

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

June 19, 2012 - 11:22 a.m.
Concord, New Hampshire

REDACTED
FOR PUBLIC USE

RE: DE 11-215
PUBLIC SERVICE OF NEW HAMPSHIRE:
Energy Service Rate.
(Hearing regarding midyear adjustment)

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Public Service of New Hampshire:
Sarah B. Knowlton, Esq.

Reptg. Residential Ratepayers:
Rorie E. P. Hollenberg, Esq.
Stephen R. Eckberg, Utility Analyst
Office of Consumer Advocate

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

NHPUC JUN29'12 PM 4:08

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

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I N D E X

PAGE NO.

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 FREDERICK B. WHITE
 STEPHEN R. HALL
(added at Page 48) WILLIAM H. SMAGULA

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1 CHAIRMAN IGNATIUS: Good morning,
2 everyone, and thank you. Do we have any administrative
3 matters to address before beginning testimony?

4 MS. KNOWLTON: I had one question that
5 I'd like to pose. Which is, earlier today, in a prior
6 docket, we marked for identification two exhibits, you
7 know, that were moved into the record that relate to the
8 rate impact of various components of the Company's rates.
9 Those same exhibits contain information that relate to
10 this docket. And, I just wanted to seek some guidance
11 from the Chair about how she'd like to proceed with regard
12 to those documents? Mr. Hall is not, again, not a witness
13 in this docket, our witnesses are Mr. White and Mr.
14 Baumann. But we're happy to proceed however the
15 Commission would like.

16 CHAIRMAN IGNATIUS: Well, I think it was
17 helpful having Mr. Hall's testimony and the documents that
18 covered multiple dockets was useful in our understanding
19 of how all these things fit together. So, I think
20 introducing those in this docket as well would be a good
21 idea. We can use the copies we have, and then later make
22 additional copies for the file.

23 MS. KNOWLTON: I have some others that I
24 could give, since it will be re-marked with a different

1 number.

2 CHAIRMAN IGNATIUS: All right. That's
3 fine, too. I assume there's no objection from any of
4 parties on doing that?

5 (No verbal response)

6 CHAIRMAN IGNATIUS: All right. So, if
7 you would like to have Mr. Hall join you, join the panel,
8 that would be fine. And, do you want to -- I guess, when
9 they're on the stand, we can see about introduction of
10 those exhibits.

11 MS. KNOWLTON: Shall I proceed?

12 CHAIRMAN IGNATIUS: Unless there is
13 anything further, please do.

14 MS. KNOWLTON: Thank you. The Company
15 calls Mr. White, Mr. Baumann, and Mr. Hall please.

16 (Whereupon *Robert A. Baumann,*
17 *Frederick B. White,* and
18 *Stephen R. Hall* were duly sworn by the
19 Court Reporter.)

20 MS. KNOWLTON: Good morning, gentlemen.

21 WITNESS WHITE: Good morning.

22 **ROBERT A. BAUMANN, SWORN**

23 **FREDERICK B. WHITE, SWORN**

24 **STEPHEN R. HALL, SWORN**

DIRECT EXAMINATION1
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BY MS. KNOWLTON:

Q. I'll start with you, Mr. Baumann. Would you please state your full name for the record.

A. (Baumann) My name is Robert Baumann.

Q. By whom are you employed?

A. (Baumann) Northeast Utilities Service Company.

Q. What is your position at the Company and your job responsibilities?

A. (Baumann) I'm the Director of Revenue Requirements. And, my responsibilities are I'm responsible for the overall revenue requirement calculations for Public Service Company of New Hampshire, as well as revenue requirement calculations for Connecticut Light & Power, and our Massachusetts subsidiaries as well.

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

A. (White) Frederick White.

Q. By whom are you employed?

A. (White) Northeast Utilities Service Company.

Q. And, what is your position with the Company and related job duties?

A. (White) I'm a Supervisor in the Wholesale Power Contracts Department. My job duties include analysis

[WITNESS PANEL: Baumann~White~Hall]

1 and participation in the management of the power
2 supplies portfolio for the purpose of serving ES
3 customers, and for rate setting and reconciliation.

4 Q. Good morning, Mr. Hall.

5 A. (Hall) Good morning.

6 Q. Would you please state your full name for the record.

7 A. (Hall) Stephen R. Hall.

8 Q. By whom are you employed?

9 A. (Hall) Public Service of New Hampshire.

10 Q. And, what is your position and job responsibilities
11 with Public Service?

12 A. (Hall) I'm Rate and Regulatory Services Manager. I'm
13 responsible for docket management, rate and tariff
14 administration, and pricing and rate design.

15 MS. KNOWLTON: I propose to mark for
16 identification as I believe our next exhibit would be
17 "Exhibit 8"?

18 MS. DENO: Nine.

19 MS. KNOWLTON: Nine. Thank you.
20 "Exhibit 9". The May 2nd, 2012 prepared Testimony of
21 Robert A. Baumann.

22 (Atty. Knowlton distributing documents.)

23 CHAIRMAN IGNATIUS: So marked.

24 (The document, as described, was

[WITNESS PANEL: Baumann~White~Hall]

1 herewith marked as **Exhibit 9** for
2 identification.)
3 (Atty. Knowlton distributing documents.)
4 MS. KNOWLTON: I'd also propose marking
5 for identification as "Exhibit 10" the May 2nd, 2012
6 "Joint Technical Statement of Robert A. Baumann and
7 Frederick B. White".

8 CHAIRMAN IGNATIUS: That's fine. Ours
9 were clipped together.

10 MS. KNOWLTON: Oh, were they? Okay.

11 CHAIRMAN IGNATIUS: So, I assumed they
12 were attached.

13 MS. KNOWLTON: So, we could mark that
14 all as one. I can give the Clerk the second half, if
15 that's the better way to proceed.

16 CHAIRMAN IGNATIUS: All right. Why
17 don't we do that. So, Exhibit 9 will have the May 2nd
18 Technical Statement of Mr. Baumann -- excuse me, the
19 Testimony of Mr. Baumann and the Joint Technical Statement
20 of Mr. Baumann and Mr. White all attached.

21 MS. KNOWLTON: And, if I may mark as
22 "Exhibit 10" for identification, the June 12th, 2012
23 "Joint Technical Statement of Robert A. Baumann and
24 Frederick B. White".

[WITNESS PANEL: Baumann~White~Hall]

1 (Atty. Knowlton distributing documents.)

2 CHAIRMAN IGNATIUS: It's so marked.

3 (The document, as described, was
4 herewith marked as **Exhibit 10** for
5 identification.)

6 BY MS. KNOWLTON:

7 Q. Mr. Baumann, do you have before you the document that
8 was marked for identification as "Exhibit 9", your
9 prefiled testimony and the Joint Technical Statement
10 prepared by you and Mr. White?

11 A. (Baumann) These are all filed on May 2nd, is that
12 correct?

13 Q. That's correct.

14 A. (Baumann) Yes, I do.

15 Q. And, was that testimony prepared by you or under your
16 direction?

17 A. (Baumann) Yes.

18 Q. Do you have any corrections to it?

19 A. (Baumann) No.

20 Q. If I were to ask you the questions that are contained
21 in your testimony today, would the answers be the same?

22 A. (Baumann) Yes.

23 Q. And, turning to the Joint Technical Statement that was
24 included there, was that prepared by you or under your

[WITNESS PANEL: Baumann~White~Hall]

1 direction?

2 A. (Baumann) It was -- I reviewed that Joint Technical
3 Statement. It was prepared by others.

4 Q. Okay. Do you have any corrections to that?

5 A. (Baumann) No.

6 Q. Mr. White, were you involved in the preparation of the
7 Joint Technical Statement?

8 A. (White) Yes.

9 Q. And, do you have any corrections to that?

10 A. (White) No, I don't.

11 Q. Mr. Baumann, I'll start with you. If you would
12 summarize for the Commission what the Company was
13 requesting with regard to its Energy Service rate in
14 this May 2nd, 2012 filing.

15 A. (Baumann) Well, in that filing, we proposed an Energy
16 Service rate that is lower than the current rate in
17 effect, which is 7.77 cents per kilowatt-hour. And,
18 just before I go any further, all of these rates do not
19 include any Scrubber costs. The Scrubber costs have
20 been set at temporary rates at 0.98 cents. So, I will
21 attempt never to use an Energy Service rate with
22 Scrubber in there, so it doesn't get really confusing.

23 So, the current rate of 7.77 cents, in
24 the May 2nd filing, we proposed a decrease to that rate

[WITNESS PANEL: Baumann~White~Hall]

1 to 6.85 cents per kilowatt-hour. That rate decrease
2 reflected primarily lower market prices and a sale of
3 oil, a significant sale of oil. We, as a result of
4 with the lower market prices, and the recognition of
5 the sale of oil, we had a large over recovery that we
6 proposed to spread over the next 18 months, that being
7 July 2012 through December, and all of 2013. So, we
8 propose to spread the over recovery over 18 months.
9 And, that was our proposed rate, the 6.85 cents per
10 kilowatt-hour.

11 Q. Did that proposal change?

12 A. (Baumann) The proposal has not changed, but we have
13 updated the rate in what I think you marked as "Exhibit
14 10", which was our rate filing on June 12th. That was
15 our standard update to the Energy Service initial rate
16 filing that we do every period. That updated rate
17 filing decrease -- excuse me, slightly increased the
18 proposed rate to 6.95 cents, from the 6.85 cents that
19 we filed on May 2nd.

20 But, again, in that rate, we had a
21 \$40 million over recovery, primarily driven by market
22 price decreases, but, secondarily, driven by about
23 \$8.5 million of proceeds, net proceeds from the sale of
24 oil. And, we propose to, once again, spread that over

{DE 11-215} [REDACTED - For Public Use] {06-19-12}

[WITNESS PANEL: Baumann~White~Hall]

1 recovery refund back over an 18-month period, versus
2 rolling it all back over the next six-month updated
3 period.

4 Q. What was the cause or the causes of this slight
5 increase in the updated rate that was filed on June the
6 12th?

7 A. (Baumann) Primarily market prices.

8 Q. Would you just describe in a little bit more detail the
9 oil sale that you referred to.

10 A. (White) This is -- we sold approximately
11 _____ barrels of oil in storage at Newington Station,
12 at a market price, and net the cost basis, the
13 inventory cost of that oil. The net margin that flows
14 to ES customers is the eight and a half million.

15 Q. Mr. Baumann, you referred to the Company's proposal to
16 address the recovery over 18 months. I'd just like to
17 show you a document that we propose to mark for
18 identification as Exhibit 11. Do you have that before
19 you?

20 A. (Baumann) Yes.

21 (Atty. Knowlton distributing documents.)

22 CHAIRMAN IGNATIUS: Before we mark this,
23 has this been previously circulated to the parties?

24 MS. KNOWLTON: This was filed in DE

[WITNESS PANEL: Baumann~White~Hall]

1 11-250. I haven't circulated it this morning among the
2 parties.

