking at divestiture as an
6 option, a potential bidder for the plant would be
7 looking at eying that oil inventory and saying "well,
8 maybe I can -- I know how to extract it and sell it off
9 at market, and because of that, I'll bid so much more
10 for the plant."

11 Q. Now, I don't know if you can explain this, but at the
12 bottom of the chart it says "Note: Fuel costs for 2007
13 total 36,384K but are shown net of 5,908K related to
14 oil resale transactions." Do you know what that means?
15 Doesn't that sound as though maybe they are, in fact,
16 reselling oil?

17 A. I do not remember what that relates to. But I'd say
18 that that's 2007. And, if there were no sales noted
19 for 2008, '09, and going forward, the issue still
20 stands, the concern still stands.

21 Q. Attached to your testimony, I think it's marked as
22 "KET-48", could you just turn to that.

23 A. I have that.

24 Q. Could you explain just sort of generally the relevance

{WITNESS: Traum}

1 of this, why you attached it to your testimony?

2 A. Sure. Here I'm -- what I'm trying to look at or get at
3 is, "okay, if you look at the all-in costs or benefits
4 of Newington Station to energy service customers, what
5 is it?" And, this being a PSNH-generated number, would
6 say, "Okay, if we look at Newington, the total
7 forecasted costs for 2011 was \$33 million. That total
8 cost includes return on rate base, depreciation on the
9 whole plant investment, *etcetera*, while the revenue
10 from Newington, due to capacity and energy revenues, is
11 only \$21 million." That would say that, on a
12 forecasted basis for 2011, from an energy
13 service customer perspective, the existence of that
14 plant is costing those customers roughly \$12 million.

15 Also, in my Attachment 53, we had asked
16 for a similar type of a calculation with 2010 actual
17 data. And, based on that result, we're showing that,
18 for 2010, the existence of the plant cost energy
19 service ratepayers roughly \$6 million.

20 Similarly, if we were to go back to
21 Exhibit G.1 that you were asking me some questions
22 about in the footnote just a couple minutes ago, if we
23 were to take the "2009" column, the total revenue
24 requirement shown there, about three-quarters of the

{WITNESS: Traum}

1 way through that table, was roughly \$43 million, while
2 the total revenues generated by the plant were roughly
3 \$32 million. Indicating to me that, okay, the
4 existence of that plant cost energy service customers
5 roughly \$11 million in 2009. If we look at 2008,
6 there's basically a similar result.

7 And, it's because of that kind of
8 information I have the concern that the CUO done by
9 Levitan is too limited. And, I'm not blaming it on
10 Levitan, I'm just saying that it's just too limited,
11 and the Commission should do a -- have a much larger
12 one done that takes into account all costs to
13 customers.

14 Q. I don't know if you recall, but I asked the PSNH panel,
15 I believe yesterday, a question with regard to Order
16 Number 25,061, it's a December 31, 2009 order in the
17 PSNH 2010 Default Energy Service Rate docket. And, on
18 Page 17 of that order, I had mentioned -- or, I had
19 pointed out a reference to testimony that Steve Mullen,
20 from the Commission Staff, had provided in that docket.
21 And, in that order, the Commission had noted that Mr.
22 Mullen had said that "Newington Station had become
23 increasingly uneconomic", and that the capacity -- "as
24 the capacity of the plant decreased, the revenues

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{WITNESS: Traum}

1 associated with the plant had been exceeded by the
2 plant-related expenses." Do you remember that order?
3 Would it be helpful if I put that in front of you
4 again, but --

5 A. If you're going to be asking me specific questions, it
6 would make sense. I do generally recollect it.

7 CHAIRMAN IGNATIUS: Mr. Patch, before
8 you go further with that, --

9 MR. PATCH: Yes.

10 CHAIRMAN IGNATIUS: -- and you may have
11 addressed this yesterday in the hearing, but Mr. Mullen
12 isn't testifying. So, I'm wondering what -- just an offer
13 of proof of where you're going with his statements?

14 MR. PATCH: Well, it's really just to
15 show that Mr. Mullen had the same concern that Mr. Traum
16 has just indicated through his testimony.

17 CHAIRMAN IGNATIUS: Well, we have the
18 order in the public record, not specifically in this
19 docket, but it exists out there. Is there a reason to go
20 further than that?

21 MR. PATCH: No. Just to underscore the
22 point, but I'll stop there. Thank you.

23 CHAIRMAN IGNATIUS: Thank you.

24 MR. PATCH: That's all the questions I

{WITNESS: Traum}

1 have. Thank you.

2 CHAIRMAN IGNATIUS: All right.

3 Ms. Smith, questions?

4 MS. SMITH: No. Thank you.

5 CHAIRMAN IGNATIUS: Mr. Cunningham?

6 MR. CUNNINGHAM: No. No questions.

7 Thank you.

8 CHAIRMAN IGNATIUS: Mr. Steltzer?

9 MR. STELTZER: No thank you.

10 CHAIRMAN IGNATIUS: Mr. Peress?

11 MR. PERESS: No questions. Thank you.

12 CHAIRMAN IGNATIUS: Then, Mr. Speidel?

13 MR. SPEIDEL: No questions. Thank you.

14 CHAIRMAN IGNATIUS: All right. Ms.

15 Knowlton?

16 MS. KNOWLTON: Good morning, Mr. Traum.

17 WITNESS TRAUM: Good morning. I was

18 hoping you'd say "No questions."

19 MS. KNOWLTON: Sorry. Not so lucky.

20 MS. HOLLENBERG: He's still got it.

21 MS. KNOWLTON: Not sure I really need

22 this.

23 (Referring to microphone.)

24 BY MS. KNOWLTON:

{WITNESS: Traum}

1 Q. But you considered the CUO deficient, in part, because
2 it did not consider divestiture, is that correct?

3 A. I feel that the scope of it was too limited.

4 Q. But your testimony says that you think divestiture
5 should have been included, correct?

6 A. Yes.

7 Q. And, your view is that the Commission order requiring
8 the study did require a study of divestiture, correct?

9 A. That it talked about "continuing the ownership". And,
10 to me, to make a determination whether to continue the
11 ownership or not, you have to look at "is it beneficial
12 to energy service customers to continue the ownership?"

13 Q. And, those are the only words, when you say "continuing
14 ownership", those are the only words in that Order
15 25,061 that required this CUO that support your view,
16 right?

17 A. I do not recollect any others.

18 Q. Would you like to look at the order and see if there
19 are any others? I can give it to you.

20 A. I'll accept your offer subject -- subject to check.

21 Q. On Page 31 -- actually, I'll read to you language from
22 that Order 25,061. On Page 31, I'll quote the order,
23 the second full paragraph. First sentence says:

24 "Having reviewed the revenues and expenses related to

{WITNESS: Traum}

1 Newington Station, we agree with Staff that the Company
2 should conduct a study of the costs of continuing the
3 ownership and operation of the plant." End of
4 sentence. That's the sentence you had in mind?

5 A. It captures the thought. Whether it's the exact
6 sentence, I don't recall.

7 Q. Are you aware of whether that order contained any other
8 guidance to the Company about the CUO and how that
9 analysis should be conducted?

10 A. No, I do not.

11 Q. Is it possible that the language that you're relying
12 on, the "continuing the ownership of the plant", could
13 mean a study of what the costs are to continue to own
14 the plant?

15 A. It's the Commission's language, so I would say that's
16 for the Commission to respond to. But "continuing the
17 ownership" means you have to look at the costs of
18 continuing the ownership. Those costs, including
19 depreciation on the investment, return on the
20 investment, items like that. Which are not recognized
21 for the -- in the current CUO.

22 Q. Do you think that the plain meaning of those words are
23 clear on their face?

24 A. I think the --

{WITNESS: Traum}

1 MS. HOLLENBERG: I'm going to object to
2 that question. I think he answered the question.

3 MS. KNOWLTON: I don't. I'd ask that he
4 be instructed to answer.

5 CHAIRMAN IGNATIUS: Well, I think you've
6 gotten his interpretation of what they mean. So, are you
7 asking him if he's confused about his interpretation?

8 MS. KNOWLTON: Well, I guess -- I can
9 rephrase the question.

10 BY MS. KNOWLTON:

11 Q. I mean, is it possible, Mr. Traum, that there could be
12 another interpretation of those words?

13 A. Well, certainly, PSNH has a different interpretation.

14 Q. So, yours is not the only one?

15 A. I'll stand by my answer.

16 Q. Okay. If the Commission had meant for the Company to
17 study divestiture, would it have been possible for the
18 Commission to have used that word "divestiture"?

19 A. It's possible.

20 Q. In fact, isn't it true that the Commission does know
21 how to use that word "divestiture"? Specifically, I'm
22 referring to Order 24,945, which states that "PSNH will
23 not, however, be required to include an analysis of
24 divestiture in its next LCIRP as set forth in Order

{WITNESS: Traum}

1 Number 24,695." Do you accept that I've read that
2 language from the order subject to check?

3 A. I'll accept you read the language correctly.

4 Q. And, you, in your review of the Newington CUO, in your
5 testimony you also have recommended that there should
6 be CUOs conducted on the two coal units at Schiller,
7 correct?

8 A. I believe that was in the other aspect of my testimony.
9 But, yes, I suggested that full studies be conducted
10 for the Schiller coal units and for the Bow plant.

11 Q. And, you're also recommending that the Commission
12 retain consultants to study whether Newington,
13 Schiller, and Merrimack should be retired or divested,
14 is that correct?

15 A. They should be looking into that, yes.

16 Q. And, are you aware that, in this current legislative
17 session, that there was legislation that would have
18 required such a study?

19 A. I am aware that I believe such an approach had passed
20 the House Science & Tech Committee, was -- I believe it
21 was tabled in the House. And, I believe that just
22 recently Representative Garrity has talked about
23 raising the issue of divestiture again.

24 Q. And, are you -- would you accept subject to check that

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{WITNESS: Traum}

1 that vote tabling the legislation in the House was a
2 vote in fair of tabling the legislation 304 to 19?

3 A. I do not know the numbers. I'm not an expert on the
4 legislation. And, a lot of things are happening in the
5 Legislature these days.

