

ORIGINAL

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Thomas Frantz

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In Re:

***ELECTRIC UTILITY RESTRUCTURING
LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013***

***PRESENTATION BY GARY LONG, PSNH
August 7, 2013***

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Page 3

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23 REP. BACKUS: Could you use

Page 2

I N D E X		
1		
2		
3		
4		PAGE
5	PRESENTATION BY GARY LONG	3
6		
7	QUESTIONS FROM COMMITTEE MEMBERS:	
8	Rep. Backus	43, 61
9	Sen. Bradley	48, 74
10	Rep. Cali-Pitts	60, 71, 90
11	Rep. Rappaport	82
12	Rep. Walz	84
13	Rep. Borden	93
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		

Page 49

23 REP. BACKUS: You get the

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p style="text-align: right;">Page 5</p> <p>1 thumbs up. 2 REP. BORDEN: Thank you very 3 much. 4 MR. LONG: I'll put this in my 5 face. 6 So, anyway, I decided to step 7 up and focus on New Hampshire energy policy, 8 particularly the renewable energy policy and 9 the Northern Pass project. So I have a title 10 of President of New Hampshire Renewable 11 Energy Policy Development. That's sort of 12 what I'm doing now. But I live in New 13 Hampshire, work in New Hampshire. This is my 14 focus. 15 So, I'm just here today to 16 talk about some of the subjects and topics 17 that you've been hearing about, that others 18 may have testified to this morning. But as 19 we consider New Hampshire's energy future, 20 obviously there's some important 21 considerations for all of us. One is, how do 22 we ensure energy reliability? How do we 23 protect our customers, our consumers from</p>	<p style="text-align: right;">Page 7</p> <p>1 markets and the conditions and the rules are 2 very different than they've been in the past. 3 So if you look back at the 4 last 12 years in electric restructuring, I 5 believe that New Hampshire has chosen a wise 6 path. And it's been very successful. Our 7 last 12 years in the open access 8 restructuring environment has been 9 successful. We've provided consumers with 10 competitive options. We have policies that 11 promote the growth of renewable energy. We 12 have that safety net for our customers to 13 avoid the problems like those experienced in 14 California and elsewhere. It's been a very 15 successful model. And we should build upon 16 that model and strengthen that model, not 17 destroy it, as some would suggest. 18 So, I'm sure this morning 19 you've heard from -- a refrain from many 20 others with their own special economic 21 interests that want you to change that model. 22 And you've probably heard about things like 23 migration and unsustainable default energy</p>
<p style="text-align: right;">Page 6</p> <p>1 price volatility? How do we maintain some 2 level of control at the local level, at the 3 New Hampshire level? How do we implement 4 these policies that have been established by 5 the state, and policies like the Regional 6 Greenhouse Gas Initiative, which obviously 7 has the goal of reducing carbon emissions, 8 our renewable portfolio standard that 9 establishes a goal to achieve 25 percent of 10 energy from renewables by the year 2025? 11 We've had a longstanding policy of having 12 fuel diversity. We obviously want to use 13 energy and energy projects to advance our 14 in-state economic health. We just have a lot 15 of things to implement based on policies that 16 we've already established. And the question 17 is: How does New Hampshire best position 18 ourselves with respect to energy supply and 19 reliability, and also those issues that the 20 ISO-New England has expressed, which I'll 21 talk about in a little bit. In my 37 years, 22 the challenges that we have before us now are 23 as great as I've ever seen them, although the</p>	<p style="text-align: right;">Page 8</p> <p>1 service rates. And divestiture seems to be a 2 hot topic these days also. 3 I'm here to tell you that 4 those are all false choices. Those are based 5 on false premises. I will tell you that 6 everything that you're hearing now I've heard 7 many, many times over the last dozen years. 8 But the premises really are no different. 9 The motivations are no different. It's not 10 surprising to me at all that competitive 11 suppliers want PSNH out of the energy 12 business. It's nothing new in our world. I 13 think protecting consumers from volatility 14 and energy shortages and planning for the 15 future may not serve the interests of some of 16 these other parties, but it's been very good 17 policy for New Hampshire to be engaged in. 18 So, the system's working as 19 you intended. Customers have a choice of 20 supplier, as intended. PSNH serves as a 21 safety net through our default service, and 22 our regulated default service has worked well 23 and has been reasonably priced. However,</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 9	Page 11
<p>1 there are state policies that have very large 2 impacts on the price of our default service, 3 and they really drive that price. And you 4 have a lot of control over those results. 5 And I'll talk about what those policies are. 6 I think many of them are outdated. 7 There's also considerable risk 8 with radically changing the model, again, as 9 some are suggesting. The system's working. 10 The idea of divestiture is not to be taken 11 lightly. Once you divest, you can never go 12 back. You lose forever the ability for New 13 Hampshire to control its energy future and to 14 mitigate against these risks. You lose 15 forever your ability to deal with price 16 volatility, changing market conditions, and 17 to provide -- help provide for our own 18 reliability. 19 I know you've heard this from 20 others, but I want to talk about how we got 21 here, because I think sometimes people miss 22 the point of how New Hampshire ended up where 23 we are, which was not by accident, but a</p>	<p>1 continue to own distribution and transmission 2 and deliver power to customers. 3 So at that time, five New 4 England states, California and a few other 5 states, all required their local utilities to 6 divest their own generation as part of 7 electric restructuring. And following the 8 opening of systems and electric 9 restructuring, California experienced 10 devastating results, which ended up in power 11 shortages, power outages, business and 12 economic destruction and extremely high 13 prices, which led to utility bankruptcies 14 and, in less than three months, a \$50 billion 15 state deficit based on their energy 16 purchases. 17 The thing that people sort of 18 miss in this era is, when these other states 19 divested their generation, nobody knew what 20 the energy market would be like. It was -- 21 there was some anticipation about what the 22 market would be. There was some theories out 23 there, but nobody had any actual real-life</p>
Page 10	Page 12
<p>1 little fortuitous. Some people say we 2 haven't fully restructured. That's 3 absolutely false. That's a false premise. 4 And I'll explain why it's false. 5 So, anyway, in 2001, New 6 Hampshire restructured its electric utility 7 market, energy market, and we opened the 8 choice for customers. We opened up for 9 competition in electric supply. And before 10 then, you know, we were a full-service 11 company that provided all service to 12 customers. That all changed when we opened 13 up our system. So, that system caused -- 14 allows customers to choose a supplier. PSNH 15 was -- our role was to provide a safety net, 16 to make sure the customers have electricity 17 at reasonable prices under any set of 18 circumstances when they are not served by a 19 competitive supplier. And that's what we 20 call "default energy service." 21 It also at the time -- when 22 this was first introduced, PSNH was required 23 to sell all of our generating plants. And we</p>	<p>1 experience. And all of these -- these other 2 four states in New England divested before 3 they had any actual experience in the market. 4 California was a "sea change" because 5 California gave both a glimpse of what the 6 market could bear and what could happen to 7 you. In fact, it really did happen. It 8 really did happen to that state. 9 And so before California 10 happened, PSNH had divested its interest in 11 its nuclear assets, including the Seabrook 12 station. So that was all done according to 13 plan. And we were in the process of 14 divesting our non-nuclear assets in 15 accordance with state policy. But I think 16 the thing that was fortunate for the state of 17 New Hampshire is that, now, California 18 provided real-life, real-world experience for 19 what can happen in a restructured world. And 20 the other states, it was too late for them to 21 do anything about it. They had already sold 22 their generation. Like I say, it's a one-way 23 street. Once you sell it, you can't get</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 13	<p>1 back. They had already sold their 2 generation. New Hampshire -- and, again, it 3 wasn't planned. It just happened. Like I 4 said, it was a little fortuitous. But New 5 Hampshire was not yet complete with 6 divestiture, and then California happened. 7 So, New Hampshire learned from that 8 experience. We learned things that other 9 states never had the opportunity to learn. 10 And what New Hampshire learned is that 11 there's great risk for customers in this 12 marketplace. And if you really want a safety 13 net for customers, if you really want to 14 protect customers, the way to do that was to 15 keep state-regulated generation for the 16 purpose of default energy service, and only 17 for that purpose. So, when people say that 18 we haven't fully implemented restructuring, 19 we have absolutely fully implemented 20 restructuring. Our customers have the same 21 choice as any of those states in New England 22 where their utilities do not own generation. 23 But what New Hampshire has done that nobody</p>	Page 15	<p>1 divest generation should tell you something: 2 Divesting generation is not a good idea. And 3 I'm not so sure what would have happened if 4 those other states would have looked at 5 their -- would not have divested until after 6 California. They may have changed their 7 mind, too. 8 So, I reject the idea that we 9 haven't fully restructured. We actually have 10 fully implemented restructuring. And I'm 11 going to talk about so-called "migration" 12 here in a bit, in a minute. I mean, 13 customers are obviously exercising choice, 14 which means electric restructuring has been 15 implemented and is working. 16 Then, also since that time 17 when New Hampshire decided to open up the 18 system, New Hampshire's made other policy 19 changes, and very important ones. The 20 Regional Greenhouse Gas Initiative is one 21 example of a very significant policy change 22 really geared towards reducing carbon. And 23 then, just this year you've -- the</p>
Page 14	<p>1 else was able to do, just because of timing, 2 is we were able to protect our customers by 3 having a portfolio and having physical assets 4 that they had already given up and they 5 couldn't turn and go back on. 6 So, since California, there 7 were 15 states -- I should say before 8 California, there were 15 states, including 9 New Hampshire, all the states in New England, 10 except Vermont -- 15 states that went to 11 retail open access since California and 35 12 that have not. So the model we have in New 13 England, out of five states, is in the 14 minority of what's happening in the nation. 15 And for PSNH, we have extra value in having 16 physical assets for providing a safety net to 17 our customers. And that's what's different. 18 We have fully implemented electric 19 restructuring, but we just happen to have 20 more tools to deal with the market variances 21 than anybody else has. And the fact that 22 nobody restructured since California, the 23 fact that no electric utility was directed to</p>	Page 16	<p>1 legislature has tightened up enough and made 2 it a little more restrictive. Renewable 3 portfolio standards have been implemented 4 since electric restructuring. Again, some of 5 these things that were pretty well regulated, 6 they have a little bit more of a challenge in 7 a marketplace world. 8 During this time since 9 restructuring, New Hampshire also implemented 10 something called the "New Hampshire Clean Air 11 Act," which required mercury reductions and 12 other reductions of emissions at our power 13 plants. And later, another law, which I 14 think is very much of attention these days is 15 what we called the "Scrubber Law," the law 16 that mandated PSNH to install a scrubber. 17 All these laws were passed after electric 18 restructuring. So they are guided by the 19 laws that were established since electric 20 restructuring. And also, other things like 21 net metering has grown as a policy in this 22 state since electric restructuring. 23 So, the world continues and</p>

Page 17

1 policies keep getting revised. But through
2 this 12 years, the restructured open access
3 system I believe has worked very well. And
4 during those seven or eight years, the first
5 seven or eight years of that, as you probably
6 know very well, PSNH customers saved over
7 \$700 million compared to market prices. That
8 money flowed straight to customers.
9 So, to start updating to where
10 things are today, we know that with the
11 implementation of the fracking drilling
12 systems in the Continental United States,
13 particularly in Canada, but we think mostly
14 in the United States, that's resulted in a
15 surge, a huge increase in the availability of
16 natural gas. And that's been followed by
17 reduction in prices. That is another "sea
18 change" event that's happened. California
19 was a "sea change" event. The abundance of
20 natural gas is a "sea change" event. It's
21 really made -- and then there's also
22 additional environmental requirements that
23 have just made it easier to site and build

Page 18

1 natural gas and other fossil fuels. So,
2 natural gas is now the national fossil fuel
3 of choice. It's easier to build a natural
4 gas plant than any other kind of plant. It's
5 lower cost to build it. And the fuel right
6 now is in abundance and low-priced. So the
7 fuel of choice in the United States right now
8 for anything new is natural gas, and for
9 conversions also.
10 You may know that about 55 to
11 60 percent of New England's electricity now
12 comes from natural gas power plants. That is
13 more than any other single fuel in the
14 history of New England. So, there's -- so we
15 have become very, very dependent on a single
16 fuel source.
17 The second largest source is
18 nuclear, and that's, you know, between about
19 25 and 30 percent. So you take those two
20 sources of power, and you're about 90 percent
21 of electricity in New England comes from
22 natural gas or nuclear. Very little from
23 oil, about 3 percent from coal, which is on

Page 19

1 the decline, and then, you know, combination
2 of renewables and existing hydros.
3 So we have very low, very low
4 market prices in New England, not just
5 energy, but capacity also. Those prices are
6 so low, that a new natural gas plant cannot
7 be sustained in the market. In other words,
8 the market prices are too low to pay for an
9 investor to get back the cost of a new
10 natural gas plant. And I don't see anything
11 other than natural gas getting built in New
12 England, aside from renewables.
13 So that's a very important
14 policy, a very important fact I think for
15 this Committee to consider as you think about
16 policies going forward. Where is the next
17 power plant coming from? If the market
18 prices are too low, then nobody's going to
19 want to build. And I remind people of this:
20 Following electric restructuring, nobody is
21 required to do anything. Okay? In the past,
22 utilities were required to make sure there
23 was enough power for customers. In this

Page 20

1 restructured world, in these 15 states,
2 nobody is required to do anything. So you
3 have to want to do something. So, who would
4 want to build a new natural gas plant with
5 today's market prices? So there's a real --
6 that's a potential problem in the future.
7 We're not thinking about it much today
8 because we have enough power resources to get
9 through today and most times. But just, you
10 know, when people talk about divestitures,
11 they compare it to low prices. But if you
12 compare any one of our plants to a new plant,
13 it's much, much cheaper.
14 So, where's the power going to
15 come from in the future if you divest? If
16 you close the power plants, what are you
17 going to replace them with? Well, the market
18 will not -- will not sustain any new power
19 plant. So, something has to happen. Either
20 new power plants have to be subsidized, or
21 the market prices would have to rise to a
22 level that investors in the marketplace will
23 be willing to build it. So I think when

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 21	<p>1 people are focused on today's prices, they're 2 not really looking at the future; whereas, we 3 do. And I would encourage you to also. 4 Market abuse continues. The 5 California experience, Enron was front and 6 center on this, got fined. Their company 7 went bankrupt. People went to jail. So -- 8 because of market abuse and manipulation. If 9 you think California was the end of it, you 10 know, it's not. In July, in July alone, 11 almost a billion dollars in fines was issued 12 by the Federal Energy Regulatory Commission 13 to market participants for market 14 manipulation. And there's been previous 15 fines to July. So there continues to be the 16 risk of market manipulation. So the question 17 I would ask you is -- having generation in 18 this state of New Hampshire under state 19 control is a good way to help mitigate 20 against potential market abuse and market 21 manipulation, and the reason is because we're 22 regulated. Everything we do is reviewed, 23 monitored by the State of New Hampshire. The</p>	Page 23	<p>1 resources have a very high availability, and 2 we are available when called upon. I'll tell 3 you, in this heatwave that we had, this very 4 hot wave, at the end of that month, every 5 one of our -- a hundred percent of our power 6 plants were running. All of our units were 7 running, and even the ones that -- we call it 8 "peakers." These are older. They're jet 9 engines, combustion turbines that very, very 10 rarely run. And they can be used for 11 emergency starts. They can be used 12 for...(indecipherable)... type situation. 13 One hundred percent of our generation was 14 called upon, and we delivered 100 percent. 15 One hundred percent. They all started up. 16 They're all available. They're all flexible. 17 So, having generation, we are mitigating and 18 addressing that concern that the ISO has. 19 ISO has another concern. Its 20 concern is the region's increased reliance on 21 natural gas-fired capacity, and that relates 22 also to the pipeline capacity. So, PSNH also 23 mitigates against that risk for our</p>
Page 22	<p>1 purpose of our power plants is strictly to 2 serve our customers. So it's yet another 3 value of having in-state regulated generation 4 in a world where you have the risk not only 5 of prices due to market conditions, but also 6 of potential manipulation by market players. 7 So, New England has some real 8 serious energy challenges. I'm sure most of 9 you have heard this before. ISO-New England 10 has done a great job of documenting those 11 risks and trying to create dialogue on those 12 risks. One of the risks -- I'm going to list 13 four of them. One of those risks is resource 14 performance and flexibility. What they mean 15 by that is, when you pull a power plant to 16 run, will they actually start up and run? 17 Because you're counting on them to run 18 because you're trying to balance load and 19 production. So, one of the risks that 20 they've experienced in New England is power 21 plants that have been able to run and being 22 flexible. 23 I will tell you that PSNH</p>	Page 24	<p>1 customers. All these values go to our 2 customers because we're not out -- we're not 3 a merchant generator. Our fleet is 4 fuel-diverse. And our energy policy in the 5 state of New Hampshire calls for diversity of 6 fuel, and we've done that. Unlike the rest 7 of New England, we're not overly dependent on 8 natural gas. Our Newington plant, which 9 burns natural gas, can also burn oil. And I 10 will tell you, during the heatwave when 11 natural gas availability and price was 12 difficult, we were running on oil. We can 13 run on oil on the fly while it's happening. 14 So, natural gas shortages are not a concern 15 to our fleet because we have alternatives. 16 I believe, also, PSNH has a 17 higher percentage of renewable energy in any 18 portfolio of any New England utility. We've 19 taken very specific steps on that to give us 20 an in-state... (indecipherable)... to meet 21 that. So we're very well positioned to meet 22 the state's goal of having 25 percent of our 23 portfolio renewable by the year 2025. In</p>

