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STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

December 21, 2010 - 10:25 a.m.
Concord, New Hampshire

REDACTED
FOR PUBLIC USE

RE: DE 10-257 NHPUC JAN17'11 PM 3:05
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
2011 Proposed Default Energy Service
Rate.

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

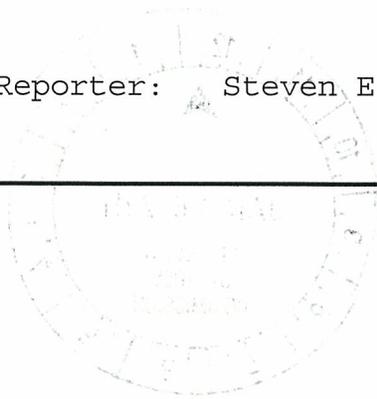
Sandy Deno, Clerk

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

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

Reptg. PUC Staff:
Suzanne G. Amidon, Esq.
Steven E. Mullen, Asst. Dir./Electric Div.

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



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E X H I B I T S

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| 3 | PSNH Response to Data Request OCA-01, Q-OCA-005 (11-03-10) | 25 |
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P R O C E E D I N G

CHAIRMAN GETZ: Okay. Good morning.

We'll open the hearing in Docket DE 10-257. On September 22nd, 2010, Public Service Company of New Hampshire filed a petition to establish its Default Energy Service rate for effect with service rendered on and after January 1, 2011. It provided a preliminary calculation of the Energy Service rate at 8.68 cents per kilowatt-hour. Order of notice was issued on October 1 setting a prehearing conference that was held on October 21. And, on October 22nd, secretarial letter was issued approving a procedural schedule, including a hearing for this morning.

Can we take appearances please.

MR. EATON: Good morning. My name is Gerald M. Eaton. I represent Public Service Company of New Hampshire. Happy Holidays to the Chairman and the Commissioners.

CHAIRMAN GETZ: Good morning.

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

CHAIRMAN GETZ: Good morning.

MS. AMIDON: Good morning,

[WITNESS PANEL: Baumann~White]

1 Commissioners. Suzanne Amidon, for Commission Staff.
2 With me today is Steve Mullen, the Assistant Director for
3 the Electric Division.

4 CHAIRMAN GETZ: Good morning. Mr.
5 Eaton.

6 MR. EATON: We have a panel of witnesses
7 to testify this morning. I'd like to call Mr. Robert
8 Baumann and Mr. Frederick White to the stand.

9 (Whereupon *Robert A. Baumann* and
10 *Frederick B. White* were duly sworn and
11 cautioned by the Court Reporter.)

12 ROBERT A. BAUMANN, SWORN

13 FREDERICK B. WHITE, SWORN

14 DIRECT EXAMINATION

15 BY MR. EATON:

16 Q. Good morning, gentlemen.

17 A. (Baumann) Good morning.

18 Q. Mr. Baumann, would you please state your name for the
19 record.

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

21 Q. And, for whom are you employed?

22 A. (Baumann) I'm employed by Northeast Utilities Service
23 Company that provides financial, engineering, and legal
24 services to all of our operating subsidiaries. And,

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 I'm here today on behalf of Public Service Company of
2 New Hampshire.

3 Q. Mr. Baumann, what is your position and what are your
4 duties?

5 A. (Baumann) I'm the Director of Revenue Regulation and
6 Load Resources for Northeast Utilities Service Company.
7 And, my duties in New Hampshire and responsibilities
8 are to provide calculations and support of the revenue
9 requirement calculations for rate cases and for
10 tracking mechanisms, such as the Energy Service Charge,
11 the Stranded Cost Recovery Charge, and the transmission
12 tracker as well.

13 Q. Have you previously testified before the Commission?

14 A. (Baumann) Yes.

15 Q. Mr. White, would you please state your name for the
16 record.

17 A. (White) Frederick White.

18 Q. For whom are you employed?

19 A. (White) I'm employed by Northeast Utilities Service
20 Company.

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

22 A. (White) I'm a Supervisor in the Wholesale Power
23 Contracts Department. And, my primary duties include
24 the modeling and analysis of the PSNH generation and ES

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 load portfolio for purposes of ES rates.

2 Q. Have you previously testified before this Commission?

3 A. (White) Yes.

4 Q. Mr. Baumann, do you have in front of you a document
5 dated "September 21st, 2010", with a subject matter
6 "Proposed Default Energy Service Rate for 2011", and a
7 cover letter signed by myself?

8 A. (Baumann) Yes.

9 Q. Could you describe that document?

10 A. (Baumann) This document contains testimony and
11 supporting calculations for the preliminary forecasted
12 Energy Service rate for 2011. And, that rate, as
13 contained in Exhibit -- or, Attachment RAB-1, Page 1,
14 is 8.68 cents per kilowatt-hour.

15 Q. And, as part of that filing, you prepared testimony
16 which is included in that document?

17 A. (Baumann) Yes.

18 Q. And, if you were asked those questions on
19 September 21st, 2010, would you have responded in the
20 same way?

21 A. (Baumann) Yes.

22 Q. And, do you need to make any corrections to that
23 filing?

24 A. (Baumann) No.

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 MR. EATON: Could we have that filing
2 marked as Exhibit 1 for identification?