3 CHAIRMAN IGNATIUS: That's all right.
4 So, this is something that has already been submitted in
5 the Scrubber docket?

6 MS. KNOWLTON: Right. This was attached
7 to Mr. Baumann's testimony that was filed last Friday in
8 the Scrubber docket.

9 CHAIRMAN IGNATIUS: All right. We'll
10 mark this for identification as "Exhibit 11".

11 (The document, as described, was
12 herewith marked as **Exhibit 11** for
13 identification.)

14 BY MS. KNOWLTON:

15 Q. Mr. Baumann, does this document -- well, first of all,
16 was this prepared by you or under your direction?

17 A. (Baumann) Yes.

18 Q. And, does this graphically depict the Company's
19 proposal with regard to the recovery --

20 A. (Baumann) Yes, it does.

21 Q. -- for the Energy Service rate? Will you walk us
22 through how that proposal is set forth?

23 A. (Baumann) Sure. Yes, last night, we were going over
24 our notes, and we just felt this would be a real

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[WITNESS PANEL: Baumann~White~Hall]

1 "picture tells a thousand words", so we pulled it out
2 of the other docket that we filed, which will be
3 adjudicated in the future, not on Thursday.

4 And, if you look at the chart, we are
5 looking at a current ES rate, with no Scrubber costs,
6 of 7.77 cents. And, we have proposed -- well, let me
7 back up. We have a \$40 million projected over recovery
8 by the end of the year, the end of 2012. If we roll
9 that all into rates, the current ES rate of 7.77 would
10 drop, on July 1, to 6.13 cents. And, it would remain
11 that way through the end of 2012, and then jump up,
12 using current estimates, current market prices, to
13 about 7.5 cents on January 1st, 2013, for the year.

14 What we have proposed is to take that
15 that 20 million, and split it, in effect, and only
16 refund half of it over the next six months. So, our
17 proposed rate is 6.95 cents. And, then, apply it
18 against the 2013 costs, which would yield a rate of
19 about 7.1 cents per kilowatt-hour. So, the solid black
20 line would be our proposed rate path and
21 proposed/projected rate path for 2013, thus mitigating
22 what we see as a very large decrease, and then a very
23 large increase. Which we have always attempted in the
24 past to avoid when we design our rates.

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[WITNESS PANEL: Baumann~White~Hall]

1 Q. What is the cause of the projected over recovery?

2 A. (Baumann) Well, the primary piece of that 40 million is
3 market price decreases, that Mr. White certainly can
4 talk to in detail. But within that 40 million is also
5 the \$8.5 million of net proceeds from the sale of oil.
6 Those are the two drivers of that entire 40 million.

7 Q. And, the "7.5 cent estimate" that you show on this, on
8 this chart as of December 31st, am I correct that that
9 does not include any future increase in the Energy
10 Service rate associated with the Scrubber, if the
11 Commission were to approve such an increase?

12 A. (Baumann) Correct.

13 Q. Would you identify what you view as the benefits of
14 pursuing this rate path?

15 A. (Baumann) The real reason, the only reason, really, why
16 we propose this was to try to provide some type of
17 levelizing of the Energy Service rate for Energy
18 Service customers. The \$40 million number, because of
19 the coal -- or, the oil sale, and because of the market
20 price decreases that have been historically
21 significant, the \$40 million number was just a very,
22 very large number. We have found in the past that
23 customers, while they certainly all like, including
24 myself, rate decreases, they really don't respond well

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[WITNESS PANEL: Baumann~White~Hall]

1 to significant rate fluctuations, roller coaster type
2 of fluctuations, which the \$40 million would have
3 produced if applied over the next six months.

4 Secondly, the \$40 million is a number
5 that we're really looking at only two-thirds of the
6 customers, about 65 percent of the customers on ES
7 rates. To put it in perspective, we were talking this
8 morning about an 11 million SCRC under recovery value.
9 That's over all customers.

10 So, if you look at a \$40 million over
11 recovery, and kind of annualize it to all customers, it
12 really is almost looking like a \$60 million comparative
13 rate change, versus the 11 million in the SCRC docket
14 we talked about this morning.

15 And, that's why we really -- we did not
16 propose anything in the SCRC docket in terms of delay
17 of recovery of the under recovery, but, because the
18 Energy Service rate, in dollars, were so significant,
19 compounded over the fact that they were only over
20 two-thirds of the customers, which makes it even more
21 significant from a rate impact, we felt that it was
22 really the appropriate thing to do.

23 Now, we also are not in a vacuum. And,
24 so, I mean, I'd be lying to say "we didn't" -- "we

[WITNESS PANEL: Baumann~White~Hall]

1 didn't know that the Scrubber costs may increase in the
2 future." I mean, we certainly -- we, certainly, our
3 proposal is to get to permanent rates as soon as we can
4 in 2013 for the Scrubber. And, that's certainly going
5 to depend on the Scrubber docket in 11-250 and the
6 adjudication of that docket.

7 But, that being said, we did feel that
8 there would potentially be cost pressures in the
9 future, in 2013, associated with that docket. So, that
10 was a realization and an understanding when we filed
11 this. But, even absent that possibility in the future,
12 we would have still tried to levelize and smooth the ES
13 rate, consistent with some of our proposals that we
14 have presented in the past as well.

15 Q. Mr. Hall, if I could turn to you. I would like to ask
16 you some questions about the rate impact of what's been
17 proposed in this docket, and how that plays out among
18 the various customer classes.

19 MS. KNOWLTON: And, to do that, I would
20 like to mark for identification two different exhibits.
21 The first is a document called "Retail Revenue by Rate
22 Class and Unbundled Component". We marked this earlier
23 today in the Stranded Cost Recovery Charge docket as
24 "Exhibit 5". Here I would propose that we mark this, I

{DE 11-215} [REDACTED - For Public Use] {06-19-12}

1 believe, as "Exhibit 12".

2 CHAIRMAN IGNATIUS: So marked.

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

6 (Atty. Knowlton distributing documents.)

7 MS. KNOWLTON: And, the next document
8 would be "13", which is "Rate Changes Proposed for Effect
9 on July 1st, 2012." That's a double-sided document that
10 shows the percentage change in the rate component. And,
11 those changes expressed as a percentage of total revenue
12 for each class.

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

16 (Atty. Knowlton distributing documents.)

17 BY MS. KNOWLTON:

18 Q. Do you have those before you?

19 A. (Hall) Yes, I do.

20 Q. If you would start with Exhibit 12, and just walk us
21 through --

22 A. (Hall) Sure.

23 Q. -- how this proposed rate plays out the change that's
24 proposed. And, if you would use the residential rate

1 as an example please.

2 A. (Hall) Page 1 of Exhibit 12 shows average cents per
3 kilowatt-hour rate level, at today's rate level, by
4 class and by rate component. And, if you look in the
5 second-to-last column, you'll see the "Energy Service"
6 rate column, shows a rate of "8.75 cents" per
7 kilowatt-hour. Page 2 of Exhibit 12, similarly shows
8 average cents per kilowatt-hour by rate class and rate
9 component, for the rates that PSNH is proposing to take
10 effect on July 1st in the four dockets that are being
11 considered by the Commission this week. Again, if you
12 look at the "Energy Service" column, you see a rate
13 level of "7.93 cents" per kilowatt-hour. The third
14 page shows the difference between the rate level in
15 effect today and the rate level we're proposing for
16 effect on July 1st. In the "Energy Service" column on
17 Page 3, you see a difference of "0.82 cents" per
18 kilowatt-hour.

19 Q. How does that play out, that rate increase play out, in
20 terms of the percentage change in the rate component,
21 again, using the residential rate as an example?

22 A. (Hall) For that, we need to turn to Exhibit 13. The
23 first page, the front page of Exhibit 13 shows the
24 percent change by rate class, in individual rate

1 components. Looking in the "Energy Service" column,
2 you can see that it's a decrease of "9.37 percent".
3 What that means is, the Energy Service rate component,
4 we are proposing a decrease of 9.37 percent, for effect
5 on July 1st.

6 If you look on the back page, what these
7 percentage changes show is the percentage change in
8 total revenue level, or, another way of looking at it,
9 total average bill amount. And, if you look at the
10 "Residential" line on that page, you can see a decrease
11 in the "Energy Service" column of "4.72 percent". What
12 that means is, for customers taking Energy Service from
13 PSNH, this Energy Service rate change would reduce
14 their total bill amount, on average, by 4.72 percent.

15 Q. You referred to four proposed rate changes that the
16 Commission is hearing this week. We had the Stranded
17 Cost Recovery Charge this morning, and we're here now
18 on the Energy Service rate. What are the other two
19 that are before the Commission later this week?

20 A. (Hall) On Thursday morning, we will have the
21 Transmission Cost Adjustment Mechanism proposed rate
22 change. And, on Thursday afternoon, we will have a
23 hearing on PSNH's proposed Step Increase. The step
24 increase is covered in the column labeled

[WITNESS PANEL: Baumann~White~Hall]

1 "Distribution" on these two exhibits, and TCAM,
2 obviously, is covered under the column labeled
3 "Transmission".

4 MS. KNOWLTON: Thank you. The Company
5 will make the witnesses available for cross-examination
6 now.

7 CHAIRMAN IGNATIUS: Thank you. Ms.
8 Hollenberg, questions?

9 **CROSS-EXAMINATION**

10 BY MS. HOLLENBERG:

11 Q. Mr. Baumann, do you recall that a subject of the
12 December 19, 2011 hearing, one of the subjects related
13 to a update by the Company of its depreciation rates
14 for the PSNH generation assets?

15 A. (Baumann) I generally remember that discussion, yes.

16 Q. Okay. And, there was actually a data request in this
17 phase of the proceeding referencing an "Exhibit 7" from
18 that hearing, which, as I understand it -- okay. It
19 referenced "Exhibit 7" from the hearing, and it asked
20 about -- it asked some questions about the depreciation
21 rate updates and the basis for those updates, including
22 a technical update performed by the Technical
23 Accounting Group. Does that sound familiar to you?

24 A. (Baumann) Yes. And, do you have a specific data

[WITNESS PANEL: Baumann~White~Hall]

1 request number?

2 Q. It's Staff 2-1.

3 A. (Baumann) Yes. I see it. Thank you.

4 Q. Okay. And, I just want to ask some general questions
5 about the update to the depreciation rates. Would you
6 agree that this hearing -- we'll do a reconciliation of
7 the Energy Service rates for 2012, as well as the other
8 rates, next year, is that correct?

9 A. (Baumann) Yes, we will.

10 Q. Okay. And, it is at that time, during the
11 reconciliation proceedings, would you agree, that the
12 Commission makes a determination about what the actual
13 rate is for PSNH, is that correct?