<p style="text-align: right;">Page 25</p> <p>1 fact, I think we're in better shape than 2 anyone in New England. 3 The third concern that the ISO 4 has is with the potential retirement of 5 generators. I'm going to say that again 6 because I know others are calling for 7 retirement and divestiture. The third 8 critical concern of the ISO-New England is 9 the potential retirement of generators. It's 10 kind of ironic to me that when people talk 11 about divestiture, which I think is a method 12 of closure or a method of taking things out 13 of New Hampshire's hands, at the same time 14 ISO-New England has said they're concerned 15 about plants not being able to operate. Now, 16 I've already told you 100 percent of our 17 plants operated in the heatwave. And that 18 certainly will happen in the winter, and it 19 will happen in the next heatwave. So that's 20 why the ISO-New England is concerned about 21 retirement generators. And it's not natural 22 gas generators; it's oil and coal, because 23 they're worried about not having enough,</p>	<p style="text-align: right;">Page 27</p> <p>1 concerns. So when people with their own 2 economic interests say, "Well, we think you 3 need to divest," you need to consider a whole 4 lot of things other than, you know, whether 5 you can advance their agenda. 6 So, the other challenge that 7 New England has that is just barely 8 surfacing, at least in more of the public 9 eye, but it's very real, is how is New 10 England going to reach 25 percent renewable 11 by the year 2025. If you look at the 12 numbers, it's an enormous goal. As I said, 13 PSNH is in very good shape. But what's the 14 situation in New England? It's going to be 15 very difficult to hit the -- I think 16 25 percent is a generality. Different states 17 have different percentages, but they all head 18 towards 25 percent. And just as I just said, 19 if you take a day like today, or even a hot 20 day, you get about six, maybe seven percent 21 of New England is hydroelectric power. But 22 it doesn't qualify. Most of it does not 23 qualify for renewable portfolio standards.</p>
<p style="text-align: right;">Page 26</p> <p>1 particularly when there's a gas shortage. 2 The fourth concern of the 3 ISO-New England is in the integration of what 4 they call a greater level of variable -- that 5 means intermittent -- resources. They're not 6 really talking about wind, primarily because, 7 you know, wind, you're dependent on wind to 8 get the power. And so you can't really, when 9 you dispatch or when you plan in the future, 10 you can't count on it being available. So as 11 we increase our use of renewables, wind -- 12 and solar is the second one that depends on 13 the sun -- when we increase our renewables 14 as we approach our target to get to this 15 25 percent renewable, it does create other 16 concerns on the system. And I will tell you, 17 our plants are not intermittent. Our plants 18 are all dispatched. You know, they all have 19 their fuel sources. They can run regardless 20 of the weather conditions, regardless of 21 whether the wind's blowing. So, on every one 22 of these concerns that the ISO-New England 23 has, our generation fleet mitigates those</p>	<p style="text-align: right;">Page 28</p> <p>1 And then you look at what they call 2 "renewable" in New England, and that might be 3 five or six percent, about half of that is 4 wood. Most of the rest is landfill gas and 5 methane, and then the other part is wind. 6 You know, wind is about, I think, 4 percent 7 of that 6 percent. So that -- so if we just 8 look at those numbers alone, New England has 9 a long way to go. And you know, obviously, 10 that's a different challenge that I think 11 policy makers need to look at. 12 I want to move on to what I 13 call the "migration" discussion. Now, 14 nowhere in the law do we see the word 15 "migration" when you talk about electric 16 restructuring. You see "open access." And I 17 think when people are using the word 18 "migration," they really mean customers 19 exercising choice, what percent of your 20 customers have actually exercised the choice 21 to buy from the marketplace. And for about 22 the first seven or eight years, that number 23 was very, very low for PSNH. And then, when</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p style="text-align: right;">Page 29</p> <p>1 the gas situation emerged, there's been a 2 substantial growth in a number of customers, 3 you know, going to the market. And when you 4 think about that, we set up a system to allow 5 customers to choose. And customers are 6 choosing. Nowhere in state law or policy or 7 discussion did anyone say 5 percent is all 8 that we want to choose or 10 percent is all 9 that we want to choose or 50 percent or 10 80 percent. So the number is whatever the 11 number is. The number or percentage of 12 customers who have gone to market in and of 13 itself is irrelevant. The number of 14 customers or potential customers going to 15 market is simply, you know, a measurement of 16 what customers have chosen. And isn't that 17 the system that we established? Isn't that 18 what we wanted to allow customers to do? So, 19 the level of migration, there is no policy 20 about what is the right level. And in and of 21 itself, it's not really important because 22 it's just customers making choice. And PSNH 23 does support an open access system. We think</p>	<p style="text-align: right;">Page 31</p> <p>1 recovery. I'll give you an example with the 2 scrubber. \$420 million investment. There's 3 one state law that says only default service 4 customers will pay for that cost recovery. 5 The law very clearly provides for cost 6 recovery. So the question is how do you -- 7 who pays for it? So there's one state law 8 that says only default service customers 9 should pay for it. Then there's another 10 state law that says, if you divest, all 11 customers should pay for it. Same costs, 12 different customers. So we have two 13 different policy decisions as what we think 14 is fair for recovery of those costs. The law 15 that mandated the installation of the 16 scrubber says that this scrubber will benefit 17 all customers, will benefit all citizens of 18 New Hampshire. So, the law has already found 19 that the benefit is to all, but we have one 20 state law that says only some should pay, and 21 then we have state law that says under 22 certain conditions all should pay. Now, I 23 know that this has been politically difficult</p>
<p style="text-align: right;">Page 30</p> <p>1 that is the right model. We think New 2 Hampshire has the right model. 3 So the question is, really, 4 who should pay for the safety net? It really 5 comes down to that. Who should pay for this 6 default service safety net that PSNH has, and 7 how do our current policies relate to how or 8 who pays for that safety net? Our role is as 9 safety net. We don't go out to the market. 10 We don't go out there and market for 11 customers to choose. We certainly do not 12 sell to any other retail customers anywhere, 13 except for in a franchise area, in a very 14 limited role as a safety net, as a default 15 service provider. 16 So I can give you three or 17 four state policies that have a very large 18 impact on that rate and that you can actually 19 make that rate below market very easily, if 20 that's what you wanted to do, or you could 21 let it be where it is. 22 The legislature has an 23 inconsistent policy when it comes to cost</p>	<p style="text-align: right;">Page 32</p> <p>1 for people. But we've advocated that all 2 customers should pay for that. If that were 3 the -- if you were to have a consistent 4 policy, and if you were to say that mandated 5 costs that benefits all citizens of this 6 state, that all customers should pay for it, 7 our energy service rate would be about a 8 penny lower. Very significant. Be about a 9 penny lower. 10 There's another policy of the 11 state, and it goes like this: When electric 12 restructuring first started, as I said, you 13 know, no one knew what the market would 14 yield. No one knew what would happen in the 15 market. And people were trying to sort of 16 jump-start that market. As I said, that's 17 why people divested. They didn't know what 18 was going to happen with the market, and then 19 once they found out the market, then they 20 said, no, no, you shouldn't divest. 21 But another place where this 22 shows up is on billing. So, when electric 23 restructuring began, you know, people were</p>

Page 33

1 trying to give a little boost to the market.
2 And so PSNH was required, not by law, but by
3 the Public Utilities Commission, to provide
4 billing, collection, administrative,
5 accounting and other services at below-market
6 prices to competitive suppliers. That was to
7 make it easy for competitive suppliers to
8 enter the market. And that's the way it's
9 been for, like, the first 12 years. And as I
10 told you, for the first six or seven, seven
11 or eight years, there's been very little
12 market activity. And then with the very low
13 natural gas prices, that has created market
14 activity. And I think we would all agree
15 that right now we have very robust market
16 activity. All you have to do is look at the
17 advertisements. You've probably been
18 approached yourself. So we went from a
19 period of time where there was essentially no
20 market activity to a period of time where
21 there's very, very robust market activity;
22 and yet, we're still subsidizing. We're
23 still subsidizing those suppliers by using

Page 34

1 the PSNH infrastructure and people and
2 services and reputation to make it easy for
3 them to make money. And I submit that that
4 policy should be changed. For instance: If
5 we were allowed to charge suppliers one cent
6 per kilowatt hour for billing services,
7 charging one cent a kilowatt hour for doing
8 billing services, and we took that revenue
9 and we credited against our energy service
10 rate, we've now lowered that rate by a penny.
11 So if you take the scrubber, if you take this
12 as just two policy examples, we would have
13 rates far below market. We would have rates
14 below market just by making two policy
15 changes.
16 And the point I wish to make
17 to you is that your policies are dictating
18 what that rate level is. And if you don't --
19 if you think it's too high or you think
20 migration is too high, or you think people
21 aren't fairly paying for the scrubber or
22 aren't paying for the safety net, there are
23 ready solutions out there, and divestiture is

Page 35

1 not one of them.
2 Another example, not as
3 significant numerically, but still
4 significant to us, we are charged a utility
5 assessment fee. It's in the millions of
6 dollars a year. And that's okay. We know
7 that's the way it is. That's how we fund the
8 operations of our regulators. And a good
9 part of that is recovered through our energy
10 service rates, what causes the rate to be
11 higher. All the competitive suppliers don't
12 have to pay that fee. They don't get a
13 utility assessment. Yet, I will tell you
14 they are extremely active in all PUC
15 proceedings. They are causing a lot of
16 activity. They're making a lot of motions.
17 They're very active; yet, they're not
18 required to pay any utility assessment fee.
19 That's a policy. If there were a more level
20 playing field with that policy, our rate
21 would be lower, or at least our costs would
22 be more in line with what their costs would
23 be.

Page 36

1 There's another example of a
2 policy change that you folks just, again, I
3 think it was this session that you changed
4 the rules. But the state controls
5 energy-related funds like the RGGI excess
6 option funds. And the State, I think
7 starting next year, if I remember this right,
8 the State would apply those funds or would
9 return those funds to customers to lower
10 delivery rates. You could have just as
11 easily decided to use those funds to lower
12 energy service rates, you know, as a way of
13 mitigating scrubber costs or being more fair
14 to all customers. So there's a policy
15 decision you made which is very significant,
16 where you had influence and control over the
17 level of energy service rate, and you went
18 one way. We'd like you to go another way.
19 So, when people, you know,
20 talk about our high energy service rate, that
21 in itself is customers choose, and that's
22 fine. But it's high because of these
23 policies. It could be low very easily by

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p style="text-align: right;">Page 37</p> <p>1 changing policy. 2 So, I think, you know -- so 3 that's some solutions, if you want solutions. 4 Those are solutions. But they take a 5 commitment. And I think, like most things, 6 it takes a hard time to get agreement amongst 7 people as to how to solve. 8 I want to debunk the myths 9 that -- there's a lot of myths of 10 divestiture. And you've probably heard a lot 11 about divestiture this morning, and I know 12 you had one or two even tell you what the 13 process is for divestiture. But this is 14 nothing new. I'll tell you, I've heard this 15 dozens of times, you know, from those who 16 have other economic interests. It's been 17 reviewed. It's been considered by the 18 legislature and rejected already, and here we 19 go again. But there's not been really the 20 facts or sound analysis that would ever 21 support a divestiture. And in fact, I'll 22 kind of give you sort of the simple way of 23 thinking about this.</p>	<p style="text-align: right;">Page 39</p> <p>1 a plant has value, divestiture doesn't make 2 any sense. You ought to use that value for 3 customers. Our role is to provide 4 electricity to customers. So why would we 5 not need assets to do that role? Our primary 6 role is to provide electricity to electric 7 customers. So that's one of the myths of 8 divestiture. 9 People will claim that 10 divestiture will somehow lower costs. It 11 will not lower costs. Divestiture will raise 12 costs. Not only will it raise costs, but we 13 lose control over our energy future. The 14 state loses control, just like the other 15 states lost control when they divested before 16 they learned from California. We will lose 17 control. You will have no regulatory 18 oversight of any generation. You just 19 deferred all of that to the federal 20 government. So that's another risk of 21 divestiture. You lose the impact. You lose 22 the ability to impact different programs and 23 different ideas you might have towards</p>
<p style="text-align: right;">Page 38</p> <p>1 If a power plant is not 2 economic, if it's not valuable, if it doesn't 3 help you with your reliability, if, when you 4 consider all those impacts, including 5 community impact, the value for mitigating 6 risk and economic value, if there's not -- if 7 there's not value in it, you close it. It 8 does make -- it has no relationship to 9 divestiture. If it doesn't have value, close 10 it. PSNH has closed power plants in the 11 past. Our headquarters in Manchester is in 12 what used to be a power plant. We've closed 13 hydro plants in the past, the distant past. 14 So, if a plant isn't economic, you close it. 15 If it is economic -- it's only going to be 16 one or the other. If it is economic and 17 provides value, then that value should be 18 used for customers, because under New 19 Hampshire law customers are going to pay 20 whether you divest or don't divest. Okay? 21 You can't escape costs by divesting. So, 22 it's -- when you divest, customers end up 23 paying but not getting any value. And so if</p>	<p style="text-align: right;">Page 40</p> <p>1 addressing these ISO problems when you get 2 out of that situation. You made the safety 3 net not so safe anymore. You've now explored 4 -- exposed our customers to anything that 5 could happen in the market, and there's 6 nothing you can do about it because you lost 7 control. And customers would incur new 8 stranded costs if you divest. As I said, 9 customers pay for this. It's just a question 10 of do they get the value. And right now they 11 get their value. But if you divest, they 12 don't get the value, but they have to pay for 13 it. So it's, you know -- so I hope that you 14 don't go off quickly thinking that 15 divestiture is an answer to anything, because 16 it's not. If you want low energy service 17 rates, you can get them without divestiture. 18 And I really don't think we should mortgage 19 our future by divesting. 20 So I'll just summarize, and 21 I'd be happy to get in a dialogue with 22 anybody. But to summarize, our current 23 system in New Hampshire of customer choice is</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 41

1 working, and it has been working for over a
2 dozen years. Customers are exercising
3 choice. And isn't that what it was intended
4 to do? The safety net that PSNH is charged
5 with doing has worked very well. Just this
6 winter, there was a customer -- a supplier
7 who defaulted, and those customers did not
8 lose service whatsoever. We immediately
9 filled that role, and would in the future.
10 New Hampshire has some outdated policies that
11 really could decrease any service rate if you
12 were to change them, and we could actually --
13 it could be below market very easily just by
14 updating some of those policies.
15 We have significant challenges
16 in New England, in New Hampshire, as
17 identified by the ISO-New England. Really,
18 those challenges are to ensure electric
19 reliability, our issue with over-dependence
20 with natural gas, having more independent
21 resources. The risk of retirements of power
22 plants are all critical. And our generation
23 helped New Hampshire get through this period

Page 42

1 of uncertainty in New England. We directly
2 mitigate against all those issues.
3 Divestiture will increase customer costs and
4 risks and won't protect against the situation
5 that the legislature wanted to protect
6 against when it learned from the California
7 experience. And as I said, manipulations in
8 the market continue, as evidenced by the FERC
9 fines that continue to be issued.
10 Divestiture is a one-way street. Once you do
11 it, you can't turn back. You're stuck, and
12 you've lost your ability to deal with issues
13 in the future.
14 So, New Hampshire has a lot of
15 important things. It's just one reason why I
16 stepped up to this new role that I'm doing,
17 and I want to entirely focus on New
18 Hampshire. But it's our energy policies --
19 RGGI, RPS, geo-diversity, economic growth,
20 economic health for the state -- these are
21 all things we should be working on to advance
22 rather than trying to destroy what we have.
23 So I would be happy to talk

Page 43

1 with you in any way you want.
2 REP. BORDEN: All right. Are
3 there questions from the Committee? Senator
4 Bradley?
5 SEN. BRADLEY: Let Bob go
6 first.
7 REP. BACKUS: I'm happy to
8 defer to a higher chamber, represented by
9 you, Senator.
10 SEN. BRADLEY: No, you get the
11 first one, Bob.
12 REP. BACKUS: Well, thank you,
13 Mr. Long, for coming up here and addressing
14 us in that comprehensive fashion.
15 You suggest that one of the
16 risks we would face was some danger to our
17 safety net if you don't continue to have
18 ownership of these plants; and yet, these are
19 the only utility-owned plants in New England,
20 as you told me many years ago. Do you mean
21 to suggest that the customers in the states
22 that surround us -- Maine, Mass.,
23 Connecticut, Rhode Island -- are more at risk

Page 44

1 because those utilities did not keep their
2 plants?
3 MR. LONG: Absolutely.
4 Absolutely.
5 REP. BACKUS: Is there any
6 evidence that that's -- that that risk is --
7 how do you come to that conclusion?
8 MR. LONG: You know, when you
9 play up the market, play up scenarios, we've
10 already seen it. You saw it in the first
11 seven or eight years of electric
12 restructuring when natural gas prices were
13 much higher than they are now, and we had
14 lower rates than all the rest of New England.
15 So, you know, there's a reason for that, and
16 the reason was our physical assets. You
17 know, now you're seeing very low prices that
18 really can't be sustained, you know, if you
19 need any new generation or need to do
20 anything.
21 You know, so certainly one way
22 you'll see it is when those prices turn
23 around. Certainly you saw it in the

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 45

1 heatwave, the heatwave that hit. And you
2 saw -- and we saw it in January, in January
3 or February when we had the cold wave. You
4 know, we had some information -- I know Donna
5 is distributing -- that shows in the winter
6 alone we saved customers \$45 million by
7 running our generation rather than going to
8 market. So the question is how many hours or
9 how many months or how many weeks or year do
10 you have those circumstances? But it works
11 like this, Representative: When our plants
12 are running, they're running because they're
13 saving customers money, because they're lower
14 than market. Okay? So we save customers
15 when they're running, and we save customers
16 when they're not, because if the market is
17 below our generation -- our generation serves
18 as its cap -- when they're below our
19 generation, then we buy from the market. But
20 we don't have -- we don't put any adders on
21 it. We don't profit from it. So when our
22 generation isn't running, we're buying
23 cheaper than anyone else because we don't

Page 46

1 have to have a market. And when it's higher
2 than our generation, you know, we're running
3 our generation and we're avoiding market.
4 So, I mean, those numbers are very real.
5 The state of California -- the
6 state of Connecticut's a really good example.
7 If you go back and look at what's happened
8 there in the last 10 years, they started out
9 with congestion. They had wished that they
10 had kept their generation. And so they
11 started looking for ways to get back where
12 they could have some state-controlled
13 generation. This is real life. This is what
14 happened in Connecticut. And so
15 Connecticut -- but they didn't allow their
16 utility to own the generation. I mean, they
17 still had a hang-up on doing that. But they
18 knew that to get control over their state
19 energy costs, they had to have generation and
20 the state had to control. So what they did
21 was they went up to our fees and had their
22 merchant generators develop generation, and
23 it required the electric utility enter into

Page 47

1 contracts. So basically, the electric
2 utility and their customers paid for the
3 enter cost of these units, but they did not
4 own them. So, consequently, you know, they
5 helped the state mitigate against congestion
6 and some risk of reliability, local
7 reliability. But what ended up, because they
8 were paying at today's prices, not our actual
9 cost of having highly a depreciated plant
10 like we have in New Hampshire -- so once they
11 sold it, you enter back in. You're entering
12 back in at high prices. So now, Connecticut
13 has close to the highest prices in the United
14 States. And if you look at the bill -- and
15 they recover these costs from all customers,
16 not just from energy service customers. They
17 recover from all customers. And they have a
18 very high cost that they're recovering by
19 trying to get control of their state's
20 destiny in energy, and they did that by
21 providing revenue streams to merchant
22 generators. And it cost them dearly.
23 REP. BORDEN: Follow-up? Have

Page 48

1 any questions?
2 SEN. BRADLEY: Sure. Hi,
3 Gary.
4 MR. LONG: Hi, Senator.
5 SEN. BRADLEY: Good to see you
6 again.
7 MR. LONG: You, too.
8 SEN. BRADLEY: You know, to
9 quote a great American, Yogi Berra, "It's
10 deja-vu all over again."
11 MR. LONG: I felt the same
12 way.
13 SEN. BRADLEY: You've talked
14 about "the safety net." The safety net was
15 very important to everybody in this room when
16 we were debating this 12 years ago, including
17 my good friend, Representative Backus, and
18 Representative Cali-Pitts. But the safety
19 net is fraying. There is no question about
20 that, that as you have lost 55 percent of
21 your customer base -- obviously industrial
22 customers, but more and more the residential
23 customers -- it's fraying. And as the PUC is