3 CHAIRMAN GETZ: So marked.

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

7 BY MR. EATON:

8 Q. Mr. Baumann, would you look at another document dated
9 December 16th, 2009. And, it has a subject line
10 "Default Energy Service Rate", with the notation of
11 this docket number, and it's signed by Mr. Hall on my
12 behalf. Do you have that document?

13 A. (Baumann) Yes.

14 Q. And, could you please describe what that is.

15 A. (Baumann) This document contains an update to the
16 September ES filing. And, it includes the supporting
17 documentation and calculations, as well as a brief
18 technical statement on behalf of myself and Mr. White
19 in support of this final proposed rate for 2011. And,
20 within that document, the calculations support a
21 proposed Energy Service rate of 8.67 cents per
22 kilowatt-hour for 2011.

23 Q. Do you have any corrections to make to this filing?

24 A. (Baumann) No.

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 Q. And, Mr. White, you helped in preparation of the
2 technical statement?

3 A. (White) Yes.

4 MR. EATON: Could we have this document
5 marked as "Exhibit 2" for identification?

6 CHAIRMAN GETZ: So marked.

7 (The document, as described, was
8 herewith marked as **Exhibit 2** for
9 identification.)

10 BY MR. EATON:

11 Q. Mr. Baumann, could you please summarize your testimony
12 and the requested rate that Public Service Company is
13 asking for in this proceeding.

14 A. (Baumann) Sure. The current rate that is being billed
15 for Energy Service is 8.78 cents per kilowatt-hour.
16 The proposed rate is 8.67 cents per kilowatt-hour. So,
17 there is a 0.11 cents per kilowatt-hour decrease that
18 is being requested today for 2011. While it appears
19 that that decrease, I mean, it is negligible, in terms
20 of -- well, not "negligible", but small, in terms of
21 value, I felt I should at least inform the Commission
22 of the large increases and large decreases that are, in
23 effect, offsetting from 2010 to 2011. And, I'll just
24 touch on a couple of them.

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 As far as rate pressure, i.e., costs
2 going up, there are a couple major items. One, in
3 2010, there was about \$15 million of insurance proceeds
4 from a previous Merrimack outage, which, absent those
5 proceeds in 2011, because it was a one-time insurance,
6 that was about a \$15 million increase driver to the
7 rate. In addition, in 2010, embedded in the final rate
8 was a very small over-recovery from a prior period.
9 This year, we have about a \$6 million under-recovery in
10 the 2011 rate. So, in effect, the change in
11 under-recovery, over-/under-recovery of about
12 6.6 million is, in effect, increasing or driving --
13 trying to drive the rate up.

14 We also have increases from 2010 to 2011
15 associated with pensions, pension costs have gone up a
16 little over \$3 million. We have transferred in the PUC
17 assessment costs from the distribution rates into the
18 Energy Service rates, uncollectible percentage has
19 increased from distribution into the Energy Service
20 rate. And, then, we have three or four million dollars
21 of more costs associated with planned scheduled
22 maintenance outages.

23 There's also a minor increase in
24 depreciation expense of about a million dollars, and

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[WITNESS PANEL: Baumann~White]

1 about a two million dollar increase in property taxes.
2 All of those, all of those items, in effect, have
3 increased the costs of the Energy Service rates in 2011
4 from 2010.

5 The major decreases, which have totally
6 offset those increases, we've seen a slight decrease in
7 market price. In the SCRC hearing, we saw a slight
8 increase in above-market, and that translates to a
9 slight decrease in market prices for IPPs in the Energy
10 Service rate. We have seen, in 2011 projections, we
11 have less long-term purchase contracts. We've entered
12 into some purchase contracts for 2009, '10, and '11.
13 And, as they unwind, they actually have caused a
14 decrease in costs in 2011 versus what we've seen in
15 2010.

16 We've also included a item for a coal
17 sale in 2011 that, in total, is about \$5 million of
18 benefit to selling certain coal into the market that we
19 actually have already contracted for. We also have
20 expiration of some older coal contracts from previous
21 years that were -- that hit 2010 costs. And, that
22 decrease in coal purchase contracts, in terms of the
23 price, is driving down, driving down our costs as well
24 in the 2011 Energy Service rate. And, we're also

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 looking at blending coal differently at Merrimack 2 or
2 Merrimack that would also decrease our costs for 2011.

3 All of those decreases are equal to and
4 offsetting the increases I've mentioned. And, so, the
5 net overall decrease in cost is about \$6 million from
6 2010 to 2011. On the surface, it doesn't look like
7 much of a decrease. But, when you look at the large
8 pieces going up and going down, I just felt it was
9 significant enough to put that on the record.

10 Q. Mr. Baumann, do you have anything to add to your
11 testimony?

12 A. (Baumann) No.

13 Q. Mr. White, do you have anything to add to the
14 testimony?

15 A. (White) No.

16 MR. EATON: The witnesses are available
17 for cross-examination.

18 CHAIRMAN GETZ: Okay. Thank you.
19 Ms. Hatfield.

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

22 WITNESS WHITE: Good morning.

23 WITNESS BAUMANN: Good morning.

24 CROSS-EXAMINATION

[WITNESS PANEL: Baumann~White]

1 BY MS. HATFIELD:

2 Q. Mr. Baumann, if you would look at what's been marked as
3 "Exhibit 1" please, and that is your September 21st
4 filing and testimony. And, if you would please turn to
5 Page 5 of your testimony. And, in the section
6 beginning on Line 13, you discuss the level of
7 migration at that time. Do you see that?