6 Q. Would you take the number of the vote subject to check?

7 A. I'll accept it subject to check, yes.

8 Q. And, wouldn't that mean that the Legislature
9 overwhelmingly didn't think that such a study was worth
10 pursuing at this time, at least the House, as to that
11 vote?

12 MS. HOLLENBERG: Objection. The witness
13 just testified that he wasn't, you know, an expert on the
14 legislation or the legislative process or what's going on
15 as a whole over at the legislature at this point.

16 CHAIRMAN IGNATIUS: I'll sustain it.
17 It's asking for speculation into why people voted the way
18 they did.

19 BY MS. KNOWLTON:

20 Q. You're recommending the Commission expend resources at
21 this time on such a study?

22 A. Yes. That, when ratepayers are facing costs of 6, 10,
23 \$20 million annually over market, because of the
24 existence of the plant, I think it's worth the

{WITNESS: Traum}

1 Commission having some dollars spent to look at what's
2 in the best interest of customers.

3 Q. Do you have any sense for how much that would cost?

4 A. No, I do not. But, compared to the numbers I've just
5 mentioned, I'd have to think that it's a fraction of
6 those.

7 Q. Looking at your testimony on Pages -- on Page 3, Lines
8 8 through 10, you -- I believe here you're referring to
9 the CUOs that you want done, and you indicate that "the
10 costs and the benefits" -- that "in addition to
11 considering the costs and benefits of each plant, [that
12 the] studies should take into account reasonably
13 foreseeable changes in environmental regulations." Do
14 you see that language?

15 A. Yes.

16 Q. And, you further testified that you believe that --
17 that there are generators, owners of plants that have
18 appropriately taken into account those regulations?

19 A. I provided some information to the Commission that, as
20 I viewed it, potentially provides guidance to the
21 Commission. As explained in Phase 1 of this
22 proceeding, I was not putting myself forward as an
23 expert in those areas.

24 Q. And, one of the examples that you cited to was the

{WITNESS: Traum}

1 Tennessee Valley Authority as a utility -- as an
2 example of a utility that has decided to retire plants
3 because of concerns about environmental compliance
4 costs, is that right?

5 A. I've provided some information on TVA.

6 Q. And, in the case of TVA, isn't it true that its
7 decision to retire some of its coal-fired generation
8 was part of a settlement that it reached with the
9 United States Environmental Protection Agency to
10 resolve legal proceedings that it was involved in with
11 the EPA, is that right?

12 A. I do not know the underlying basis.

13 Q. All right. If you would look at Bates Page 116 of your
14 testimony.

15 A. I have that page.

16 Q. If you just would review that, do you see that on this
17 page there's a discussion about the resolution of their
18 legal dispute with the EPA as part of a settlement to
19 retire these plants?

20 A. I see references to "agreements with EPA".

21 Q. You also cite to Dominion's decision to retire Salem
22 Harbor in your testimony. You use that as another
23 example for comparison, is that right?

24 A. For purposes of providing guidance to the Commission.

{WITNESS: Traum}

1 Q. And, where is Salem Harbor located?

2 A. It's, I believe, in Massachusetts.

3 Q. Do you know how many generating units are at Salem
4 Harbor?

5 A. I can look if it's included in the -- okay. In my
6 Attachment 4, which regards to "Dominion Sets Schedule
7 to Close Salem Harbor Power Station", it refers to
8 "Units 1 and 2 to cease operation by the end of [the]
9 year." And, I believe that it indicates that there are
10 four units at the plant.

11 Q. Do you know what type of fuel each of those units burn
12 or burned?

13 A. Again, I provided this for purposes of providing
14 guidance to the Commission. I can read the -- my
15 Attachment 4 to see if it indicates that, if that's
16 necessary?

17 Q. Sure.

18 (Short pause.)

19 **BY THE WITNESS:**

20 A. I don't believe the attachment indicates what the fuel
21 source is. And, at this point, I'm not prepared to
22 speculate on what it is. As I indicated, the reason I
23 provided this attachment was to provide some guidance
24 to the Commission, to let them be aware that other

{WITNESS: Traum}

1 owners of, let's say, merchant plants were setting
2 schedules to close plants, just to provide that kind of
3 an information. And, this was in the general section
4 of my testimony, not the Newington-specific point.

5 BY MS. KNOWLTON:

6 Q. Would you take subject to check that Units 1, 2, and 3
7 burn coal, and that Unit 4 burns RFO?

8 A. I'll accept that subject to check.

9 Q. The quote from the Dominion CEO in that Attachment
10 KET-4 refers to "increasing compliance costs" and
11 "diminishing net energy margins for coal plants".
12 Would you agree that there are Massachusetts -- or,
13 would you accept subject to check that there are
14 Massachusetts regulations that are applicable to coal
15 plants, but not to plants that can fire natural gas or
16 oil?

17 A. I do not know, so I will accept that subject to check.

18 Q. And, are you familiar whether there's any state
19 regulations in New Hampshire that limit mercury
20 emissions? Or, I'm sorry, state laws, state laws or
21 regulations that relate to mercury emissions?

22 A. Well, I know that the Company has spent roughly 400 and
23 some odd million dollars on scrubbers for the Bow
24 plant. And, I assume that they would not have done

{WITNESS: Traum}

1 that if they weren't mandated to do it.

2 Q. And, would you accept subject to check that there's a
3 provision in RSA 125-0 that requires the installation
4 of scrubber technology for coal-fired -- certain
5 coal-fired sources to reduce mercury and other
6 emissions?

7 A. I'll accept that subject to check. And, I guess I'd
8 add, Newington is not a coal plant.

9 Q. Okay. Thank you. And, you're also aware that
10 Newington is dual-fuel, a dual-fuel unit, that it's
11 able to burn natural gas and RFO?

12 A. Yes. And, I think it's interesting, just for some
13 history, I was involved back when the discussions were
14 ongoing on whether to make the plant a dual-fuel plant.

15 Q. Is that something that you supported?

16 A. At that point in time, I did. And, that was before the
17 world changed.

18 Q. Okay. Would you agree that RFO is a significantly more
19 expensive fuel than natural gas in the current market?

20 A. Yes, it is.

21 Q. Would you agree that RFO is highly likely to remain
22 much more expensive than natural gas, I mean, let's say
23 throughout the CUO planning horizon?

24 A. I believe -- as an individual, I believe that's

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{WITNESS: Traum}

1 correct.

2 Q. Would you agree then that, all else being equal, that
3 the fuel operating costs for a unit like Salem Harbor 4
4 would be much greater for a unit that can burn natural
5 gas, like Newington?

6 A. There are more efficient natural gas units and less
7 efficient natural gas units. Certainly, the more
8 efficient the unit, the less expensive it would be to
9 operate, as compared to a Salem Harbor, from an
10 incremental basis.

11 Q. Are you familiar with the case that's pending in
12 Federal Court here in New Hampshire that was filed by
13 Conservation Law Foundation against the Company?

14 A. In general, yes.

15 Q. Okay. And, you're a witness in that case for CLF,
16 aren't you?

17 A. I provided a statement of facts, without taking a
18 position on the actual merits of the filing.

19 Q. But the affidavit was supported, it was an attachment
20 to CLF's pleading filed with the Federal Court?

21 A. Yes, it was.

22 Q. And, in that affidavit, on Page 6, I just want to read
23 you a quote from that affidavit. It says, well, you
24 state "that in the New England wholesale market, an

{WITNESS: Traum}

1 electric generating unit that is modified to reduce its
2 fuel costs per megawatt-hour generated will be
3 dispatched more often, all other things being equal."
4 Would you take that subject to check that that's a
5 quote from your affidavit?

6 A. Yes. And, I wouldn't disagree with it.

7 Q. So, that would be the case for Newington, wouldn't it,
8 that it would be dispatched more often, if it burns
9 more gas than oil?

10 A. If it was cheaper to operate it on natural gas, as
11 opposed to oil, it would be dispatched more often on
12 natural gas than oil. But, then, again, is it going to
13 be dispatched at all, because of its underlying cost
14 structure.

15 Q. Now, in your testimony you state that a new
16 "independent CUO is necessary", due to what you
17 perceive as "gaps" and what was done with this CUO,
18 correct?

19 A. We've talked about the lack of inclusion of the all-in
20 costs. I had also raised issues with regards to items
21 like, well, for instance, testing, and the hours for
22 testing, and that impact on the NPV was not recognized.

23 Q. Okay. One of the gaps that you have pointed in to your
24 testimony is that the Company's indicative prices for

{WITNESS: Traum}

1 SO2 emissions are too high, right?

2 A. Okay. This was one of the issues that -- well, thank
3 you for asking me.

4 Q. Well, just "yes"? I mean, that is one of the gaps,
5 correct? And, then, you can explain.

6 A. Okay. One of the gaps and -- related to SO2 emission
7 pricing. But my concern about SO2 emission pricing
8 related to the PSNH aspect of the filing, not the
9 Levitan portion.

10 Q. But would you agree that, if we look at the CUO, that
11 there is SO2 prices that are included in the CUO?

12 A. Yes.

13 Q. Okay. And, in your testimony, you point out that
14 Levitan came up with much lower SO2 prices than the
15 Company, is that right?

16 A. That's correct. And, that portion of my testimony was
17 in the -- let's call it the "PSNH portion" of the
18 testimony, not the Levitan Newington Study. And, my
19 concern was more with PSNH's estimates or actual lack
20 of spending time on the -- on the forecast, that PSNH
21 did not forecast long-term energy and capacity prices
22 as stated, because there was no routine business need
23 for such forecasts. And, I was, in my regular
24 testimony, I was criticizing PSNH process, not the

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{WITNESS: Traum}

1 Levitan estimates on SO2 prices.

2 Q. The Levitan estimates were lower, right, than the
3 Company's?

4 A. They were lower, yes.

5 Q. And, one of the claims that you've made is that Levitan
6 is not independent of the Company in its conduct of the
7 CUO, correct?

8 A. In some areas.

9 Q. Right.

10 A. And, the SO2 is not one of those areas I criticized.

11 Q. So, would it be fair to say then that, in the case of
12 the SO2, that actually would be a sign of Levitan's
13 independence, that they looked at the Company's numbers
14 and said "We disagree with that. We think they're
15 higher than they should be. We're going to use the
16 lower numbers." Do you agree with that?