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 49	Page 51
<p>1 adjudicating, you know, the prudence of the 2 scrubber, there's almost no way that your 3 default service rates aren't going to 4 increase in the future and further fray that 5 rate as more and more people leave. I mean, 6 that's the classic definition of a "death 7 spiral" now. Whether we're at a tipping 8 point or not, you can argue. But it would 9 seem to me that the volatility and the safety 10 net that you're talking about are almost 11 things of the past, and they're going to be 12 further exacerbated by, you know, what may or 13 may not come out of the scrubber. If they 14 find some of your costs imprudent, we're 15 probably in court. And if they find them 16 prudent, the migration will be 90 percent, 17 just like that. How do you call that a 18 "safety net"?</p> <p>19 MR. LONG: I respectfully 20 disagree that it's fraying. The system 21 continues to work. And if you think the rate 22 is too high, you can change it as the way I 23 just described how you can change it. Again,</p>	<p>1 defined. You know, if you think the rate's 2 too high, you can change it. Otherwise, 3 you're going to continue to have a percentage 4 of customers paying a hundred percent of the 5 scrubber costs rather than all; you're going 6 to continue to have us subsidizing 7 competitive suppliers. You continue to have 8 us paying costs others don't have to pay 9 because of our policies.</p> <p>10 So I'll -- you know, I know 11 you, and I know each of you well, so I know 12 you won't take this in an offensive way. But 13 I'll throw it right back at you. We found a 14 problem, and it is us -- it is you. It is 15 the legis -- I mean, I can fix these problems 16 overnight if I had legislative support.</p> <p>17 SEN. BRADLEY: Okay. So it's 18 my turn now to jump in.</p> <p>19 MR. LONG: Sure.</p> <p>20 SEN. BRADLEY: Okay. You were 21 willing and complicit in the passage of House 22 Bill 1673 in 2006. I wasn't here. But even 23 though the legislature ordered that and</p>
Page 50	Page 52
<p>1 it's no one's goal to say 50 percent, 2 60 percent of customers choosing is a bad 3 thing. There's inherently nothing wrong with 4 50 or 60 percent of customers choosing. It 5 comes back to cost recovery. And, you know, 6 I think the real question is: Are we being 7 fair to customers? By having a percentage of 8 our customers pay a hundred percent of the 9 scrubber costs, is that really fair policy?</p> <p>10 Because you could change that policy, and we 11 wouldn't even be having this conversation.</p> <p>12 SEN. BRADLEY: All right. So 13 one of the --</p> <p>14 MR. LONG: You could change 15 the billing policy, and we wouldn't even have 16 this conversation. So I disagree that it's 17 fraying. I disagree that it's not working. 18 It's working exactly as defined. We are the 19 safety net. And I just gave you one example 20 of a supplier defaulting in January. What 21 would have happened if we weren't there? 22 Those customers would have been in really 23 dire straits. So it's working exactly as</p>	<p>1 ordered the specific technology, you embraced 2 it.</p> <p>3 MR. LONG: Are you talking 4 about the scrubber?</p> <p>5 SEN. BRADLEY: Yes.</p> <p>6 MR. LONG: Oh, sure. Yeah, we 7 were very cooperative --</p> <p>8 SEN. BRADLEY: You embraced 9 it.</p> <p>10 MR. LONG: -- and 11 collaborative with the state --</p> <p>12 SEN. BRADLEY: Exactly.</p> <p>13 MR. LONG: -- with the 14 senators --</p> <p>15 SEN. BRADLEY: Exactly.</p> <p>16 MR. LONG: Sure. It was a 17 collaborative effort.</p> <p>18 SEN. BRADLEY: So, to throw it 19 at us and say the blame is totally on the 20 legislature is not right. It's not -- it's 21 just not correct. If PSNH saw the future as 22 coal being king in 2006, you were here 23 advocating for that scrubber and --</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 53	Page 55
<p>1 MR. LONG: We were not 2 advocating to recover it all from one group 3 of customers. That was something the 4 legislature decided. It was not part of the 5 settlement. 6 SEN. BRADLEY: Well, but it 7 was part of a law and -- 8 MR. LONG: Which was changed 9 after the settlement was agreed to. 10 SEN. BRADLEY: It was part of 11 the law. But then you continued, even though 12 the original estimates were \$250 million, 13 you've continued to whatever it ended up 14 being, \$425 million, without, you know, a 15 reset button and -- 16 MR. LONG: Well, the law was 17 very clear. We were mandated to do that. 18 And I won't go getting into a legal argument 19 with you. It's extremely clear to us. And 20 the reason the law was written that way, 21 because when we went to electric 22 restructuring, we had to take a large 23 write-off. And we said we're not going to</p>	<p>1 is that that voice of the utility was never 2 raised to say, "You know what? This is going 3 to be uneconomic as the price of natural gas 4 developed." So the point -- 5 MR. LONG: Senator, we can go 6 back and forth -- 7 SEN. BRADLEY: Well, we are 8 going back and forth. 9 MR. LONG: -- but the fact is 10 the legislature had more power than we ever 11 had. We were the ones that were mandated, 12 required by law to do that. It's only the 13 legislature that could have changed that law, 14 not us. 15 SEN. BRADLEY: But you never 16 spoke up for changing that law. And so 17 that's -- for you to sit here and blame the 18 legislature -- 19 MR. LONG: Well, I'm speaking 20 up today about changing the laws so that it's 21 more fair, that it's recovered from all 22 customers, that you remove our billing 23 requirements so that we can start managing</p>
Page 54	Page 56
<p>1 make another investment, you know, having 2 people change their rules on us along the 3 way. So the scrubber law was written very, 4 very clearly to provide for cost recovery. 5 And, you know, it's really to me sort of 6 unfair that after that was done, people are 7 now looking for -- to not allow cost recovery 8 when the law and the constitution is very 9 clear on that. 10 SEN. BRADLEY: I think what's 11 good for the goose is good for the gander 12 here. And while I would sit here and say 13 today, in probably a 50-year-old plant, it 14 clearly is a mistake that that scrubber was 15 ever built. And I think you'd agree with me 16 on that. 17 MR. LONG: I would say if the 18 legislature felt that way, they could have 19 rescinded the law, and you did not. 20 SEN. BRADLEY: Well -- 21 MR. LONG: We were mandated to 22 put it in. 23 SEN. BRADLEY: But the point</p>	<p>1 our costs as a company who has freedom to do 2 would do, and, you know, to go for billing, 3 for instance. You know, there's nothing in 4 the law that says we have to do that. It's 5 outdated. Change it. Change it, and the 6 problem starts going away. 7 SEN. BRADLEY: I'm not going 8 to argue you with you there. I'm just -- as 9 the Commission is dealing with this prudence 10 argument, I think it cuts both ways. And I 11 think that you folks need to recognize that 12 also. 13 MR. LONG: Well, I know we're 14 going to agree to disagree -- 15 SEN. BRADLEY: We will. 16 MR. LONG: -- and you and I 17 have a long history of working together and 18 agreeing and disagreeing and then, you know, 19 working things out. But -- 20 SEN. BRADLEY: Right. So let 21 me ask my next question. 22 MR. LONG: But absolutely, 23 positively, we have -- we're entitled by law</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 57

1 to have a hundred percent cost recovery. And
2 we've already written it off. We've already
3 written off costs to get to this point on
4 electric restructuring. You know, we're not
5 going to go there again.
6 SEN. BRADLEY: So, if I can --
7 REP. BORDEN: Mr. Long, could
8 you do me a big favor?
9 MR. LONG: Yes.
10 REP. BORDEN: When he asks a
11 question, can you repeat it back to see so
12 it's clear what the question is?
13 SEN. BRADLEY: All right.
14 MR. LONG: I'll try. Keep
15 them short, and I'll try to repeat them.
16 SEN. BRADLEY: All right. So,
17 in the classic case of where we're maybe at a
18 tipping point, maybe we're not, if the price
19 of your default service continues to escalate
20 and you continue to lose customers, then more
21 and more burden gets on a smaller and smaller
22 base. Price has to go up or costs have to be
23 denied. I mean, at what point can that

Page 58

1 system stay sustainable for the people that
2 will remain on default service, assuming
3 that -- and I just have one more thing to add
4 here -- the thought of shifting costs to
5 other customers and other utilities, even
6 though it was a policy decision, I mean, goes
7 against all the tenets of a competitive
8 marketplace. So, fairness or not, I mean, to
9 me, that is a pretty fundamental thing.
10 So, to get back to my
11 question, at what point will those rates
12 become unsustainable?
13 MR. LONG: Okay. So, for
14 clarity, I never suggested that costs should
15 be recovered from other utilities. So, you
16 know, I didn't say that.
17 The question is: If our energy service
18 rate goes up because of an increased choice,
19 our customers exercise to go to the market,
20 isn't that a problem. At what point does it
21 not work anymore? Is that a proper, maybe,
22 way of restating the question?
23 SEN. BRADLEY: Hmm-hmm.

Page 59

1 MR. LONG: In July, our rates
2 went down. Migration went up, rates went
3 down. And the point I want to make is it's
4 not nearly as simple as you're assuming, that
5 there are a lot of economics and factors that
6 go into the marketplace. So it's not as
7 linear as you would think. So at what point
8 do you have customers who won't pay nine
9 cents kilowatt hour if the market is seven?
10 There may be no point. It may never occur.
11 You may always have customers who are willing
12 and able or necessary to pay that price. And
13 I think that begs the question for policy
14 makers: Is that fair to those customers?
15 And I would say not when you have mandated
16 costs, not when you have policies that are
17 causing energy service rates to be higher
18 than it needs to be. But if you change those
19 policies, you can more equitably recover
20 those costs from all customers and not just
21 from those few who might be there.
22 SEN. BRADLEY: I think we both
23 know that's not going to happen, though.

Page 60

1 MR. LONG: Well, you hold the
2 decision-making there, you and the rest of
3 the legislature. So if you don't want it to
4 be solved, then I guess it won't be solved.
5 REP. BORDEN: Senator
6 Cali-Pitts.
7 SENATOR CALI-PITTS: When you
8 say "all customers," Mr. Long, are you
9 meaning all customers within the service
10 area, not just the default customers?
11 MR. LONG: I mean all PSNH
12 customers. I gave you the example of
13 Connecticut. When they implement policy,
14 those things that are mandated by the state,
15 that are required by the state, their policy
16 is to recover the cost of those from all
17 customers. It's only New Hampshire that has
18 mandated costs that says only some customers
19 will pay for it. So, the policy I'm talking
20 about is used elsewhere in New England. New
21 Hampshire is a little bit different, and it
22 has not adopted that "all customers should
23 pay" policy.

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 61

1 REP. BACKUS: Thank you.
2 Gary, I'm a little surprised by the vehemence
3 of your defense of Public Service's ownership
4 of it's generation fleet, particularly the
5 fossil plants. When the legislature directed
6 restructuring, it was going to be all plants.
7 MR. LONG: Yeah.
8 REP. BACKUS: And then, as you
9 eloquently point out, we ran into the
10 California thing and decided to step back.
11 And Sen. Bradley was a key player in that, as
12 he's been in so many of these things. And
13 you've also said that we have these
14 inconsistent statutes on who pays these
15 costs, and if you divest, you will be able to
16 charge all customers, and if you continue to
17 own it, you won't; you'll just have to charge
18 your energy customers. So that would seem to
19 me you may have incentive to want to divest.
20 And in your mind, and at least in my mind --
21 tell me if I'm wrong -- I don't equate
22 divestiture with closure. Those are two
23 different things. These plants might

Page 62

1 continue to provide service, maybe with the
2 same fuel, maybe with a different fuel, under
3 different ownership. So I'm just a little
4 curious as to why today, when these plants
5 are operating with relatively little capacity
6 factors -- I understand they've been valuable
7 at times, but the capacity factors are much
8 lower than they were ever designed to achieve
9 when we didn't have a competitive market --
10 why is the company so vociferous in its
11 position not to continue on these plants?
12 MR. LONG: Okay. So the
13 question is why I think -- I'll label myself.
14 Why is Gary Long, so I think you said
15 vehement in support of or against divesting
16 our generating plants. And if I'm vehement
17 or if I in any way offend anybody, I
18 apologize --
19 REP. BACKUS: No, no, no.
20 MR. LONG: -- because I am not
21 trying to be difficult, nor am I trying to
22 insult anybody. And so I apologize if that's
23 come across in any way.

Page 63

1 But I am intense about it, and
2 I do feel strongly about it. And you're
3 right. At one point PSNH said let's divest,
4 and the legislature decided not to, and we
5 agreed with that. You know, we thought that
6 was a good decision, because we all learned.
7 We all learned. We're smart. We knew more.
8 And as I said, other straits learned, too,
9 and they decided not to have open access. So
10 I think in this world, as you learn, you
11 apply your learnings.
12 You know, I don't wish to be
13 corny, but I wish to be sincere. I am not in
14 favor of divesting because I care about New
15 Hampshire, because I care about our New
16 Hampshire being in better shape than all of
17 the other straits in New England. I have
18 worked for 13 years to get PSNH there. As I
19 told you earlier, there's no company in New
20 England that has the renewable portfolio that
21 we have, because I believe in renewables,
22 because that's where the state and the
23 country says we need to go. So, New

Page 64

1 Hampshire is in very good shape on that. The
2 things that we did, we didn't have to do.
3 And I can list them for you. We didn't have
4 to convert a coal plant boiler to burn wood.
5 We didn't have to make sure that the first
6 wind project was successful in Lempster like
7 we did when we got that power. And we didn't
8 have to make sure that the city of Berlin and
9 area had a biomass plant that would give them
10 jobs and give us renewable energy for at
11 least the next 20 years. Those were all
12 optional, discretionary. We could have walked
13 away and said we don't care.
14 So, Representative, I know you
15 know me. We've known each other for years.
16 I'm telling you, because I care. And I will
17 tell you this, and this is really going to
18 sound corny to you: The only reason I didn't
19 retire and I'm still working on energy policy
20 is because I think it's good for New
21 Hampshire and I'm trying to help. So, buy it
22 or not, that's the sincere answer. I believe
23 that -- all those things I just told you I

Page 65

1 believe. If you divest, New Hampshire is no
2 different than the rest of New England. And
3 right now, we have a better energy future.
4 We are better positioned than anybody in New
5 England. Now, you don't see that now because
6 you see migration and you see low gas prices.
7 I told you those low gas prices cannot
8 sustain new generation. I told you ISO-New
9 England is concerned with retirements of
10 generation. And if you don't care about
11 protecting New Hampshire from those, I do.
12 And I'm telling you how to do it. I
13 shouldn't say that. I shouldn't say I'm
14 telling you. I'm advising you how New
15 Hampshire can be in a better position than
16 any other straits. So, instead of having
17 these battles which have been going on for 12
18 years, where people of special interests say,
19 "Oh, gee, I'd like one less player in the
20 market or one less competitor or one less
21 economic generator," you know, they have
22 their reasons. And they've been doing this
23 for 12 years. I'm looking at the future.

Page 66

1 And I am really working hard, you know,
2 because my new job is policy and renewable
3 energy -- I'm working really hard to help
4 take care of New Hampshire's energy future.
5 And that is the only reason I'm still
6 working.
7 So, sorry for the long speech,
8 but that's the sincere answer.
9 REP. BACKUS: Yeah, follow-up.
10 Well, first of all, I admire what you've done
11 in your career at PSNH. And I think you very
12 justly take pride in your stewardship of this
13 company, and so I congratulate you on that.
14 But let me just turn to one other thing that
15 came up in the comments that were made on
16 June 28th by your company and the responses.
17 You -- your company has
18 emphasized, and you mentioned it here today,
19 that we should protect fuel diversity, that
20 we're becoming -- you know, we're putting too
21 many eggs in the natural gas basket. And the
22 response that I've gotten from the comments
23 that we've heard from some of the people

Page 67

1 we've heard here is, whether or not that's
2 true, or to whatever degree that's true,
3 that's not the responsibility of any one
4 utility. That's the responsibility of
5 ISO-New England and the regional grid
6 operators, and so we really shouldn't look at
7 the issue of whether PSNH continues to own
8 these plants as an issue affecting diversity
9 of supply or reliability. And what's your
10 answer to that?
11 MR. LONG: Yes. Again try to
12 paraphrase. You say the responsibility for
13 being concerned about natural gas and having
14 an over-reliance on natural gas is ISO-New
15 England's responsibility. So why should we
16 care? Why should PSNH care? And does the
17 state want to be in control of this future or
18 not? I will tell you that ISO-New England is
19 not responsible either. No one's
20 responsible. Here's the way it works.
21 People have heard me say this before.
22 Once we open up our systems,
23 your local utility is no longer allowed to

Page 68

1 build or buy or, you know, be into any part
2 of the generation. All right? We're dealing
3 with assets we have. We haven't added any
4 more. You won't let us. So the utilities of
5 New England, the regulated utilities, have no
6 responsibility, no incentive, no reason and
7 no ability to address these problems that the
8 ISO-New England... (indecipherable).
9 Merchant generators have no legal requirement
10 to do anything. You can't make them do
11 anything. What you can try to do is give
12 them a financial reason to do something. But
13 you can't order them to do anything. Again,
14 the old world is you can order a utility to
15 do things. You can order a utility to have
16 diversity. You can order a utility to build
17 a plant. New world, you take the utilities
18 out of the picture. Merchant plants, it's
19 entirely market-driven. It's discretionary.
20 You can't stop them from closing a plant.
21 You can't make them do anything. In fact,
22 you know, I won't question anyone's motives,
23 but wouldn't a shortage help people who have

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p style="text-align: right;">Page 69</p> <p>1 plants and they want to make money? I mean, 2 why do they want lower prices? You know, why 3 are they against Northern Pass? It's because 4 they don't want new sources. So, utilities 5 aren't going to solve the problem. Merchant 6 plants aren't unless you give them a 7 financial reason to do it. And ISO-New 8 England can't. They can't. All that ISO-New 9 England can do -- and I shouldn't say "all" 10 because it's a very, very important role -- 11 is they can study it, they can analyze it, 12 they can bring it to the public's attention, 13 they can facilitate public dialogue. But 14 ISO-New England does not own anything except 15 the building they're in. They do not own any 16 electrical assets. They do not own any 17 transmission, distribution or generation, nor 18 can they by law. So, ISO-New England has no 19 ability to solve the problem. They can only 20 try to create incentives for somebody else to 21 solve the problem. And the reason I tell you 22 all this is because this is problematic. 23 This is the structure you've created, okay.</p>	<p style="text-align: right;">Page 71</p> <p>1 Cali-Pitts. 2 REP. CALI-PITTS: Gary, what I 3 don't understand is that, if your prices -- 4 or PSNH's prices are higher now, and it 5 benefits these new people coming in, why are 6 they so adamant that your prices -- that you 7 sell your generation and that your prices 8 perhaps come down and go into direct 9 competition with them? I can't -- I'm very 10 simplistic, but I can't put my head around 11 that. Why would that be? There's got to be 12 some underlying motive, because now it would 13 seem to me, just from their point of view, 14 from these new suppliers coming in, that you 15 are no threat because you're out of the ball 16 game. But that doesn't seem to be the case, 17 and I really can't figure that out. 18 MR. LONG: So I think your 19 question is: What is the motivation of these 20 merchant plants, the people you heard from 21 this morning? Why do they want PSNH to 22 divest? Why do they want PSNH to do this and 23 that? It's a very, very good question, you</p>
<p style="text-align: right;">Page 70</p> <p>1 And so this is why Connecticut says nobody's 2 going to solve this, so I'll get local 3 companies -- our customers to pay for putting 4 in some peaking units or things to help. And 5 that didn't work out too well for them. 6 So it is a problem, 7 Representative. It is a problem. And I say 8 nobody is responsible for anything. By that 9 I mean there is no law that requires anybody 10 to do anything. And that's different from 11 the 35 other straits who don't have the 12 situation. So it is a challenge for New 13 England. And that's why I'm saying, rather 14 than trying to beat up on PSNH and take money 15 away or say we want you to divest your 16 generation, why aren't we working together? 17 Because this is not an easy problem to solve. 18 And I'm telling you right now, New Hampshire 19 is in the best position right now. Don't 20 destroy it. Let's build something to -- 21 let's build something that protects it, not 22 destroy it. 23 REP. BORDEN: Representative</p>	<p style="text-align: right;">Page 72</p> <p>1 know, and I can't speak to their motives. 2 REP. CALI-PITTS: The 3 suppliers. 4 MR. LONG: Yeah, suppliers. 5 These are the people who own generating 6 plants. Over 90 percent of New England power 7 comes from merchant plants. So, you know, 8 why are they always fighting with PSNH? 9 Okay? And they are. And, you know, I can't 10 speak of what's in their mind. We can 11 certainly speculate. 12 I'll ask you: Why are those 13 exact same people opposing -- oppose it at 14 the federal level and locally, and why are 15 they opposing Northern Pass, which brings 16 renewable energy into New Hampshire? What do 17 they care? And it comes down to their 18 financial interests. It's competition. It's 19 why are the grocery stores closing down in 20 New Hampshire and why have some grocery 21 stores gone to court to stop other grocery 22 stores from being built. You say, why do 23 they care? It's because, you know, they</p>

Page 73

1 affect the market. Northern Pass will lower
2 market prices. All the generators hate that.
3 So they're opposing Northern Pass because it
4 will lower prices. So why, when our rates
5 are high, is your question, why, when PSNH
6 rates are high and given a lot of the market
7 opportunity, given our rates and low gas
8 prices, given a lot of market activity, why
9 do they care? They should be jumping for
10 joy. We have market activity. And I don't
11 know, but I would say it's the same reason in
12 answering Representative Backus' earlier
13 question. Why is Gary Long in favor of
14 keeping generation? Because I know these
15 conditions won't last, because I know those
16 problems that ISO-New England has identified
17 are real. And if you act on what you see
18 today, you're not looking at the future. And
19 so I think they're looking at the future --
20 I'm looking at the future, saying New
21 Hampshire is in a better position than anyone
22 against market disturbances and rising
23 prices. And they're looking at the same

Page 74

1 thing and saying, "I got to knock him out now
2 because the low prices are here now."
3 REP. BORDEN: Other questions?
4 Yes, Senator.
5 SEN. BRADLEY: All right. I
6 know everybody in this room is concerned
7 about their financial interests, and you
8 should be. Those of us who sit at this table
9 I think are concerned about the financial
10 interests of the people paying the bills.
11 And we should all be concerned about them,
12 too.
13 MR. LONG: Agreed.
14 SEN. BRADLEY: Thank you.
15 So, to get back to the
16 sustainability question, the situation that
17 we're in. And I look at this chart, which I
18 think you've been provided with a copy of it,
19 and your rates are the highest, and they're
20 probably three quarters of a cent above the
21 next highest, what worries me is not this
22 chart today and your prices today. What
23 worries me is what's coming next and the

