

**THE STATE OF NEW HAMPSHIRE**  
**BEFORE THE NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION**  
**REBUTTAL TESTIMONY OF ROBERT A. BAUMANN AND DAVID A. ERRICHETTI**  
**2010 DEFAULT ENERGY SERVICE RATE CHANGE**  
**Docket No. DE 09-180**

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1    **Q.     Please state your names, business addressed and positions.**

2    A.     My name is Robert A. Baumann. My business address is 107 Selden Street, Berlin, Connecticut.  
3           I am Director, Revenue Regulation & Load Resources for Northeast Utilities Service Company  
4           (NUSCO). NUSCO provides centralized services to the Northeast Utilities (NU) operating  
5           subsidiaries, including Public Service Company of New Hampshire (PSNH), The Connecticut  
6           Light and Power Company, Yankee Gas Services Company and Western Massachusetts Electric  
7           Company.

8    A.     My name is David A. Errichetti. My business address is 107 Selden Street, Berlin, Connecticut.  
9           I am Manager, Generation Resource Planning for Northeast Utilities Service Company  
10          (NUSCO).

11   **Q.     Have you previously testified before the Commission?**

12   A.     Yes. We have both testified on numerous occasions before the Commission.

13   **Q.     What is the purpose of your testimony?**

14   A.     The purpose of this testimony is to rebut the testimony of Mr. Michael E. Hachey filed on  
15          December 2, 2009 on behalf of TransCanada Power Marketing Ltd (TCPM). In his testimony,  
16          Mr. Hachey recommends that the Commission limit PSNH's recovery of the cost of purchases of  
17          power that PSNH made to meet its 2010 power needs that he asserts was not done in

1 conformance with PSNH's Least Cost Integrated Resource Plan or that he deems was not prudent  
2 or reasonable. He also recommends that the Commission require PSNH to utilize an RFP process  
3 for the purchase of power, rather than engaging in bilateral purchases of wholesale power,  
4 including the alternative of requiring PSNH to buy all of its energy service needs on a  
5 competitive basis and selling the output of its generation into the market.

6 PSNH takes exception to Mr. Hachey's recommendations and in this testimony describes why the  
7 Commission should reject those recommendations.

8 **Q. In your opinion did PSNH conform to what it filed in its 2007 Least Cost Integrated**  
9 **Resource Plan (LCIRP) in Docket No. DE 07-108?**

10 A. Yes. As we said in the response to TransCanada-01, Q-TC-022 (Attachment 1), PSNH's actions  
11 taken for 2010 are wholly consistent with what was said in PSNH's Supplement 3 - Supplemental  
12 Power Procurement Strategy filed in Docket No. DE 07-108 on March 28, 2008, which was  
13 appended to the end of Section V.B.6.2, page 91: "The following discussion provides an  
14 overview of the procurement strategy that PSNH implemented for its 2007 supplemental power  
15 requirement. This overview is indicative of PSNH's current procurement strategy; however, as  
16 discussed below, PSNH does not have a prescriptive hedging protocol. By retaining flexibility in  
17 its planning process, PSNH is able to respond to changes in planning criteria and create benefits  
18 for customers."

19 The passage in this same supplement that TCPM insists is the inviolate procurement plan itself  
20 leads off by saying "PSNH's current procurement plan is focused primarily on the subsequent

1 annual period.” The use of the word “current” is not trivial; it speaks to the earlier passage,  
2 repeated above – that PSNH’s procurement process is dynamic and changing, not static.

3 The actions taken by PSNH to begin building its supplemental power supply for 2010 in early  
4 2008 were based on market conditions, forecasted prices and forecasted procurement needs, all as  
5 of the time at which the decisions were made. PSNH’s procurement strategy for 2010 continues  
6 to evolve as current market conditions, forecasted prices and procurement needs change.

7 Contrary to TCPM’s testimony, PSNH has not strayed from the procurement principles  
8 articulated in its 2007 LCIRP. TCPM has taken a summary of what PSNH did for one period (in  
9 2006 for 2007) and is now suggesting that PSNH can only change its procurement practices if the  
10 revised procurement strategy is vetted and approved in a LCIRP. This does not make sense as the  
11 procurement plan described in the 2007 LCIRP was itself not previously approved in a LCIRP.  
12 Therefore, Mr. Hachey’s recommendation to limit PSNH’s cost recovery due to PSNH’s alleged  
13 failure to strictly adhere to its LCIRP is illogical and unworkable.

14 **Q. If you accepted TCPM’s view of the proscriptive effect of the LCIRP, when would PSNH be**  
15 **able to put into place TCPM’s recommended RFP process?**

16 A. While it is not at all clear to PSNH what power supply components TCPM proposes to be  
17 purchased under an RFP, to the extent the RFP includes energy, then according to TCPM’s  
18 testimony the RFP would have to be part of an approved LCIRP before that RFP process could be  
19 implemented. Thus, assuming TCPM is correct, if PSNH’s 2010 LCIRP is approved sometime in  
20 2011, the RFP process proposed by TCPM could only occur in time to serve 2012 ES load, at the  
21 earliest.

1 PSNH does not agree that its procurement plan is rigidly constrained under the LCIRP.

2 Therefore, even if we did agree that an RFP process should be utilized, PSNH would come to a  
3 different conclusion with regard to implementation and timing of that process.