8 A. (Baumann) Yes.

9 Q. And, on Line 15, you state that the current actual
10 level of migration was "approximately 30.7 percent", is
11 that right?

12 A. (Baumann) Yes.

13 Q. And, did you update that amount in your December 20 --
14 excuse me, December 16th filing?

15 A. (Baumann) Yes, we did.

16 Q. And, if we look at Exhibit 2, in your Technical
17 Statement near the end of the filing, in Note C.7,
18 would we find that new number?

19 A. (Baumann) Yes, we do.

20 Q. And, what is the number as of December 16th?

21 A. (Baumann) "31.8 percent".

22 Q. And, do you recall that, in last year's Energy Service
23 filing, when you first raised the issue of migration,
24 you estimated that migration had increased the Energy

[WITNESS PANEL: Baumann~White]

1 Service rate approximately 5 percent?

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

3 Q. Do you have a number for how much migration has
4 increased the 2011 Energy Service rate?

5 A. (Baumann) Yes. The proposed rate now is 8.67 cents per
6 kilowatt-hour. We ran the numbers with no migration,
7 and the rate would be approximately 7.99 cents per
8 kilowatt-hour. So, it's about a 0.68 cents decrease,
9 divided by the current rate, would be about an eight
10 and a half percent differential, compared to that
11 original 5 percent you talked about.

12 Q. Thank you. A few moments ago you discussed the
13 over-/under-recovery, is that correct?

14 A. (Baumann) Yes.

15 Q. And, you gave us some of the reasons for the
16 under-recovery, do you recall that?

17 A. (Baumann) The under-recovery or the reason why the rate
18 is going down?

19 Q. Perhaps both?

20 A. (Baumann) Yes. It was both.

21 Q. Is one of the other reasons for the under-recovery the
22 reduction in PSNH's estimate of Class I REC revenues
23 for Schiller Station?

24 A. (Baumann) Yes. And, I believe there's a data request

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[WITNESS PANEL: Baumann~White]

1 that supports that.

2 Q. Did you originally estimate revenues at \$35 per REC for
3 Schiller?

4 A. (White) Yes, it was in that neighborhood. It might
5 have been a bit below that.

6 Q. And, what is the estimate that you're now using for
7 RECs for 2011?

8 A. (White) For 2011, it's \$19.

9 Q. Are either of you familiar with the Federal Biomass
10 Crop Incentive Program?

11 A. (White) A little bit.

12 Q. Do you know if the Schiller wood unit is eligible to
13 participate in that program?

14 A. (White) It would be eligible. We intend to look at it
15 when the program is again in effect.

16 Q. Do you know when that might happen?

17 A. (White) My understanding, it may be in early 2011.

18 Q. So, if the program is reopened by the federal
19 government, PSNH plans to participate?

20 A. (White) We certainly plan to look into our ability to
21 participate.

22 A. (Baumann) We had the ability of talking to Mr. TenBrock
23 yesterday, and there is -- we're still looking into the
24 detail as to whether or not we would -- it would be,

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[WITNESS PANEL: Baumann~White]

1 you know, the applicability of participating in that
2 program. Some of the requirements on the utilities may
3 be so onerous at this point that we're just not --
4 we're certainly committed to participating, if we can
5 get over some of these requirements. But, to the
6 extent that there are requirements that would make it
7 almost impossible for us to participate, we may not be
8 able to do it. But that's evolving as we speak.

9 Q. And, do those requirements relate to how the wood was
10 harvested?

11 A. (Baumann) Yes.

12 Q. And, the program may require the Company to certify
13 details about how it was harvested, is that right?

14 A. (Baumann) Right. That's correct.

15 Q. If the program is in place in 2011, do you have any
16 sense of the financial benefit that the Company might
17 get from participating?

18 A. (Baumann) No, we don't.

19 Q. If there was a financial benefit, would that need to be
20 factored into an update of the rate in 2011?

21 A. (Baumann) Yes.

22 Q. Do you recall your estimate for the cost of wood that's
23 included in the 2011 rate?

24 A. (White) \$____ a ton.

[WITNESS PANEL: Baumann~White]

1 Q. Mr. Baumann, if we look again at Exhibit 2, at one of
2 your schedules, RAB-2, Page 6. And, if you look at
3 Line 27 please.

4 A. (Baumann) Yes. That's the "Return" line?

5 Q. Yes. Do I understand correctly that this shows that
6 within the Energy Service rate there is just over \$43
7 million, that represents the return to the Company on
8 Energy Service?

9 A. (Baumann) Well, it represents the total return. So,
10 that would be for both debt and equity.

11 Q. Now, this worksheet on Line 18 shows "Fossil Fuel
12 Inventory", do you see that?

13 A. (Baumann) Yes.

14 Q. Does that include fuel inventory for Newington Station?

15 A. (Baumann) Yes.

16 Q. Would that include oil that is currently being stored
17 at Newington station?

18 A. (Baumann) Yes, it would.

19 Q. Is the Company currently investigating whether or not
20 it would be prudent to reduce that oil inventory?

21 A. (White) Yes. The Company has assembled a team to
22 investigate the feasibility of off-loading some of the
23 oil inventory at Newington onto barges. The current
24 configuration of the piping system is not set up to do

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[WITNESS PANEL: Baumann~White]

1 that. We're hiring engineering evaluation of what
2 would need to be done to make that feasible.
3 Additionally, recent market forces are permitting some
4 burn at Newington Station. So, those two factors
5 combined will be an outcome on what to do with that
6 inventory.