Page 75

1 scrubber issue being embedded in rates and
2 where those rates go.
3 So, why don't you, if you
4 could, since you're now the energy policy
5 guru -- where are these rates going on
6 January 1st when you do your next filing?
7 MR. LONG: Yeah. So the
8 question is, you know, PSNH rates are high
9 compared to some other default service rates
10 around the other states I think is what
11 you're asking, and where are they going in
12 the future. And I guess I learned a long
13 time ago, don't predict the future because
14 you're always wrong.
15 The low gas prices we have
16 today in 2007 were not predicted. They were
17 not predicted. And there's a heavy debate
18 going on over, you know, will they stay low
19 forever or will they go up. You know, most
20 people are saying they're on the rise, but
21 they're not on a dramatic rise. When you
22 look at the fundamentals once again, you
23 know, the gas industry is looking at

Page 76

1 exporting gas because they're not -- you
2 know, they need to have more margin. They
3 need to have more profits. As I told you, at
4 today's prices, no new power plant can be
5 built. It's not sustainable. So when I look
6 at these fundamentals, I say we're not in a
7 sustainable situation within the last two
8 years, five years. We're not in a
9 sustainable situation. And, you know, where
10 is it going to go next January? You know,
11 I'll get myself in deep trouble if I predict
12 a rate before the numbers come in. But I
13 suspect the rates will go down in January.
14 That's what I think is going to happen.
15 REP. CALI-PITTS: For
16 everybody?
17 SEN. BRADLEY: No, the default
18 service customers.
19 MR. LONG: I'm talking about
20 PSNH. And it's the phenomenon I just
21 described to you. And I know -- I know
22 migration has a smaller amount of kilowatt
23 hours to recover fixed cost. I understand

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p style="text-align: right;">Page 77</p> <p>1 how all that works. But at the same time, 2 you know, it really depends on weather and 3 how much load you have, because whenever you 4 have high prices like we had in that heatwave 5 or you have in the cold weather, we get great 6 savings for customers. And on a day like 7 today, you know, we can buy from the market 8 at \$30, and then it's three cents a kilowatt 9 hour. Okay. In our projection we said it 10 was going to be five cents or six cents. So 11 we're doing better than projections on days 12 like today, too. So, you know, where it all 13 -- when all the math comes together, I 14 wouldn't be surprised if our rate went down 15 in January and -- 16 SEN. BRADLEY: All right. If 17 I could editorialize it. If your rate goes 18 down in January, that probably makes the 19 sustainability issue and the move to 20 divestiture less. But on the other hand, if, 21 as a lot of people think, your rates have to 22 go up because of the embedded cost of the 23 scrubber, it just makes our job that much</p>	<p style="text-align: right;">Page 79</p> <p>1 competition by shifting the public policy 2 underneath them. I just don't -- and I don't 3 think that's equitable. And I can virtually 4 assure you, because we've had these 5 discussions, it's not politically feasible 6 either. 7 MR. LONG: Yeah. Well, to me 8 it's analytically feasible, but -- 9 SEN. BRADLEY: It may be 10 analytically feasible -- 11 MR. LONG: But politically I 12 can't -- 13 SEN. BRADLEY: -- but you're 14 an engineer. I'm not. 15 MR. LONG: So, but, you know, 16 I'm trying to think of the other part of your 17 question. You know, as I said earlier, well, 18 what role of migration do you want? Do you 19 think 10 percent's the right number? Is it 20 50 percent, 80 percent -- 21 SEN. BRADLEY: Gary, I'm not 22 worried about the migration. 23 MR. LONG: Yeah.</p>
<p style="text-align: right;">Page 78</p> <p>1 more difficult. We're here to protect 2 customers. 3 MR. LONG: Yeah, I -- 4 SEN. BRADLEY: We're here to 5 protect, you know, the job-producing sector 6 of New Hampshire also, which largely has 7 moved away from you because of the large 8 disparity of pricing. And I think you see, 9 you know, the pressure points that we're all 10 under. And we are all in this together, 11 whether you want to blame me or I want to 12 blame you -- well, I wasn't here in 2006. I 13 guess I could say, "Phew." Do you see the 14 point I'm making, I hope? 15 MR. LONG: Well, I certainly 16 see the point where you say we're all in this 17 together, and I know you sort of rejected my 18 idea that you could solve it. But you're not 19 being -- 20 SEN. BRADLEY: Well, I don't 21 think there's any equity in solving that, to 22 say to people that have made competitive 23 choices, now suddenly we're taking away that</p>	<p style="text-align: right;">Page 80</p> <p>1 SEN. BRADLEY: What I'm 2 worried about is price for the people that 3 stay on default service. And our job is to 4 protect the public. 5 MR. LONG: And those customers 6 who are paying for default service, we're 7 providing the benefit for all customers, 8 because when the market changes, you can bet 9 customers are going to rush back to default 10 service, and in the meantime, they didn't 11 have to pay anything. And I think that's 12 unfair. And I think that's where the state 13 policy falls apart, because it's being unfair 14 to those customers who are paying that; yet, 15 the service is sitting there available to all 16 for all of time. So that's where we may 17 disagree. 18 The other thing I think will 19 be very interesting -- and this is why I 20 won't project the future -- but this winter, 21 this winter is the winter to watch in New 22 England. It's the winter to watch on supply, 23 on price. It's the winter to watch. So I</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 81	Page 83
<p>1 think the thing that will be interesting is 2 not what PSNH prices are in the winter but 3 what other people's prices are in the winter. 4 SEN. BRADLEY: Just one more 5 question, if I might. There was a gentleman 6 that testified this morning. See if I can 7 find his card. A David Soltzberg. And he 8 had -- he raised a question about a friend of 9 his who had moved, had migrated from PSNH and 10 then went back on to default service when his 11 supplier left the market and said there was 12 some sort of deal, special deal for returning 13 default service customers. Do you know 14 anything about that, or is this maybe an 15 incorrect -- 16 MR. LONG: This sounds like 17 misinformation to me, as far as that. 18 SEN. BRADLEY: All right. 19 REP. BACKUS: ... 20 (indecipherable)... know what this is. 21 MR. LONG: You know, you're 22 regulated. We -- 23 SEN. BRADLEY: I assumed that</p>	<p>1 you'll all agree with me -- we don't expect 2 anybody to build a new nuclear plant anywhere 3 in New England. We don't expect anybody to 4 build a new coal plant in New England. In 5 fact, New England coal plants are shutting 6 down. We don't expect anybody to build a new 7 oil plant. Oil plants are shutting down. So 8 if you need electricity in New England, and 9 you need it reliably, you know, you're 10 probably going to have to build a natural gas 11 plant, because that's a reliable plant, 12 provided you have pipeline capacity. So the 13 future sources are either renewable or 14 natural gas. But natural gas is that 15 dispatchable, that reliable source. That's 16 why I said it's the fossil fuel of choice. 17 So we're fortunate that we have time, where 18 it's not an issue right now, today because 19 we're not needing a new gas plant built 20 today. But -- and it wouldn't be built, 21 anyway, because nobody would do it for the 22 prices that are there. 23 So it's sort of a Catch-22.</p>
Page 82	Page 84
<p>1 was the case, but I thought it should be 2 asked. 3 MR. LONG: We're not marking 4 and giving incentives. This is purely 5 customer choice. We honor that. This is 6 purely customers making decisions, and we 7 implement their decision is what it amounts 8 to. So... 9 SEN. BRADLEY: Okay. Thank 10 you. 11 REP. BORDEN: Representative 12 Rappaport. 13 REP. RAPPAPORT: Mr. Long, you 14 said that because you felt that the price of 15 gas was rising, that nobody was building any 16 new gas plants. Is anybody building any new 17 coal plants? 18 MR. LONG: No. The question 19 is -- I made the statement that no one's 20 likely to build new gas plants because the 21 market can't sustain it. The question is: 22 Are they building new coal plants? No. And 23 if you go through the list -- and I think</p>	<p>1 It's circular. The market is circular. The 2 prices are too low to build. When the prices 3 go high and then you build, and then prices 4 go back and go down. So it really is a tough 5 market to be in. 6 Merchant plant owners across 7 the country have taken financial hits. 8 They're having a real tough time. The low 9 gas prices have hurt the margins of nuclear 10 plants. They hurt the margins of hydro 11 plants. They hurt the margins of renewable 12 plants. Everybody's been affected by this 13 very low natural gas price. Now, that's one 14 side of the coin. The other side of the coin 15 is customers are doing quite well because the 16 prices are lower. 17 REP. BORDEN: Other questions? 18 Yes, Representative Walz. 19 REP. WALZ: I have a couple of 20 questions. We heard testimony this morning 21 that in ISO-New England's assessment, they're 22 looking at plants coming off-line, including 23 coal plants, including Schiller and the</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 85

1 Merrimack station, and that they don't see
2 that as a problem, that they expect adequate
3 capacity in New England, apparently even for
4 peaks, without those plants. Do you have any
5 observations about that?
6 MR. LONG: I don't know what
7 report you're looking at. But I have seen a
8 report from ISO-New England that lists all
9 the coal and oil plants in New England --
10 REP. WALZ: Yeah?
11 MR. LONG: -- and in their
12 analysis, any one of them or all of them are
13 at risk of closing down. That's their risk
14 analysis. That's their analytical analysis.
15 As far as what's actually happening, the
16 Brayton Point coal plant, which is the
17 largest coal plant in New England, has
18 recently been sold for a very small amount.
19 There's a question of whether that will stay
20 open. I think the Salem Harbor plant is
21 already scheduled for closure. There's some
22 oil plants in Massachusetts that are
23 scheduled for closure. There's a couple in

Page 86

1 Maine, oil plants, that are -- they don't
2 call it "closure." They'll say "moth
3 balling," which leaves them an option of
4 opening up later on when the market changes.
5 So the ISO's concern is that
6 when you -- I'll say the winter will be most
7 pronounced. When you have a heavy load on
8 natural gas by residents and businesses who
9 get first priority on a pipeline, and there's
10 not enough gas, do you have enough coal and
11 oil plants to make up the difference? Now,
12 oil produces less than 1 percent of the
13 energy in New England on an annual basis.
14 Coal is around 3 percent less, or 2 to
15 3 percent. So they're not big suppliers of
16 energy. But in this heatwave, oil was
17 producing 12 percent of New England's energy
18 during that heat, that high heat week. And
19 on the capacity basis, oil is about
20 20 percent of New England's capacity. So,
21 12 percent during the heatwave. They're
22 about 20 percent available. Obviously, some
23 weren't available or weren't needed during

Page 87

1 that heatwave. So the ISO's concern is, if
2 that 20 percent goes to zero, just this
3 heatwave as an example, New England may not
4 have had enough capacity to serve customers.
5 That's the concern, whether it be oil or
6 coal. And then in the winter, it also gets
7 to be a gas supply issue.
8 REP. WALZ: So, either I heard
9 it incorrectly or somebody testified
10 incorrectly this morning when they said that
11 ISO-New England thought there would be
12 adequate supply without the fossil fuel
13 plant -- without the coal plants. Is that a
14 correct --
15 MR. LONG: Well, for the
16 summer, I mean, at the beginning of every
17 summer they report out to the public what
18 condition they're going to -- they have to
19 report this to reliability councils
20 nationally. So, nationally, you look at all
21 of the regions to see what might have a
22 problem during the summer, which is typically
23 the peak load times in the nation, but

Page 88

1 certainly New England also. And ISO said
2 they had enough, and they did. We obviously
3 got through that heatwave, and we did
4 implement some emergency procedures, but not
5 a lot of them. There was still room left.
6 So they're absolutely right. We got through
7 the heatwave fine. But all I'm saying is
8 that's with what we have today. If more
9 retire, then each summer or each winter is
10 going to get tougher and tougher, and that's
11 what they're concerned about.
12 REP. WALZ: You have a whole
13 list of suggestions that you've made here of
14 things that would make your rates -- or the
15 rates of PSNH competitive. And my question
16 to you is, in listening to them -- and this
17 reflects my limited knowledge -- to what
18 extent are those legislative and to what
19 extent are those things that should be done
20 by the PUC?
21 MR. LONG: I think two of the
22 four are PUC and two are legislative.
23 REP. WALZ: Okay.

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 89

1 MR. LONG: I mean, the
2 legislature can do anything; right? I mean,
3 you created the PUC. So, all four of them on
4 the list you could do something about.
5 REP. WALZ: Of course.
6 MR. LONG: But I think the PUC
7 has the authority to change a couple of
8 those.
9 REP. WALZ: Okay. And I've
10 also heard allusions this morning that there
11 was some talk about having a separate
12 generation spinoff under PSNH, where the
13 generating facilities would go into a
14 separate company. And the implication was
15 that PSNH has expressed no interest in doing
16 that. Is that -- was that a correct
17 statement by whomever made that this morning?
18 MR. LONG: Yes. And I guess I
19 would try to repeat the question again. The
20 question is: Would PSNH have any interest in
21 spinning off its generation to a subsidiary
22 in some other form? The answer is no. We're
23 not in the competitive business. We're not a

Page 90

1 competitive supplier. Our company, Northeast
2 Utilities, had a company at one time for a
3 number of years that was in that market, was
4 an unregulated, you know, energy supplier.
5 And they got out of that market at a
6 substantial loss. And so Northeast
7 Utilities -- neither Northeast Utilities nor
8 PSNH has any interest in being a competitive
9 supplier. We are not. Our role is a safety
10 net. Our role is default service. So,
11 spinning off generation to us is no different
12 than having new owners. We have no interest
13 in being a merchant generator. Our
14 expertise, our life is being regulated by you
15 and the federal government.
16 REP. BORDEN: Any other
17 questions? Representative Townsend?
18 Representative Vadney? Did you have a
19 question?
20 REP. CALI-PITTS: Yeah. What
21 is the difference between the retirement --
22 to the company -- the retirement of the
23 plants and the divestiture of the plants? If

Page 91

1 the plant is retired, are there any stranded
2 costs? Are there any additional --
3 MR. LONG: Yes.
4 REP. CALI-PITTS: There are?
5 MR. LONG: Yes. Either way
6 there's costs. There's stranded costs.
7 REP. CALI-PITTS: There is.
8 Okay.
9 MR. LONG: If you close a
10 plant, which, again, happens in the normal
11 course of business. And it's certainly
12 happened in the times of PSNH. It's just an
13 economic decision. It's like anytime you
14 have a piece of equipment, whether it be a
15 transformer, or it could be a line or it
16 could be a pole, we call them "retired,"
17 meaning they're no longer useful and you take
18 them out of service. So if a plant were --
19 you know, if it were deemed that a plant is
20 no longer useful and you need to retire it,
21 you may still have costs. You may have costs
22 that are associated with it that would still
23 be recovered from customers. So, retirement

Page 92

1 is just that.
2 REP. CALI-PITTS: It's another
3 term.
4 MR. LONG: It's stopping the
5 use of the plant. Different ways of
6 retirement. You can moth ball, like they're
7 doing in Maine, with the idea that maybe you
8 start up later, or you just dismantle it,
9 which is very costly. There's costs of
10 dismantlement. There's probably
11 environmental costs of monitoring or
12 whatever. There's -- there might be some
13 property taxes that you still have, you know,
14 that you have to pay, maybe a lesser amount.
15 So, retirement has costs with it. So that's
16 why, when you make that economic decision,
17 you look at all those things and say you're
18 better off retiring. It's less costly than
19 to keep it open. And I don't think any of
20 our plants meet that criteria. But if they
21 did, that's what you do. We've done that
22 before. So, but -- whereas divestiture is
23 selling to someone else. And they might just

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

Page 93

1 buy it for the land, which is, you know...
2 we've seen two coal plants -- there's one in
3 Connecticut that was sold, divested, if you
4 will. And the site was bought, and the plant
5 was dismantled. So, divestiture could very
6 well be a closure because somebody wants the
7 site or wants it for some other purpose, or
8 maybe just wants to take the generation out
9 of the market to tighten up the market.
10 REP. BORDEN: All right. I
11 have three questions, and then I think we can
12 wrap up.
13 I really liked what you said about
14 working together, and I have a question about
15 that. But first, a couple of other
16 questions.
17 When you came to work with PSNH, or
18 thereabouts, we had the highest rates in the
19 area, as I remember. The rates were very
20 high. What caused those rates to go down?
21 MR. LONG: When I started with
22 PSNH, they weren't, and then in the course of
23 my career --

Page 94

1 REP. BORDEN: Then they went
2 up.
3 MR. LONG: Yeah, they were
4 high. Yeah, claimed to be the highest. And
5 really, that's all due to Seabrook. I mean,
6 there were two causes -- actually, I'll give
7 them each equal time. One was Seabrook and
8 the other one was rate orders. The state of
9 New Hampshire ordered us to buy power from
10 others. This is called PURPA, Public Utility
11 Regulatory Policies Act. And it's one of
12 those things. This is why I don't make
13 projections. Projections were made for
14 market prices, and market prices were less
15 than half of what was projected. But we were
16 required to buy this power at prices that
17 were -- some were as high as four cents --
18 four times the market price. So that created
19 a very large over-market cost for customers,
20 which caused rates to go up. And Seabrook
21 was the other one. So those were the two
22 reasons. When we had stranded costs, when
23 stranded costs came about with the

Page 95

1 restructuring, about half of it was due to
2 Seabrook, and about half of it was due to
3 these rate orders. So those were the two
4 causes.
5 So, what caused it to go down?
6 We took a write-off for one. And the other
7 thing is, you know, those costs were
8 eventually recovered. And as of this year --
9 May of this year is when we call the rate
10 reduction bonds which were issued to recover
11 those, some of those stranded costs -- they
12 expired. In 12 years -- so our rates went
13 down this year because of that. So, we've --
14 you know, we were on a path for lowering
15 rates all along, and now the market prices
16 have gone down. So, you know, the point of
17 comparison has gone down now.
18 REP. BORDEN: Thank you. If
19 you were mandated by the legislature to
20 divest, how would you approach that? And
21 let's say you had a year, 12, 14 months or
22 something like that to do it in.
23 MR. LONG: The process itself

Page 96

1 is defined. We've done it before. I mean,
2 our sister companies have done it in
3 Connecticut and Massachusetts. It's a very
4 rigorous process. It takes at least a year
5 or longer. You go out for bids. So we know
6 how to do that. We've done it before. But
7 we wouldn't -- you know, I don't know. I
8 don't want to predict. But we certainly
9 would insist on a hundred percent cost
10 recovery.
11 REP. BORDEN: And when you
12 said that thing I really liked hearing about
13 wanting to work together, work together on
14 what? What's the problem? What would we
15 work together on?
16 MR. LONG: You know, trying to
17 do this simply. The energy future. New
18 Hampshire's energy future. How does New
19 Hampshire fair well under any scenario for
20 any market condition in the future? So that
21 would be -- and that's what I've been working
22 on, obviously, for my career here.
23 But the second thing is

1 advancing renewables. We're very dependent
2 on natural gas. That's a good thing and
3 that's a bad thing. It's tough to be
4 dependent on one fuel source. I am an
5 advocate of renewables. We all know that
6 they're very expensive today and they require
7 subsidiaries. But I really think that New
8 Hampshire would be well served to be ahead of
9 the curve. And PSNH is. Like I said, we can
10 meet this by 2025. We're very, very well
11 situated with that. There's no other company
12 as well situated with that. But is
13 25 percent okay? Would 40 percent be better
14 if you could get it economically? So I think
15 that working together really is a great New
16 Hampshire advantage on energy. And I truly
17 believe that's where we are in the future.
18 And then you have these issues that Sen.
19 Bradley and I talk about, about today's
20 circumstances. But really, today's
21 circumstances are one set of things that are
22 relatively easy to solve, if you have the
23 political will. But it's really the future

1 that I would say. That's what we're working
2 on. You know, paint a picture 10 years from
3 now. Paint a picture 20 years from now.
4 Where are we going to be? Because we're in a
5 long-term business, and too often New England
6 and New Hampshire doesn't look long term. We
7 look at today. We look at migration today.
8 We look at market prices today, and we don't
9 really think about the future.