14 A. (Baumann) What the actual allowed costs should be
15 through -- recovered through rates.

16 Q. Okay.

17 A. (Baumann) Yes.

18 Q. At that time, would you agree that the Commission could
19 review PSNH's update to depreciation rates as it
20 impacted the 2012 rate?

21 A. (Baumann) Yes. To the extent it was in the actual
22 costs, the Commission has full purview of those costs.

23 Q. And, then, referring to that response to Staff 2-1, you
24 refer to, in Section 8 -- (a), excuse me, an "Average

[WITNESS PANEL: Baumann~White~Hall]

1 Year of Final Retirement assets". Is that a particular
2 group of assets or is that a particular type of assets?

3 A. (Baumann) Well, the depreciation, it can be both. It
4 can be a unit asset. It can be like components. It
5 just varies, depending on what it is. So, it can
6 really be -- it can really be either, depending on, you
7 know, how the Depreciation Department decides to
8 depreciate it. We do have groups of like components,
9 so that you don't have to assign a particular rate to
10 every single component. And, they depreciate that,
11 those groups, over periods of time.

12 Q. And, so, is there -- do you have a definition for what
13 constitutes an "Average Year of Final Retirement
14 asset"? Or, a sense of what that means?

15 A. (Baumann) I'm tempted -- I'm really tempted to say that
16 "Bill Smagula" is my definition. But it really is a --
17 it's an engineering determination. It's a
18 determination driven by engineering, and certainly
19 reviewed by the accountants of the world for
20 reasonableness.

21 Q. And, would you agree with the statement that "for
22 purposes of the 2012 Energy Service rate, the Company
23 used different depreciation rates for the generation
24 assets that it used for 2011"?

{DE 11-215} [REDACTED - For Public Use] {06-19-12}

[WITNESS PANEL: Baumann~White~Hall]

1 A. (Baumann) Generally, yes. We changed most of the rates
2 beginning in 2012. We did change, just to be exact, we
3 did change the rates associated with Merrimack and the
4 Merrimack Scrubber in -- the three days in September,
5 but primarily October 2011. So, that rate was the
6 same, and because of the significance of that rate, the
7 proper accounting really is to be specific to that unit
8 of property. So, that accounting was changed pretty
9 much in the fourth quarter of 2011. But, other than
10 that, that major exception, everything was changed in
11 the beginning of January 2012.

12 Q. Thank you. And, those changes were based upon, as I
13 referred to earlier, a technical update performed by
14 the Company's Technical Accounting Group, is that
15 correct?

16 A. (Baumann) In conjunction with Generation Engineering,
17 yes. That's correct.

18 Q. Thank you. Could you please turn to your Attachment
19 RAB-2, Page 6.

20 CMSR. HARRINGTON: Attachment to which
21 exhibit?

22 MS. HOLLENBERG: I believe it would be
23 -- so, it's Exhibit 10, Attachment RAB-2, Page 6.

24 BY MS. HOLLENBERG:

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[WITNESS PANEL: Baumann~White~Hall]

1 Q. And, you would agree that this is a calculation of the
2 return on rate base for your generation assets, PSNH's
3 generating assets?

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

5 Q. And, Line 17 relates to the calculation of working
6 capital.

7 A. (Baumann) If you could just give me one minute. I want
8 to make sure I'm on the right exhibit.

9 Q. Exhibit 10, the June update please.

10 A. (Baumann) I'm now on the right page. Sorry.

11 Q. That's okay. So, you've got the "Working Capital
12 Allowance", Line 17?

13 A. (Baumann) Correct.

14 Q. And, that includes recovery of costs associated with
15 the generation segment of the Company's business, as
16 well as the energy purchases, is that correct?

17 A. (Baumann) Well, it covers all of the O&M that's
18 applicable to the Energy Service rate.

19 Q. Okay. And, how does the Company calculate the working
20 capital allowance?

21 A. (Baumann) Well, the working capital allowance, as noted
22 on that schedule, on Line 17, uses the 45/365ths
23 scenario, if you will, for calculation of working
24 capital, that's then included in rate base. So mit's

[WITNESS PANEL: Baumann~White~Hall]

1 45/365ths of the O&M values.

2 Q. Is this the same calculation that the Company uses for
3 its distribution rates?

4 A. (Baumann) Yes, it is.

5 Q. And, could you -- could you explain why there's the
6 same calculation as used for retail sales, and also for
7 the generation working capital? Are they similar
8 enough that you would, in terms of the lead and lag for
9 revenues and expenses, that it's that -- is that the
10 reason or is it -- is there another reason why you
11 would use it for generation, for the generation sector?

12 A. (Baumann) Well, they're certainly not identical,
13 because generation costs are different than
14 distribution costs. But you have to look at both sides
15 of the equation. Let's start with the revenues. The
16 billing of rates and the recovery from customers, both
17 the generation and the distribution rates are in the
18 same bill. So, the revenue lag is the same for both
19 sides.

20 With respect to the -- what I'll call
21 the "expense", the lead time on the expense, and when
22 you incur the expense and when you pay it, I would say
23 that they are very similar, in that, certainly, when
24 you purchase, say, oil for generation, as opposed to --

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[WITNESS PANEL: Baumann~White~Hall]

1 well, let me back that up, because we have a different
2 return on oil. The oil is not in these numbers. It's
3 the non-fuel O&M. So, you would -- you would pay a
4 salary, let's say, to a worker. And, then, again,
5 that, when the work is incurred and when you say pay
6 it, or an invoice, when the work is incurred, you pay
7 it, there is a lag in paying an invoice to a vendor,
8 say, in the O&M for generation. As well as the same
9 similar type of lag when you might pay a vendor in the
10 distribution company. So, absent -- absent very
11 intricate and timely studies that can be done,
12 lead/lag studies, of the 45/365th convention is used
13 widely in the industry. And, it's similar to PSNH, and
14 we use it in other jurisdictions as well.

15 Q. Has the Company ever conducted a lead/lag study of its
16 generation or Energy Service segment?

17 A. (Baumann) Not to my knowledge, no.

18 Q. Okay. Thank you. I guess I just had one other
19 question. Has the Company, you know, we've talked
20 about today, and it's in the testimony, the proposal to
21 spread the overcollection over a period of 18 months,
22 rather than recover it over the next six months. Has
23 the Company ever done anything like that regarding an
24 undercollection?

[WITNESS PANEL: Baumann~White~Hall]

1 A. (Baumann) Well, using recent -- recent filings, I mean,
2 we actually have a proposal on the table associated
3 with eventual Scrubber cost recoveries through the
4 Energy Service rate, which is in a large under recovery
5 position. We proposed, even for temporary rates, we
6 proposed to spread an under recovery for 2011 in the
7 temporary rate docket. I think we proposed to spread
8 that over at least two years.

9 You know, we always look at the overs
10 and unders, and look at rate continuity. And, yes, we
11 are affected by other rates that may be changing at the
12 same time. So, we, you know, we've always taken that
13 into consideration. We don't have two sets of rules
14 for an under recovery and an over recovery, to put it
15 simply.

16 Q. Uh-huh. Okay. Thank you. You would agree that there
17 is a significant difference in terms of the potential
18 undercollection in the Scrubber case, versus the
19 overcollection in this case, though? The magnitude of
20 the amounts are significantly different?

21 A. (Baumann) Well, we're talking about a \$40 million over
22 recovery here.

23 Q. Uh-huh.

24 A. I think, in the Scrubber case, I think the testimony we

[WITNESS PANEL: Baumann~White~Hall]

1 filed on last Friday, I think it was about a
2 \$33 million under recovery.

3 Q. Okay.

4 A. (Baumann) So, they're both pretty darn significant.

5 Q. Yes. Okay. Thank you. Could you provide some
6 clarification, when you originally, in Exhibit 9,
7 Attachment RAB-1, Page 1, --

8 A. (Baumann) That was RAB --

9 Q. One.

10 A. (Baumann) -- 1, Page 1?

11 Q. Page 1. Line 29, which is the "2012 ES (over)/under
12 recovery". And, it's "\$46,261,000"?

13 A. (Baumann) That's correct. At the time of that filing,
14 --

15 Q. Okay.

16 A. (Baumann) -- that was the projected over recovery.

17 Q. And, you would agree that it's been updated since then,
18 to about \$40 million, is that correct?

19 A. (Baumann) Yes. If you look at the similar schedule,
20 RAB-1 --

21 Q. Uh-huh.

22 A. (Baumann) -- that was filed on June 12th, it's
23 "40,301,000".

24 Q. And, could you tell me what the difference, and

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[WITNESS PANEL: Baumann~White~Hall]

1 apologize if this was already answered in your direct,
2 but the difference in those two amounts, what caused
3 that?

4 A. (Baumann) Yes. It's driven almost solely by market
5 price changes.

6 Q. Okay.

7 A. (Baumann) You bring up an interesting point. That,
8 just from a month, we saw a \$6 million decrease in that
9 40 million. If you had to add another reason why you
10 should maybe take it easy on it, or only roll back a
11 portion of that 40 million, and that is, again, it's a
12 projection through year-end. If market prices stiffen
13 moderately, that 40 million could decrease
14 significantly.

15 Granted, too, if market prices dropped
16 further, it could increase. But we're kind of at the
17 low end of the market price chain here, from an
18 historic perspective. So, we are always more concerned
19 with market price fluctuations on the high side, which,
20 in this situation would be increases. So, the
21 \$40 million is, again, just an estimate based on
22 today's prices, through the end of the year. And,
23 we've still got over half of the year to go. So,
24 that's a real good illustration of how slight market

[WITNESS PANEL: Baumann~White~Hall]

1 price changes can materially impact your over
2 recoveries, or your under recoveries.

3 Q. Is there a downside for customers in extending the
4 period of returning the overcollection, because of
5 that, what you're just talking about, about the impact
6 of market prices? Could that end up, if your
7 overcollection return period is extended, could the
8 fluctuation of market prices, over a longer period of
9 time, cause a harm to customers?

10 A. (Baumann) Well, I think extending it today as we're
11 proposing it, is, again, more of a levelized impact to
12 customers, which I think, generally speaking, there are
13 less complaints with levelized rates than roller
14 coaster rates. But, certainly, if market prices were
15 to change in the future and go up significantly, it
16 would have a dramatic effect on the overall Energy
17 Service rate that would have to be billed.

18 MS. HOLLENBERG: Okay. No other
19 questions. Thank you.

20 CHAIRMAN IGNATIUS: Ms. Amidon.

21 MS. AMIDON: Thank you. With your
22 permission, I'd like to ask Mr. Mullen to conduct the
23 cross. And, we do have two sets of exhibits, which I
24 guess I will go ahead and ask to be marked at this point

[WITNESS PANEL: Baumann~White~Hall]

1 to facilitate his cross-examination.

2 The first set, which I request be marked
3 for identification as "Exhibit 14" is a set of data
4 requests. And, I don't have a specific page number here.
5 But the first data request is "Staff 2, Question 1". And,
6 the second set, which I would ask be marked for
7 identification as "Exhibit 15" is confidential responses,
8 and it's marked "confidential" at the top, so that you can
9 identify that.