4 **Q. Does PSNH believe an RFP as proposed by TCPM, where PSNH resources first serve ES,**  
5 **makes the best sense for PSNH ES customers?**

6 A. No. As noted above, TCPM has not provided specifics as to what power supply components  
7 would be in the RFP. However, the concept of utilizing an RFP for power procurement has been  
8 raised previously by Constellation and was not accepted. At that time PSNH noted that there  
9 would be a significant price premium for a third party to take on this power supply obligation,  
10 assuming there was no cost reconciliation process with prudence review. This is because the  
11 third party would have to absorb into its price, load uncertainty and migration to and from  
12 PSNH's ES as well as the risk associated with outages at PSNH's generating stations. In  
13 addition, suppliers include a profit margin in the pricing that they submit in response to an RFP  
14 whereas PSNH does not include any profit in its purchased power costs.

15 **Q. Does PSNH believe a full requirements power supply for PSNH complies with the law and**  
16 **would produce lower costs?**

17 A. No. Current New Hampshire law requires PSNH resources to be used to serve ES, so the  
18 proposal is not legally permissible. RSA 369-B IV(b)(1)(A) provides, in part, as follows:

19 "From competition day until the completion of the sale of PSNH's ownership interests in  
20 fossil and hydro generation assets located in New Hampshire, PSNH shall supply all,  
21 except as modified pursuant to RSA 374-F:3, V(f), transition service and default service

1           offered in its retail electric service territory from its generation assets and, if necessary,  
2           through supplemental power purchases in a manner approved by the commission.”

3           Therefore, PSNH cannot sell the output of its generation into the market and then purchase its full  
4           requirements for ES from the market since PSNH is required to use the output of its generation to  
5           serve its energy service load. Even if such a scheme were legally permissible, it is inconceivable  
6           that it would always produce lower costs than PSNH’s current approach. That’s because of the  
7           risk premium and profit margin that suppliers must factor into their pricing. In fact, prior to 2009,  
8           PSNH’s ES rates were usually lower than other utilities’ equivalent default service prices.  
9           Moreover, there are no cost efficiencies created by such a scheme that could translate into lower  
10          pricing.

11          Regardless of historical facts, another variable is timing. Full requirement RFPs lock in a price  
12          based on forward prices on the day the RFP concludes. Since the markets move daily and  
13          sometimes significantly over just a few days, there is no assurance that full requirement RFPs will  
14          produce uniformly attractive prices. This latter issue also applies to a partial supply RFP.  
15          Laddered power supply RFPs result in stable prices, but those prices are higher than market prices  
16          in declining markets and lower than market prices in rising markets.

17          TCPM is essentially asking the Commission to ignore the many years of benefits that customers  
18          enjoyed under the current framework and discard the existing process as a result of a very short  
19          reversal of an established trend. Indeed, at the 2008 annual NECPUC Symposium, the Office of  
20          Consumer Advocate noted, “Our “hybrid’ model, with PSNH owning generation to meet about  
21          2/3 of its needs, is keeping rates for their customers slightly lower than market.”

1   **Q.     Please comment on TCPM’s assertions that PSNH’s energy purchases for 2010 are patently**  
2       **expensive?**

3   A.     TCPM’s remarks with respect to PSNH’s energy purchases reflect perfect hindsight. At the time  
4       the purchases were made they were at market prices in effect at that time. PSNH was aware of  
5       the trend of forward prices and the amount of purchases were in line with what was then  
6       forecasted to be needed in 2010. To say that it was “common sense” that demand would drop and  
7       there was no reason to purchase power at that time, or that gas would retrench as much as it has is  
8       nonsensical. No one knew what would happen to prices and for Mr. Hachey to suggest that he  
9       knew at that time what prices would be a year or more in advance is extremely disingenuous.

10   **Q.     Please comment on TCPM’s suggestion to limit PSNH’s cost recovery of purchases made to**  
11       **meet 2010 energy requirements.**

12   A.     TCPM is apparently confused about the purpose of this docket. Cost recovery limitations, which  
13       are essentially a disallowance, would have to be determined in a prudence review, not in a docket  
14       to determine the ES rate for a prospective period. Such reviews occur annually, with PSNH’s  
15       initial filing generally made in May of each year.

16   **Q.     But doesn’t the law require that the price of default service be set at PSNH’s actual,**  
17       **prudent and reasonable cost of providing power?**

18   A.     Yes, it does. However, it is clearly impossible to determine “actual” and “prudent” costs in  
19       advance of the time the cost is incurred. Actual costs and prudence is determined after-the-fact  
20       and any adjustments as a result of any Commission findings are included in the reconciliation of  
21       actual and estimated costs.

1    **Q.     Then what is the purpose of this proceeding?**

2    A.     The purpose of this proceeding is to determine a reasonable Energy Service rate to be billed to  
3           customers during 2010. It is not, as suggested by TCPM to determine actual and prudent costs  
4           incurred in 2010, nor is it to determine an alternative supply option that would benefit third party  
5           suppliers such as TCPM. Therefore, TCPM's recommendation to disallow costs is premature and  
6           is being made in the wrong docket.

7    **Q.     Please summarize your recommendations.**

8    A.     The Commission should reject TCPM's recommendations to limit PSNH's cost recovery since  
9           that recommendation is without merit and is being made in the wrong docket. The Commission  
10          should also reject TCMP's recommendation to require PSNH to use an RFP process for procuring  
11          power for its supplemental energy service requirements. Such a process would cost customers  
12          money due to the necessary risk premium and profit margin that would be included in the price.  
13          Finally, the Commission should accept PSNH's proposed Method 2 to recover certain costs  
14          through other rate components. PSNH notes that the Commission Staff believes that such a  
15          proposal has merit, and that TCPM does not object to such a proposal.

16   **Q.     Does this complete your testimony?**

17   A.     Yes, it does.