10 REP. BORDEN: Okay. We're
11 going to stop now and...

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C E R T I F I C A T E

1 I, Susan J. Robidas, a Licensed
2 Shorthand Court Reporter and Notary Public
3 of the State of New Hampshire, do hereby
4 certify that the foregoing is a true and
5 accurate transcription from this audio
6 tape, to the best of my skill and ability.

7 I further certify that I am neither
8 attorney or counsel for, nor related to or
9 employed by any of the parties to the
10 action; and further, that I am not a
11 relative or employee of any attorney or
12 counsel employed in this case, nor am I
13 interested in this action.
14
15

16 Susan J. Robidas, LCR/RPR
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18 Registered Professional Reporter
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PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

	11:23;12:3;47:8	agenda (1)	62:18,22	62:19;66:9;81:19
\$	actually (7)	27:5	apparently (1)	Backus' (1)
	15:9;22:16;28:20;	ago (4)	85:3	73:12
\$250 (1)	30:18;41:12;85:15;	3:16;43:20;48:16;	apply (2)	bad (2)
53:12	94:6	75:13	36:8;63:11	50:2;97:3
\$30 (1)	adamant (1)	agree (4)	approach (2)	balance (1)
77:8	71:6	33:14;54:15;56:14;	26:14;95:20	22:18
\$420 (1)	add (1)	83:1	approached (1)	ball (2)
31:2	58:3	agreed (3)	33:18	71:15;92:6
\$425 (1)	added (1)	53:9;63:5;74:13	area (4)	balling (1)
53:14	68:3	agreeing (1)	30:13;60:10;64:9;	86:3
\$45 (1)	adders (1)	56:18	93:19	bankrupt (1)
45:6	45:20	agreement (1)	argue (2)	21:7
\$50 (1)	additional (2)	37:6	49:8;56:8	bankruptcies (1)
11:14	17:22;91:2	ahead (1)	argument (2)	11:13
\$700 (1)	address (1)	97:8	53:18;56:10	barely (1)
17:7	68:7	Air (1)	around (4)	27:7
I	addressing (3)	16:10	44:23;71:10;75:10;	base (2)
	23:18;40:1;43:13	allow (4)	86:14	48:21;57:22
[Laughter] (1)	adequate (2)	29:4,18;46:15;54:7	aside (1)	based (3)
3:13	85:2;87:12	allowed (2)	19:12	6:15;8:4;11:15
A	adjudicating (1)	34:5;67:23	assessment (4)	basically (1)
	49:1	allows (1)	35:5,13,18;84:21	47:1
	administrative (1)	10:14	assets (8)	basis (2)
ability (6)	33:4	allusions (1)	12:11,14;14:3,16;	86:13,19
9:12,15;39:22;42:12;	admire (1)	89:10	39:5;44:16;68:3;69:16	basket (1)
68:7;69:19	66:10	almost (3)	associated (1)	66:21
able (6)	adopted (1)	21:11;49:2,10	91:22	battles (1)
14:1,2;22:21;25:15;	60:22	alone (3)	assumed (1)	65:17
59:12;61:15	advance (3)	21:10;28:8;45:6	81:23	bear (1)
above (1)	6:13;27:5;42:21	along (2)	assuming (2)	12:6
74:20	advancing (1)	54:2;95:15	58:2;59:4	beat (1)
absolutely (6)	97:1	alternatives (1)	assure (1)	70:14
10:3;13:19;44:3,4;	advantage (1)	24:15	79:4	become (2)
56:22;88:6	97:16	although (1)	attention (2)	18:15;58:12
abundance (2)	advertisements (1)	6:23	16:14;69:12	becoming (1)
17:19;18:6	33:17	always (3)	authority (1)	66:20
abuse (3)	advising (1)	59:11;72:8;75:14	89:7	began (1)
21:4,8,20	65:14	American (1)	availability (3)	32:23
access (6)	advocate (1)	48:9	17:15;23:1;24:11	beginning (1)
7:7;14:11;17:2;	97:5	amongst (1)	available (6)	87:16
28:16;29:23;63:9	advocated (1)	37:6	23:2,16;26:10;80:15;	begs (1)
accident (1)	32:1	amount (3)	86:22,23	59:13
9:23	advocating (2)	76:22;85:18;92:14	avoid (1)	below (6)
accordance (1)	52:23;53:2	amounts (1)	7:13	30:19;34:13,14;
12:15	affect (1)	82:7	avoiding (1)	41:13;45:17,18
according (1)	73:1	analysis (4)	46:3	below-market (1)
12:12	affected (1)	37:20;85:12,14,14	away (5)	33:5
accounting (1)	84:12	analytical (1)	56:6;64:13;70:15;	benefit (4)
33:5	affecting (1)	85:14	78:7,23	31:16,17,19;80:7
achieve (2)	67:8	analytically (2)		benefits (2)
6:9;62:8	afternoon (1)	79:8,10	B	32:5;71:5
across (2)	3:2	analyze (1)		Berlin (1)
62:23;84:6	again (15)	69:11	back (23)	64:8
Act (3)	9:8;13:2;16:4;25:5;	annual (1)	4:10,21;7:3;9:12;	Berra (1)
16:11;73:17;94:11	36:2;37:19;48:6,10;	86:13	13:1;14:5;19:9;42:11;	48:9
active (2)	49:23;57:5;67:11;	anticipation (1)	46:7,11;47:11,12;50:5;	best (2)
35:14,17	68:13;75:22;89:19;	11:21	51:13;55:6,8;57:11;	6:17;70:19
activity (8)	91:10	anymore (2)	58:10;61:10;74:15;	bet (1)
33:12,14,16,20,21;	against (12)	40:3;58:21	80:9;81:10;84:4	80:8
35:16;73:8,10	9:14;21:20;23:23;	apart (1)	BACKUS (12)	better (10)
actual (3)	34:9;42:2,4,6;47:5;	80:13	3:23;4:3,23;43:7,12;	4:8;25:1;63:16;65:3,
	58:7;62:15;69:3;73:22	apologize (2)	44:5;48:17;61:1,8;	4,15;73:21;77:11;

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

92:18;97:13 bids (1) 96:5 big (2) 57:8;86:15 bill (2) 47:14;51:22 billing (7) 32:22;33:4;34:6,8; 50:15;55:22;56:2 billion (2) 11:14;21:11 bills (1) 74:10 biomass (1) 64:9 bit (6) 4:15;16;6:21;15:12; 16:6;60:21 blame (4) 52:19;55:17;78:11, 12 blowing (1) 26:21 Bob (2) 43:5,11 boiler (1) 64:4 bonds (1) 95:10 boost (1) 33:1 BORDEN (21) 3:2,8;4:9;18,20;5:2; 43:2;47:23;57:7,10; 60:5;70:23;74:3;82:11; 84:17;90:16;93:10; 94:1;95:18;96:11; 98:10 both (3) 12:5;56:10;59:22 bought (1) 93:4 Bradley (46) 43:4,5,10;48:2,5,8, 13;50:12;51:17,20; 52:5,8,12,15,18;53:6, 10;54:10,20,23;55:7, 15;56:7,15,20;57:6,13, 16;58:23;59:22;61:11; 74:5,14;76:17;77:16; 78:4,20;79:9,13,21; 80:1;81:4,18,23;82:9; 97:19 Brayton (1) 85:16 bring (1) 69:12 brings (1) 72:15 build (18) 7:15;17:23;18:3,5; 19:19;20:4,23;68:1,16;	70:20,21;82:20;83:2,4, 6,10;84:2,3 building (4) 69:15;82:15,16,22 built (6) 19:11;54:15;72:22; 76:5;83:19,20 burden (1) 57:21 burn (2) 24:9;64:4 burns (1) 24:9 business (5) 8:12;11:11;89:23; 91:11;98:5 businesses (1) 86:8 button (1) 53:15 button's (1) 4:7 buy (8) 28:21;45:19;64:21; 68:1;77:7;93:1;94:9,16 buying (1) 45:22 C California (20) 7:14;11:4,9;12:4,5,9, 17;13:6;14:6,8,11,22; 15:6;17:18;21:5,9; 39:16;42:6;46:5;61:10 Cali-Pitts (11) 48:18;60:6,7;71:1,2; 72:2;76:15;90:20;91:4, 7;92:2 call (9) 10:20;23:7;26:4; 28:1,13;49:17;86:2; 91:16;95:9 called (5) 16:10,15;23:2,14; 94:10 calling (1) 25:6 calls (1) 24:5 came (3) 66:15;93:17;94:23 Can (51) 4:7,10,10,17,20; 9:11;12:19;23:10,11; 24:9,12;26:19;27:5; 30:16,18;40:6,17;49:8, 22,23;51:2,15;55:5,23; 57:6,11,23;59:19;64:3; 65:15;68:11,14,15,16; 69:9,11,11,12,13,18, 19;72:10;76:4;77:7; 79:3;80:8;81:6;89:2;	92:6;93:11;97:9 Canada (1) 17:13 cap (1) 45:18 capacity (10) 19:5;23:21,22;62:5, 7;83:12;85:3;86:19,20; 87:4 carbon (2) 6:7;15:22 card (1) 81:7 care (11) 63:14,15;64:13,16; 65:10;66:4;67:16,16; 72:17,23;73:9 career (3) 66:11;93:23;96:22 case (3) 57:17;71:16;82:1 Catch-22 (1) 83:23 caught (1) 3:15 caused (4) 10:13;93:20;94:20; 95:5 causes (3) 35:10;94:6;95:4 causing (2) 35:15;59:17 cent (3) 34:5,7;74:20 center (1) 21:6 cents (5) 59:9;77:8,10,10; 94:17 certain (1) 31:22 certainly (9) 25:18;30:11;44:21, 23;72:11;78:15;88:1; 91:11;96:8 challenge (4) 16:6;27:6;28:10; 70:12 challenges (4) 6:22;22:8;41:15,18 chamber (1) 43:8 change (18) 7:21;12:4;15:21; 17:18,19,20;36:2; 41:12;49:22,23;50:10, 14;51:2;54:2;56:5,5; 59:18;89:7 changed (6) 10:12;15:6;34:4; 36:3;53:8;55:13 changes (4) 15:19;34:15;80:8;	86:4 changing (5) 9:8,16;37:1;55:16,20 charge (3) 34:5;61:16,17 charged (2) 35:4;41:4 charging (1) 34:7 chart (2) 74:17,22 cheaper (2) 20:13;45:23 choice (14) 8:19;10:8;13:21; 15:13;18:3,7;28:19,20; 29:22;40:23;41:3; 58:18;82:5;83:16 choices (2) 8:4;78:23 choose (6) 10:14;29:5,8,9; 30:11;36:21 choosing (3) 29:6;50:2,4 chosen (2) 7:5;29:16 circular (2) 84:1,1 circumstances (4) 10:18;45:10;97:20, 21 citizens (2) 31:17;32:5 city (1) 64:8 claim (1) 39:9 claimed (1) 94:4 clarity (1) 58:14 classic (2) 49:6;57:17 Clean (1) 16:10 clear (4) 53:17,19;54:9;57:12 clearly (3) 31:5;54:4,14 Close (7) 4:18;20:16;38:7,9, 14;47:13;91:9 closed (2) 38:10,12 closing (3) 68:20;72:19;85:13 closure (6) 25:12;61:22;85:21, 23;86:2;93:6 coal (17) 18:23;25:22;52:22; 64:4;82:17,22;83:4,5;	84:23;85:9,16,17; 86:10,14;87:6,13;93:2 coin (2) 84:14,14 cold (2) 45:3;77:5 collaborative (2) 52:11,17 collection (1) 33:4 combination (1) 19:1 combustion (1) 23:9 coming (7) 3:9;19:17;43:13; 71:5,14;74:23;84:22 comments (2) 66:15,22 Commission (3) 21:12;33:3;56:9 commitment (1) 37:5 Committee (2) 19:15;43:3 community (1) 38:5 companies (2) 70:3;96:2 company (14) 3:18;10:11;21:6; 56:1;62:10;63:19; 66:13,16,17;89:14; 90:1,2,22;97:11 compare (2) 20:11,12 compared (2) 17:7;75:9 comparison (1) 95:17 competition (4) 10:9;71:9;72:18; 79:1 competitive (14) 7:10;8:10;10:19; 33:6,7;35:11;51:7; 58:7;62:9;78:22;88:15; 89:23;90:1,8 competitor (1) 65:20 complete (1) 13:5 complicit (1) 51:21 comprehensive (1) 43:14 concern (10) 23:18,19,20;24:14; 25:3,8;26:2;86:5;87:1, 5 concerned (8) 25:14,20;65:9;67:13; 74:6,9,11;88:11
--	---	---	---	--

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

concerns (3) 26:16,22;27:1	52:7	22:2;24:1,2;28:18,20; 29:2,5,5,12,14,14,16, 18,22;30:11,12;31:4,8, 11,12,17;32:2,6;36:9, 14,21;38:18,19,22; 39:3,4,7;40:4,7,9;41:2, 7;43:21;45:6,13,14,15; 47:2,15,16,17;48:22, 23;50:2,4,7,8,22;51:4; 53:3;55:22;57:20;58:5, 19;59:8,11,14,20;60:8, 9,10,12,17,18,22; 61:16,18;70:3;76:18; 77:6;78:2;80:5,7,9,14; 81:13;82:6;84:15;87:4; 91:23;94:19	7:23;8:21,22;9:2; 10:20;13:16;30:6,14; 31:3,8;49:3;57:19; 58:2;60:10;75:9;76:17; 80:3,6,9;81:10,13; 90:10	difference (2) 86:11;90:21
conclusion (1) 44:7	copy (1) 74:18	cuts (1) 56:10	defaulted (1) 41:7	different (19) 7:2;8:8,9;14:17; 27:16,17;28:10;31:12, 13;39:22,23;60:21; 61:23;62:2,3;65:2; 70:10;90:11;92:5
condition (2) 87:18;96:20	corny (2) 63:13;64:18		defaulting (1) 50:20	difficult (5) 24:12;27:15;31:23; 62:21;78:1
conditions (6) 7:1;9:16;22:5;26:20; 31:22;73:15	cost (18) 18:5;19:9;30:23; 31:4,5;47:3,9,18,22; 50:5;54:4,7;57:1; 60:16;76:23;77:22; 94:19;96:9		defense (1) 61:3	dire (1) 50:23
congestion (2) 46:9;47:5	costly (2) 92:9,18		defer (1) 43:8	direct (1) 71:8
congratulate (1) 66:13	costs (40) 31:11,14;32:5;35:21, 22;36:13;38:21;39:10, 11,12,12;40:8;42:3; 46:19;47:15;49:14; 50:9;51:5,8;56:1;57:3, 22;58:4,14;59:16,20; 60:18;61:15;91:2,6,6, 21,21;92:9,11,15; 94:22,23;95:7,11		deferred (1) 39:19	directed (2) 14:23;61:5
Connecticut (8) 43:23;46:14,15; 47:12;60:13;70:1;93:3; 96:3	Connecticut's (1) 46:6	D	deficit (1) 11:15	directly (1) 42:1
consequently (1) 47:4	consider (4) 5:19;19:15;27:3; 38:4	danger (1) 43:16	defined (3) 50:18;51:1;96:1	disagree (5) 49:20;50:16,17; 56:14;80:17
considerable (1) 9:7	considerations (1) 5:21	David (1) 81:7	definition (1) 49:6	disagreeing (1) 56:18
considered (1) 37:17	consistent (1) 32:3	day (4) 3:16;27:19,20;77:6	degree (1) 67:2	discrecional (1) 64:12
constitution (1) 54:8	constituted (1) 53:11,13	days (3) 8:2;16:14;77:11	deja-vu (1) 48:10	discretionary (1) 68:19
consumers (3) 5:23;7:9;8:13	Continental (1) 17:12	deal (5) 9:15;14:20;42:12; 81:12,12	deliver (1) 11:2	discussion (2) 28:13;29:7
continue (11) 11:1;42:8,9;43:17; 51:3,6,7;57:20;61:16; 62:1,11	continued (2) 53:11,13	dealing (2) 56:9;68:2	delivery (1) 36:10	discussions (1) 79:5
continues (6) 16:23;21:4,15;49:21; 57:19;67:7	contracts (1) 47:1	dearly (1) 47:22	denied (1) 57:23	dismantle (1) 92:8
control (14) 6:2;9:4,13;21:19; 36:16;39:13,14,15,17; 40:7;46:18,20;47:19; 67:17	controls (1) 36:4	death (1) 49:6	dependent (5) 18:15;24:7;26:7; 97:1,4	dismantled (1) 93:5
conversion (1) 50:11,16	conversions (1) 18:9	debate (1) 75:17	depends (2) 26:12;77:2	dismantlement (1) 92:10
convert (1) 64:4	cooperative (1) 15:13;17:6,8;19:23;	debating (1) 48:16	depreciated (1) 47:9	disparity (1) 78:8
		debunk (1) 37:8	described (2) 49:23;76:21	dispatch (1) 26:9
		decided (7) 5:6;15:17;36:11; 53:4;61:10;63:4,9	designed (1) 62:8	dispatchable (1) 83:15
		decision (7) 3:19;36:15;58:6; 63:6;82:7;91:13;92:16	destiny (1) 47:20	dispatched (1) 26:18
		decision-making (1) 60:2	destroy (4) 7:17;42:22;70:20,22	distant (1) 38:13
		decisions (2) 31:13;82:6	destruction (1) 11:12	distributing (1) 45:5
		decline (1) 19:1	devastating (1) 11:10	distribution (2) 11:1;69:17
		decrease (1) 41:11	develop (1) 46:22	disturbances (1) 73:22
		deemed (1) 91:19	developed (1) 55:4	diversity (5) 6:12;24:5;66:19; 67:8;68:16
		deep (1) 76:11	Development (1) 5:11	divest (19) 9:11;11:6;15:1; 20:15;27:3;31:10; 32:20;38:20,20,22; 40:8,11;61:15,19;63:3; 65:1;70:15;71:22;
		default (22)	dialogue (3) 22:11;40:21;69:13	
			dictating (1) 34:17	