10 (Atty. Amidon distributing documents.)

11 CMSR. HARRINGTON: This is which number?

12 MS. AMIDON: That would be "14". And,
13 the confidential, that would be 15.

14 CHAIRMAN IGNATIUS: And, these are
15 confidential responses to Staff Set 2 --

16 MS. AMIDON: It's the Staff Set 2.
17 There are certain Set 2 data requests in this docket.
18 And, these certain ones we are offering are marked as
19 "confidential". There may be some other, but we've
20 selected these.

21 CHAIRMAN IGNATIUS: Do we have a motion
22 for confidentiality for these or is it just the
23 identification on the document itself?

24 MS. AMIDON: I expect that these would

[WITNESS PANEL: Baumann~White~Hall]

1 -- well, I'm sorry. Go ahead. I was going to say, I
2 expect that these are subject to the new rule, I think
3 it's 201.06.

4 MS. KNOWLTON: Right. We asserted, at
5 the time that we responded to the request, that the --
6 because the requests relate to the Company's Default
7 Service filing and aspects of that, that, under the new
8 rule, we asserted confidentiality under that grounds.
9 And, my understanding is that a motion is not required as
10 a means of expediting the process. We're finding that our
11 new rules are actually a good thing.

12 CHAIRMAN IGNATIUS: All right. That's
13 fine. Thank you.

14 MS. KNOWLTON: That's how we --

15 CHAIRMAN IGNATIUS: We'll mark those
16 then. The response to Staff 2-1, as "Exhibit 14", and the
17 response -- confidential response to Exhibit 2 -- excuse
18 me, Data Request 2-4 as "Exhibit 15" for identification.

19 (The documents, as described, were
20 herewith marked as **Exhibit 14** and
21 **Exhibit 15**, respectively, for
22 identification.)

23 MS. AMIDON: And, I know, madam Chair,
24 that everyone here -- there's no member of the public

[WITNESS PANEL: Baumann~White~Hall]

1 here. The one intervenor, where there may have been an
2 issue with respect to confidential information is not
3 here. So, perhaps we could work with the stenographer to
4 address the confidential portions of the transcript at the
5 appropriate time.

6 CHAIRMAN IGNATIUS: That's fine.

7 MS. AMIDON: Thank you.

8 CHAIRMAN IGNATIUS: And, Mr. Mullen, if
9 you want to conduct the cross-examination, that's fine.

10 MR. MULLEN: Thank you. And, some of
11 the responses that are in Exhibit Number 14 were answered
12 by Mr. Smagula. I know Mr. Smagula is here today, and it
13 might be helpful, if we get into those, that he be sworn.

14 CHAIRMAN IGNATIUS: All right. Well,
15 why don't we see where we go. And, if need be, we
16 appreciate the opportunity, Mr. Smagula, having you here.
17 So, let's see if it's necessary.

18 MR. MULLEN: Good afternoon.

19 WITNESS BAUMANN: Good afternoon.

20 WITNESS WHITE: Good afternoon.

21 BY MR. MULLEN:

22 Q. Just to lay some groundwork here for Exhibits 14 and
23 15. If you look at Exhibit 15, the first two responses
24 in that packet, Set 2, Number 4, and Set 2, Number 5,

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[WITNESS PANEL: Baumann~White~Hall]

1 would you agree that, if you go to Exhibit 14, the
2 third and fourth pages in that exhibit are the redacted
3 versions of the same responses that are those same
4 numbers in Exhibit 15?

5 A. (White) Except for TS-03?

6 Q. Correct. What you're referring to is the last page of
7 Exhibit 15. Correct. That is only the confidential
8 version of that. That there is no similar redacted
9 version in Exhibit 14.

10 A. (White) Okay.

11 Q. Mr. Hall, if you could turn to Exhibit 12.

12 A. (Hall) I have it.

13 Q. Earlier, when you were running through this exhibit,
14 with relation to the "Energy Service" rate column, and
15 the first page has a rate of "8.75 cents", the second
16 page has a rate of "7.93 cents", and the third page has
17 a rate of "0.82 cents" per kilowatt-hour?

18 A. (Hall) Yes.

19 Q. Though, to be clear, those all include the adder for
20 the Scrubber that is currently in rates, but is not the
21 subject of the hearing today?

22 A. (Hall) Yes. Pages 1 and 2 include the 0.98 cents per
23 kilowatt-hour amount for the Scrubber. Page 3 is
24 simply the difference between Pages 1 and 2. So,

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1 depending on you look at --

2 (Court reporter interruption.)

3 **BY THE WITNESS:**

4 A. (Hall) Sorry. Page three is the difference between
5 Pages 1 and 2. So, determining whether or not that
6 includes the Scrubber is moot. The Scrubber is
7 included in both amounts on Pages 1 and 2.

8 Q. The amounts on Pages 1 and 2 are what customers will
9 actually -- Energy Service customers will actually see
10 on their bill?

11 A. (Hall) Yes.

12 Q. Okay.

13 A. (Baumann) That's the 0.98 cents.

14 Q. Yes.

15 A. (Baumann) For the Scrubber.

16 Q. Mr. Baumann, if you turn to Exhibit 9, the last page of
17 Exhibit 9, which is "Attachment RAB-2 Page 7", and at
18 the same time turn to the last page of Exhibit 10,
19 which is also "Attachment RAB-2 Page 7". What I'd like
20 to do is just clarify the difference between these two
21 pages, in case anyone is comparing the earlier filing
22 to the updated filing. If you look at Exhibit 9, there
23 are two sets of lines from 23 to 29?

24 A. (Baumann) That's correct.

[WITNESS PANEL: Baumann~White~Hall]

1 Q. And, on Exhibit 10, there's only one set of lines with
2 those numbers, correct?

3 A. (Baumann) Yes.

4 Q. Okay. So, what appears as though, on Exhibit 9,
5 showing additional costs of "\$413,000" in the first set
6 of those lines, those costs don't really exist,
7 correct?

8 A. (Baumann) That's correct.

9 Q. Okay. So, anybody comparing, if they were to look at
10 Exhibit 9, they could really cross those first set of
11 lines 23 to 29 out?

12 A. (Baumann) That's correct.

13 Q. Okay.

14 A. (Baumann) I think that was also part of a data
15 response?

16 Q. It was. But it's not included in the packet.

17 A. (Baumann) Okay. I agree.

18 Q. Looking at Exhibit 14, the first page, which is labeled
19 "Data Request STAFF-02", Question "Q-STAFF-001".

20 A. (Baumann) I have it.

21 Q. Am I correct that this is the response that Attorney
22 Hollenberg was asking you about previously?

23 A. (Baumann) Yes.

24 Q. Or, should I say, this is part of the response. It

[WITNESS PANEL: Baumann~White~Hall]

1 indicates that it's "Page 1 of 45". I have not
2 included the other 44 pages of that response, which are
3 technical calculations supporting the response to Part
4 (d) of this response?

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

6 Q. But, in terms of the words that Attorney Hollenberg was
7 asking you about, those are represented on this first
8 page?

9 A. (Baumann) Yes.

10 Q. Okay. If you turn to Exhibit 15, the first response,
11 which is labeled "STAFF-02", Question "Q-STAFF-004",
12 could one of you summarize what's on this response?

13 A. (White) The request was for "an explanation of 1.8
14 million in expense relating to coal deliveries", and
15 also the "removal of an assumed sell-back [of coal] of
16 5 million." So, the explanation details the parameters
17 associated with those two transactions. And,
18 essentially, the first involving the expense relating
19 to not taking delivery of coal has to do with putting
20 coal generation resources into reserve shutdown and
21 making alternative market purchases for the benefit of
22 ES customers. We save money by doing so, that more
23 than offset the cost of adjusting coal deliveries with
24 our supplier.

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[WITNESS PANEL: Baumann~White~Hall]

1 With regard to the sell-back of coal,
2 that involves a type of coal that has applications in
3 industries other than just utility boiler operations,
4 that being what's referred to as "metallurgical coal"
5 that's utilized in steel-making, steel foundry and
6 fabrication applications. It was anticipated that we'd
7 be able to not take delivery of that coal, sell it for
8 a profit into these other markets. But, given the way
9 those markets across the world have changed, the demand
10 has dropped, the price has dropped, making that
11 transaction no longer feasible.

12 Q. So, with respect to that transaction, the Company had
13 originally thought there was an opportunity to sell
14 back some coal and make some profit on that. However,
15 that opportunity has now disappeared?

16 A. (White) That's correct.

17 Q. With respect to Part (a), looking at the first line of
18 the response, am I correct that the costs of the --
19 related to the coal deliveries that will not be taken
20 is approximately \$2.3 million?

21 A. (White) Yes.

22 Q. And, looking down to the fourth line, you identify
23 there was approximately -- I got to remember in terms
24 of what's confidential and that sort of thing, for

[WITNESS PANEL: Baumann~White~Hall]

1 this, in terms of the record, but there was a certain
2 amount of money that was offset in expenses. And, if I
3 were to take the net of the two, that would be the net
4 benefit to customers?

5 A. (White) Correct. Keeping in mind that the offset
6 expense is a fairly rough approximation. But it was of
7 a magnitude that had -- it seemed very clear that this
8 was a good transaction to implement.

9 Q. Turning to the second response in Exhibit 15. Earlier,
10 there was a discussion about the sale of oil. Could
11 one of you provide some background as to (a) where the
12 oil came from, and why you sold it?

13 A. (White) Sure. First of all, I guess I should note that
14 I think I inadvertently mentioned the quantity of oil
15 on the record earlier today. So, I don't know if we
16 need to go back and grab that. But what's involved
17 here is that we maintain an inventory of oil at
18 Newington Station for the possibility of using that oil
19 at the Station to generate megawatt-hours to serve ES
20 load. And, as markets have evolved, Newington Station
21 can also burn gas. And, gas has become less expensive
22 than oil. So, oil has become a less desirable fuel to
23 utilize at Newington Station. So, the likelihood of
24 burning it has decreased over time. So, the idea came

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[WITNESS PANEL: Baumann~White~Hall]

1 up that perhaps we could liquidate that oil to the
2 benefit of customers and make a sale of that oil.

3 What we had to do is the Station wasn't
4 physically configured to allow that. We were set up to
5 take oil off barges, but not load it back on. So, we
6 had to go through a number of steps to make it feasible
7 to do that. We had to go through procedure revisions,
8 get approval from interested agencies, such as the
9 Coast Guard, to be allowed to do that. And, given that
10 -- and, so, that was accomplished. Given that, in
11 recent times, the availability of gas has increased,
12 the availability of oil has increased, because, when we
13 decrease our oil inventory, we want to be able to have
14 a certain amount on hand. And, we recognize that we
15 may have to replace it, should we have to burn it. The
16 availability to replace it on short notice is better
17 than it was, so we moved forward with this transaction
18 to make sales of the oil.