7 Q. And, would one of the reasons to reduce the inventory
8 be to reduce the carrying costs paid by customers on
9 that inventory?

10 A. (Baumann) Certainly, as you reduce the inventory
11 levels, there will be less carrying costs. That's
12 correct.

13 Q. And, Mr. Baumann, do you recall in discovery providing
14 the figure of "\$23 million" as the book value of the
15 oil that was in inventory this fall at Newington
16 Station?

17 A. (Baumann) Subject to check, I think that's accurate,
18 yes.

19 Q. Referring again to Exhibit 2, and the second page of
20 your Technical Statement, Paragraph C.1 please. And,
21 in this paragraph, I believe you're discussing coal
22 generation at Merrimack and Schiller, is that correct?

23 A. (Baumann) Yes.

24 Q. And, in the first line, you discuss the "coal

[WITNESS PANEL: Baumann-White]

1 generation decreasing" in 2011, is that correct?

2 A. (Baumann) Yes.

3 Q. And, you use the term "due to greater dispatch
4 flexibility at Merrimack Station." Do you see that?

5 A. (Baumann) Yes.

6 Q. By "greater dispatch flexibility", do you mean, in
7 part, that the plant is now uneconomic during certain
8 times, so you are running it less?

9 A. (White) That is part of the story, yes. We have also
10 increased the flexibility at Merrimack 1, in terms of
11 its low load level that it can be backed down to.

12 Q. And, what is that level that it can be backed down to?

13 A. (White) We've looked at it with the plant management,
14 and we can go down to 30 megawatts for some periods of
15 time.

16 Q. Later in that Paragraph C.1 you refer to "an estimated
17 \$5 million of benefit from the planned sale of coal".
18 And, I believe, Mr. Baumann, you touched on this
19 earlier, is that correct?

20 A. (Baumann) Yes.

21 Q. Can you just briefly describe how you are able to sell
22 that coal for a \$5 million benefit?

23 A. (White) We have under contract some coal that has value
24 in the metallurgical market. Given the change in

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[WITNESS PANEL: Baumann~White]

1 operation forecasted for 2011, it's opened the
2 possibility of selling that coal that we have under
3 contract into the metallurgic market at a profit. And,
4 that profit is estimated to be \$5 million.

5 Q. Thank you. Mr. Baumann, do you recall a few moments
6 ago briefly discussing insurance payments for the
7 Merrimack Station turbine outage?

8 A. (Baumann) Yes.

9 Q. I'd like to show you a copy of a data response related
10 to that please.

11 (Atty. Hatfield distributing documents.)

12 BY MS. HATFIELD:

13 Q. Do you see that this is the Company's response in this
14 docket to OCA Data Request Set 01, Number 005?

15 A. (Baumann) Yes, I do.

16 Q. And, it was provided on November 3rd of 2010?

17 A. (Baumann) Correct.

18 Q. And, it's a response of "William Smagula"?

19 A. (Baumann) Yes.

20 Q. And, do you see that the question asks for "an update
21 on the status of insurance claims...related to
22 Merrimack Station"?

23 A. (Baumann) Yes.

24 Q. And, do you see that, under the response, under "Boiler

[WITNESS PANEL: Baumann~White]

1 and Machinery", it looks like there was an outstanding
2 amount of just over \$8 million?

3 A. (Baumann) That's correct.

4 Q. But then below that it says "less \$1 million
5 deductible", so that amount would be closer to
6 7 million, is that right?

7 A. (Baumann) That's correct.

8 Q. And, then, under "Replacement Power", the outstanding
9 amount is \$10.8 million?

10 A. (Baumann) That's correct.

11 Q. And, then, the response goes on to provide an update of
12 the current discussions about that matter, is that
13 correct?

14 A. (Baumann) Yes.

15 Q. And, if we look back at, again, at Exhibit 2, in your
16 Schedule RAB-3, Page 2B. Do you have that schedule?

17 A. (Baumann) Yes, I do.

18 Q. And, if we look on Lines 23 and 24, you've shown
19 different proceeds related to that incident, is that
20 correct?

21 A. (Baumann) That's correct.

22 Q. And, if we look at Line 23, you show the amount of
23 "\$6.5 million" to be received in this month?

24 A. (Baumann) Yes. We've put the assumed proceeds in

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 December 2010 re-estimate.

2 Q. Now, would that \$6.5 million be subtracted from that
3 \$7 million figure that we discussed in that data
4 response related to "Boiler and Machinery"?

5 A. (Baumann) Yes. That "6.5 million" is the number that
6 we put in, it's about 93 percent of the 7 million. We
7 are again pushing for the \$7 million number from the
8 insurers. But, for ratemaking purposes, we took -- and
9 it's kind of consistent with what we've done in the
10 past, we've reduced it by a small percentage. So, it
11 is one in the same, in effect.

12 Q. But the Company is still hopeful that you'll receive
13 the full outstanding amount of roughly \$7 million?

14 A. (Baumann) Yes.

15 Q. And, then, looking at Line 24 of Schedule RAB-3, Page
16 2B, does that show the insurance proceeds related to
17 replacement power costs?