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p>95:20 divested (7) 11:19;12:2,10;15:5; 32:17;39:15;93:3 divesting (6) 12:14;15:2;38:21; 40:19;62:15;63:14 divestiture (25) 8:1;9:10;13:6;25:7, 11;34:23;37:10,11,13, 21;38:9;39:1,8,10,11, 21;40:15,17;42:3,10; 61:22;77:20;90:23; 92:22;93:5 divestitures (1) 20:10 documenting (1) 22:10 dollars (2) 21:11;35:6 done (12) 3:17;12:12;13:23; 22:10;24:6;54:6;66:10; 88:19;92:21;96:1,2,6 Donna (1) 45:4 down (19) 3:20;30:5;59:2,3; 71:8;72:17,19;76:13; 77:14,18;83:6,7;84:4; 85:13;93:20;95:5,13, 16,17 dozen (2) 8:7;41:2 dozens (1) 37:15 dramatic (1) 75:21 drilling (1) 17:11 drive (1) 9:3 due (4) 22:5;94:5;95:1,2 During (7) 16:8;17:4;24:10; 86:18,21,23;87:22</p>	<p>15,16;42:19,20;65:21; 91:13;92:16 economically (1) 97:14 economics (1) 59:5 editorialize (1) 77:17 effort (1) 52:17 eggs (1) 66:21 eight (5) 17:4,5;28:22;33:11; 44:11 Either (6) 20:19;67:19;79:6; 83:13;87:8;91:5 electric (23) 7:4;10:6,9;11:7,8; 14:18,23;15:14;16:4, 17,19,22;19:20;28:15; 32:11,22;39:6;41:18; 44:11;46:23;47:1; 53:21;57:4 electrical (1) 69:16 electricity (6) 10:16;18:11,21;39:4, 6;83:8 eloquently (1) 61:9 else (5) 14:1,21;45:23;69:20; 92:23 elsewhere (2) 7:14;60:20 embedded (2) 75:1;77:22 embraced (2) 52:1,8 emerged (1) 29:1 emergency (2) 23:11;88:4 emissions (2) 6:7;16:12 emphasized (1) 66:18 encourage (1) 21:3 end (3) 21:9;23:4;38:22 ended (4) 9:22;11:10;47:7; 53:13 energy (53) 5:7,8,11,19,22;6:10, 13,13,18;7:11,23;8:11, 14;9:13;10:7,20;11:15, 20;13:16;19:5;21:12; 22:8;24:4,17;32:7; 34:9;35:9;36:12,17,20;</p>	<p>39:13;40:16;42:18; 46:19;47:16,20;58:17; 59:17;61:18;64:10,19; 65:3;66:3,4;72:16; 75:4;86:13,16,17;90:4; 96:17,18;97:16 energy-related (1) 36:5 engaged (1) 8:17 engineer (1) 79:14 engines (1) 23:9 England (63) 6:20;11:4;12:2; 13:21;14:9,13;18:14, 21;19:4,12;22:7,9,20; 24:7,18;25:2,8,14,20; 26:3,22;27:7,10,14,21; 28:2,8;41:16,17;42:1; 43:19;44:14;60:20; 63:17,20;65:2,5,9;67:5, 18;68:5,8;69:8,9,14,18; 70:13;72:6;73:16; 80:22;83:3,4,5,8;85:3, 8,9,17;86:13;87:3,11; 88:1;98:5 England's (5) 18:11;67:15;84:21; 86:17,20 enormous (1) 27:12 enough (10) 3:19;4:18;16:1; 19:23;20:8;25:23; 86:10,10;87:4;88:2 Enron (1) 21:5 ensure (2) 5:22;41:18 enter (4) 33:8;46:23;47:3,11 entering (1) 47:11 entirely (2) 42:17;68:19 entitled (1) 56:23 environment (1) 7:8 environmental (2) 17:22;92:11 equal (1) 94:7 equate (1) 61:21 equipment (1) 91:14 equitable (1) 79:3 equitably (1) 59:19</p>	<p>equity (1) 78:21 era (1) 11:18 escalate (1) 57:19 escape (1) 38:21 essentially (1) 33:19 established (4) 6:4,16;16:19;29:17 establishes (1) 6:9 estimates (1) 53:12 even (9) 23:7;27:19;37:12; 50:11,15;51:22;53:11; 58:5;85:3 event (3) 17:18,19,20 eventually (1) 95:8 everybody (4) 3:3;48:15;74:6; 76:16 Everybody's (1) 84:12 evidence (1) 44:6 evidenced (1) 42:8 exacerbated (1) 49:12 exact (1) 72:13 exactly (4) 50:18,23;52:12,15 example (8) 15:21;31:1;35:2; 36:1;46:6;50:19;60:12; 87:3 examples (1) 34:12 except (3) 14:10;30:13;69:14 excess (1) 36:5 exercise (1) 58:19 exercised (1) 28:20 exercising (3) 15:13;28:19;41:2 existing (1) 19:2 expect (4) 83:1,3,6;85:2 expensive (1) 97:6 experience (6) 12:1,3,18;13:8;21:5;</p>	<p>42:7 experienced (3) 7:13;11:9;22:20 expertise (1) 90:14 expired (1) 95:12 explain (1) 10:4 explored (1) 40:3 exporting (1) 76:1 exposed (1) 40:4 expressed (2) 6:20;89:15 extent (2) 88:18,19 extra (1) 14:15 extremely (3) 11:12;35:14;53:19 eye (1) 27:9</p>
F				
				<p>face (2) 5:5;43:16 facilitate (1) 69:13 facilities (1) 89:13 fact (10) 3:15;12:7;14:21,23; 19:14;25:1;37:21;55:9; 68:21;83:5 factors (3) 59:5;62:6,7 facts (1) 37:20 fair (7) 31:14;36:13;50:7,9; 55:21;59:14;96:19 fairly (1) 34:21 fairness (1) 58:8 falls (1) 80:13 false (5) 8:4,5;10:3,3,4 far (3) 34:13;81:17;85:15 fashion (1) 43:14 favor (3) 57:8;63:14;73:13 favorites (1) 3:12 feasible (3) 79:5,8,10</p>

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

February (1) 45:3	5:7,14;42:17 focused (1) 21:1	15:9,10 fund (1) 35:7	65:8,10;68:2;69:17; 70:16;71:7;73:14; 89:12,21;90:11;93:8	half (4) 28:3;94:15;95:1,2
Federal (4) 21:12;39:19;72:14; 90:15	folks (2) 36:2;56:11	fundamental (1) 58:9	generator (3) 24:3;65:21;90:13	Hampshire (53) 5:7,10,13,13;6:3,17; 7:5;8:17;9:13,22;10:6; 12:17;13:2,5,7,10,23; 14:9;15:17;16:9,10; 21:18,23;24:5;30:2; 31:18;38:19;40:23; 41:10,16,23;42:14,18; 47:10;60:17,21;63:15; 16:64;1,21;65:1,11,15; 70:18;72:16,20;73:21; 78:6;94:9;96:19;97:8, 16;98:6
fee (3) 35:5,12,18	followed (1) 17:16	fundamentals (2) 75:22;76:6	generators (8) 25:5,9,21,22;46:22; 47:22;68:9;73:2	Hampshire's (5) 5:19;15:18;25:13; 66:4;96:18
feel (1) 63:2	following (2) 11:7;19:20	funds (5) 36:5,6,8,9,11	gentleman (1) 81:5	hand (1) 77:20
fees (1) 46:21	Follow-up (2) 47:23;66:9	further (2) 49:4,12	geo-diversity (1) 42:19	hands (1) 25:13
felt (3) 48:11;54:18;82:14	forever (3) 9:12,15;75:19	future (30) 5:19;8:15;9:13;20:6, 15;21:2;26:9;39:13; 40:19;41:9;42:13;49:4; 52:21;65:3,23;66:4; 67:17;73:18,19,20; 75:12,13;80:20;83:13; 96:17,18,20;97:17,23; 98:9	gets (2) 57:21;87:6	hang-up (1) 46:17
FERC (1) 42:8	forindecipherable (1) 23:12	G	given (4) 14:4;73:6,7,8	happen (13) 12:6,7,8,19;14:19; 20:19;25:18,19;32:14, 18;40:5;59:23;76:14
few (2) 11:4;59:21	form (1) 89:22	game (1) 71:16	giving (1) 82:4	happened (9) 12:10;13:3,6;15:3; 17:18;46:7,14;50:21; 91:12
field (1) 35:20	forth (2) 55:6,8	gander (1) 54:11	glimpse (1) 12:5	happening (3) 14:14;24:13;85:15
fighting (1) 72:8	fortuitous (2) 10:1;13:4	Gary (8) 3:4,12;48:3;61:2; 62:14;71:2;73:13; 79:21	goal (5) 6:7,9;24:22;27:12; 50:1	happens (1) 91:10
figure (1) 71:17	fortunate (2) 12:16;83:17	Gas (48) 6:6;15:20;17:16,20; 18:1,2,4,8,12,22;19:6, 10,11;20:4;24:8,9,11, 14;25:22;26:1;28:4; 29:1;33:13;41:20; 44:12;55:3;65:6,7; 66:21;67:13,14;73:7; 75:15,23;76:1;82:15, 16,20;83:10,14,14,19; 84:9,13;86:8,10;87:7; 97:2	goes (5) 32:11;58:6,18;77:17; 87:2	happy (3) 40:21;42:23;43:7
filing (1) 75:6	forward (1) 19:16	gave (3) 12:5;50:19;60:12	Good (18) 3:2;4:19,22;8:16; 15:2;21:19;27:13;35:8; 46:6;48:5,17;54:11,11; 63:6;64:1,20;71:23; 97:2	Harbor (1) 85:20
filled (1) 41:9	fossil (5) 18:1,2;61:5;83:16; 87:12	geared (1) 15:22	goose (1) 54:11	hard (3) 37:6;66:1,3
final (1) 3:16	found (3) 31:18;32:19;51:13	gas-fired (1) 23:21	government (2) 39:20;90:15	hate (1) 73:2
financial (6) 68:12;69:7;72:18; 74:7,9;84:7	four (7) 12:2;22:13;30:17; 88:22;89:3;94:17,18	gee (1) 65:19	great (6) 6:23;13:11;22:10; 48:9;77:5;97:15	head (2) 27:17;71:10
find (3) 49:14,15;81:7	fourth (1) 26:2	generality (1) 27:16	greater (1) 26:4	headquarters (1) 38:11
fine (3) 4:14;36:22;88:7	fracking (1) 17:11	generating (4) 10:23;62:16;72:5; 89:13	Greenhouse (2) 6:6;15:20	health (2) 6:14;42:20
fined (1) 21:6	franchise (1) 30:13	generation (40) 11:6,19;12:22;13:2, 15,22;15:1,2;21:17; 22:3;23:13,17;26:23; 39:18;41:22;44:19; 45:7,17,17,19,22;46:2, 3,10,13,16,19,22;61:4;	grid (1) 67:5	hear (7) 4:3,7,11,11,12,17,20
fines (3) 21:11,15;42:9	fray (1) 49:4		grocery (3) 72:19,20,21	heard (14) 7:19,22;8:6,9;19; 22:9;37:10,14;66:23; 67:1,21;71:20;84:20; 87:8;89:10
first (13) 10:22;17:4;28:22; 32:12;33:9,10;43:6,11; 44:10;64:5;66:10;86:9; 93:15	fraying (4) 48:19,23;49:20; 50:17		group (1) 53:2	hearing (3) 5:17;8:6;96:12
five (5) 11:3;14:13;28:3; 76:8;77:10	freedom (1) 56:1		grown (1) 16:21	heat (2) 86:18,18
fix (1) 51:15	friend (2) 48:17;81:8		growth (3) 7:11;29:2;42:19	heatwave (13) 23:3;24:10;25:17,19;
fixed (1) 76:23	front (1) 21:5		guess (4) 60:4;75:12;78:13; 89:18	
fleet (4) 24:3,15;26:23;61:4	fuel (14) 6:12;18:2,5,7,13,16; 24:6;26:19;62:2,2; 66:19;83:16;87:12; 97:4		guided (1) 16:18	
flexibility (1) 22:14	fuel-diverse (1) 24:4		guru (1) 75:5	
flexible (2) 22:22;23:16	fuels (1) 18:1		H	
flowed (1) 17:8	full-service (1) 10:10			
fly (1) 24:13	fully (6) 10:2;13:18,19;14:18;			
focus (3)				

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

45:1,1;77:4;86:16,21; 87:1,3;88:3,7 heavy (2) 75:17;86:7 help (7) 9:17;21:19;38:3; 64:21;66:3;68:23;70:4 helped (2) 41:23;47:5 Here's (1) 67:20 Hi (2) 48:2,4 high (19) 11:12;23:1;34:19,20; 36:20,22;47:12,18; 49:22;51:2;73:5,6; 75:8;77:4;84:3;86:18; 93:20;94:4,17 higher (7) 24:17;35:11;43:8; 44:13;46:1;59:17;71:4 highest (5) 47:13;74:19,21; 93:18;94:4 highly (1) 47:9 history (2) 18:14;56:17 hit (2) 27:15;45:1 hits (1) 84:7 Hmm-hmm (1) 58:23 hold (1) 60:1 honor (1) 82:5 hope (4) 3:3,3;40:13;78:14 hot (3) 8:2;23:4;27:19 hour (4) 34:6,7;59:9;77:9 hours (2) 45:8;76:23 House (1) 51:21 how's (1) 4:17 huge (1) 17:15 hundred (7) 23:5,13,15;50:8; 51:4;57:1;96:9 hurt (3) 84:9,10,11 hydro (2) 38:13;84:10 hydroelectric (1) 27:21 hydros (1)	19:2 I idea (5) 9:10;15:2,8;78:18; 92:7 ideas (1) 39:23 identified (2) 41:17;73:16 immediately (1) 41:8 impact (4) 30:18;38:5;39:21,22 impacts (2) 9:2;38:4 implement (5) 6:3,15;60:13;82:7; 88:4 implementation (1) 17:11 implemented (7) 13:18,19;14:18; 15:10,15;16:3,9 implication (1) 89:14 important (8) 5:20;15:19;19:13,14; 29:21;42:15;48:15; 69:10 imprudent (1) 49:14 incentive (2) 61:19;68:6 incentives (2) 69:20;82:4 including (6) 12:11;14:8;38:4; 48:16;84:22,23 inconsistent (2) 30:23;61:14 incorrect (1) 81:15 incorrectly (2) 87:9,10 increase (5) 17:15;26:11,13;42:3; 49:4 increased (2) 23:20;58:18 incur (1) 40:7 indecipherable (3) 24:20;68:8;81:20 independent (1) 41:20 industrial (1) 48:21 industry (1) 75:23 influence (1) 36:16	information (1) 45:4 infrastructure (1) 34:1 inherently (1) 50:3 Initiative (2) 6:6;15:20 insist (1) 96:9 install (1) 16:16 installation (1) 31:15 instance (2) 34:4;56:3 in-state (3) 6:14;22:3;24:20 instead (1) 65:16 insult (1) 62:22 integration (1) 26:3 intended (3) 8:19,20;41:3 intense (1) 63:1 interest (5) 12:10;89:15,20;90:8, 12 interesting (2) 80:19;81:1 interests (8) 7:21;8:15;27:2; 37:16;65:18;72:18; 74:7,10 intermittent (2) 26:5,17 into (8) 46:23;53:18;59:6; 61:9;68:1;71:8;72:16; 89:13 introduced (1) 10:22 investment (2) 31:2;54:1 investor (1) 19:9 investors (1) 20:22 ironic (1) 25:10 irrelevant (1) 29:13 Island (1) 43:23 ISO (5) 23:18,19;25:3;40:1; 88:1 ISO-New (21) 6:20;22:9;25:8,14, 20;26:3,22;41:17;65:8;	67:5,14,18;68:8;69:7,8, 14,18;73:16;84:21; 85:8;87:11 ISO's (2) 86:5;87:1 issue (7) 41:19;67:7,8;75:1; 77:19;83:18;87:7 issued (3) 21:11;42:9;95:10 issues (4) 6:19;42:2,12;97:18 itSo (1) 40:13 J jail (1) 21:7 January (8) 45:2,2;50:20;75:6; 76:10,13;77:15,18 jet (1) 23:8 job (5) 3:17;22:10;66:2; 77:23;80:3 job-producing (1) 78:5 jobs (1) 64:10 joy (1) 73:10 July (4) 21:10,10,15;59:1 jump (1) 51:18 jumping (1) 73:9 jump-start (1) 32:16 June (1) 66:16 justly (1) 66:12 K keep (5) 13:15;17:1;44:1; 57:14;92:19 keeping (1) 73:14 kept (1) 46:10 key (1) 61:11 kilowatt (5) 34:6,7;59:9;76:22; 77:8 kind (3) 18:4;25:10;37:22 king (1)	52:22 knew (5) 11:19;32:13,14; 46:18;63:7 knock (1) 74:1 knowledge (1) 88:17 known (2) 3:14;64:15 L label (1) 62:13 land (1) 93:1 landfill (1) 28:4 large (5) 9:1;30:17;53:22; 78:7;94:19 largely (1) 78:6 largest (2) 18:17;85:17 last (6) 7:4,7;8:7;46:8; 73:15;76:7 late (1) 12:20 later (3) 16:13;86:4;92:8 law (29) 16:13,15,15;28:14; 29:6;31:3,5,7,10,14,18, 20,21;33:2;38:19;53:7, 11,16,20,54:3,8,19; 55:12,13,16;56:4,23; 69:18;70:9 laws (3) 16:17,19;55:20 learn (2) 13:9;63:10 learned (9) 13:7,8,10;39:16; 42:6;63:6,7,8;75:12 learnings (1) 63:11 least (5) 27:8;35:21;61:20; 64:11;96:4 leave (1) 49:5 leaves (1) 86:3 led (2) 3:20;11:13 left (2) 81:11;88:5 legal (2) 53:18;68:9 legis (1)
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PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

51:15 legislative (3) 51:16;88:18,22 legislature (16) 16:1;30:22;37:18; 42:5;51:23;52:20;53:4; 54:18;55:10,13,18; 60:3;61:5;63:4;89:2; 95:19 Lempster (1) 64:6 less (9) 11:14;65:19,20,20; 77:20;86:12,14;92:18; 94:14 lesser (1) 92:14 letting (1) 3:11 level (11) 6:2,2,3;20:22;26:4; 29:19,20;34:18;35:19; 36:17;72:14 life (2) 46:13;90:14 lightly (1) 9:11 liked (2) 93:13;96:12 likely (1) 82:20 limited (2) 30:14;88:17 line (2) 35:22;91:15 linear (1) 59:7 list (5) 22:12;64:3;82:23; 88:13;89:4 listening (1) 88:16 lists (1) 85:8 little (16) 3:16;4:7,14,16;6:21; 10:1;13:4;16:2,6; 18:22;33:1,11;60:21; 61:2;62:3,5 live (1) 5:12 load (4) 22:18;77:3;86:7; 87:23 local (5) 6:2;11:5;47:6;67:23; 70:2 locally (1) 72:14 Long (85) 3:4,6,10,12,19;4:2,6, 16;5:4;28:9;43:13; 44:3,8;48:4,7,11;	49:19;50:14;51:19; 52:3,6,10,13,16;53:1,8, 16;54:17,21;55:5,9,19; 56:13,16,17,22;57:7,9, 14;58:13;59:1;60:1,8, 11;61:7;62:12,14,20; 66:7;67:11;71:18;72:4; 73:13;74:13;75:7,12; 76:19;78:3,15;79:7,11, 15,23;80:5;81:16,21; 82:3,13,18;85:6,11; 87:15;88:21;89:1,6,18; 91:3,5,9;92:4;93:21; 94:3;95:23;96:16;98:6 longer (4) 67:23;91:17,20;96:5 longstanding (1) 6:11 long-term (1) 98:5 look (18) 7:3;27:11;28:1,8,11; 33:16;46:7;47:14;67:6; 74:17;75:22;76:5; 87:20;92:17;98:6,7,7,8 looked (1) 15:4 looking (11) 21:2;46:11;54:7; 65:23;73:18,19,20,23; 75:23;84:22;85:7 loose (1) 4:17 lose (8) 9:12,14;39:13,16,21, 21;41:8;57:20 loses (1) 39:14 loss (1) 90:6 lost (4) 39:15;40:6;42:12; 48:20 lot (13) 6:14;9:4;27:4;35:15, 16;37:9,10;42:14;59:5; 73:6,8;77:21;88:5 low (20) 19:3,3,6,8,18;20:11; 28:23;33:12;36:23; 40:16;44:17;65:6,7; 73:7;74:2;75:15,18; 84:2,8,13 lower (15) 18:5;32:8,9;35:21; 36:9,11;39:10,11; 44:14;45:13;62:8;69:2; 73:1,4;84:16 lowered (1) 34:10 lowering (1) 95:14 low-priced (1)	18:6 lunch (1) 3:3 M Maine (3) 43:22;86:1;92:7 maintain (1) 6:1 makers (2) 28:11;59:14 makes (2) 77:18,23 making (5) 29:22;34:14;35:16; 78:14;82:6 managing (1) 55:23 Manchester (1) 38:11 mandated (10) 16:16;31:15;32:4; 53:17;54:21;55:11; 59:15;60:14,18;95:19 manipulation (5) 21:8,14,16,21;22:6 manipulations (1) 42:7 many (11) 3:14;7:19;8:7,7,9;6; 43:20;45:8,9,9;61:12; 66:21 margin (1) 76:2 margins (3) 84:9,10,11 market (82) 9:16;10:7,7;11:20, 22;12:3,6;14:20;17:7; 19:4,7,8,17;20:5,17,21; 21:4,8,13,13,16,20,20; 22:5,6;29:3,12,15;30:9, 10,19;32:13,15,16,18, 19;33:1,8,12,13,15,20, 21;34:13,14;40:5; 41:13;42:8;44:9;45:8, 14,16,19;46:1,3;58:19; 59:9;62:9;65:20;73:1, 2,6,8,10,22;77:7;80:8; 81:11;82:21;84:1,5; 86:4;90:3,5,93:9,9; 94:14,14,18;95:15; 96:20;98:8 market-driven (1) 68:19 marketplace (6) 13:12;16:7;20:22; 28:21;58:8;59:6 markets (1) 7:1 marking (1) 82:3	Mass (1) 43:22 Massachusetts (2) 85:22;96:3 math (1) 77:13 may (17) 3:14;5:18;8:15;15:6; 18:10;49:12,13;59:10, 10,11;61:19;79:9; 80:16;87:3;91:21,21; 95:9 Maybe (11) 4:14;27:20;57:17,18; 58:21;62:1,2;81:14; 92:7,14;93:8 mean (19) 15:12;22:14;28:18; 43:20;46:4,16;49:5; 51:15;57:23;58:6,8; 60:11;69:1;70:9;87:16; 89:1,2;94:5;96:1 meaning (2) 60:9;91:17 means (2) 15:14;26:5 meantime (1) 80:10 measurement (1) 29:15 meet (4) 24:20,21;92:20; 97:10 mentioned (1) 66:18 merchant (10) 24:3;46:22;47:21; 68:9,18;69:5;71:20; 72:7;84:6;90:13 mercury (1) 16:11 Merrimack (1) 85:1 metering (1) 16:21 methane (1) 28:5 method (2) 25:11,12 microphone (1) 4:1 might (8) 28:2;39:23;59:21; 61:23;81:5;87:21; 92:12,23 migrated (1) 81:9 migration (14) 7:23;15:11;28:13,15, 18;29:19;34:20;49:16; 59:2;65:6;76:22;79:18, 22;98:7 million (5)	17:7;31:2;45:6; 53:12,14 millions (1) 35:5 mind (4) 15:7;61:20,20;72:10 minority (1) 14:14 minute (1) 15:12 misinformation (1) 81:17 miss (2) 9:21;11:18 mistake (1) 54:14 mitigate (4) 9:14;21:19;42:2; 47:5 mitigates (2) 23:23;26:23 mitigating (3) 23:17;36:13;38:5 model (8) 7:15,16,16,21;9:8; 14:12;30:1,2 money (5) 17:8;34:3;45:13; 69:1;70:14 monitored (1) 21:23 monitoring (1) 92:11 month (1) 23:4 months (3) 11:14;45:9;95:21 more (27) 14:20;16:2,6;18:13; 27:8;35:19,22;36:13; 41:20;43:23;48:22,22; 49:5,5;55:10,21;57:20, 21;58:3;59:19;63:7; 68:4;76:2,3;78:1;81:4; 88:8 morning (9) 5:18;7:18;37:11; 71:21;81:6;84:20; 87:10;89:10,17 mortgage (1) 40:18 most (7) 20:9;22:8;27:22; 28:4;37:5;75:19;86:6 mostly (1) 17:13 moth (2) 86:2;92:6 motions (1) 35:16 motivation (1) 71:19 motivations (1)
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PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