19 Q. And, I believe there was testimony earlier that the
20 "net benefits from those sales of oil were
21 approximately eight and a half million dollars"?

22 A. (White) Correct.

23 Q. And, would I be correct to say that, in order to
24 calculate those net benefits, you would take the sales

[WITNESS PANEL: Baumann~White~Hall]

1 price, less the inventory costs, less other costs,
2 which are identified in the third page of Exhibit 15,
3 the response to TS-03, Question 2?

4 A. (White) Yes. That's correct. The sales price
5 identified in Q-STAFF-005 is net of a more detailed
6 explanation of the expenses identified in the TS-03
7 response.

8 Q. Once going through those calculations, 100 percent of
9 those net benefits went back to -- as a credit to the
10 Energy Service rate calculation?

11 A. (White) That's correct. In the amount of eight and a
12 half million.

13 Q. Going back to Exhibit 14. The fifth page in, is
14 labeled the response to "Staff Set 2 Question 7". And,
15 Mr. White, could you summarize what the response is in
16 this question.

17 A. (White) The question asked for an explanation of the
18 changes related to the use of coal units during 2012,
19 and the context of this was in comparison to our filing
20 in December. And, the forecast of market energy prices
21 in December was much higher than those that were
22 analyzed in May. As a result, the amount of generation
23 from our coal units decreased in the May filing, and
24 continues at about that level in our June filing. It

[WITNESS PANEL: Baumann~White~Hall]

1 asked about factors related to that generation. In all
2 cases, this generation is serving load. And, across
3 different months, it's running on economics, as well as
4 to perform required testing associated with
5 environmental regulations, ISO-New England regulations,
6 and to ensure the proper functioning of the Scrubber
7 equipment that was installed at Merrimack. And, that
8 really relates to the Merrimack Station.

9 At Schiller, they're running for
10 economics. Again, it all goes to serve load. They run
11 on economics. They've also, in recent times, been
12 called by ISO-New England for reliability purposes, for
13 which we receive full compensation.

14 Q. Am I correct that, historically, and when I say
15 "historically", prior to a few years ago the coal units
16 were considered "baseload" units?

17 A. (White) I think that's fair. Yes.

18 Q. Would you say that they are now?

19 A. (White) They are not running over the course of a year
20 as a baseload unit would. When they run, they
21 typically run around the clock as baseload units.

22 Q. Turning to the next response in Exhibit 14. This
23 response gives information regarding assumptions
24 related to the operation and dispatch of Newington

[WITNESS PANEL: Baumann~White~Hall]

1 Station, is that correct?

2 A. (White) Yes.

3 Q. And, could you describe very briefly how Newington has
4 operated and dispatched for purposes of PSNH's overall
5 fleet?

6 A. (White) Well, the most economic fuel for Newington is
7 essentially always gas. So, we look at the economics
8 of running Newington, burning gas, and offer it to the
9 ISO-New England markets at that price level. And, if
10 it's "in rate", as they say, then it's dispatched by
11 ISO-New England. And, we operate the unit. We do --
12 we analyze those same economics on a forecasted basis
13 for purposes of rate-setting.

14 Q. Okay. Now, the last two pages of Exhibit 14, am I
15 correct that these questions ask about "employment
16 levels at the individual plants"?

17 A. (White) Yes. That's what they address.

18 Q. And, I realize that these were responded to by
19 Mr. Smagula. So, I could ask the questions and -- or,
20 you could do what Mr. Baumann did earlier and gave
21 "Mr. Smagula" as a response. So, in general, if I look
22 at the response to STAFF-02, Number 11, is it correct
23 that that's essentially a general description of what
24 reduced generation at PSNH's fossil units has had on

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1 employment levels?

2 A. (White) Yes. I think the first sentence sort of
3 captures the change in the paradigm, with lower natural
4 gas prices and the slowing economy, and the potential
5 for reduced capacity factors at its stations. So,
6 that's the general context of looking at employment
7 levels.

8 Q. Looking at the second half of the response, is it a
9 correct summarization to say that the Company has been
10 reviewing the positions at the plants, and certain
11 plants have -- openings have remained unfilled for some
12 period of time? And, other than that, there's also
13 openings created by attrition have been allowed to
14 remain unfilled?

15 A. (White) Well, that's my reading of -- I'm not involved
16 in this, but that's my reading of the response, yes.

17 Q. The offset to that, in the last sentence, where it
18 discusses "nine new positions...at Merrimack Station as
19 a [result] of the Clean Air Project"?

20 A. (White) Correct.

21 Q. Okay. Now, if we turn to the last page, could you
22 explain what this shows?

23 A. (White) Well, these are FTE staffing levels at
24 Merrimack, Newington, and Schiller Stations, from 2007

[WITNESS PANEL: Baumann~White~Hall]

1 through current levels in 2012. And, they are average
2 values over each year.

3 Q. Noting the two footnotes at the bottom related to
4 "nine" additional employees at Merrimack Station and
5 "seven" additional employees at Schiller Station at
6 certain timeframes, how would you characterize the
7 employment levels at the plants from 2007 to current
8 2012?

9 A. (White) Well, there's an increase of 12 at Merrimack, a
10 decrease of 6 at Newington, and an increase of 4 at
11 Schiller. I think that's an increase of 10 in that.

12 Q. Over that period of time?

13 A. (White) Over that period of time. And, those would
14 include the nine associated with the Clean Air Project,
15 and at least some of the seven with the Northern Wood
16 Project. I guess some of which occurred in '06, which
17 is not shown.

18 CHAIRMAN IGNATIUS: Mr. Mullen, I think,
19 if there's going to be further questioning, and there may
20 be from the Bench as well, it probably make sense to have
21 Mr. Smagula take the stand, to further probe the answers.
22 Is there any objection to having him do so?

23 MS. KNOWLTON: No. Would you like him
24 to take the stand now?

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 CHAIRMAN IGNATIUS: Why don't we do that
2 right now. Why don't we have him join the other three and
3 have him sworn. Four witnesses and three chairs.

4 (Whereupon *William H. Smagula* was duly
5 sworn by the Court Reporter and joined
6 the panel of witnesses.)

7 MS. KNOWLTON: May I qualify Mr. Smagula
8 briefly, --

9 CHAIRMAN IGNATIUS: Please.

10 MS. KNOWLTON: -- before Mr. Mullen and
11 the Bench continue with questions.

12 **WILLIAM H. SMAGULA, SWORN**

13 **DIRECT EXAMINATION**

14 BY MS. KNOWLTON:

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

17 A. (Smagula) Yes. My name is William Smagula.

18 Q. By whom are you employed?

19 A. (Smagula) I'm employed with Public Service Company of
20 New Hampshire.

21 Q. What is your position and your job responsibilities at
22 PSNH?

23 A. (Smagula) My position is Director of PSNH Generation.
24 And, my responsibilities encompass the operations,

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 maintenance, and compliance of our -- the generating
2 assets.

3 Q. And, did you participate in the preparation of
4 responses to data requests that were issued in this
5 docket?

6 A. (Smagula) Yes.

7 MS. KNOWLTON: Okay. I will make
8 Mr. Smagula available now for cross-examination.

9 CHAIRMAN IGNATIUS: Thank you.

10 MR. MULLEN: Good afternoon, Mr.
11 Smagula.

12 WITNESS SMAGULA: Good afternoon.

13 **CROSS-EXAMINATION (resumed)**

14 BY MR. MULLEN:

15 Q. I'm sure you've been following along and have copies of
16 the responses in Exhibit 14 that we've been discussing?

17 A. (Smagula) Yes, I have been.

18 Q. Are you currently looking at the response to Set 2,
19 Question 12?

20 A. (Smagula) Yes.

21 Q. Could you please comment on the year-by-year employment
22 -- changes in employment that are shown on this
23 response, and relate that to the operation of the
24 plants over that time?

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (Smagula) Yes. I think, as had been discussed earlier
2 in questioning, as the generating assets have operated
3 to lower capacity factors, given the price of different
4 fuel commodities and the economy, we've assessed our
5 staffing budget as we have our maintenance budget and
6 our capital budget, in an effort to try to align
7 expenses and costs with capacity factor and the market.
8 And, one facet of that has to do with staffing.
9 Because, as you might expect, the cost of an individual
10 is more than just the individual's salary, but rather
11 benefits and so on. As a result, we challenge
12 ourselves, as the economy has slowed and our costs have
13 become more a focal point on this area, we've looked at
14 openings and tried to determine whether they're
15 essential for operation of the Company assets or
16 whether there's other means, given lower capacity
17 factor, to still accommodate servicing our customers
18 with these plants in the manner that they would expect.
19 And, that's resulted in the fact that, in a few areas,
20 and this focus in this question has to do with our
21 fossil fleet, that we have allowed our -- certain
22 positions to go unfilled if an opening occurred. And,
23 we've tried to generally to do this through attrition,
24 through early -- through someone retiring or someone

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1 transferring or someone leaving the Company.

2 So, as you can see here, at Merrimack
3 Station, the numbers of employees have actually
4 increased. That is due to the fact that it still had a
5 very high capacity factor in the earlier part of this
6 table, which is through the years 2009 and '10, and
7 then we had a large pollution control facility added,
8 the Clean Air Project, which required us to add
9 operators, shift workers, as well as a selected number
10 of maintenance individuals, to support that large
11 additional equipment. So, Merrimack Station has
12 drifted up, which is different than the other
13 facilities. Newington has drifted downward. It has
14 been under a reduced capacity factor for a number of
15 years. And, Schiller Station still has operations,
16 baseload operations at Unit 5 on wood. But, on Units 4
17 and 6, it has, in the most recent year or so, looked to
18 have reduced capacity factors. So that the increase in
19 Schiller in four in 2007, and again in 2008, is the
20 result of a decision made in 2007, where we increased
21 staffing, once the -- the wood project came on line in
22 December, on December 1st, I believe, in 2006. We were
23 using some contractors to manage our wood yard and do
24 other things. And, we determined that it was more

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1 economic for our customers to replace them with
2 employees. So, the uptick in staffing for the Northern
3 Wood Project at Schiller occurred in 2008. And, as a
4 result, we've held the line there, or we've actually
5 dropped off by one. So, this is a reflection of the
6 actual positions we have at our plants over the last
7 five years.

8 Q. Could you describe what measures PSNH has taken at the
9 fossil units, in general, over the last few years to
10 address reduced generation?

11 A. (Smagula) Well, as I generalized a minute ago, I'd be
12 happy to expand on that. Specifically, as we look at
13 the equipment we have, and we look at the condition of
14 the equipment, we look at our projected planned
15 maintenance practices, our -- what we would often refer
16 to as our "annual overhauls". Whether -- and, that's
17 generally based on two criteria, as to our scope of
18 work in a given year, and it has to do with -- and our
19 scope of work generally results in either a maintenance
20 outage of a certain duration and the corresponding
21 costs associated with that scope of work.