17 A. Yes.

18 Q. Mr. Traum, would you accept subject to check that --
19 well, first, let me ask you, are you aware that PSNH
20 makes periodic update filings with the Commission with
21 regard to its Energy Service rates?

22 A. Yes. Once a year.

23 Q. I'm sorry?

24 A. Once a year.

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{WITNESS: Traum}

1 Q. Once a year. Do you know about when that gets made?

2 A. The change is for effect, I believe, around July 1st.

3 So, I would assume it will be maybe two months before

4 they would make the preliminary filing, and then they

5 update it closer to the July 1st date, prior to

6 hearings.

7 Q. Would you accept subject to check that the Company

8 recently made a filing -- made that update filing with

9 the Commission, and that that filing reflects that the

10 Company has sold some of the oil inventory and credited

11 the Energy Service rate with an approximate \$8 million

12 sale?

13 A. I was unaware of that.

14 MS. KNOWLTON: I have nothing further

15 for Mr. Traum.

16 CHAIRMAN IGNATIUS: Thank you.

17 Commissioner Harrington.

18 BY CMSR. HARRINGTON:

19 Q. Mr. Traum, you mentioned a couple of times that you

20 think the Levitan Study does not take into account the

21 "sunk costs" and you also mentioned the term about

22 "all-in costs". Could you explain a little bit more

23 what you meant by that?

24 A. Sure. What the Levitan study includes for return and

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{WITNESS: Traum}

1 depreciation purposes is the -- just relates to the
2 \$500,000 a year of capital expenditures. That's what's
3 built in for the return for depreciation. What it does
4 not recognize is that there's already a net plant of
5 something in the 40 to \$50 million range, and it does
6 not take into account the depreciation on that existing
7 plant and return on that existing plant.

8 Q. So that, when you say the "40 to \$50 million", that's
9 the present book value of the plant?

10 A. Correct.

11 Q. And, then, going forward, they only looked at the
12 addition of half a million dollars a year in capital
13 costs, and neglected to cover the carrying costs on the
14 book value?

15 A. That's correct.

16 Q. Okay. And, that's sort of the same issue, when you're
17 talking about "all-in costs", then you're referring to
18 present book value, plus future additional capital?

19 A. Yes.

20 Q. And, on the "future additional capital", you, in your
21 -- part of your testimony you brought up that the
22 actuals for the past I guess it was five years had been
23 much higher than that, that amount is substantially
24 more. Did you do any research into what would be a

{WITNESS: Traum}

1 more accurate number for the future or are you just
2 saying that there's a -- it doesn't pass the
3 straight-face test going down by so much?

4 A. Okay. Let me correct one thing in your question. What
5 I had provided were the actual forecasts of budgetary
6 expenses going forward for the five-year periods. And,
7 indicated that they're much -- they're a multiple of
8 the 500,000 per year in the budget that they're using
9 for the next ten years. And, where we're just looking
10 at forecasts, I did not go back and try to determine
11 what the actual expenses were.

12 I did, as I indicated, once the rebuttal
13 testimony was filed, the OCA did ask in discovery for
14 "okay, what's the actual capital expenditures for
15 2011?" And, that number was provided in response to
16 OCA Set 4, Number 3, and it was "\$1,055,000". So,
17 again, those were just for sanity check purposes, we're
18 saying, you know, "they look like there are some real
19 questions here". You know, and just another reason why
20 to question the NPV and to say "another study should be
21 done."

22 CMSR. HARRINGTON: Fine. Thank you.

23 That's all I had.

24 CHAIRMAN IGNATIUS: Commissioner Scott.

{WITNESS: Traum}

1 CMSR. SCOTT: Thank you. Good morning.

2 WITNESS TRAUM: Good morning.

3 BY CMSR. SCOTT:

4 Q. You had suggested that the impacts of the Northern Pass
5 Project should be looked at in a study. Is that
6 correct?

7 A. Yes. That there should be some probability assigned to
8 Northern Pass coming to be. Whether it's in 2016,
9 2017, 2018, because this is a ten-year study. And, we
10 want to be able to have some, you know, get some
11 information out of this study.

12 Q. That's helpful. Because my follow-on question was
13 going to be, obviously, that's not a sure thing, that
14 the Project will happen. So, how do you suggest the
15 Company would factor that in?

16 A. Well, Levitan has talked about they run 250 scenarios
17 for other things. I'm just suggesting, well, maybe,
18 you know, you could run a couple of different
19 scenarios. One, it doesn't come on; one, it comes on
20 in 2017, and what the potential impact on capacity
21 revenues would be. Just so you have different pieces
22 of information there. Or, you know, whether it's the
23 Commission or the Legislature, anybody to say, you
24 know, "What does the future look like? What should we

{WITNESS: Traum}

1 be doing about this plant or other plants?"

2 Q. Okay. Thank you. And, similarly, you had implied
3 that, again, there should be some inputs for potential
4 environmental regulations, is that correct? New
5 environmental regulations?

6 A. I would feel much more comfortable if there was an
7 independent entity who had the expertise to say "okay,
8 there's, again, a 10 percent probability of this
9 occurring in the next five years", or whatever, as
10 opposed to what I view as PSNH's standard being "well,
11 if it's known and measurable, we'll include it, but not
12 till then."

13 Q. Okay. Thank you. And, you've kind of already answered
14 this, I believe. But you've asked for a more complete
15 -- you've suggested a more complete study should be
16 done, correct?

17 A. Yes.

18 Q. Yes. Can you fill in the blanks? What would that look
19 like that's not currently there more explicitly?

20 A. Well, I think the more complete study should look at
21 the all-in costs and expenses of continuing the
22 ownership. Look at, "okay, if instead PSNH were to
23 retire the plant, okay, what are the potential --
24 what's the potential impact of that on ratepayers?"

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{WITNESS: Traum}

1 And, "if PSNH were to divest the plant, again, what is
2 the potential impact on ratepayers?"

3 For instance, if, through divestiture,
4 PSNH could get the net book value, I have no idea if
5 they could or not, but, if they could, then maybe
6 that's the best option for ratepayers. And, if PSNH
7 opposed doing that, but the Commission had that
8 information in hand, you could always reduce the rate
9 of return. You know, I think there are other tools
10 you'd have. But I think that's information that's
11 valuable to have.

12 Q. I had asked the panel yesterday, I believe, yes, I
13 asked the panel yesterday, actually, Mr. Levitan I
14 believe I asked "did they look at long-term contracts
15 or other potential ways to get power that may be more
16 cost-effective?" Is that something you find of -- you
17 think would be of value? Is that germane, you think?

18 A. I don't think that's really essential here.
19 Remembering that Newington Station is being dispatched
20 for so few hours a year, they could buy that power on
21 the market. If it was divested, that it would not have
22 any impact potentially on the total capacity within
23 NEPOOL.

24 CMSR. SCOTT: Thank you. That's all I

{WITNESS: Traum}

1 have.

2 CHAIRMAN IGNATIUS: Thank you. I have
3 no questions. Any redirect? Oh, I'm sorry. One moment.

4 CMSR. HARRINGTON: I had one more
5 follow-up question for you, Mr. Traum.

6 BY CMSR. HARRINGTON:

7 Q. There was a discussion about the enhanced reliability
8 of Newington because of its location to the interstate
9 pipeline, and that that was a positive for the plant.
10 And, I remember I asked the question "if that had a
11 direct benefit to the ratepayers or it was just
12 improving reliability in New England?" In your
13 opinion, if the plant was divested and sold to somebody
14 else, it would, obviously, have the same pipeline
15 arrangement. Would whatever reliability benefits that
16 that now allows to Newington under Public Service
17 ownership, would they continue if it was owned as a
18 merchant plant?

19 A. I would think so, and -- yes, I would think so.

20 CMSR. HARRINGTON: Okay. Thank you.

21 CHAIRMAN IGNATIUS: Ms. Hollenberg.

22 MS. HOLLENBERG: Yes, please. Just
23 limited. Thank you.

24 **REDIRECT EXAMINATION**

{WITNESS: Traum}

1 BY MS. HOLLENBERG:

2 Q. Mr. Traum, Commissioner Scott just inquired with you
3 about your recommendations regarding running scenarios
4 that include considerations such as the impacts of
5 Northern Pass and reasonably foreseeable environmental
6 regulations. Would you -- are such considerations
7 consistent with your understanding of the purpose of an
8 IRP docket as a planning exercise?

9 A. Yes. It's for planning. And, it's not just for -- you
10 know, I would have preferred that PSNH viewed it as a
11 planning document, that it was a living document that
12 they would utilize, you know, and, unfortunately, they
13 indicated differently. But I think it's for planning
14 for all parties.

15 Q. Thank you. You also testified in response to
16 cross-examination words to the effect that you "were
17 not blaming on Levitan the too limited nature of the
18 Levitan study conclusions." And, I'm not asking you to
19 place blame on anyone, but I wondered if you might just
20 summarize to what you attribute the fact that the
21 Levitan conclusions are limited?

22 A. Well, I believe the initial RFP talked about the
23 "continued operation", and it dropped the "ownership"
24 aspect. And, that's sort of where it all comes from.

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{WITNESS: Traum}

1 Q. Thank you. You recommend in your direct testimony, and
2 were asked about it on cross-examination by the
3 Company's counsel, an analysis or study of all of
4 PSNH's generation plants. And, I wondered if you are
5 -- and, you were asked about the costs associated with
6 doing such a study. Are you familiar with the pending
7 issues at the Commission related to PSNH's migration of
8 customers?

9 A. Well, I'm unfamiliar with what may have transpired in
10 the very recent past. But, over time, it's been a
11 concern of mine and the OCA's. As migration increases
12 for large customers, costs are shifted down.

13 Q. To other customers?

14 A. To other customers, primarily small customers that may
15 not have an option.

16 Q. And, could such a study as you recommended of all of
17 PSNH's generation plants be useful for the Commission's
18 resolution of that issue, too?

19 A. It's possible.

20 MS. HOLLENBERG: Thank you. No other
21 questions.

22 CHAIRMAN IGNATIUS: Thank you. Then,
23 Mr. Traum, thank you for your testimony this morning.
24 And, I think it's a good time for a break for the court

[WITNESS: Hachey]

1 reporter. Let's go off the record.