8:9 motive (1) 71:12 motives (2) 68:22;72:1 move (2) 28:12;77:19 moved (2) 78:7;81:9 much (9) 5:3;16:14;20:7,13, 13;44:13;62:7;77:3,23 myself (2) 62:13;76:11 myths (3) 37:8,9;39:7	11;20:4,12,18,20; 21:18,23;22:7,20;24:5, 7,18;25:2,13;27:7,9,14, 21;28:2,8;30:1;31:18; 37:14;38:18;40:7,23; 41:10,16,16,23;42:1, 14,16,17;43:19;44:14, 19;47:10;60:17,20,20; 63:14,15,17,19,23; 64:20;65:1,2,4,8,11,14; 66:2,4;68:5,17;69:4; 70:12,18;71:5,14;72:6, 16,20;73:20;76:4;78:6; 80:21;82:16,16,20,22; 83:2,3,4,4,5,6,8,19; 85:3,9,17;86:13,17,20; 87:3;88:1;90:12;94:9; 96:17,18;97:7,15;98:5, 6	5:20;6:6,12;15:13; 28:9;48:21;86:22;88:2; 96:22 occur (1) 59:10 off (6) 40:14;57:2,3;89:21; 90:11;92:18 offend (1) 62:17 offensive (1) 51:12 off-line (1) 84:22 often (1) 98:5 oil (15) 18:23;24:9,12,13; 25:22;83:7,7;85:9,22; 86:1,11,12,16,19;87:5 old (1) 68:14 older (1) 23:8 Once (7) 9:11;12:23;32:19; 42:10;47:10;67:22; 75:22 one (50) 3:11;5:21;15:20; 20:12;22:12,13,19; 23:5,13,15;26:12,21; 31:3,7,19;32:13,14; 34:5,7;35:1,36:18; 37:12;38:16;39:7; 42:15;43:11,15;44:21; 50:13,19;53:2;58:3; 63:3;65:19,20,20; 66:14;67:3;81:4;84:13; 85:12;90:2;93:2;94:7, 8,11,21;95:6;97:4,21 ones (3) 15:19;23:7;55:11 one's (3) 50:1;67:19;82:19 one-way (2) 12:22;42:10 only (14) 13:16;22:4;31:3,8, 20:38;15;39:12;43:19; 55:12;60:17,18;64:18; 66:5;69:19 open (10) 7:7;14:11;15:17; 17:2;28:16;29:23;63:9; 67:22;85:20;92:19 opened (3) 10:7,8,12 opening (2) 11:8;86:4 operate (1) 25:15 operated (1)	25:17 operating (1) 62:5 operations (1) 35:8 operators (1) 67:6 opportunity (2) 13:9;73:7 oppose (1) 72:13 opposing (3) 72:13,15;73:3 option (2) 36:6;86:3 optional (1) 64:12 options (1) 7:10 order (4) 68:13,14,15,16 ordered (3) 51:23;52:1;94:9 orders (2) 94:8;95:3 original (1) 53:12 others (6) 5:17;7:20;9:20;25:6; 51:8;94:10 Otherwise (1) 51:2 ought (1) 39:2 ourselves (1) 6:18 out (24) 8:11;11:22;14:13; 24:2;25:12;30:9,10; 32:19;34:23;40:2;46:8; 49:13;56:19;61:9; 68:18;70:5;71:15,17; 74:1;87:17;90:5;91:18; 93:8;96:5 outages (1) 11:11 outdated (3) 9:6;41:10;56:5 over (12) 3:14,16;8:7;9:4; 17:6;36:16;39:13;41:1; 46:18;48:10;72:6; 75:18 over-dependence (1) 41:19 overly (1) 24:7 over-market (1) 94:19 overnight (1) 51:16 over-reliance (1) 67:14	oversight (1) 39:18 own (14) 7:20;9:17;11:1,6; 13:22;27:1;46:16;47:4; 61:17;67:7;69:14,15, 16;72:5 owners (2) 84:6;90:12 ownership (3) 43:18;61:3;62:3
N	Newington (1) 24:8 next (9) 19:16;25:19;36:7; 56:21;64:11;74:21,23; 75:6;76:10 nine (1) 59:8 nobody (9) 11:19,23;13:23; 14:22;19:20;20:2;70:8; 82:15;83:21 nobody's (2) 19:18;70:1 non-nuclear (1) 12:14 nor (3) 62:21;69:17;90:7 normal (1) 91:10 Northeast (3) 90:1,6,7 Northern (5) 5:9;69:3;72:15;73:1, 3 nowhere (2) 28:14;29:6 nuclear (5) 12:11;18:18,22;83:2; 84:9 number (8) 28:22;29:2,10,11,11, 13;79:19;90:3 numbers (4) 27:12;28:8;46:4; 76:12 numerically (1) 35:3	O	P	
nation (2) 14:14;87:23 national (1) 18:2 nationally (2) 87:20,20 natural (31) 17:16,20;18:1,2,3,8, 12,22;19:6,10,11;20:4; 23:21;24:8,9,11,14; 25:21;33:13;41:20; 44:12;55:3;66:21; 67:13,14;83:10,14,14; 84:13;86:8;97:2 nearly (1) 59:4 necessary (1) 59:12 need (13) 27:3,3;28:11;39:5; 44:19,19;56:11;63:23; 76:2,3;83:8,9;91:20 needed (1) 86:23 needing (1) 83:19 needs (1) 59:18 neither (1) 90:7 net (22) 7:12;8:21;10:15; 13:13;14:16;16:21; 30:4,6,8,9,14;34:22; 40:3;41:4;43:17;48:14, 14,19;49:10,18;50:19; 90:10 New (133) 5:7,10,12,13,19;6:3, 17;7:5;8:12,17;9:12, 22;10:5;11:3;12:2,17; 13:2,4,7,10,21,23;14:9, 9,12;15:17,18;16:9,10; 18:8,11,14,21;19:4,6,9,	observations (1) 85:5 obviously (9)	paid (1) 47:2 paint (2) 98:2,3 paraphrase (1) 67:12 part (8) 11:6;28:5;35:9;53:4, 7,10;68:1;79:16 participants (1) 21:13 particularly (4) 5:8;17:13;26:1;61:4 parties (1) 8:16 Pass (5) 5:9;69:3;72:15;73:1, 3 passage (1) 51:21 passed (1) 16:17 past (6) 7:2;19:21;38:11,13, 13;49:11 path (2) 7:6;95:14 pay (24) 19:8;30:4,5;31:4,9, 11,20,22;32:2,6;35:12, 18;38:19;40:9,12;50:8; 51:8;59:8,12;60:19,23; 70:3;80:11;92:14 paying (9) 34:21,22;38:23;47:8; 51:4,8;74:10;80:6,14 pays (3) 30:8;31:7;61:14 peak (1) 87:23 peakers (1) 23:8 peaking (1) 70:4 peaks (1) 85:4 penny (3) 32:8,9;34:10 people (37)		

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p>9:21;10:1;11:17; 13:17;19:19;20:10; 21:1;7:25;10:27:1; 28:17;32:1,15,17,23; 34:1;20:36;19:37:7; 39:9;49:5;54:2,6;58:1; 65:18;66:23;67:21; 68:23;71:5;20;72:5,13; 74:10;75:20;77:21; 78:22;80:2</p> <p>people's (1) 81:3</p> <p>per (1) 34:6</p> <p>percent (46) 6:9;18:11,19,20,23; 23:5,13,14,15;24:22; 25:16;26:15;27:10,16, 18,20;28:3,6,7,19;29:7, 8,9,10;48:20;49:16; 50:1,2,4,8;51:4;57:1; 72:6;79:20,20;86:12, 14,15,17,20,21,22; 87:2;96:9;97:13,13</p> <p>percentage (4) 24:17;29:11;50:7; 51:3</p> <p>percentages (1) 27:17</p> <p>percent's (1) 79:19</p> <p>performance (1) 22:14</p> <p>perhaps (1) 71:8</p> <p>period (3) 33:19,20;41:23</p> <p>phenomenon (1) 76:20</p> <p>Phew (1) 78:13</p> <p>physical (3) 14:3,16;44:16</p> <p>picture (3) 68:18;98:2,3</p> <p>piece (1) 91:14</p> <p>pipeline (3) 23:22;83:12;86:9</p> <p>place (1) 32:21</p> <p>plan (2) 12:13;26:9</p> <p>planned (1) 13:3</p> <p>planning (1) 8:14</p> <p>plant (38) 18:4,4;19:6,10,17; 20:4,12,19;22:15;24:8; 38:1,12,14;39:1;47:9; 54:13;64:4,9;68:17,20; 76:4;83:2,4,7,11,11,19;</p>	<p>84:6;85:16,17,20; 87:13;91:1,10,18,19; 92:5;93:4</p> <p>plants (54) 10:23;16:13;18:12; 20:12,16,20;22:1,21; 23:6;25:15,17,26:17, 17;38:10,13;41:22; 43:18,19;44:2;45:11; 61:5,6,23;62:4,11,16; 67:8;68:18;69:1,6; 71:20;72:6,7;82:16,17, 20,22;83:5,7;84:10,11, 12,22,23;85:4,9,22; 86:1,11;87:13;90:23, 23;92:20;93:2</p> <p>play (2) 44:9,9</p> <p>player (2) 61:11;65:19</p> <p>players (1) 22:6</p> <p>playing (1) 35:20</p> <p>please (1) 4:1</p> <p>point (20) 9:22;34:16;49:8; 54:23;55:4;57:3,18,23; 58:11,20;59:3,7,10; 61:9;63:3;71:13;78:14, 16;85:16;95:16</p> <p>points (1) 78:9</p> <p>pole (1) 91:16</p> <p>policies (19) 6:4,5,15;7:10;9:1,5; 17:1;19:16;30:7,17; 34:17;36:23;41:10,14; 42:18;51:9;59:16,19; 94:11</p> <p>policy (40) 5:7,8,11;6:11;8:17; 12:15;15:18,21;16:21; 19:14;24:4;28:11;29:6, 19;30:23;31:13;32:4, 10;34:4,12,14;35:19, 20;36:2,14;37:1;50:9, 10,15;58:6;59:13; 60:13,15,19,23;64:19; 66:2;75:4;79:1;80:13</p> <p>political (1) 97:23</p> <p>politically (3) 31:23;79:5,11</p> <p>portfolio (7) 6:8;14:3;16:3;24:18, 23;27:23;63:20</p> <p>position (6) 3:21;6:17;62:11; 65:15;70:19;73:21</p> <p>positioned (2)</p>	<p>24:21;65:4</p> <p>positively (1) 56:23</p> <p>potential (6) 20:6;21:20;22:6; 25:4,9;29:14</p> <p>power (29) 11:2,10,11;16:12; 18:12,20;19:17,23; 20:8,14,16,18,20;22:1, 15,20;23:5;26:8;27:21; 38:1,10,12;41:21; 55:10;64:7;72:6;76:4; 94:9,16</p> <p>predict (3) 75:13;76:11;96:8</p> <p>predicted (2) 75:16,17</p> <p>premise (1) 10:3</p> <p>premises (2) 8:5,8</p> <p>president (4) 3:13,17,22;5:10</p> <p>pressure (1) 78:9</p> <p>pretty (2) 16:5;58:9</p> <p>previous (1) 21:14</p> <p>price (14) 6:1;9:2,3,15;24:11; 55:3;57:18,22;59:12; 80:2,23;82:14;84:13; 94:18</p> <p>priced (1) 8:23</p> <p>prices (50) 10:17;11:13;17:7,17; 19:4,5,8,18;20:5,11,21; 21:1;22:5;33:6,13; 44:12,17,22;47:8,12, 13;65:6,7;69:2;71:3,4, 6,7;73:2,4,8,23;74:2, 22;75:15;76:4;77:4; 81:2,3;83:22;84:2,2,3, 9,16;94:14,14,16; 95:15;98:8</p> <p>pricing (1) 78:8</p> <p>pride (1) 66:12</p> <p>primarily (1) 26:6</p> <p>primary (1) 39:5</p> <p>priority (1) 86:9</p> <p>probably (11) 3:15;7:22;17:5; 33:17;37:10;49:15; 54:13;74:20;77:18; 83:10;92:10</p>	<p>problem (13) 20:6;51:14;56:6; 58:20;69:5,19,21;70:6, 7,17;85:2;87:22;96:14</p> <p>problematic (1) 69:22</p> <p>problems (5) 7:13;40:1;51:15; 68:7;73:16</p> <p>procedures (1) 88:4</p> <p>proceedings (1) 35:15</p> <p>process (4) 12:13;37:13;95:23; 96:4</p> <p>produces (1) 86:12</p> <p>producing (1) 86:17</p> <p>production (1) 22:19</p> <p>profit (1) 45:21</p> <p>profits (1) 76:3</p> <p>programs (1) 39:22</p> <p>project (3) 5:9;64:6;80:20</p> <p>projected (1) 94:15</p> <p>projection (1) 77:9</p> <p>projections (3) 77:11;94:13,13</p> <p>projects (1) 6:13</p> <p>promote (1) 7:11</p> <p>pronounced (1) 86:7</p> <p>proper (1) 58:21</p> <p>property (1) 92:13</p> <p>protect (9) 5:23;13:14;14:2; 42:4,5;66:19;78:1,5; 80:4</p> <p>protecting (2) 8:13;65:11</p> <p>protects (1) 70:21</p> <p>provide (8) 9:17,17;10:15;33:3; 39:3,6;54:4;62:1</p> <p>provided (5) 7:9;10:11;12:18; 74:18;83:12</p> <p>provider (1) 30:15</p> <p>provides (2)</p>	<p>31:5;38:17</p> <p>providing (3) 14:16;47:21;80:7</p> <p>prudence (2) 49:1;56:9</p> <p>prudent (1) 49:16</p> <p>PSNH (45) 3:17;8:11,20;10:14, 22;12:10;14:15;16:16; 17:6;22:23;23:22; 24:16;27:13;28:23; 29:22;30:6;33:2;34:1; 38:10;41:4;52:21; 60:11;63:3,18;66:11; 67:7,16;70:14;71:21, 22;72:8;73:5;75:8; 76:20;81:2,9;88:15; 89:12,15,20;90:8; 91:12;93:17,22;97:9</p> <p>PSNH's (1) 71:4</p> <p>public (8) 27:8;33:3;61:3; 69:13;79:1;80:4;87:17; 94:10</p> <p>public's (1) 69:12</p> <p>PUC (6) 35:14;48:23;88:20, 22;89:3,6</p> <p>pull (1) 22:15</p> <p>purchases (1) 11:16</p> <p>purely (2) 82:4,6</p> <p>PURPA (1) 94:10</p> <p>purpose (4) 13:16,17;22:1;93:7</p> <p>put (4) 5:4;45:20;54:22; 71:10</p> <p>putting (2) 66:20;70:3</p>
Q				
<p>qualify (2) 27:22,23</p> <p>quarters (1) 74:20</p> <p>quickly (1) 40:14</p> <p>quite (1) 84:15</p> <p>quote (1) 48:9</p>				
R				
radically (1)				