22 We look at the necessary work, and it's
23 often driven by the condition of the equipment. And,
24 the condition of the equipment is often driven by the

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1 service hours or how much it's operated, how many
2 starts and stops, and what the capacity factor and what
3 the megawatt-hour of loading has been on these units.
4 So, since that has dropped off, which is, in many
5 cases, a somewhat new phenomenon to us, we've
6 challenged ourselves to minimize those needs, and only
7 do it when we believe that it could impact reliability
8 for customers. And, as a result, we're scaling back
9 our maintenance work, and the duration of the work we
10 provide the units for maintenance projects, and the
11 scope. So, it's -- we're looking at all of our costs,
12 employees, and maintenance practices, as well as
13 capital investments. And, we're trying to challenge
14 ourselves to do only those things that are essential to
15 maintain high reliability and high efficiency, and that
16 are proportional to past capacity factors.

17 So, we're doing everything we can to
18 align our units, not only our current costs with the
19 market, but our, you know, our overall cost for our
20 assets.

21 Q. Thank you. Mr. Baumann, I'd like to come back to you
22 now, and discuss Exhibit 11.

23 A. (Baumann) Would you refresh my mind which --

24 Q. This is the rate path exhibit from --

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (Baumann) Oh.

2 Q. It was originally filed on Friday, last Friday, in the
3 Scrubber docket.

4 A. (Baumann) Thank you.

5 CHAIRMAN IGNATIUS: And, Mr. Mullen, I
6 think this probably is an admonition that isn't really
7 required, but just to be safe. Commissioner Scott is not
8 participating in the Scrubber docket. I assume the
9 questions you have relate to -- specifically to the Energy
10 Service rate. And, reference to the Scrubber numbers are
11 fine, as they relate to Energy Service, but we are not
12 going into actual issues related to the Scrubber itself,
13 correct?

14 MR. MULLEN: That's correct. And, if
15 you -- at the bottom of the heading on this, it does
16 indicate that there's no Scrubber costs. So, the numbers
17 on this all are without the Scrubber involved.

18 CHAIRMAN IGNATIUS: Thank you.

19 BY MR. MULLEN:

20 Q. Looking at the left side of the exhibit, am I correct
21 that "current 7.77" is the current non-Scrubber ES
22 rate?

23 A. (Baumann) Yes.

24 Q. The "proposed" is PSNH's proposal, the "6.95 cents" per

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 kilowatt-hour, and that's using 50 percent of the
2 estimated \$40 million over recovery?

3 A. (Baumann) Correct.

4 Q. If I go further down on the left, could you tell me
5 what the "6.13" represents?

6 A. (Baumann) The "6.13" would be the proposed Energy
7 Service rate if you utilized the entire \$40 million
8 under recovery -- or, over recovery in the rate, if you
9 applied that to the rate.

10 Q. And, would you say that, typically, 100 percent of an
11 over recovery or 100 percent of an under recovery has
12 been included in Energy Service rates for the next
13 period?

14 A. (Baumann) In a typical situation, yes.

15 Q. And, in general, when we're dealing with over and under
16 recoveries, there's always the possibility that not
17 exactly the same customers are either paying the under
18 recovery or receiving the benefit of the over recovery
19 as the ones that originally incurred it. Somebody
20 could move? Somebody could close a business?

21 A. (Baumann) Sure. And, in this situation, because it's
22 Energy Service, someone could migrate to a third party
23 supplier or someone could migrate back from a third
24 party supplier.

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 Q. Now, with migration, does that situation get
2 exacerbated potentially?

3 A. (Baumann) If the migration is going away, in other
4 words, if customers are going to third party supply,
5 then the over recovery that they may have paid into
6 would not be refunded back to them, assuming they've
7 gone to a third party supplier.

8 Q. In this proceeding, we do have an over recovery,
9 correct?

10 A. (Baumann) Yes.

11 Q. Under PSNH's proposal, 50 percent of that over recovery
12 would be flowed back into the rates over the July 1st
13 to December 31st of 2012, and the remainder would flow
14 back over 12 months, beginning January 1st, 2013?

15 A. (Baumann) For the year, yes.

16 Q. So, if a customer was to decide that effective
17 January 1st they would go to a competitive supplier,
18 they would only see 50 percent of the over recovery
19 that they may have contributed to, assuming they were
20 previously an Energy Service customer?

21 A. (Baumann) In that -- using that math, yes. That is
22 correct.

23 Q. So, proposals, such as what PSNH has put forth here, to
24 only include 50 percent of the over recovery in the

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 rate calculation, does that have some implications
2 about people's potential movement to customers --
3 competitive suppliers as well?

4 A. (Baumann) Well, I think it does, potentially. Again, I
5 don't know what the current market price the third
6 party suppliers are offering. But, certainly, if you
7 lower the rate to 6.13 cents, that may have a dampening
8 effect on migration, because it's lower than the 6.95
9 cents. So, in that sense, it could dampen migration.
10 However, if you refund the entire amount back on July
11 -- on January 1st, 2013, you would have a higher rate,
12 which could increase migration. In other words, the
13 7.5 cents versus the 7.1 cent projected estimate. So,
14 it could work -- it could work either way.

15 A. (Hall) May I add something?

16 Q. Sure.

17 A. (Hall) Refunding the entire over recovery in the second
18 half of the year, and therefore lowering the rate to
19 6.13 cents, clearly have an effect of having customers
20 migrate back in the second half of the year, simply
21 because the rate is so much lower as compared to
22 market. Going down the path that you discussed with
23 Mr. Baumann a few minutes ago, that situation could
24 result in customers who had migrated and hadn't

1 contributed to the over recovery, returning to PSNH and
2 getting the over recovery back that they never
3 contributed to. So, there's -- it can go both ways.
4 There's a lot of factors at work.

5 Q. This proposal with relation to the "flowing back
6 50 percent of the over recovery", this is different
7 than what we talked about in the earlier proceeding
8 today, related to an under recovery for stranded costs,
9 where 100 percent of that is proposed to be flowed back
10 into rates over the next six months, is that correct?

11 A. (Baumann) That's correct. And, I think it was pointed
12 out earlier that the reason they're different in our
13 eyes is, and in our decision-making process, is the
14 size of the adjustments, in comparison to the number of
15 customers that they're over -- covered over. So, you
16 have 11 million issue over 100 percent of the customer
17 base, or a \$40 million issue over 65 percent of the
18 customer base, which is, in effect, a \$60 million
19 differential, if you were to annualize that over the
20 customer base.

21 So, we saw them as two distinct issues.
22 The Energy Service over recovery as very, very unique,
23 in terms of size, and whereas the SCRC under recovery,
24 we did not believe was as -- certainly as material as

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 the Energy Service rate. But, as I indicated in that
2 docket, if someone were to propose to spread that \$11
3 million over a longer period of time, we would not have
4 an objection to that.

5 Q. But, to be clear, related to the "65 percent" you just
6 mentioned, the over recovery did not come from
7 100 percent of PSNH customers, correct? It would be
8 much closer to the 65 percent, given slight variations
9 of migration?

10 A. (Baumann) That's correct.

11 MR. MULLEN: Thank you. I have nothing
12 further.

13 (Chairman and Commissioners conferring.)

14 CHAIRMAN IGNATIUS: All right. I think
15 we're going to take a quick break. We'll resume at 1:00.
16 And, I don't think this will be too long. So that, rather
17 than taking a lunch break and moving quite a bit farther
18 out into the afternoon, we'll go ahead and finish up,
19 starting at about 1:00. Thank you.

20 (Recess taken at 12:54 p.m. and the
21 hearing reconvened at 1:06 p.m.)

22 MS. KNOWLTON: Mr. Smagula will return
23 to the stand, if you have more questions for him.

24 CHAIRMAN IGNATIUS: Yes, please. Thank

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1 you. Mr. Mullen, were you finished with your questioning?

2 MR. MULLEN: Yes.

3 CHAIRMAN IGNATIUS: Commissioner
4 Harrington, questions?

5 CMSR. HARRINGTON: Good afternoon. I've
6 got a few different questions here.

7 BY CMSR. HARRINGTON:

8 Q. One of the things I notice is, in a lot of different
9 spots in the exhibits it talks about that the coal
10 plants specifically, and I guess, generally, all fossil
11 plants are running less due to low market prices. And
12 that it's more economical for Public Service not to run
13 the plants, but to go out to the market and buy prices
14 in, I guess, the real time-of-day ahead market. And,
15 even after this, you take into account that there's
16 some cost associated with not getting or making changes
17 to the coal delivery contracts, is that correct?

18 A. (White) Yes. Generally, yes.

19 Q. So, what I'm looking for, and I don't know how specific
20 you can get, where are we talking about in the price?
21 What's the day-ahead real-time clearing price that
22 tells you "we're not going to be running our plants"?
23 I mean, is that \$50 a megawatt-hour or is it \$20 a
24 megawatt-hour?

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1 A. (White) As a rough number, it's probably in the low 40s
2 is a dispatch cost of a coal unit.

3 Q. And, would it be the same for Newington as well or is
4 that -- that would be higher or lower?

5 A. (White) Newington is currently in about the same place.
6 Newington, it varies with the cost of gas.

7 Q. And, that was, you know, some of the -- I'm just trying
8 to get a little more perspective on how this is done.
9 And, just looking at the Merrimack plant for us to
10 start with, where it's the larger coal plant. Now, I
11 understand, it's not planning on running all that much
12 over the next few months, maybe more if the
13 temperatures get hot enough. But, you know, we,
14 obviously, we're looking at -- and I'm trying to get
15 some kind of sense for how the operation there goes.

16 Looking ahead to Wednesday and Thursday
17 this week, we see temperatures being predicted in the
18 mid to upper 90s. Now, we're also dealing with a coal
19 plant that I'm assuming, at least up until very
20 recently, the last few days, was completely shut down,
21 cold shut down?

22 A. (White) Yes.

23 Q. So, how long does it take? I mean, when do you -- you
24 may -- I mean, for example are you starting to heat the

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 plant up now in anticipation of being dispatched, being
2 in economic dispatch by tomorrow?

3 A. (White) We anticipate operating Merrimack 1, Newington
4 Station, and Schiller 6, through the heatwave. That's
5 our expectation.

6 Q. So, you are taking actions now then to do -- to make
7 that occur?

8 A. (White) Right. We're preparing all those facilities in
9 sort of a pre-startup mode. To some extent, it will be
10 dependent -- we're assuming that our offers to the
11 ISO-New England markets, that ISO will tell those units
12 to operate. And, so, we're preparing for that
13 occurrence.