2 (Whereupon a recess was taken at 10:15
3 a.m. and the hearing reconvened at 10:46
4 a.m.)

5 CHAIRMAN IGNATIUS: Apologize for the
6 delay. Another matter came up we had to work on. So, are
7 we ready to begin with Mr. Hachey?

8 MR. PATCH: Yes.

9 CHAIRMAN IGNATIUS: All right. Mr.
10 Patnaude.

11 (Whereupon *Michael E. Hachey* was duly
12 sworn by the Court Reporter.)

13 **MICHAEL E. HACHEY, SWORN**

14 **DIRECT EXAMINATION**

15 BY MR. PATCH:

16 Q. Good morning, Mr. Hachey. Could you state your name
17 for the record.

18 A. My name is Michael E. Hachey.

19 Q. And, your occupation?

20 A. My title is "Vice President of Regulatory Affairs and
21 Compliance" at TransCanada Power Marketing.

22 Q. And, how long have you been employed by TransCanada?

23 A. Well, my employment has lengthened since this
24 proceeding began. About 13 years.

[WITNESS: Hachey]

1 Q. And, how about in the industry?

2 A. Over 30 years.

3 Q. Do you have in front of you a copy of your prefiled
4 testimony dated "July 27th, 2011"?

5 MR. PATCH: And, I left copies on the
6 Bench up front and with the Clerk.

7 CHAIRMAN IGNATIUS: Thank you.

8 **BY THE WITNESS:**

9 A. Yes, I do.

10 BY MR. PATCH:

11 Q. And, is this the prefiled testimony that you submitted
12 in this docket?

13 A. Yes.

14 Q. If you were asked the same questions today, would your
15 answers be the same?

16 A. With the exception of a couple of corrections.

17 Q. Okay. Could you run through those.

18 A. Yes. On Page 4 of 13, and this is something I
19 recognized here today, in part due to the testimony of
20 Mr. Traum. The Line 82, I said that the "Savings on
21 Return" were "\$10 million", and I base that on the
22 Levitan Continuing Unit Operation Study. What I failed
23 to recognize was that that \$10 million was really on an
24 incremental basis. In fact, the Newington return, for

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[WITNESS: Hachey]

1 example, in 2011, is \$8 million alone. So, what I know
2 is that that number is much larger. I don't know the
3 exact number. But, in this case, the net customer
4 value in this scenario would, in fact, be much larger.
5 And, this would be a scenario in which Newington
6 retires, and the Commission determines that PSNH cannot
7 earn a return on the retired facility.

8 The other corrections I would make are
9 on Line 96 and 97. And, I believe, in place of "2004",
10 on Line 96, it should be "2005". And, I believe, on
11 Line 97, in place of "2005", it should be "2006".

12 Q. Okay. With those corrections, do you adopt this as
13 your prefiled testimony?

14 A. I do.

15 MR. PATCH: I would ask that it be
16 marked as the next TransCanada exhibit, which I believe is
17 14, TransCanada 14?

18 CHAIRMAN IGNATIUS: All right. So, the
19 July 27, 2011 testimony we'll mark for identification as
20 "TransCanada 14".

21 (The document, as described, was
22 herewith marked as **TransCanada Exhibit**
23 **14** for identification.)

24 BY MR. PATCH:

[WITNESS: Hachey]

1 Q. Do you also have in front of you, Mr. Hachey, your
2 supplemental prefiled testimony, dated "October 7th,
3 2011"?

4 A. Yes, I do.

5 Q. And, is that what was submitted in this docket?

6 A. Yes.

7 Q. If you were asked the same questions today, with regard
8 to this supplemental testimony, would your answers be
9 the same?

10 A. Yes.

11 MR. PATCH: I would ask that that be
12 marked as "TransCanada Number 15"?

13 CHAIRMAN IGNATIUS: So marked.

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

17 BY MR. PATCH:

18 Q. Mr. Hachey, is there anything you'd like to say in
19 response to the testimony that has been provided since
20 you filed this testimony?

21 A. Yes. There's a few things. And, I'll try to be
22 succinct. There was a little discussion yesterday
23 about the need to look at data involving the 2011 net
24 energy benefits for Newington Station. And, I want to

[WITNESS: Hachey]

1 just make sure everyone understands what net energy
2 benefits are and why it's so critical. Net energy
3 benefits on a power plant effectively say, "for the
4 fuel in and fuel-related expenses, like emission
5 credits, what's the value of the power out?" So, to
6 bring it down to Main Street, so to speak, if there's a
7 baker on Main Street making bread, it's asking him
8 "what are you going to sell your bread for and what's
9 the cost of the flour and yeast to make that bread?"
10 It doesn't deal with the mortgage, it doesn't deal with
11 his time, any help's time. It doesn't deal with any
12 other expenses. It's very basic, basic test.

13 Why it's so important in this issue --
14 in this case is, and three witnesses, the Attorney
15 General -- I'm sorry, the Staff, the Consumer Advocate,
16 and TransCanada are all in alignment on this, is that
17 this study needs to be redone, because it is not
18 supported by the historic results of the plant relative
19 to net energy benefits. It's not supported by the CRA
20 modeling that we discussed. It's not borne out by the
21 ES rate projections. And, it will be my contention
22 that it's not going to be borne out by the actual
23 operation during the study period. That's why 2011 net
24 energy benefits are critical to be viewed and seen.

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[WITNESS: Hachey]

1 TransCanada requested that information in an
2 interrogatory, and we were not provided it. At the
3 time, there was only eleven months of history. We were
4 not provided it. Rather, we were told "well, on a bid
5 basis, it looks like we made \$4 million." The problem
6 with that is it's meaningless.

7 Net energy benefits are critical and are
8 very meaningful for this analysis. When you look at a
9 power plant, there are two typical revenue streams,
10 some cases just one. The first is net energy benefits,
11 the second is capacity benefits. After that, you have
12 the plant expenses. Absolutely critical. I'll leave
13 that one there.

14 Another issue that arose yesterday, and
15 has continued today, and this was information
16 TransCanada didn't even have until the middle of April,
17 when PSNH filed its FERC Form 1. There was discussion
18 yesterday of oil use at Newington. And, I want to
19 drill down on this and go over it very slowly, because
20 I think it's very important. On that document, it
21 identifies that 80,000 -- "83,126" barrels of Number 6
22 oil were consumed at Newington in 2011. That is not as
23 the testimony -- initial testimony was, a small volume
24 of oil. By our standards, our measures, that's equal

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[WITNESS: Hachey]

1 to or exceeds typical oil barges, the size of an entire
2 oil barge. Now, that oil, in calendar 2011, had a
3 market value of somewhere between \$110 and \$120 per
4 barrel. That's a significant asset. The way a power
5 plant operator would get that value is to price its
6 power at that replacement cost of the oil, the market
7 value, or, alternatively, the power plant operator
8 could simply sell the oil in the market. Based on
9 testimony I heard yesterday, that neither of those
10 happened. And, we now know today, we -- I suspected,
11 based on the Continuing Unit Operation Study, and we
12 now know based on something I heard Ms. Knowlton say,
13 that that oil could have been sold in the market.

14 From what I can tell at this point, it's
15 an open question whether about \$50 million worth of oil
16 value essentially went up in smoke. That's an open
17 question. And, I think that needs to be directly
18 answered.

19 To say, "well, we got our inventory
20 cost", is a little like me going over to Mr. Patch and
21 saying, "well, Doug, you paid 200 grand for your house,
22 yes, the market value is 400 grand today, but, if I
23 give you 200 grand, you're made whole, right?" No.
24 That, maybe in some regulated world, it works that way,

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[WITNESS: Hachey]

1 but not in the real world. So, that was some analysis
2 that just, as the testimony unfolded, it was occurring
3 to me that there is significant, significant value
4 being lost.

5 There was testimony relative to the
6 results from FCA 6, that's Forward Capacity Auction 6.
7 The reason that's important is because I mentioned that
8 the Newington Station, a power plant, has two important
9 areas of value. The first is the net energy benefits,
10 the second is the capacity value. I think, and I -- I
11 think the net energy benefit issue has been handily
12 gone over and found to be terribly flawed, but I want
13 to deal now with the capacity value. Because, in the
14 assumptions that were made in the Continuing Unit
15 Operation Study, there was 2,000 megawatts, 2,100 to be
16 exact, of generation assumed to be retired between the
17 2014 to 2016 time frame. And, a list of specific units
18 were given. The results of the FCA 6, and this is what
19 was discussed yesterday, and Mr. Patch provided a
20 document, showed that, in fact, 90 percent of the
21 capacity that was assumed to be retired has capacity
22 commitment obligations in the 2015/'16 time frame.

23 Now, in my analysis, I went with the
24 assumptions made by Mr. Levitan. I just said "Fine.

[WITNESS: Hachey]

1 I'll go with that assumption. We'll assume they're
2 retired." In fact, very little of it, and perhaps none
3 of it, is actually being retired. Even the 10 percent,
4 I don't know today, sitting here, whether it retired or
5 not or was just mothballed. So, now we're having -- we
6 had significant issues on the net energy benefits, I
7 think we have significant issues with the capacity
8 benefits.

9 There was testimony given and reiterated
10 yesterday on rebuttal testimony by Mr. Levitan that I
11 assumed that the reconfiguration auction assumptions
12 just ran out through the study period. And, what that
13 said was that his contention was that I assumed that
14 the replacement value for Newington would be found by
15 reconfiguration auction operation throughout 2020.
16 That isn't what I assumed. I never assumed that, and
17 it was in my testimony that I didn't assume that. So,
18 that was flawed.

19 What I assumed was the reconfiguration
20 auction pricing through the period that there are floor
21 prices in the forward capacity auctions, and that's
22 through FCA 7. And, I've been very clear about that.
23 We didn't even know I was right until a recent FERC
24 order. And, then, thereafter, I assumed that the

[WITNESS: Hachey]

1 dynamic delist took over. I was conservative, because
2 I assumed that units would begin dynamically delisting
3 at a dollar, in other words, at the immediate eligible
4 price, the earliest price that they could delist. So,
5 that testimony was flawed.