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

9:8 raise (2) 39:11,12 raised (2) 55:2;81:8 ran (1) 61:9 Rappaport (2) 82:12,13 rarely (1) 23:10 rate (20) 30:18,19;32:7;34:10, 10,18;35:10,20;36:17, 20;41:11;49:5,21; 58:18;76:12;77:14,17; 94:8;95:3,9 rates (32) 8:1;34:13,13;35:10; 36:10,12;40:17;44:14; 49:3;58:11;59:1,2,17; 73:4,6,7;74:19;75:1,2, 5,8,9;76:13;77:21; 88:14,15;93:18,19,20; 94:20;95:12,15 rate's (1) 51:1 rather (4) 42:22;45:7;51:5; 70:13 reach (1) 27:10 ready (2) 3:20;34:23 real (8) 20:5;22:7;27:9;46:4, 13;50:6;73:17;84:8 real-life (2) 11:23;12:18 really (39) 8:8;9:3;12:7,8;13:12, 13;15:22;17:21;21:2; 26:6,8;28:18;29:21; 30:3,4;37:19;40:18; 41:11,17;44:18;46:6; 50:9,22;54:5;64:17; 66:1,3;67:6;71:17; 77:2;84:4;93:13;94:5; 96:12;97:7,15,20,23; 98:9 real-world (1) 12:18 reason (13) 4:12;21:21;42:15; 44:15,16;53:20;64:18; 66:5;68:6,12;69:7,21; 73:11 reasonable (1) 10:17 reasonably (1) 8:23 reasons (2) 65:22;94:22	recently (1) 85:18 recognize (1) 56:11 recover (7) 47:15,17;53:2;59:19; 60:16;76:23;95:10 recovered (5) 35:9;55:21;58:15; 91:23;95:8 recovering (1) 47:18 recovery (9) 31:1,4,6,14;50:5; 54:4,7;57:1;96:10 reducing (2) 6:7;15:22 reduction (2) 17:17;95:10 reductions (2) 16:11,12 reflects (1) 88:17 refrain (1) 7:19 regardless (2) 26:19,20 Regional (3) 6:5;15:20;67:5 regions (1) 87:21 region's (1) 23:20 regulated (7) 8:22;16:5;21:22; 22:3;68:5;81:22;90:14 regulators (1) 35:8 Regulatory (3) 21:12;39:17;94:11 reject (1) 15:8 rejected (2) 37:18;78:17 relate (1) 30:7 relates (1) 23:21 relationship (1) 38:8 relatively (2) 62:5;97:22 reliability (9) 5:22;6:19;9:18;38:3; 41:19;47:6,7;67:9; 87:19 reliable (2) 83:11,15 reliably (1) 83:9 reliance (1) 23:20 remain (1)	58:2 remember (2) 36:7;93:19 remind (1) 19:19 remove (1) 55:22 renewable (17) 5:8,10;6:8;7:11; 16:2;24:17,23;26:15; 27:10,23;28:2;63:20; 64:10;66:2;72:16; 83:13;84:11 renewables (8) 6:10;19:2,12;26:11, 13;63:21;97:1,5 REP (47) 3:2,8,23;4:3,9,18,20, 23;5:2;43:2,7,12;44:5; 47:23;57:7,10;60:5; 61:1,8;62:19;66:9; 70:23;71:2;72:2;74:3; 76:15;81:19;82:11,13; 84:17,19;85:10;87:8; 88:12,23;89:5,9;90:16, 20;91:4,7;92:2;93:10; 94:1;95:18;96:11; 98:10 repeat (3) 57:11,15;89:19 replace (1) 20:17 report (4) 85:7,8;87:17,19 Representative (11) 45:11;48:17,18; 64:14;70:7,23;73:12; 82:11;84:18;90:17,18 represented (1) 43:8 reputation (1) 34:2 require (1) 97:6 required (12) 10:22;11:5;16:11; 19:21,22;20:2;33:2; 35:18;46:23;55:12; 60:15;94:16 requirement (1) 68:9 requirements (2) 17:22;55:23 requires (1) 70:9 rescinded (1) 54:19 reset (1) 53:15 residential (1) 48:22 residents (1) 86:8	resource (1) 22:13 resources (4) 20:8;23:1;26:5; 41:21 respect (1) 6:18 respectfully (1) 49:19 response (1) 66:22 responses (1) 66:16 responsibility (5) 67:3,4,12,15;68:6 responsible (3) 67:19,20;70:8 rest (5) 24:6;28:4;44:14; 60:2;65:2 restating (1) 58:22 restrictive (1) 16:2 restructured (7) 10:2,6;12:19;14:22; 15:9;17:2;20:1 restructuring (23) 7:4,8;11:7,9;13:18, 20;14:19;15:10,14; 16:4,9,18,20,22;19:20; 28:16;32:12,23;44:12; 53:22;57:4;61:6;95:1 resulted (1) 17:14 results (2) 9:4;11:10 retail (2) 14:11;30:12 retire (3) 64:19;88:9;91:20 retired (2) 91:1,16 retirement (9) 25:4,7,9,21;90:21, 22;91:23;92:6,15 retirements (2) 41:21;65:9 retiring (1) 92:18 return (1) 36:9 returning (1) 81:12 revenue (2) 34:8;47:21 reviewed (2) 21:22;37:17 revised (1) 17:1 RGGI (2) 36:5;42:19 Rhode (1)	43:23 right (28) 18:5,7;29:20;30:1,2; 33:15;36:7;40:10;43:2; 50:12;51:13;52:20; 56:20;57:13,16;63:3; 65:3;68:2;70:18,19; 74:5;77:16;79:19; 81:18;83:18;88:6;89:2; 93:10 rigorous (1) 96:4 rise (3) 20:21;75:20,21 rising (2) 73:22;82:15 risk (13) 9:7;13:11;21:16; 22:4;23:23;38:6;39:20; 41:21;43:23;44:6;47:6; 85:13,13 risks (8) 9:14;22:11,12,12,13, 19;42:4;43:16 robust (2) 33:15,21 role (12) 10:15;30:8,14;39:3, 5,6;41:9;42:16;69:10; 79:18;90:9,10 room (4) 4:10;48:15;74:6; 88:5 RPS (1) 42:19 rules (3) 7:1;36:4;54:2 run (7) 22:16,16,17,21; 23:10;24:13;26:19 running (9) 23:6,7;24:12;45:7, 12,12,15,22;46:2 rush (1) 80:9
S				
	safe (1) 40:3 safety (21) 7:12;8:21;10:15; 13:12;14:16;30:4,6,8,9, 14;34:22;40:2;41:4, 43:17;48:14,14,18; 49:9,18;50:19;90:9 Salem (1) 85:20 same (9) 13:20;25:13;31:11; 48:11;62:2;72:13; 73:11,23;77:1 save (2)			

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

<p>45:14,15 saved (2) 17:6;45:6 saving (1) 45:13 savings (1) 77:6 saw (5) 44:10,23;45:2,2; 52:21 saying (5) 70:13;73:20;74:1; 75:20;88:7 scenario (1) 96:19 scenarios (1) 44:9 scheduled (2) 85:21,23 Schiller (1) 84:23 Scrubber (18) 16:15,16;31:2,16,16; 34:11,21;36:13;49:2; 13:50;9:51:5;52:4,23; 54:3,14;75:1;77:23 sea (4) 12:4;17:17,19,20 Seabrook (5) 12:11;94:5,7,20;95:2 second (3) 18:17;26:12;96:23 sector (1) 78:5 seeing (1) 44:17 seem (4) 49:9;61:18;71:13,16 seems (1) 8:1 sell (4) 10:23;12:23;30:12; 71:7 selling (1) 92:23 SEN (45) 43:5,10;48:2,5,8,13; 50:12;51:17,20;52:5,8, 12,15,18;53:6,10; 54:10,20,23;55:7,15; 56:7,15,20;57:6,13,16; 58:23;59:22;61:11; 74:5,14;76:17;77:16; 78:4,20;79:9,13,21; 80:1;81:4,18,23;82:9; 97:18 Senator (7) 43:3,9;48:4;55:5; 60:5,7;74:4 senators (1) 52:14 sense (1) 39:2</p>	<p>separate (2) 89:11,14 serious (1) 22:8 serve (3) 8:15;22:2;87:4 served (2) 10:18;97:8 serves (2) 8:20;45:17 service (38) 8:1,21,22;9:2;10:11, 20;13:16;30:6,15;31:3, 8;32:7;34:9;35:10; 36:12,17,20;40:16; 41:8,11;47:16;49:3; 57:19;58:2,17;59:17; 60:9;62:1;75:9;76:18; 80:3,6,10,15;81:10,13; 90:10;91:18 services (4) 33:5;34:2,6,8 Service's (1) 61:3 session (1) 36:3 set (3) 10:17;29:4;97:21 settlement (2) 53:5,9 seven (8) 17:4,5;27:20;28:22; 33:10,10;44:11;59:9 shape (4) 25:1;27:13;63:16; 64:1 shifting (2) 58:4;79:1 short (1) 57:15 shortage (2) 26:1;68:23 shortages (3) 8:14;11:11;24:14 shows (2) 32:22;45:5 shutting (2) 83:5,7 side (2) 84:14,14 significant (6) 15:21;32:8;35:3,4; 36:15;41:15 simple (2) 37:22;59:4 simplistic (1) 71:10 simply (2) 29:15;96:17 sincere (3) 63:13;64:22;66:8 single (2) 18:13,15</p>	<p>sister (1) 96:2 sit (3) 54:12;55:17;74:8 site (3) 17:23;93:4,7 sitting (1) 80:15 situated (2) 97:11,12 situation (9) 23:12;27:14;29:1; 40:2;42:4;70:12;74:16; 76:7,9 six (4) 27:20;28:3;33:10; 77:10 small (1) 85:18 smaller (3) 57:21,21;76:22 smart (1) 63:7 so-called (1) 15:11 solar (1) 26:12 sold (5) 12:21;13:1;47:11; 85:18;93:3 Soltzberg (1) 81:7 solutions (4) 34:23;37:3,3,4 solve (8) 37:7;69:5,19,21; 70:2,17;78:18;97:22 solved (2) 60:4,4 solving (1) 78:21 somebody (3) 69:20;87:9;93:6 somehow (1) 39:10 someone (1) 92:23 sometimes (1) 9:21 sorry (1) 66:7 sort (8) 5:11;11:17;32:15; 37:22;54:5;78:17; 81:12;83:23 sound (2) 37:20;64:18 sounds (1) 81:16 source (4) 18:16,17;83:15;97:4 sources (4) 18:20;26:19;69:4;</p>	<p>83:13 speak (2) 72:1,10 SPEAKER (4) 4:5,13,19,22 speaking (1) 55:19 special (3) 7:20;65:18;81:12 specific (2) 24:19;52:1 speculate (1) 72:11 speech (1) 66:7 spinning (2) 89:21;90:11 spinoff (1) 89:12 spiral (1) 49:7 spoke (1) 55:16 standard (1) 6:8 standards (2) 16:3;27:23 start (4) 17:9;22:16;55:23; 92:8 started (5) 23:15;32:12;46:8,11; 93:21 starting (1) 36:7 starts (2) 23:11;56:6 state (37) 6:5;9:1;11:15;12:8, 15,16;16:22;21:18,18, 23;24:5;29:6;30:17; 31:3,7,10,20,21;32:6, 11;36:4,6,8;39:14; 42:20;46:5,6,18,20; 47:5;52:11;60:14,15; 63:22;67:17;80:12; 94:8 state-controlled (1) 46:12 statement (2) 82:19;89:17 state-regulated (1) 13:15 states (22) 11:4,5,18;12:2,20; 13:9,21;14:7,8,9,10,13; 15:4;17:12,14;18:7; 20:1;27:16;39:15; 43:21;47:14;75:10 state's (2) 24:22;47:19 station (2) 12:12;85:1</p>	<p>statutes (1) 61:14 stay (4) 58:1;75:18;80:3; 85:19 step (3) 3:20;5:6;61:10 stepped (1) 42:16 stepping (1) 3:21 steps (1) 24:19 stewardship (1) 66:12 still (10) 33:22,23;35:3;46:17; 64:19;66:5;88:5;91:21, 22;92:13 stop (3) 68:20;72:21;98:11 stopping (1) 92:4 stores (3) 72:19,21,22 straight (1) 17:8 straits (5) 50:23;63:8,17;65:16; 70:11 stranded (6) 40:8;91:1,6;94:22, 23;95:11 streams (1) 47:21 street (2) 12:23;42:10 strengthen (1) 7:16 strictly (1) 22:1 strongly (1) 63:2 structure (1) 69:23 stuck (1) 42:11 study (1) 69:11 subjects (1) 5:16 submit (1) 34:3 subsidiaries (1) 97:7 subsidiary (1) 89:21 subsidized (1) 20:20 subsidizing (3) 33:22,23;51:6 substantial (2) 29:2;90:6</p>
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PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

successful (4) 7:6,9,15;64:6	system's (2) 8:18;9:9	tightened (1) 16:1	22:11,18;32:15;33:1; 42:22;47:19;62:21,21; 64:21;70:14;79:16; 96:16	upon (3) 7:15;23:2,14
suddenly (1) 78:23	T	tilted (1) 4:14	turbines (1) 23:9	use (6) 3:23;6:12;26:11; 36:11;39:2;92:5
suggest (3) 7:17;43:15,21	table (1) 74:8	times (7) 8:7;20:9;37:15;62:7; 87:23;91:12;94:18	turn (5) 14:5;42:11;44:22; 51:18;66:14	used (5) 23:10,11;38:12,18; 60:20
suggested (1) 58:14	talk (13) 3:11;5:16;6:21;9:5; 20:15;11:20;10:25;10; 28:15;36:20;42:23; 89:11;97:19	timing (1) 14:1	two (13) 18:19;31:12;34:12; 14:37:12;61:22;76:7; 88:21,22;93:2;94:6,21; 95:3	useful (2) 91:17,20
suggesting (1) 9:9	talked (1) 48:13	tipping (2) 49:7;57:18	type (1) 23:12	using (2) 28:17;33:23
suggestions (1) 88:13	talking (5) 26:6;49:10;52:3; 60:19;76:19	title (1) 5:9	typically (1) 87:22	utilities (14) 11:5;13:22;19:22; 33:3;44:1;58:5,15; 68:4,5,17;69:4;90:2,7,7
summarize (2) 40:20,22	target (1) 26:14	today (22) 5:15;17:10;20:7,9; 27:19;54:13;55:20; 62:4;66:18;73:18; 74:22,22;75:16;77:7; 12:83;18,20;88:8;97:6; 98:7,7,8	U	utility (17) 10:6;11:13;14:23; 24:18;35:4,13,18; 46:16,23;47:2;55:1; 67:4,23;68:14,15,16; 94:10
summer (4) 87:16,17,22;88:9	taxes (1) 92:13	today's (6) 20:5;21:1;47:8;76:4; 97:19,20	uncertainty (1) 42:1	utility-owned (1) 43:19
sun (1) 26:13	technical (1) 4:12	together (10) 56:17;70:16;77:13; 78:10,17;93:14;96:13, 13,15;97:15	under (8) 10:17;21:18;31:21; 38:18;62:2;78:10; 89:12;96:19	V
supplier (9) 8:20;10:14,19;41:6; 50:20;81:11;90:1,4,9	technology (1) 52:1	told (8) 25:16;33:10;43:20; 63:19;64:23;65:7,8; 76:3	underlying (1) 71:12	Vadney (1) 90:18
suppliers (11) 8:11;33:6,7,23;34:5; 35:11;51:7;71:14;72:3, 4;86:15	telling (4) 64:16;65:12,14; 70:18	took (2) 34:8;95:6	underneath (1) 79:2	valuable (2) 38:2;62:6
supply (6) 6:18;10:9;67:9; 80:22;87:7,12	tenets (1) 58:7	tools (1) 14:20	uneconomic (1) 55:3	value (14) 14:15;22:3;38:5,6,7, 9,17,17,23;39:1,2; 40:10,11,12
support (4) 29:23;37:21;51:16; 62:15	term (2) 92:3;98:6	topic (1) 8:2	unfair (3) 54:6;80:12,13	values (1) 24:1
supposed (1) 4:4	testified (3) 5:18;81:6;87:9	topics (2) 3:12;5:16	United (4) 17:12,14;18:7;47:13	variable (1) 26:4
sure (11) 7:18;10:16;15:3; 19:22;22:8;48:2;51:19; 52:6,16;64:5,8	testimony (1) 84:20	totally (1) 52:19	units (3) 23:6;47:3;70:4	variances (1) 14:20
surfacing (1) 27:8	Thanks (1) 3:9	tough (3) 84:4,8;97:3	UNKNOWN (4) 4:5,13,19,22	vehemence (1) 61:2
surge (1) 17:15	theories (1) 11:22	tougher (2) 88:10,10	unless (1) 69:6	vehement (2) 62:15,16
surprised (2) 61:2;77:14	thereabouts (1) 93:18	towards (3) 15:22;27:18;39:23	Unlike (1) 24:6	Vermont (1) 14:10
surprising (1) 8:10	thinking (3) 20:7;37:23;40:14	Townsend (1) 90:17	unregulated (1) 90:4	view (1) 71:13
surround (1) 43:22	third (2) 25:3,7	transformer (1) 91:15	unsustainable (2) 7:23;58:12	virtually (1) 79:3
suspect (1) 76:13	though (4) 51:23;53:11;58:6; 59:23	transmission (2) 11:1;69:17	up (43) 3:7,8,15,21;4:14;5:1, 7;9:22;10:8,13;11:10; 14:4;15:17;16:1;22:16; 23:15;29:4;32:22; 38:22;42:16;43:13; 44:9,9;46:21;47:7; 53:13;55:16,20;57:22; 58:18;59:2;66:15; 67:22;70:14;75:19; 77:22;86:4,11;92:8; 93:9,12;94:2,20	vociferous (1) 62:10
sustain (3) 20:18;65:8;82:21	thought (4) 58:4;63:5;82:1; 87:11	trouble (1) 76:11	updating (2) 17:9;41:14	voice (1) 55:1
sustainability (2) 74:16;77:19	threat (1) 71:15	true (2) 67:2,2		volatility (4) 6:1;8:13;9:16;49:9
sustainable (4) 58:1;76:5,7,9	three (5) 11:14;30:16;74:20; 77:8;93:11	truly (1) 97:16		W
sustained (2) 19:7;44:18	throw (2) 51:13;52:18	try (6) 57:14,15;67:11; 68:11;69:20;89:19		walked (1) 64:12
system (11) 10:13,13;15:18;17:3; 26:16;29:4,17,23; 40:23;49:20;58:1	thumbs (1) 5:1	trying (12)		Walz (8)
systems (3) 11:8;17:12;67:22	tighten (1) 93:9			

PRESENTATION BY GARY LONG, PSNH - August 7, 2013
ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE OVERSIGHT COMMITTEE - August 7, 2013

84:18,19;85:10;87:8; 88:12,23;89:5,9	without (5) 40:17;53:14;85:4; 87:12,13	87:2	28:6
wants (3) 93:6,7,8	wood (2) 28:4;64:4	1	40 (1) 97:13
watch (3) 80:21,22,23	word (2) 28:14,17	1 (1) 86:12	5
wave (2) 23:4;45:3	words (1) 19:7	10 (4) 29:8;46:8;79:19; 98:2	5 (1) 29:7
way (23) 13:14;21:19;28:9; 33:8;35:7;36:12,18,18; 37:22;43:1;44:21; 48:12;49:2,22;51:12; 53:20;54:3,18;58:22; 62:17,23;67:20;91:5	work (9) 4:4;5:13;49:21; 58:21;70:5;93:17; 96:13,13,15	100 (2) 23:14;25:16	50 (4) 29:9;50:1,4;79:20
ways (3) 46:11;56:10;92:5	worked (4) 8:22;17:3;41:5; 63:18	12 (11) 7:4,7;17:2;33:9; 48:16;65:17,23;86:17, 21;95:12,21	50-year-old (1) 54:13
weather (3) 26:20;77:2,5	working (21) 4:2;8:18;9:9;15:15; 41:1,1;42:21;50:17,18, 23;56:17,19;64:19; 66:1,3,6;70:16;93:14; 96:21;97:15;98:1	13 (2) 3:17;63:18	55 (2) 18:10;48:20
week (2) 3:16;86:18	works (3) 45:10;67:20;77:1	14 (1) 95:21	6
weeks (1) 45:9	world (9) 8:12;12:19;16:7,23; 20:1;22:4;63:10;68:14, 17	15 (4) 14:7,8,10;20:1	6 (1) 28:7
Welcome (1) 3:5	worried (3) 25:23;79:22;80:2	1673 (1) 51:22	60 (3) 18:11;50:2,4
weren't (4) 50:21;86:23,23; 93:22	worries (2) 74:21,23	1st (1) 75:6	8
what's (10) 14:14,17;27:13;46:7; 54:10;67:9;72:10; 74:23;85:15;96:14	wrap (1) 93:12	2	80 (2) 29:10;79:20
whatsoever (1) 41:8	write-off (2) 53:23;95:6	2 (1) 86:14	9
whenever (1) 77:3	written (4) 53:20;54:3;57:2,3	20 (5) 64:11;86:20,22;87:2; 98:3	90 (3) 18:20;49:16;72:6
whereas (2) 21:2;92:22	wrong (3) 50:3;61:21;75:14	2001 (1) 10:5	
where's (1) 20:14	Y	2006 (3) 51:22;52:22;78:12	
whole (2) 27:3;88:12	year (12) 6:10;15:23;24:23; 27:11;35:6;36:7;45:9; 95:8,9,13,21;96:4	2007 (1) 75:16	
whomever (1) 89:17	years (29) 3:14,18,18;6:21;7:4, 7;8:7;17:2,4,5;28:22; 33:9,11;41:2;43:20; 44:11;46:8;48:16; 63:18;64:11,15;65:18, 23;76:8,8;90:3;95:12; 98:2,3	2025 (4) 6:10;24:23;27:11; 97:10	
willing (3) 20:23;51:21;59:11	yield (1) 32:14	25 (8) 6:9;18:19;24:22; 26:15;27:10,16,18; 97:13	
wind (7) 26:6,7,7,11;28:5,6; 64:6	Yogi (1) 48:9	28th (1) 66:16	
wind's (1) 26:21	Z	3	
winter (13) 25:18;41:6;45:5; 80:20,21,21,22,23; 81:2,3;86:6;87:6,88:9	Z	3 (3) 18:23;86:14,15	
wise (1) 7:5	Z	30 (1) 18:19	
wish (3) 34:16;63:12,13	Z	35 (2) 14:11;70:11	
wished (1) 46:9	Z	37 (2) 3:18;6:21	
within (2) 60:9;76:7	zero (1)	4	
		4 (1)	