18 A. (Baumann) Yes, it does.

19 Q. And, is that approximately "8.7 million" that you
20 expect to receive in this month?

21 A. (Baumann) Yes.

22 Q. And, if we look back at the data response, OCA 01-005,
23 under "Replacement Power" you show the figure
24 "10.8 million", correct?

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[WITNESS PANEL: Baumann~White]

1 A. (Baumann) Correct.

2 Q. Are you still expecting that the Company would receive
3 the full 10.8 million or do you think it would be
4 closer to the 8.7?

5 A. (Baumann) Well, we are requesting and our expectations
6 are that we should get the 10.8 million. What we have
7 done, again, consistent with prior filings, is included
8 about 80 percent of that number, which is the
9 "8.7 million", as the credits for the December 2010
10 values.

11 Q. And, if you would look at the very last section on the
12 second page of that data response, there's a discussion
13 about the fact that "the insurance company has yet to
14 finalize and report to PSNH on its investigation." Do
15 you see that?

16 A. (Baumann) That's the last paragraph?

17 Q. Yes.

18 A. (Baumann) Yes.

19 Q. Do you know when the insurance company will report to
20 PSNH on its investigation?

21 A. (Baumann) Well, we're hoping it's going to be sometime
22 in the early part of 2011. We've put these credits in
23 2010, specifically December, as recognition from a
24 recovery perspective. We actually -- we don't believe

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 we're going to get all the cash in December 2010. We
2 think we're going to get most of the cash in 2011.
3 However, for ratemaking purposes, it wouldn't change
4 the rate. It's just a timing of recovery.

5 Q. And, Mr. Baumann, do you recall earlier testifying that
6 the Company had entered into fewer long-term power
7 purchase contracts of late?

8 A. (Baumann) Yes.

9 Q. And, can you explain why that's the case?

10 A. (White) There was a procurement plan for supplemental
11 purchases put together in prior years. And, those
12 purchases that will flow in 2011 were made in an
13 earlier time frame, as part of a -- as part of the
14 supplemental purchase program. Over time, as migration
15 has come into play, the remainder of that purchase
16 program was never implemented. And, that 2011 was the
17 furthest year out in that program. At that point in
18 time, when implementation was halted, fewer purchases
19 had been made in 2011 than in 2010.

20 MS. HATFIELD: Thank you, Mr. Chairman.
21 I have nothing further.

22 CHAIRMAN GETZ: Okay. Thank you. One
23 thing, before we turn to Staff. Mr. Eaton, I think
24 Mr. White answered a question talking about the price per

{DE 10-257} [REDACTED FOR PUBLIC USE] {12-21-10}

[WITNESS PANEL: Baumann~White]

1 ton of wood. Was that intended to be confidential?

2 MR. EATON: No, that's a blended price
3 from all of our suppliers. It's not -- it's not a
4 particular price from any supplier.

5 CHAIRMAN GETZ: Okay. Thank you. Ms.
6 Hatfield.

7 MS. HATFIELD: Thank you, Mr. Chairman.
8 I neglected to ask that you mark that response, OCA
9 01-005, for identification.

10 CHAIRMAN GETZ: Okay. It will be marked
11 as "Exhibit 3".

12 (The document, as described, was
13 herewith marked as **Exhibit 3** for
14 identification.)

15 MS. HATFIELD: Thank you.

16 CMSR. IGNATIUS: Mr. Eaton, can I just
17 ask a follow-up question on the price of wood issue that
18 Chairman Getz just asked. We have in our files marked as
19 "confidential" your response to Staff Question 006(a) fuel
20 prices used in your calculations, and they're not by
21 supplier, they're by unit. And, so, I'm having trouble
22 putting together your statement that the wood price is not
23 confidential, but this document is. And, I'm all for it
24 being made public. I'm not trying to argue that it be

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[WITNESS PANEL: Baumann~White]

1 protected. But it seems inconsistent with what you
2 submitted and filed a motion for. So, can you explain
3 that a little more please?

4 MR. EATON: Well, if I could confer with
5 my witnesses and we could take a break?

6 (Atty. Eaton conferring with the
7 witnesses.)

8 MR. EATON: I apologize for the delay.
9 Although that is a blended price for all the contracts
10 that we would be entering into, it is a future projection,
11 and it tells the market what we would be willing to pay
12 for wood in 2011. And, therefore, we would renew our
13 request that it be made confidential. And, I apologize
14 for my misstatement, and request that the court reporter
15 be able to block that price that's in the record so far
16 and make that confidential.

17 CHAIRMAN GETZ: Because that's the same
18 price it was on the confidential document?

19 MR. EATON: Yes.

20 CMSR. IGNATIUS: Well, and when you say
21 it "demonstrates the price you would be willing to pay",
22 does that mean if someone had supply at a dollar more, you
23 would not be willing to pay it?

24 MR. EATON: I'm sorry, I don't know if I

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[WITNESS PANEL: Baumann~White]

1 heard you. If someone were to offer --

2 CMSR. IGNATIUS: -- the wood at one
3 dollar higher than the amount shown in that confidential
4 exhibit?

5 MR. EATON: It would be part of a
6 solicitation probably, which we go out for from time to
7 time to get supplies. And, if that were the lowest price,
8 we would be willing to pay one dollar more. But, again,
9 if we were to go out and solicit, and this number was in
10 the public domain, we would probably not get any prices
11 below that number, and would hope we could get prices
12 below that number in a competitive bidding process. But,
13 by disclosing it, it probably creates a floor for a future
14 solicitation of supply.