6 We've heard testimony from Mr. Levitan
7 that Newington has value, because, well, in
8 exceptionally cold weather conditions, it could burn
9 oil. It's got the direct connection to the -- I'm
10 sorry, it could burn gas, it's got the direction --
11 direct connection to the gas pipelines, burn gas on an
12 "unauthorized basis", apparently. I think that was his
13 words. "Might have to pay some penalties." Well, it's
14 a lot worse than that. Might have to pay huge
15 penalties, if you even got that far, because it's my
16 understanding that the gas companies would shut you
17 down immediately. So, I don't know where that imputed
18 value of Newington comes from.

19 There was a discussion also yesterday
20 about the quick-start nature of Newington, and then we
21 got into "well, what's the quick-start parameter?"
22 "Well, it's six hours." Well, it wasn't six hours,
23 and, in fact, it was in the Continuing Unit Operation
24 Study that it's 12 hours. And, while it seems like I'm

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[WITNESS: Hachey]

1 picking nits, this isn't a nit. Because, again, if you
2 look at the FERC Form 1 data, you'd find that the unit
3 was only connected to load for 800 hours last year.
4 That means, in my mind, I'm open to rebuttal by PSNH, I
5 suppose, but, in my mind, that means 8,000 hours of the
6 year you're working with a cold start. At 12 hours,
7 how does that help? So, you have a contingency in
8 NEPOOL arise at noon, and you're hitting the line at
9 midnight? How does that help?

10 The only reason I go into this is
11 because heavily developed in the Continuing Operation
12 Study is the flexibility of Newington. Well, not in
13 the real world. I don't see it.

14 Well, I hope I was succinct. I think
15 I'll stop there.

16 MR. PATCH: The witness is available for
17 cross.

18 CHAIRMAN IGNATIUS: Thank you.
19 Ms. Smith?

20 MS. SMITH: No thank you.

21 CHAIRMAN IGNATIUS: Mr. Cunningham?

22 MR. CUNNINGHAM: No. No questions.

23 CHAIRMAN IGNATIUS: Mr. Steltzer?

24 MR. STELTZER: No questions. Thank you.

[WITNESS: Hachey]

1 CHAIRMAN IGNATIUS: Mr. Peress?

2 MR. PERESS: No cross-examination.

3 CHAIRMAN IGNATIUS: Mr. Traum, are you
4 filling in for Ms. Hollenberg?

5 MR. TRAUM: I am, and I have no
6 questions. Thank you.

7 CHAIRMAN IGNATIUS: All right. Then,
8 Mr. Speidel?

9 MR. SPEIDEL: Just one moment, madam
10 Chair.

11 (Short pause.)

12 MR. SPEIDEL: No further questions.
13 Thank you.

14 CHAIRMAN IGNATIUS: Commissioner
15 Harrington? Oh. I think we've lost an important party
16 here.

17 (Laughter.)

18 CHAIRMAN IGNATIUS: I apologize. Ms.
19 Knowlton.

20 MS. KNOWLTON: Thank you.

21 CHAIRMAN IGNATIUS: I knew it was going
22 too quickly.

23 MS. KNOWLTON: Good morning, Mr. Hachey.

24 WITNESS HACHEY: Good morning.

CROSS-EXAMINATION1
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BY MS. KNOWLTON:

Q. I see from your testimony that you're here today on behalf of two TransCanada entities, is that correct?

A. Yes.

Q. One is TransCanada Power Marketing, Ltd., is that right?

A. Yes.

Q. Can you tell me, what does TransCanada Power Marketing, Ltd., do?

A. Does a variety of things. We sell retail and wholesale power under TCPM. Generation is made available to TCPM through the operating companies. And, we market that generation, and we deal with the -- some of the logistics and, certainly, the market involvement, the ISO market involvement of that generation.

Q. So, is TransCanada -- you say "TCPM", you mean, that's your shorthand --

A. TransCanada Power Marketing Limited.

Q. Okay. Want to make sure I have the lingo right. So, TransCanada Power Marketing, Ltd., is that the entity that's registered here in New Hampshire as a competitive electric supplier?

A. I believe so.

[WITNESS: Hachey]

1 Q. And, just to make sure I understand this correct, and
2 that same entity owns generation, which it sells energy
3 and capacity into the wholesale market?

4 A. I don't believe I said that.

5 Q. Okay. So, it does not own any wholesale generation?

6 A. My recollection, subject to check, is that the
7 operating companies, such as TransCanada Hydro
8 Northeast, owns the generation --

9 Q. Okay. That's -- sorry.

10 A. -- and makes it available to TCPM.

11 Q. That's the other party. So, just to make sure I have
12 it right. So, TCPM is the entity that sells at the
13 retail level?

14 A. Yes.

15 Q. And, TransCanada Hydro Northeast, Inc., is the entity
16 that owns generation?

17 A. Owns certain generation, yes.

18 Q. What generation is that?

19 A. Hydro plants on the Connecticut and Deerfield Rivers.

20 Q. Okay. And, do those -- any of those facilities, any of
21 those generation facilities, are they registered as
22 assets in the control area administered by ISO-New
23 England?

24 A. Yes. I believe so, if we're talking the same language.

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[WITNESS: Hachey]

1 Q. Okay. And, if you have any doubt about whether we are,
2 tell me, we're trying to make sure so we can all see if
3 it's the same one I'm speaking, okay?

4 A. They have load assets -- they have asset numbers, asset
5 IDs.

6 Q. Okay. And, do any of those generation facilities
7 participate in the ISO-New England Forward Capacity
8 Market?

9 A. Yes.

10 Q. Have they received capacity payments?

11 A. Yes.

12 Q. At the outset, I want to make sure that I understand
13 what your recommendation is in your testimony to the
14 Commission. Is it your recommendation that, based on
15 the facts that the Commission has heard in this docket,
16 that the Commission should decide in this case to
17 retire Newington Station?

18 A. No.

19 Q. Okay. I want to walk through the methodology that is
20 set forth in your testimony that you used to evaluate
21 the value of Newington Station that you've come up
22 with. And, that's -- I see that, on Pages 3 to 4 of
23 your testimony, that you've got three categories to
24 your analysis. You've got "energy benefits"?

[WITNESS: Hachey]

1 A. Yes.

2 Q. "Capacity benefits"?

3 A. Yes.

4 Q. And "fixed costs to go". And, you attached to your
5 testimony, there's an "Exhibit MEH-1". Do you have
6 that before you?

7 A. Yes.

8 Q. And, am I correct that the data that you used to
9 populate that chart is from the CUO Study, Exhibit G.1,
10 for 2009 -- excuse me, 2005 to 2009?

11 A. Yes. Well, let me check and make sure it's "Exhibit
12 G.1". I'm not sure if I'm saying that too quickly.

13 (Short pause.)

14 **BY THE WITNESS:**

15 A. This was the historic data that we were provided for
16 Newington operations, yes.

17 BY MS. KNOWLTON:

18 Q. Okay.

19 CHAIRMAN IGNATIUS: And, for the record,
20 Ms. Knowlton, is the G.1 exhibit, is that from PSNH
21 Exhibit 8?

22 MS. KNOWLTON: Right. That's -- well,
23 the original G.1 is in PSNH-1, in the CUO. And, then,
24 that was subsequently updated. PSNH-12 is the July 8th,

[WITNESS: Hachey]

1 2011 letter that contains the redlined and clean pages
2 that show the changes to Exhibit G.1.

3 BY MS. KNOWLTON:

4 Q. Mr. Hachey, in discovery, do you recall that you
5 provided the Company with copies of your workpapers in
6 association with MEH-1?

7 A. Yes.

8 MS. KNOWLTON: I'd like to mark for
9 identification TransCanada's response to PSNH 1-3. And, I
10 believe this would be "PSNH 14"?

11 CHAIRMAN IGNATIUS: This is a response
12 by TransCanada to a PSNH request?

13 MS. KNOWLTON: That's correct.

14 CHAIRMAN IGNATIUS: All right. We'll
15 mark that for identification as PSNH --

16 MS. DENO: Fourteen.

17 CHAIRMAN IGNATIUS: -- 14.

18 (The document, as described, was
19 herewith marked as **PSNH Exhibit 14** for
20 identification.)

21 BY MS. KNOWLTON:

22 Q. Mr. Hachey, do you have that before you?

23 A. I do.

24 Q. And, if you would turn to the second page of your

[WITNESS: Hachey]

1 response, there's a -- it's a chart -- two charts, one
2 says "Actual History", and the other one says "Levitan
3 Projection-Expected". Do you see that page?

4 A. Yes.

5 Q. Do you agree that the numbers in the "Net Energy
6 Revenue" row on that page are the values that you
7 plotted in MEH-1, in your chart?

8 A. I hope so. That was my intent.

9 Q. All right. And, would be the same -- the same be true
10 for the next, the chart on the next page, which would
11 be the third page of that document?

12 A. These net energy revenues should be the initial net
13 energy revenues, net energy benefits, from the original
14 Continuing Unit Operation Study, and then the
15 subsequently revised Continuing Unit Operation Study
16 that was provided in April.

17 Q. Okay. Looking -- again, still looking at what we just
18 marked as "PSNH 14", Page 2, under the chart "Actual
19 History", there's a line for "Fuel and Related
20 Expense". Do you see that?

21 A. Yes.

22 Q. And, would you just identify for the record the number
23 that you have there for the year "2007"?

24 A. Well, what's shown there is "33,384" -- "36,384", I

[WITNESS: Hachey]

1 guess.

2 Q. Okay. And, that -- what does that number constitute?

3 A. That constitutes the 2007 number, with the footnote on
4 the bottom added back.

5 Q. And, you're looking at Exhibit G.1 from the CUO Study?

6 A. Yes.

7 Q. And, the footnote, you say there's a note that says
8 "Fuel costs for 2007 total 36,384K but are shown net of
9 5,908K related to oil resale transactions", right?

10 A. Yes.

11 Q. So, you didn't choose to show -- to recognize the value
12 of those oil sales on this chart, correct?

13 A. Well, I was trying to get it correct. And, if you look
14 at the second, in fact, the second interrogatory we
15 filed in this case, I identified it this way. One of
16 the issues has been getting information. And, if there
17 was an issue where I represented it incorrectly, then I
18 would have expected it would have been pointed out at
19 that time. But I am open to correction, obviously,
20 because I've had a really hard time understanding a lot
21 of the PSNH contentions.