14 Q. So, you expect to be dispatched in the day-ahead?

15 A. (White) Yes.

16 Q. Okay. And, you said it was "Merrimack 1 only" or was
17 it both Merrimack units?

18 A. (White) It's Merrimack 1 only at this time.

19 Q. And, why not both, just --

20 A. (White) With the heatwave expected to be of a short
21 duration, and Unit 2 being a larger unit, running for
22 two or three days is hard on that unit, and harder than
23 the other units. Additionally, we've made some
24 purchases in June, with the recognition that for most

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1 of the month it probably wouldn't be economic. So, the
2 amount of generation we need to meet our load
3 obligation, we can meet with a portion of Newington,
4 Merrimack 1, and Schiller.

5 Q. Okay. And, you know, you mentioned that Merrimack 2,
6 with being the larger plant, it doesn't cycle very
7 well, because there's obviously a lot more thermal mass
8 that you have to deal with and so forth. What do you
9 consider the minimum operation time for a plant of that
10 size? If you're looking at -- do you have to operate
11 for 46, 48 hours? 72 hours? What would you be looking
12 at?

13 A. (White) Generally, we like to look at it as at least a
14 week. I'm not sure of the min. run time.

15 (Court reporter interruption.)

16 **BY THE WITNESS:**

17 A. (White) I'm not sure of the minimum run time for
18 Newington. It's certainly less than that.

19 A. (Smagula) You're talking about Merrimack now.

20 A. (White) Right. Oh, I'm sorry. I meant Merrimack 2.

21 A. (Smagula) I think seven days, if I might interject, is
22 desirable. But, if there was a need to serve our
23 customers' load, we would operate it on a shorter
24 duration. But, in general, for operating for the pool,

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 our obligation is at the second tier, compared to our
2 own load.

3 Q. When you say "needed for your customer load", that
4 would be, for whatever reason, power wasn't available
5 to be purchased through the -- through the day-ahead or
6 real-time markets, that there was no other option,
7 you'd run Merrimack, because people would prefer power
8 at a high price than certainly prefer no power at all
9 during a heatwave. Is that correct?

10 A. (Smagula) Yes.

11 Q. Okay. So, you say that it takes about a week. Now,
12 so, I'm assuming during that time then, you would
13 average enough money to pay for your costs. And, by
14 that, I mean you're going to see much higher prices in
15 the afternoons, whereas, in the middle of the night,
16 you're going to be running anyways, but you probably
17 wouldn't be on economic dispatch then. So, you would
18 just self-schedule?

19 A. (White) Right. We have discussions at least on several
20 times a week when there's heat approaching. And, if
21 there was an extended heatwave coming at us, we would
22 anticipate that prices would be at a level that it
23 would sustain economic operation at Merrimack 2 for a
24 seven-day period, for instance.

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 Q. Okay.

2 A. (White) And, it may be a situation where the high
3 prices during the day, during the heat of the day,
4 cover the operation over the course of the night, when
5 prices may drop.

6 Q. Okay. Well, that makes sense. And, that would be the
7 same you do for the other plants as well then? But
8 they're just, because of the smaller size, they're a
9 little bit more flexible?

10 A. (White) Right. At Newington, Schillers, can cycle on
11 and off, run during the day, shut down at night.
12 Merrimack 1, you might be inclined to hopefully run
13 through the night. So, there's, yes, depending on the
14 flexibility of the different units, we would plan
15 operations accordingly.

16 Q. Okay. And, if Merrimack 2 were needed, what's the
17 minimum amount of time it takes to go from cold
18 shutdown to operation, let's say, EcoMin operation?

19 A. (White) I believe it's 19 hours, subject to check.

20 Q. Okay. Thank you. That was very helpful. I've got a
21 few questions, I wanted to go to Exhibit 10, which is
22 the June 12th document. And, if you go to -- well,
23 mine don't have page numbers on them. The first page
24 of the document, which starts out with a "Purpose of

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 Technical Statement", "A". So, it's like two or three
2 pages in. And, under "B", where it says "Proposed
3 Rate", do you see where I'm referring to?

4 A. (White) Yes.

5 Q. Okay. And, in the second paragraph there, it talks
6 about "The increase in this updated ES rate from the
7 May 2nd filing to the June 12th filing is attributed to
8 a net increase in the actual and forecasted costs and
9 revenues of 6 million (a decrease of two and a half
10 million in expense, a net revenue decrease of eight and
11 a half million)." Can you just put that into English
12 and summarize? What are those -- what were the
13 forecasts? What were the increases and decreases?

14 A. (White) If you refer to the next paragraph --

15 Q. Uh-huh.

16 A. (White) -- in this document, of the 6 million increase
17 in actual and forecasted costs, 4.7 is an increase in
18 costs in the May to December power supply costs.

19 Q. So, that's the cost of buying power in the market or is
20 it the cost of supplying it to you by your own plants,
21 or is it both?

22 A. (White) It's both.

23 Q. Okay.

24 A. (White) So, I believe the remaining portion of that

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 cost increase, of the 6 -- the remaining portion of the
2 6 million I believe is associated with the January to
3 April actual period.

4 Q. January to April actuals, okay.

5 A. (White) The eight and a half million decrease in
6 revenue is primarily due to migration. There's been an
7 increase in migration --

8 Q. Okay.

9 A. (White) -- that led to the revenue decrease.

10 Q. So, this was migration above what was predicted, I
11 assume?

12 A. (White) Above what was predicted previously.

13 Q. Okay.

14 A. (White) So, this is detailing changes since the prior
15 filing.

16 Q. All right. Okay. Moving on to the next page, which is
17 Section C. There's a paragraph that says "Lines 4 and
18 5" - Projected coal generation increased 38 GWh due to
19 higher market energy prices making coal dispatch more
20 economic." Am I correct in reading this, it was making
21 coal dispatch economic at more times or were you just
22 getting closer to being economic, or were you actually
23 economic at more times?

24 A. (White) Economic at more times.

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 Q. Okay. Just wanted to make sure I read that right.

2 Okay. And, maybe this is just, in fact, well, probably
3 not "maybe", probably is just accounting I don't
4 understand. But, in the next section, "Lines" -- where
5 it says "Lines" -- "2. Lines 17 to 19", in the middle
6 of the paragraph, it says "On Line 19, benefits from
7 the sale of oil for May thru December decreased because
8 a sale was realized in April." So, this was oil that
9 you had originally planned to sell after May 1st, you
10 actually sold in April, so how does that affect the
11 going forward cost in July?

12 A. (White) Well, what happens is, in this section, we're
13 describing the costs associated in the forecast period
14 of the filing.

15 Q. Uh-huh.

16 A. (White) Which, in the previous filing, was April
17 through December. And, we had anticipated the oil
18 sales to occur in May and June. One of those sales
19 actually occurred in April. So, in this filing, it's
20 in the actual -- it's moved from a forecast period to
21 an actual period. So, when you isolate the forecast
22 period, that money has been moved into an actual
23 period, so it looks like a decrease in the benefit in
24 the forecast period.

[WITNESS PANEL: Baumann~White~Hall~Smagula]

- 1 Q. Nothing's really changed, it's just how you account --
- 2 A. (White) It's the timing of when it occurred and where
- 3 it's accounted for in the filing.
- 4 Q. And, going, moving down to Line 3 on that same page,
- 5 I'm just trying to get this straight. There's been a
- 6 lot of discussion about "higher electric costs going
- 7 forward" and "lower electric costs", and here you talk
- 8 about the "IPPs and Wood IPPs expenses increased...
- 9 reflecting higher forward electric prices." If market
- 10 -- when you say "forward electric prices", you're
- 11 talking about ISO clearing prices?
- 12 A. (White) Yes.
- 13 Q. Okay.
- 14 A. (White) Forecasted energy market prices.
- 15 Q. And, if those go up, how do the costs from the IPPs and
- 16 the Wood IPPs go up to Public Service?
- 17 A. (White) The costs in ES associated with the IPP and
- 18 wood IPP contracts, the costs that ES customers see is
- 19 our market costs. Whatever energy clears for in the
- 20 market, that's what goes into ES. The difference
- 21 between that and the contract prices, which I think was
- 22 discussed earlier today, goes into the SCRC.
- 23 Q. So, that would be a wash then? If energy prices go up,
- 24 then what goes into the stranded costs goes down, what

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 goes into the Energy Service costs goes up, is that
2 correct?

3 A. (White) Yes.

4 Q. Okay.

5 A. (Baumann) And, the dollars would be a wash.

6 A. (Hall) Right.

7 Q. Yes.

8 A. (Baumann) The rate impacts --

9 Q. -- are different because they're spread out over
10 different types of customers.

11 A. (Baumann) Exactly.

12 Q. And, looking ahead on the next page, and, again, I
13 apologize, there's no page numbers on this. So,
14 Section 5, where it says "Line 42", you talk about
15 "increased migration from 36 to 38 percent." So, this
16 is, in other words, you're, again, trying to get back
17 to what this means, you predicted in the past that the
18 migration would be around the 36 percent level, and it
19 went to the 38 percent level, and that's what accounted
20 for the \$8.5 million decrease that we mentioned before?

21 A. (White) Yes. I believe that's a big contributor to the
22 decrease in revenue.

23 Q. Moving ahead to Attachment RAB-1, Page 1. Just the
24 Line 21 and 22 there, on these IPP costs, this is a --

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 this is what you anticipate spending over the 12-month
2 period for purchase of those, and that's just the
3 market part of it. So, again, some of the -- there
4 could be additional costs that end up in stranded costs
5 as well?

6 A. (White) Yes. Yes. This would represent the -- a
7 portion of this is actual cost and a portion is
8 forecasted.

9 Q. And, this is the part that would drift. In other
10 words, if market prices were to go up substantially,
11 these figures would go up. But, if they were to go
12 down substantially, these figures would go down?

13 A. (White) That's correct.

14 Q. All right. Okay. On Attachment RAB-2, Page 6, I was
15 just interested in -- I'll give you a chance to get
16 there first. Starting on Line 18, it talks about
17 "Fossil Fuel Inventory". Now, does some of this
18 represent, and we start out in January with a figure of
19 "67,674,000", is the 8.3 or \$8.4 million worth of oil
20 sold, does that account for some of the decrease as we
21 move forward into April? There's a pretty good --
22 actually, in March, it goes down by about \$10 million.

23 A. (Baumann) In theory, I'm not exactly sure on the timing
24 of the oil sale, but that would decrease the inventory

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 values, and decrease the carrying costs.

2 Q. Okay. And, even with the oil sales, there's still
3 getting, if you move -- as you move across here,
4 through September and even into December, later on this
5 year, even if you were to take out the 8.3 million for
6 oil, it's still somewhere around 12 percent lower.
7 What accounts for that? Why are we able to have such a
8 lower fossil fuel inventory at the end of year, as
9 compared to the beginning, because they're both
10 basically winter months? Is there something else?

11 A. (White) This would include coal inventories as well.

12 Q. Uh-huh.

13 A. (White) And, so, I think the decrease would be a
14 decrease in coal inventory, due to operations in the
15 winter, in the early part of the year.