15 CMSR. IGNATIUS: And, in the
16 reconciliation docket, are the actual amounts spent on all
17 fuels identified in a public form?

18 MR. EATON: Yes, they are. But those
19 are historical prices that we actually paid, and that's
20 relevant to the Commission's determination of whether we
21 prudently incurred those costs.

22 CMSR. IGNATIUS: Thank you.

23 CHAIRMAN GETZ: Ms. Amidon.

24 MS. AMIDON: Mr. Mullen will

[WITNESS PANEL: Baumann~White]

1 cross-examine these witnesses.

2 MR. MULLEN: Good morning.

3 WITNESS BAUMANN: Good morning.

4 WITNESS WHITE: Good morning.

5 BY MR. MULLEN:

6 Q. If you could turn to Attachment RAB-2, Page 4, in both
7 Exhibit 1 and Exhibit 2. And, if you look at the
8 column on both of those pages that's marked "ICAP Value
9 dollars per kilowatt-month". Do you see that?

10 A. (White) Yes.

11 Q. If I compare the monthly prices shown there in Exhibit
12 2 to Exhibit 1, could you explain what has transpired
13 between the time that you filed Exhibit 1 in September
14 and Exhibit 2 in December that has caused those prices
15 to change?

16 A. (White) There was a change to the ISO-New England rules
17 that was recently passed at their Markets Committee
18 regarding the component of the Forward Capacity Market
19 named "Peak Energy Rent". And, they have changed the
20 way the Peak Energy Rent is calculated. In addition,
21 they changed the manner in which it's applied going
22 forward. They have raised the threshold for the
23 calculation of the PER value, and they have moved from
24 a 12-month rolling average to a six-month rolling

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[WITNESS PANEL: Baumann~White]

1 average. The combination of those two changes have
2 resulted in a different forward price path for capacity
3 value. In the September filing, we had modeled a flat
4 PER value in all 12 months. With the changes in the
5 December filing, there's more movement month-to-month
6 as a result of those changes. And, so, you see a
7 varying path over the 12 months.

8 Q. Now, you mentioned "Peak Energy Rent". Is there a
9 simple explanation for what "Peak Energy Rent" is?

10 A. (White) I'll try. The philosophy of the Peak Energy
11 Rent is this: There's a forward capacity auction.
12 And, that value is intended to provide to the cheapest
13 form of capacity in the ISO-New England markets, for
14 example, a jet engine, a combustion turbine. That
15 market is intended to provide the revenues required to
16 maintain those units. When you're in the energy
17 markets throughout the course of a month, a day, a
18 year, whatever, when energy prices go very high, those
19 generators receive additional net revenues to
20 contribute toward their revenue requirement. The
21 theory being that, they got all they needed in the
22 forward capacity market, now they're getting additional
23 revenues in the energy market. So, they have
24 implemented a rule that would essentially give back

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[WITNESS PANEL: Baumann~White]

1 those additional energy revenues, so that their net
2 revenue would meet their revenue requirement.

3 Q. Thank you. Mr. Baumann, you were involved in PSNH's
4 last distribution rate case, that was docket DE 09-035?

5 A. (Baumann) Yes.

6 Q. Do you recall, as part of the settlement in that case,
7 that the assessment from the New Hampshire Public
8 Utilities Commission, part of that was going to now be
9 recovered through the Energy Service proceeding?

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

11 Q. In the filing for the 2011 estimated rate, does that
12 now include a portion of that assessment?

13 A. (Baumann) Yes, it does.

14 Q. And, this is the first time that's happened, correct?

15 A. (Baumann) Yes.

16 Q. Regarding RECs, there was some discussion earlier, and
17 I want to have just a general overview. How does the
18 Company acquire its RECs for its various classes?

19 A. (White) The Company either contracts for RECs with
20 suppliers or, if they're not fully subscribed, there's
21 a alternative compliance payment that is made. We also
22 have in our REC inventory some RECs from our own
23 generation.

24 Q. Have you issued any RFPs for any of the classes?

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[WITNESS PANEL: Baumann~White]

1 A. (White) There have been RFPs issued. I believe there
2 was a data request that addressed Class III and Class
3 IV REC RFPs.

4 Q. And, as a result of that RFP process, did you contract
5 with some of the respondents?

6 A. (White) Yes, we have.

7 MR. MULLEN: Thank you. That's all my
8 questions.

9 CHAIRMAN GETZ: Commissioner Below.

10 CMSR. BELOW: Yes. Thank you, Mr.
11 Chairman.

12 BY CMSR. BELOW:

13 Q. Mr. Baumann, with regard to your response to Ms.
14 Hatfield concerning what the cost -- projected cost per
15 kilowatt-hour would be if one assumed there was no
16 migration, I think you indicated that it would be about
17 eight and a half percent lower, at 7.99 cents per
18 kilowatt-hour, is that correct?

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

20 Q. And, do you know whether the total cost paid by all
21 customers would be greater or -- or, for total cost
22 paid for energy supply by all customers would be
23 greater or less if there were no migration?