22 Q. Do you happen to have in front of you a copy, I don't
23 know if you were -- you were here during your counsel's
24 cross-examination, correct, of other witnesses this

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[WITNESS: Hachey]

1 morning?

2 A. Yes.

3 Q. And, are you -- your counsel was using the July 8th,
4 2007 letter that the Company filed with the Commission
5 that had some revisions to Exhibit G.1. Are you
6 familiar with that document?

7 A. Not offhand.

8 MS. KNOWLTON: Okay. Just show the
9 witness a copy of what was marked as "PSNH 12".

10 (Atty. Knowlton distributing documents.)

11 BY MS. KNOWLTON:

12 Q. Have you seen that before?

13 A. I don't believe I've seen this. I probably have it in
14 my inbox, but -- and in my files. But I don't recall
15 having seen it, no.

16 Q. So, you received it, but you never read it?

17 A. There were a lot of documents in this file that I -- in
18 particular, a lot of the information that was provided
19 to the -- by the other parties that I just never got
20 to.

21 Q. Okay. Well, if you would -- if you wouldn't mind, just
22 flip to the front page of PSNH 12. And, would you
23 agree that this document reflects that it was filed on
24 "July 8th, 2011"?

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[WITNESS: Hachey]

1 A. That's what it says.

2 Q. Okay. And, what date did you file your testimony, your
3 initial testimony that was marked as "TransCanada 14"?
4 What date did you file that with the Commission?

5 A. I'm not sure.

6 Q. If I told you it was "July 27th, 2011", would you take
7 that subject to check?

8 A. Sure.

9 Q. Okay. So, it sounds like you didn't read this July 8th
10 letter before you filed that testimony?

11 A. I may not have seen it. We're talking about a while
12 ago, so --

13 Q. Okay. Well, let's still stay with this page, if you
14 would, PSNH, the Data Response 1-3 that we marked as
15 "PSNH 14", the second page. And, if you would, --

16 A. I'm sorry. You've got to slow down. I'm trying to
17 catch up.

18 Q. Okay. Sorry.

19 A. Where are you?

20 Q. Mr. Patnaude has told me before that I speak too fast.
21 So, I'll try to slow down. So, it's your data
22 response, TransCanada's response to PSNH 1-3.

23 CHAIRMAN IGNATIUS: Which we just marked
24 as "PSNH 14".

[WITNESS: Hachey]

1 WITNESS HACHEY: I'm with you now.

2 MS. KNOWLTON: Okay.

3 BY MS. KNOWLTON:

4 Q. On the second page of that, if you would. Again, under
5 that "Actual History" column, --

6 A. For "2007"?

7 Q. Well, let's look at "2008". And, this time I'm looking
8 at the line for "Emission Allowance Expense".

9 A. I see "1,497". And, I see, in year -- I'm sorry,
10 "2008"?

11 Q. "2008", looking at your data response, I see "1,713".
12 Do you see that with me under "2008" for "Emission
13 Allowance Expense"?

14 A. Yes.

15 Q. Okay. And, if you would look at that July 8th, 2011
16 letter, Exhibit G.1. Do you see that, on July 8th,
17 that the Company updated those numbers, such that it's
18 actually, you know, a significantly different number?

19 A. It says that the Company was made paid for emission
20 allowances, right. It's now "negative 32", versus the
21 "1,713,000" that we were provided in the CUO Study.

22 Q. Okay. But you didn't choose to use that more updated
23 number, did you?

24 A. I didn't not choose to use it. I didn't see it.

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[WITNESS: Hachey]

1 Q. Okay.

2 A. We can do all of these corrections. I have no problem
3 with that.

4 Q. Okay. And, then, the next line over --

5 A. If this data is right.

6 Q. Okay. Well, let's just assume for purposes of
7 discussion today that it is, if you would look at
8 "2009", same line, "Emission Allowance Expense", you
9 have "2,159". What would that number be if you had
10 used the data from the updated G.1, Exhibit G.1?

11 A. Where do I have "2,159"?

12 Q. I see that under "2009" --

13 A. I'm sorry. I see it now.

14 Q. Okay.

15 A. Okay. Under this exhibit now, it would be "288". I
16 mean, you know, you understand, this is data that PSNH
17 provided us. It's not like we made it up. So, we
18 worked with the data. Now, you can continue changing
19 and changing and changing, and I can't always keep up.
20 But I'm willing to take, subject to check, and we'll
21 revise my exhibits accordingly, I have no problem with
22 that. I don't know that they will change the
23 conclusions of anything.

24 Q. You've never conducted a CUO yourself, have you?

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[WITNESS: Hachey]

1 A. A Continuing Unit Operation Study --

2 Q. Actually, if you could answer "yes" or "no", and then
3 explain, I would appreciate that.

4 A. Well, I have been involved in and conducted many unit
5 valuation studies.

6 MS. KNOWLTON: Commissioner, I would --

7 **CONTINUED BY THE WITNESS:**

8 A. A Continuing Unit Operation Study --

9 CHAIRMAN IGNATIUS: Hold on. Mr.
10 Hachey, hold on. Ms. Knowlton.

11 MS. KNOWLTON: I would ask that the
12 witness be instructed to answer the question "yes" or
13 "no", and then offer his explanation.

14 CHAIRMAN IGNATIUS: Mr. Patch.

15 MR. PATCH: Well, I think the witness
16 ought to be given leeway to answer the question how he
17 sees fit. I think he's doing his best to answer it. I
18 heard an answer from Mr. Levitan yesterday that was very
19 similar to what I think he's answering. So, I think he
20 ought to be allowed that leeway.

21 **BY THE WITNESS:**

22 A. I have never conducted --

23 MS. KNOWLTON: Can I --

24 CHAIRMAN IGNATIUS: Hold on. Hold on.

[WITNESS: Hachey]

1 Anything further?

2 MS. KNOWLTON: I just want to indicate
3 that the witness was asked in discovery this exact
4 question. And, he was able to answer it in discovery.
5 So, I would ask that he answer it here.

6 WITNESS HACHEY: I think we're going --

7 MS. KNOWLTON: And, I can show him the
8 response, if I need to. But --

9 CHAIRMAN IGNATIUS: I think he's
10 prepared to answer the question, more prepared perhaps
11 than his lawyer might want him to be. So, if you want it
12 straight, something called "Continuing Unit Operation
13 Study" is the first question, and anything else related to
14 things that involve evaluating the operations of plants
15 and their value as an explanation, I think that's fair.

16 **BY THE WITNESS:**

17 A. I had never even heard the phrase "Continuing Unit
18 Operation Study" until this docket. This is
19 essentially -- so, therefore, I have not conducted a
20 Continued -- something that I called or anyone else
21 called a "Continuing Unit Operation Study". This is
22 nothing more than a valuation study. I have conducted,
23 and years ago, had been involved in numerous valuation
24 studies. In particular, one of my responsibilities

[WITNESS: Hachey]

1 concerns property taxes. I'm involved in valuation
2 studies all the time. That's a complete answer.

3 BY MS. KNOWLTON:

4 Q. When you conduct those valuation studies, do you use
5 sunk costs?

6 A. Typically, sunk costs are irrelevant in those studies.

7 Q. Okay. Keeping with your workpapers, which are PSNH 14,
8 can you identify for me which of these spreadsheets, if
9 any, are your analysis of the retirement scenarios?

10 And, in particular, actually, what I'm interested in,
11 is if you could just point me to which page is Scenario
12 Number 2, "Retirement with PSNH earning a return on the
13 entire plant."

14 A. I think I haven't -- let me go to the testimony, and
15 then I'll work my way backwards.

16 Q. Thank you.

17 A. So, why don't I start with the second shown on Page 3
18 of 13, where I say "estimated value of Newington for a
19 case in which Newington retires, and the Commission
20 determines that PSNH continues to earn a return on the
21 retired facility." In the case of energy benefits, the
22 answer is "zero", and that's based -- that's developed
23 within the testimony as having no credibility that
24 there's any value.

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[WITNESS: Hachey]

1 Q. Well, actually, all I want is -- actually, I think my
2 question is actually much more simple, which is, I'm
3 just trying to figure out which one of these -- I want
4 to ask you some questions about Scenario Number 2, and
5 I'm just trying to figure out which of the pages from
6 your workpapers correlate to Scenario Number 2. So, if
7 you could put me there, I'd appreciate it.

8 A. Well, I'm trying to get there. And, I'm saying, on the
9 net energy benefits, I developed in the testimony,
10 within the testimony, that, because the analysis had no
11 credibility, I used a "zero". And, that seems to be in
12 keeping with all the other information that's
13 available.

14 In the case of the "capacity benefits",
15 at "25", that's based on the reconfiguration auction
16 value.

17 Q. Mr. Hachey, I apologize for interrupting you. But,
18 again, really, all I'm trying to do is figure out which
19 page can I start from, if I want to ask questions about
20 Scenario Number 2. If you could just direct me, is it,
21 you know, Page 2, 3?

22 A. Well, I'm going to get rid of your exhibit and go back
23 to my workpapers. So, hold on.

24 CMSR. HARRINGTON: Excuse me. You've

[WITNESS: Hachey]

1 mentioned "Scenario 2" a couple of times. What exactly is
2 that?

3 MS. KNOWLTON: He has -- as I understand
4 it, Mr. Hachey has three scenarios. I'm looking at Pages
5 3 and 4 of his testimony, and he's got three scenarios of
6 analysis that he did. And, --

7 CMSR. HARRINGTON: But they're not
8 numbered "Scenario 1", "2" and "3". That's just --

9 MS. KNOWLTON: Yes. I apologize. Maybe
10 that's just my own notation I put on my notes.

11 CMSR. HARRINGTON: Okay.

12 MS. KNOWLTON: The second one, I think
13 it's on Page 3, where he talks about a situation where
14 Newington is retired, and the Commission determines that
15 PSNH continues to earn a return on the retired facility.
16 That's the one I want to ask about.