24 A. (Baumann) Well, when we ran the hypothetical "no

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[WITNESS PANEL: Baumann~White]

1 migration" case, we filled in the additional load
2 requirements, Energy Service requirements at a market
3 price. So, certainly, with more load, you would have
4 more costs in the Energy Service rate. But with that
5 as well is you would have more kilowatt-hours to spread
6 that cost over. The variable costs are pretty much a
7 wash. It's the value of the fixed costs and how they
8 are spread over. And, as fixed costs remain fixed,
9 more kilowatt-hours in the hypothetical situation, then
10 you get a lower rate.

11 Q. I understand you get a lower rate. But my question is,
12 do you know or can you know whether the total costs
13 paid by all customers for energy supply would be
14 greater or less in the "migration" versus "no
15 migration" scenarios?

16 A. (Baumann) Well, I said before, we assumed market prices
17 for the additional load in the "no migration" case.
18 And, at present, those marginal costs, if you will, are
19 lower than the total average costs of the Energy
20 Service rate. So, in that respect, if you add marginal
21 costs at a lower price than the average, your overall
22 average would go down. And, you could then say your
23 overall costs are going down on a per unit basis as
24 well.

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[WITNESS PANEL: Baumann~White]

1 Q. I guess I'm still trying to ask the question from the
2 customers' point of view. Do you know if what
3 customers paid for energy supply would be greater or
4 less?

5 A. (Baumann) Under the hypothetical scenario?

6 Q. Yes.

7 A. (Baumann) The customers that -- I think the answer is,
8 "customers would pay the same costs." But the
9 customers who had not migrated would receive a lower
10 Energy Service rate under the hypothetical.

11 Q. But, so, do you know if, under the "migration" case,
12 the customers who chose competitive supply would, in
13 fact, be paying more or less than your assumption about
14 market prices? Do you know that or is that knowable?

15 A. (White) Let me try to add one. We don't know what
16 third party -- customers on third party supply, we
17 don't know what they're paying necessarily. So, we
18 can't know the full answer. Certainly, the cost you're
19 talking about would at least begin to approach the
20 total cost today.

21 Q. Is it possible that there's other factors involved in
22 how competitive suppliers price that, such as load
23 shape or possible participation in demand response
24 programs or things like that that may affect what they

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[WITNESS PANEL: Baumann~White]

1 cost -- may affect what customers who choose
2 competitive supply pay, compared to just the average
3 wholesale marginal cost?

4 A. (White) You would expect that load factor would have an
5 effect on the rate offered by third party suppliers.

6 CMSR. BELOW: Okay. That's all.

7 CHAIRMAN GETZ: Commissioner Ignatius.

8 CMSR. IGNATIUS: Thank you.

9 BY CMSR. IGNATIUS:

10 Q. Mr. Baumann, you stated at the very beginning in your
11 summary that the "level of uncollectibles had gone up",
12 and that was one of the components of how you reached
13 your calculations for this rate. I couldn't find,
14 though, I'm sure it's here, I couldn't find where that
15 uncollectible level is shown. Can you help me?

16 A. (Baumann) Well, the actual dollars are in the O&M line.

17 Q. Okay.

18 A. (Baumann) So, they're buried in a line. When I said
19 "the uncollectibles have gone up", the percentage of
20 uncollectibles allocated to Energy Service has gone up.
21 I believe the old percentage was 52 percent. I think
22 that's gone to like 60 percent. So, I didn't mean to
23 imply that the uncollectibles costs have gone up, just
24 the allocation within the distribution versus Energy

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[WITNESS PANEL: Baumann~White]

1 Service has shifted more towards the Energy Service on
2 a percentage basis.

3 Q. Do you know if the actual amount of uncollectibles
4 company-wide has gone up in the past year or is
5 projected to be higher in the coming year?

6 A. (Baumann) I haven't seen recent projections. So, I'm
7 sorry, I can't answer that at this time.

8 Q. All right. So, it's just the amount that's being put
9 to the Energy Service rate?

10 A. (Baumann) Right. Right. It went from, like I said,
11 52 percent, I think it was 65 percent is now in the
12 Energy Service rate.

13 CMSR. IGNATIUS: All right. Thank you.

14 CHAIRMAN GETZ:

15 BY CHAIRMAN GETZ:

16 Q. Mr. Baumann, I want to follow up a little bit on your
17 summary about coal prices and make sure I understand
18 what's going on. It sounded like, in terms of downward
19 pressure on costs, you said two things. One was, and I
20 think Mr. White answered part of this, that there was a
21 sale -- that there was an existing contract that you
22 had for some coal that became more valuable, and then
23 you took advantage of that, I guess, increase in value.
24 And, was it like some specific kind of subset of coal

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[WITNESS PANEL: Baumann~White]

1 that became more valuable?

2 A. (White) It is. It's a coal that's also used in the
3 metallurgical market that foundries use to make metal.

4 Q. But this is like a particular subset of all your coal
5 purchases. Because I thought at the same time you were
6 saying that some contracts for coal terminated, and you
7 were able to get lower prices? That's what I
8 understood Mr. Baumann to say. So, there are two
9 different types of coals; one's becoming more valuable,
10 one's becoming less valuable or less costly?

11 A. (White) Well, there are various types of coal that we
12 have under contract. One particular type has value in
13 another market, at a greater value than what we have
14 contracted it for. So, we're going to sell that. That
15 alone -- it happens to be a relatively higher cost
16 coal. So, the simple act of selling that and taking it
17 out of the coal mix, if you will, lowers the remaining
18 average of the coal that will be burned. So, we're
19 selling a relatively higher priced coal at a profit,
20 which has lowered the average of the remaining
21 inventory under contract.