17 CMSR. HARRINGTON: Starting with Line
18 72, and going down?

19 MS. KNOWLTON: Yes. Thank you.

20 **BY THE WITNESS:**

21 A. I can't -- well, I'm looking at on Page 4 of 5, and it
22 was an estimate between the 21 million and the
23 29 million.

24 CHAIRMAN IGNATIUS: And, when you say "4

[WITNESS: Hachey]

1 of 5", are you on the --

2 WITNESS HACHEY: I'm sorry. I'm on Page
3 4 --

4 CHAIRMAN IGNATIUS: PSNH Exhibit 14, the
5 data response, with your workpapers. And, your fourth
6 page in that has --

7 WITNESS HACHEY: Yes.

8 CHAIRMAN IGNATIUS: -- "Capacity Price"
9 at the far top left?

10 WITNESS HACHEY: Yes.

11 MS. KNOWLTON: Perfect. So, I have some
12 questions on that page.

13 BY MS. KNOWLTON:

14 Q. Is the analysis on this page predicated on the
15 assumption that Newington would offer and sell its
16 capacity supply obligation?

17 A. Yes.

18 Q. And, is that what the "Capacity Rev", R-e-v, column or
19 line shows?

20 A. That's my recollection, yes.

21 Q. And, if you would keep on that "Capacity Rev" line, and
22 starting in 2012/13, you show a value there, correct?
23 "4,802"?

24 A. I see that. Yes.

[WITNESS: Hachey]

1 Q. And, are those revenues in your analysis capacity
2 revenues that would begin being generated in 2012/2013
3 under your analysis?

4 A. That's certainly the intent of what I was doing, yes.

5 Q. In what reconfiguration auction would Newington offer
6 and sell its capacity supply obligations to generate
7 those revenues?

8 A. There's several that, I'm trying to think of the
9 timing, I mean, some of these may have already gone by.
10 But there are several annual reconfiguration auctions,
11 there are monthly reconfiguration auctions. So, I was
12 making simplifying assumptions here. I believe I was
13 looking at annual auction history.

14 Q. But, to your knowledge, is it a correct statement that
15 Newington has not actually participated in any of those
16 auctions to date?

17 A. Well, Newington didn't retire, and Newington didn't
18 retire from the scene, and then subsequently sell its
19 obligation in the reconfiguration auction.

20 Q. So, shouldn't the amounts under that column be "zero"?

21 A. It depends on the timing that you're looking at. I
22 mean, one of the issues, and why I was a little
23 concerned about this study, my study, my
24 representations, and I mentioned they were very

[WITNESS: Hachey]

1 cursory, is there's a little bit of "this is what they
2 could have done." If you want to put a stake in the
3 ground and say "as of this date, what could you have
4 done?" That's why I said "I was just doing a cursory
5 analysis." So, as of -- I don't know the exact timing
6 sitting here of the 2012/13 reconfiguration auctions.
7 But, certainly, at one point in time, that would have
8 been an available alternative to Newington.

9 Q. Would you accept subject to check that, for that
10 auction, the commitment -- it would have been for the
11 commitment period from July -- excuse me, June 1st,
12 2012 to May 31st, 2013?

13 A. Well, that's the 2012/13 period would be, yes. I'm
14 sorry, maybe I got that wrong. Which period did you
15 say? Did you say "June 1 to May 31"?

16 Q. Yes.

17 A. Okay.

18 Q. June 1, 2012 to May 31, 2013.

19 A. Okay. Right.

20 Q. Okay. Would it have been reasonable for the Company to
21 have expected that it would have received an order in
22 this case requiring that it retire Newington Station in
23 time to participate in that auction?

24 A. I don't know.

[WITNESS: Hachey]

1 Q. Do you think that there's -- I mean, I'm assuming that
2 because you've included revenues for that period of
3 time, and, actually, subsequently thereafter, 2013/14,
4 2014/15, and so on, through 2016/17, that you must
5 think that there is some value associated with
6 participating in that reconfiguration auction? Is that
7 a fair statement?

8 A. Yes. Yes. I think the important thing that I was
9 trying to convey, and it actually didn't occur to me
10 initially, was that, in fact, capacity -- on a station
11 retirement, capacity revenues don't come to an end.
12 That there's an opportunity, in today's market, a very
13 -- a somewhat lucrative opportunity to re-market that
14 capacity supply obligation in the reconfiguration
15 auctions. And, that's what I was trying to get across.
16 And, the value of that is not insubstantial. What I
17 would hope is that, to the extent this Commission
18 orders a independent -- a new independent study, that
19 that element will be given careful consideration.
20 Because I think it kind of goes across the grain, but,
21 in terms of ordinarily you would think capacity
22 revenues come to an end if you retire, but not in this
23 market design. That's the important consideration.
24 The reason I wanted to point that out is because that

[WITNESS: Hachey]

1 wasn't even addressed in PSNH's study.

2 Q. Has TransCanada taken any actions to wind down any of
3 its plants, so that it can take advantage of those
4 revenue-generating opportunities that you see?

5 A. Our plants have substantial energy benefit/capacity
6 value. We have participated in reconfiguration
7 auctions, but as a buyer, not as a seller.

8 Q. If Newington did -- was retired, would other generators
9 that bid into the FCA benefit from its retirement?

10 A. In today's market, with as much excess, I suppose there
11 would be less prorated value. So, in fact, other
12 generators would have less proration discount of their
13 capacity value. Sure. All things being equal.

14 Q. Can you just help me out and tell me, is that a "yes"
15 or a "no"?

16 A. I think I said "I suppose that they would." Yes.

17 Q. It would. And, so, that would potentially include
18 TransCanada, right?

19 A. TransCanada is one of the market participants, yes.
20 Our interest here is in making sure that there's a
21 level playing field, and that there's good analysis
22 done, and there's not artificial subsidization of power
23 plants. That's our interest.

24 Q. Does TransCanada, the other entity that you are here on

[WITNESS: Hachey]

1 behalf of, TransCanada Power Marketing, Ltd., does that
2 entity sell energy to any of PSNH's delivery service
3 customers?

4 A. Absolutely.

5 Q. So, if PSNH's Energy Service rate is reduced, does that
6 help or hurt TransCanada's ability to sell energy to
7 those customers?

8 MR. PATCH: I'm going to object to the
9 question. I'm not sure how that's relevant to this
10 particular proceeding --

11 WITNESS HACHEY: Yes. Can I --

12 MR. PATCH: -- about the Energy Service
13 rate. Mr. Hachey, could you just wait until the --

14 WITNESS HACHEY: Sure. Sorry.

15 MR. PATCH: -- Chair rules on the
16 objection.

17 CHAIRMAN IGNATIUS: Ms. Knowlton.

18 MS. KNOWLTON: I think it is relevant.
19 And, I'm trying to understand, I mean, one of the entities
20 that he's here on behalf of today sells to the Company's
21 customers, and he's got extensive testimony about what he
22 thinks, you know, are in the interest of the Company's
23 customers. And, so, I just am trying to understand
24 whether TransCanada itself has any interest that would

[WITNESS: Hachey]

1 relate to the rates that are charged to those customers.
2 I mean, they compete for those customers' business. And,
3 so, I just want to ask him about whether what PSNH's rate
4 is, which is comprised of the costs of Newington Station,
5 whether that affects his business.

6 CHAIRMAN IGNATIUS: That's fair. Go
7 ahead.

8 WITNESS HACHEY: Could you start the
9 question over again?

10 CHAIRMAN IGNATIUS: Can you restate it
11 please or repeat it.

12 MS. KNOWLTON: Sure.

13 BY MS. KNOWLTON:

14 Q. So, what I asked was, is that, if PSNH's Energy Service
15 rate is reduced, does that help or hurt TransCanada in
16 its ability to sell energy to PSNH's delivery service
17 customers?

18 A. Currently, I would say it probably doesn't matter,
19 because PSNH is so far out of the market.

20 Q. Wouldn't that help you? If you think the rate is --
21 you say it's "over market", wouldn't that help you
22 compete?

23 A. I think I said "it probably doesn't matter." We
24 compete against other competitors. PSNH, based on its

[WITNESS: Hachey]

1 cost structure, is not going to be an effective -- so
2 long as it's putting all of its costs, all its energy
3 costs into its energy rate, which, of course, we keep
4 seeing that one slip away, isn't an effective
5 competitor currently.

6 Q. Mr. Hachey, are you familiar with what was the base
7 case capacity price that was used in the LAI model, and
8 specifically for the year 2016?

9 A. I may have been at one time. Sitting here today, I
10 don't remember what it is.

11 Q. Let me see if I can show it to you. Do you have a copy
12 of the CUO in front of you? It's marked as "PSNH
13 Exhibit 1".

14 A. I do.

15 Q. You do. Okay. If you could look at Bates Page 000234,
16 or Page 51 of the CUO itself. And, let me know when
17 you have that in front of you.

18 MR. PATCH: Could I just ask, is this
19 the corrected or is this the original?

20 MS. KNOWLTON: This is the original.

21 **BY THE WITNESS:**

22 A. I'm staring at Bates Page 000234, which is also
23 "Page 51".

24 BY MS. KNOWLTON:

[WITNESS: Hachey]

1 Q. Thank you. And, you see "Exhibit G.18" there on that
2 page. What was the clearing price for FCA 6? Well,
3 actually, if you would start by identifying what was
4 the base case capacity price in the LAI model based on
5 this?

6 A. You want me to read the number for which year?

7 Q. Oh, I'm sorry. For 2016.

8 A. Well, it's --

9 Q. 15/16.

10 A. 15/16 is "3.08".

11 Q. Right. And, would you accept subject to check that the
12 clearing price for FCA 6 was 3.43?

13 A. Are you stating the discounted clearing price, the
14 prorated clearing price, or the -- I'm sorry, the
15 prorated clearing price or the actual clearing price?
16 There's two prices for these auctions.

17 Q. The floor.

18 A. I'll accept whatever your number was.

19 Q. Okay.

20 A. Subject to check.

21 Q. And, then, looking to the next year, 2016 to 2017, am I
22 correct that the "Base Case Clearing Price" reflected
23 there is "2.76"?

24 A. That's what it says.

[WITNESS: Hachey]

1 Q. And, would you accept subject to check that the floor
2 for that time period will be 3.15?

3 A. That's the floor price, subject to being prorated down
4 for excess capacity.

5 Q. So, regardless of the retirements that are assumed in
6 the CUO, the CUO -- would you agree that the CUO base
7 price is, at least through the 2016/2017 time period
8 have proven to be reasonable?