22 Q. And, at the same time, I thought there was -- that some
23 coal contracts had expired, and now the replacement
24 contracts are at a lower price?

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[WITNESS PANEL: Baumann~White]

1 A. (White) That's correct. There was some coal that was
2 contracted in 2008 that was burned in 2010. It had a
3 relatively high price. Those contracts have expired.
4 The replacement contracts, if you will, that we have in
5 place for 2011 are at lower price. Does that answer --

6 Q. Well, I think I'm in the neighborhood. I think I got
7 the direction that these things are going. But it
8 sounds like this metallurgical coal is a small portion
9 of the overall coal requirements?

10 A. (White) Yes.

11 A. (Baumann) Mr. Chairman, if you turn to TS-002 response,
12 it's pretty clear in that response. This is the Tech
13 Session Set 01, Question 002.

14 MR. EATON: Mr. Baumann, I don't think
15 they have copies of the discovery.

16 WITNESS BAUMANN: Oh.

17 MR. EATON: But, if you could read the
18 question and the response or describe it, we could provide
19 them with a copy of it as an exhibit.

20 **BY THE WITNESS:**

21 A. (Baumann) I apologize. The question is, there's a
22 \$30 million difference between 2010 costs of coal and
23 projected 2011. And, the question is "what makes up
24 that \$30 million difference?" And, it's a decrease.

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1 And, there are four items listed, three of them -- two
2 of them we're talking about today. Item (b) is "coal
3 contracts entered into in 2008 with delivery in 2010."
4 Those are the contracts that Mr. White was referring to
5 before. The next line says "Supplemental coal
6 purchases in 2010." That was something I didn't
7 specifically deal with, but it was -- again, there were
8 other supplemental purchases we made in 2010, because
9 of the flooding of the Venezuela mines during that time
10 period. I think that was discussed in previous ES
11 dockets. And, then, we had a shift in the coal blend
12 in Merrimack Station, which is going to save about two
13 or three million dollars.

14 The sale of coal is not in this
15 response. And, that's this purchase that we have of
16 about 120 tons of coal that we will be able to sell in
17 the market, the metallurgical market, at a profit,
18 which will again reduce the Energy Service rate. I
19 believe it's about \$5 million in total.

20 CHAIRMAN GETZ: All right. Well, let's
21 just reserve Exhibit Number 4 and submit that data
22 response.

23 (Exhibit 4 reserved)

24 CHAIRMAN GETZ: That's all I have. Mr.

[WITNESS PANEL: Baumann~White]

1 Eaton, anything further?

2 MR. EATON: No, Mr. Chairman.

3 CHAIRMAN GETZ: Okay. Then, the
4 witnesses are excused. Thank you, gentlemen.

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

7 (No verbal response)

8 CHAIRMAN GETZ: Hearing no objection,
9 they will be admitted into evidence. Anything else before
10 opportunity for closings?

11 (No verbal response)

12 CHAIRMAN GETZ: Hearing nothing -- okay.
13 And, I guess, in terms of closings, if you have any
14 position, Ms. Hatfield or Ms. Amidon, on the Motions for
15 Protective Order, please let us know that. So, Ms.
16 Hatfield.

17 MS. HATFIELD: Thank you, Mr. Chairman.
18 The OCA takes no position on PSNH's request for the 2011
19 Energy Service rate. We are hopeful that customers can
20 benefit from the final insurance payments as quickly as
21 possible, in light of the fact that the original incident
22 was in 2008, and the replacement power costs were incurred
23 in 2009.

24 With respect to the Motions for

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1 Confidential Treatment, we don't have any objection at
2 this time.

3 CHAIRMAN GETZ: Thank you. Ms. Amidon.

4 MS. AMIDON: Thank you. Staff has
5 reviewed the filing and has determined that PSNH has
6 calculated the Energy Service rate as it has done in the
7 past on an estimated basis. We understand that migration
8 continues to be an issue in this docket. But we believe
9 that the rate should go into effect as proposed by PSNH.
10 And, in the event that the Commission takes action or
11 whatever action is taken in the other proceeding, that's
12 Docket Number 10-160, we would expect that that will
13 implicate Energy Service rates going forward and will take
14 effect at the appropriate time.

15 With respect to the Motions for
16 Confidential Treatment, we have no objection to those.

17 CHAIRMAN GETZ: Thank you. Mr. Eaton.

18 MR. EATON: Thank you, Mr. Chairman.
19 The rate projected for 2011 was calculated in the
20 customary fashion. And, although there's very little
21 change, Mr. Baumann's testimony showed that there were
22 offsetting pressures to push the rate up and to push the
23 rate down. But we believe that the requested rate of 8.67
24 cents per kilowatt-hour is just and reasonable and ask the

1 Commission to approve it.

2 We also ask the Commission to approve
3 the Motions for Protective Order, and specifically the
4 motion regarding fuel prices. If the Commission is
5 inclined to approve that Motion for Protective Order, we
6 ask that the order also request that the court reporter
7 redact in the public transcript the actual number that was
8 testified to when Ms. Hatfield asked the question of the
9 panel regarding the price of wood.

10 CHAIRMAN GETZ: Okay. Then, we will
11 close this hearing and take the matter under advisement.
12 Thank you, everyone.

13 (Whereupon the hearing ended at 11:26
14 a.m.)

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