9 A. Yes, they were -- these are pretty much fixed. The FCA
10 7 price was just fixed by the Commission very recently.

11 Q. Yes, but you didn't know that at the time the study was
12 done, correct?

13 A. My assumption was that the floor prices would continue
14 for an additional year. I was proven to be right.

15 Q. Actually, wasn't it Levitan that was proven to be
16 right?

17 A. For FCA 7? I don't believe so. My assumption was that
18 the floor prices would continue. I think Levitan
19 assumed they would end. Subject to check.

20 Q. Okay. And, looking at your testimony on Page 9, do you
21 have that before you?

22 CHAIRMAN IGNATIUS: And, is that the
23 direct or the supplemental?

24 MS. KNOWLTON: I'm sorry. That's the

[WITNESS: Hachey]

1 direct. That's TransCanada 14.

2 BY MS. KNOWLTON:

3 Q. And, on Lines 203 to 204, do you agree that there
4 you're stating your disagreement with the capacity
5 value that Levitan assigns to Newington Station?

6 A. Well, I ran an analysis, and my conclusion was 75.
7 Levitan ran an analysis and got 111. We're in the
8 ballpark. There's not a dramatic difference between
9 those two numbers. But I believe there's -- they're
10 slightly overstated. And, in particular, now having
11 reviewed the results from FCA 6, and seeing, in fact,
12 none of the units have retired -- or, I'm sorry, of the
13 2,100 megawatts that Levitan assumed retired,
14 90 percent have continuing capacity obligations through
15 2015/16, I think it casts a shadow over both of our
16 analyses. So, we may both be significantly overstated,
17 because it's an area of capacity length in NEPOOL that
18 I don't think either of us -- I certainly made the
19 conservative assumption by going with his numbers, he
20 believed that the capacity would be retired.

21 Q. Is it your view that, starting in 2018, after the floor
22 is removed, that there will be excess capacity?

23 A. That would be the assumption that I made in my
24 analysis, yes.

{DE 10-261} [Morning Session Only] {05-09-12/Day 4}

[WITNESS: Hachey]

1 Q. When you refer to "excess capacity" in that context, do
2 you mean capacity that doesn't have a capacity supply
3 obligation?

4 A. No.

5 Q. What do you mean?

6 A. I mean "excess capacity", excess to New England's
7 installed capability requirements.

8 Q. But that would mean that they wouldn't have a capacity
9 supply obligation, correct? If it's excess, there's no
10 supply obligation, isn't that right?

11 A. Can you restate the question?

12 Q. When there's no floor, will the excess capacity get a
13 capacity supply obligation?

14 A. If the market construct is that only ICR is getting
15 capacity supply obligations, then there will be
16 capacity that does not have a capacity supply
17 obligation.

18 Q. And, if that's the case, then they wouldn't have any
19 revenue stream, would they?

20 A. I don't think that's the case at all.

21 Q. For capacity? Sorry.

22 A. Well, I'm answering your question. They wouldn't have
23 -- your question was "they wouldn't have a revenue
24 stream?", and my answer was "I don't believe that's the

[WITNESS: Hachey]

1 case at all." We all know about energy benefits.

2 Q. Right.

3 A. And, we all know about ancillary benefits. And, we
4 know about the ability to sell capacity in other
5 regions. So, no, I don't agree with your contention,
6 at all.

7 Q. All right. And, actually, my mistake. I mean, I
8 should have clarified that my question was "as to
9 capacity", capacity revenues only.

10 A. There would be some capacity in the New England market
11 that does not get capacity revenue from the New England
12 market.

13 Q. And, how will those resources continue to exist, if
14 they don't have a source of capacity revenue?

15 A. Okay. Well, we'll do this again. It can exist from
16 net energy revenues, it can exist from ancillary
17 revenues, it can exist from capacity revenues in other
18 markets. Additionally, they may also ride out, to the
19 extent that the capacity revenues that they are
20 getting, plus the energy revenues, plus the ancillary
21 revenues aren't satisfactory to the owner.

22 Q. Would you agree, though, that if those other revenue
23 sources do not exist, that it would be difficult for
24 those resources to financially survive?

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[WITNESS: Hachey]

1 A. I can't entertain a world -- a market structure where
2 net energy revenues don't exist. So, it's a -- not a
3 -- I don't know what to do with that kind of question.
4 It's a hypothetical that doesn't exist.

5 Q. But, in your study, you concluded net energy revenues
6 as "zero" for Newington, right?

7 A. Based on all the information I had in front of me, I
8 believed net energy revenues for Newington are likely
9 zero.

10 Q. Okay. So, let's --

11 A. Newington would exist and continue to operate, because
12 it's a regulated plant, and they just continue to
13 operate, independent of whether they have a revenue
14 stream to support it from the market.

15 Q. Are you aware of whether there are any other units that
16 are similarly situated to Newington that are in New
17 England?

18 A. What does that mean? I don't --

19 Q. Well, in that circumstance, that would have no net
20 energy benefit, as you've assumed?

21 A. My focus was on Newington. I haven't studied all the
22 other units throughout New England. I'm assuming there
23 are likely others in the Newington category, typically,
24 units like Newington, that are inefficient, and, in

{DE 10-261} [Morning Session Only] {05-09-12/Day 4}

[WITNESS: Hachey]

1 some cases, only burn oil, which is even worse. But we
2 haven't seen them go away yet.

3 Q. In discovery, the Company asked you if "you agree that
4 without Newington Station, all other things being
5 equal, the regional supply curve in the FCM would be
6 shorter, the surplus will be lower, and the clearing
7 prices would be higher?" And, you responded that, "if
8 Newington were to exit, that other market participants
9 [might] elect to enter, remain in, and/or qualify for
10 the capacity market." Do you recall giving that
11 answer?

12 MR. PATCH: Could I just ask that the
13 specific data request be identified?

14 MS. KNOWLTON: Sure. I'm happy to, I
15 don't need to mark it, but, if you want to mark it, we
16 can. It's TransCanada's response to PSNH 1-27, which we
17 can go ahead and mark, if you'd like, as "PSNH 15".

18 (Atty. Eaton distributing documents.)

19 CHAIRMAN IGNATIUS: Before we go into
20 that, let's go off the record.

21 (Brief off-the-record discussion
22 ensued.)

23 CHAIRMAN IGNATIUS: So, we're back on
24 the record. So, Ms. Knowlton, you wanted to mark this

[WITNESS: Hachey]

1 August 29, 2011 response from Mr. Hachey as "PSNH
2 Exhibit 15"?

3 MS. KNOWLTON: Fifteen. Thanks.

4 CHAIRMAN IGNATIUS: For identification.

5 (The document, as described, was
6 herewith marked as **PSNH Exhibit 15** for
7 identification.)

8 BY MS. KNOWLTON:

9 Q. Do you have that before you, Mr. Hachey?

10 A. I do.

11 Q. Okay. So, did I state that correctly? I don't know if
12 you recall my statement?

13 A. I believe you read my response, yes.

14 Q. Okay. So, assuming there is new entry, would you agree
15 that, under the FCM rules, new entry would likely occur
16 only if there was a need for capacity?

17 A. No.

18 Q. Well, under what circumstance would there be new
19 capacity if there wasn't a need for it?

20 A. Well, in New Hampshire -- I'll give you a list. In New
21 Hampshire, you have the Laidlaw facility. That's not
22 being driven by a need for capacity, that's being
23 driven by other considerations. In Massachusetts, we
24 have the Cape Wind facility. That has nothing to do

[WITNESS: Hachey]

1 with the need for capacity. It's being driven by other
2 considerations. We have units throughout New England.
3 I can virtually walk through each and every state where
4 the entry is not being driven by need for capacity.

5 Q. Okay. And, when that capacity enters, would it offer
6 at or close to CONE?

7 A. I don't know how they will bid. You know, I don't know
8 how they will bid.

9 CHAIRMAN IGNATIUS: And, for the record,
10 "CONE" is "Cost of New Entry"?

11 MS. KNOWLTON: Yes. Thank you.

12 BY MS. KNOWLTON:

13 Q. Well, do you believe that the outcome of the Forward
14 Capacity Auction will be the same if an existing
15 low-cost resource, like Newington Station, is replaced
16 by a new resource that is offered at CONE?

17 A. Can you repeat the question? Because you said
18 "existing low-cost resource, like Newington", that -- I
19 stopped right there. I don't think it's a "low-cost
20 resource". I think it's -- that's why it has a
21 3 percent capacity factor. It's a very high-cost
22 resource.

23 Q. Okay. Well, replace that with the words "price-taker".
24 So, I'll just restate it. Do you believe that the

[WITNESS: Hachey]

1 outcome of the Forward Capacity Market Auction would be
2 the same if a price-taker, like Newington, is replaced
3 by a new -- a new resource that's offered at CONE?

4 A. I'd have to sit awhile and draw the supply curve. I
5 mean, if there is excess capacity, that doesn't have a
6 capacity supply obligation, and it could be DR, it
7 could be many other things. I'm struggling a little
8 bit why all of a sudden the new entry sets the price.
9 There's a lot of possibilities in the marketplace.

10

11 Q. Mr. Hachey, if Newington retires, assuming that -- and
12 assuming all other existing resources remain, will
13 capacity clearing prices be higher sooner than if
14 Newington continued -- Newington continues to be a
15 price-taker?

16 A. Yes, I don't -- yes. I don't know wind. But, I think,
17 if you've got a fixed supply curve, and you pull an
18 asset out, and nothing else changes, you've got a
19 change in the marketplace, at some point.

20 MS. KNOWLTON: I have no further
21 questions for Mr. Hachey.

22 CHAIRMAN IGNATIUS: All right. I think
23 this is probably -- we should probably take a break. It's
24 almost 12:00. We'll take a break for lunch. And, if

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1 people can be back by 1:15, be ready to go. Thank you.

2 (Whereupon the lunch recess was taken at

3 11:54 a.m. and the hearing to resume

4 ***under separate cover*** so designated as

5 ***"Afternoon Session Only"***.)

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