16 Q. Would it be safe to say then, you're just sort of
17 burning down your coal inventory and not replacing it
18 as fast as you would in the past, because you don't
19 anticipate it running as often?

20 A. (White) Well, it's a continuous balancing act, --

21 Q. Yes.

22 A. (White) -- with coal shipments and operations, and the
23 amount in inventory. But, yes, that's what's -- it
24 represents management of a large fuel inventory over

1 the 12 months.

2 Q. Well, I guess my point is, you seem to be balancing at
3 a lower net cost, would that be a correct assumption?
4 I know those numbers are hard to read.

5 If you exclude the oil, if my figures
6 are right, if you exclude the oil, the amount of fuel
7 in dollars is down around 12 percent, from January of
8 2012 to December 2012. So, I'm just wondering if this
9 is just something that occurred or is this some type of
10 a strategy, where you feel that you can manage your
11 generation needs with a lower amount of fuel in
12 storage?

13 A. (White) Yes. I think that reflects lower coal
14 inventories.

15 Q. Okay. And, going down to the next line, number "19",
16 "January 2012", we have "53,406,000", and, in December,
17 that's estimated to go up to over 61 million, which is
18 an over 15 percent increase. And, we just heard
19 Mr. Smagula tell us about how much efforts they're
20 doing to cut down costs at the generation stations
21 because they're running less. So, what am I missing
22 here? Why are we seeing this going up, for materials
23 and supplies, by around 15 percent over the course of
24 calendar year 2012?

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (Smagula) This is due to two reasons. One is,
2 materials we have in inventory that we will likely not
3 be installing, due to reductions in maintenance and
4 capital investments. There will be materials that have
5 been ordered or into stock.

6 And, secondly, with the Clean Air
7 Project, materials becoming recognized in our
8 inventory, that is an increase of quite a large amount,
9 in order to provide parts, should there be problems
10 with that large system.

11 Q. So, how much of this would be attributed to the
12 Scrubber Project then?

13 A. (Smagula) I guess I'm not sure exactly what amount, but
14 -- specifically.

15 Q. But I'm just, as far as these figures go here, the
16 amount of inventory associated with the Scrubber, is
17 that able to discriminate or does that simply show up
18 as inventory at Merrimack Station?

19 A. (Smagula) It shows up as inventory at Merrimack
20 Station.

21 Q. Okay. So, there's really no way to distinguish that.
22 Okay. Flipping one more page, to "RAB-2 Page 7", this
23 is the one that Mr. Mullen had spoke about or a little
24 bit about this before. I'm just trying to get a little

[WITNESS PANEL: Baumann~White~Hall~Smagula]

- 1 bit of a better handle on this. The first one is,
2 there's a series of blocks of numbers in the left-hand
3 side. One says "Generation - Megawatts", and it lists
4 the plants. And, then, I'm assuming this is what you
5 anticipate, either have or anticipate paying to each of
6 those generators for megawatt-hours of purchase?
- 7 A. (White) Yes. That's correct.
- 8 Q. And, then, "Contract Price Including Fuel Price
9 Adjustment", what exactly does that mean?
- 10 A. (White) That's either the actual or estimated payments
11 in total to these generators.
- 12 Q. So, if I were to look at, like, let's just take the
13 month of January, and you have generation where it says
14 "17,073,000"?
- 15 A. (White) Yes.
- 16 Q. So, I would add that next column below that to it, with
17 the line which is "1,178", to the "17,073"?
- 18 A. (White) No. The "17,073" are megawatt-hours.
- 19 Q. Okay. That's in megawatt-hours, not dollars, okay.
- 20 A. (White) Right.
- 21 Q. I understand what you're saying.
- 22 A. (White) And, the "1,178", the sum of the next section
23 down?
- 24 Q. Yes.

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (White) Is in thousands of dollars paid under the
2 contracts --

3 Q. Okay.

4 A. (White) -- for those 17,000 megawatt-hours.

5 Q. Okay. And, then, "Contract Nodal Market Value"?

6 A. (White) That's the market value of the energy received.
7 So, the difference between --

8 Q. Oh. Okay.

9 A. (White) -- contract price and contract nodal market
10 value?

11 Q. That's what shows up on the stranded costs.

12 A. (White) That's the over-market portion.

13 Q. Okay. And, the "Fuel Price Adjustment", that seems to
14 be -- there wasn't one for January or February, and
15 then it comes in in March, and goes away --

16 A. (White) These contracts have a fuel price adjustment
17 that is settled quarterly. So, that's why, for the
18 first quarter, there's only figures shown in March.

19 Q. Oh. Okay.

20 A. (White) But, then, on a forecast basis, we really -- we
21 analyze it monthly. But, in settlement, it occurs
22 quarterly.

23 Q. Settled once a quarter. And, the "Over-Market", how is
24 that different than -- or, is that just the difference

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 between contract price, including fuel adjustment and
2 contract nodal market value, or is it something else?

3 A. (White) That's what that is.

4 Q. Okay. Just a couple more questions. In looking at the
5 Exhibit 14, that very last page of that, again, where
6 it shows the staffing levels. It shows, you know, we
7 have some adjustments that were listed there because of
8 changes in the projects at Schiller and Merrimack.
9 But, for the most part, the staffing level has been
10 pretty flat. What's been happening to the capacity
11 levels at those plants over that period of time?

12 A. (Smagula) The capacity factors of the units started
13 dropping off in -- very slightly in 2009, more so in
14 '10, and then, in 2011, we saw a change. As a result
15 of that, as openings have come up, we have left open
16 positions. This is the current level that we have
17 there at the stations.

18 Q. But, so, the capacity factor, let's say, of Newington
19 in 2008 was approximately?

20 A. (Smagula) Pardon me?

21 Q. That's a question.

22 A. (Smagula) Oh, I'm sorry. I apologize.

23 Q. The capacity factor of Schiller -- of Newington Station
24 in 2008 was approximately how much?

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (Smagula) 2008? I think it was still in -- well, I
2 guess, in double digit. I think it was in the double
3 -- in the teens, is my expectation.

4 Q. And, this year you're anticipating?

5 A. (Smagula) Single digits.

6 Q. Single. And, low single digits?

7 A. (Smagula) And, they have been for the last two years.
8 Yes. Yes, low numbers.

9 Q. And, Merrimack, how would you -- the same thing, 2008
10 to present?

11 A. (Smagula) Merrimack in 2008 was pretty much baseload,
12 in 2009, maybe a little less, but then it started
13 dropping in '10 and '11, and, in particular, took a
14 step change. But this year is the biggest step change
15 that we've actually planned for.

16 Q. And, when you say it was "baseload", does that mean the
17 capacity factor is in the 80 plus percent?

18 A. (Smagula) Well, it was full load, almost all the time,
19 when it was available. So, with the high capacity
20 factor and reduced planned maintenance, it would be in
21 the 80s.

22 Q. And, you talk about, you know, "not filling positions"
23 and so forth. Has there been any plans for staff
24 reductions at these generating plants?

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 A. (Smagula) No, we don't have any formal plans for our
2 staff. Actually, we look at every opportunity. I
3 think the previous question outlined to try to
4 challenge ourselves. For example, if we have a station
5 with a full rotating shift work or complement, if a
6 crew drops by one person or a second crew out of five
7 drops by a person, we do an analysis to determine, "if
8 the unit were to operate to cover those positions with
9 overtime, would that overtime cost more than adding
10 more staff?" So, we're trying to challenge ourselves
11 now, to see whether -- what's the best, especially with
12 -- if capacity factors are reduced.

13 Q. And, in a plant like the Newington plant, that's now
14 down in the low single digits, if you compare that to a
15 merchant plant, that has now seen their capacity factor
16 drop substantially, and is in -- comes in the low
17 single digits, and based on gas prices, it's probably
18 going to stay there for a while. Would they be
19 maintaining almost the full crew of people over that
20 period of time?

21 A. (Smagula) Well, the full crew at Newington Station
22 historically had been in the low 70s. So, they have
23 had a steady decline. I think what you're -- we're
24 looking at a window here where Newington has already

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 been running at a reduced capacity factor. But, it's
2 staffing level, 15 years ago, was in the 70s. And,
3 we've started to decrease it with the ability to burn
4 gas, and it's -- and the condition of the unit being
5 pretty good. So, I can't really compare it to a
6 similar fossil plant of that size. I know we do have
7 some information from some over facilities, such as
8 Wyman 4, which we're a part owner in, and I think the
9 staffing is comparable.

10 Q. And, just another question, sort of getting off of the
11 staffing issue for a second. But one of the things
12 that's fairly obvious here is that the plants that were
13 not designed to be run on a more cycling basis are
14 being called on to do that. We're even asking now, I
15 mean, as you just mentioned, Merrimack 1 is a coal
16 plant that would previously run as baseload.

17 So, every time we put this through the
18 thermal cycle like that, we're putting more
19 wear-and-tear on the plant. Do you have or is there
20 some ongoing study or process to try to determine, you
21 know, how long and what the consequences are of running
22 a -- even in a plant potentially like Newington, but,
23 clearly, the Merrimack plants, turning them on and off
24 over maybe 8, 10, 20 times in the course of a year,

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 where, in the past, it might have been three or four?

2 A. (Smagula) Yes. Operating with those type of cycles in
3 the 20s or so is not going to be a problem. We work
4 closely with our turbine and generator suppliers, who
5 probably have some piece of equipment that you would
6 have to monitor cycling more than the rest. And, we
7 understand how many thermal cycles and the impact of
8 wear that that takes on the unit, as compared to normal
9 hours of operation. We monitor that with our equipment
10 supplier, to make sure that we don't approach any type
11 of limit. But we're in no immediate condition to
12 warrant a concern. We're prepared to cycle the unit.
13 We just -- those units aren't designed to cycle daily.
14 If we can cycle them weekly, that would be satisfactory
15 for us.

16 So, I think, if we needed to bring it on
17 and run a unit for a few days, and then shut it down
18 for a few days, and bring it on, we could do that. But
19 our preference is to try to minimize that. And, as I
20 think we've said, we've planned for this upcoming
21 heatwave, even though the units have not been run for
22 quite a while, but we're doing a lot of extra
23 preparation work, to make sure our systems are ready
24 and our equipment's ready.

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 We have conference calls a number of
2 times every week, on what's expected for operations,
3 and the condition of the units and their availability.
4 I think, with this upcoming heatwave this week, the
5 conference calls, between people who bid the unit into
6 the market and the operations people have -- we had one
7 yesterday, we had one this morning, we're going to have
8 one later today. So, the frequency picks up based on
9 what the operational demands are. So that there's a
10 clear exchange of information between the technical
11 field plant people and the people who do the bidding
12 and scheduling. And, the level of knowledge of both
13 parties of what each other does is pretty good. So, we
14 work closely to make sure we know the condition of the
15 units, and it's ready -- its availability to ramp up
16 and get on line.

17 Q. Okay. So, you feel confident that, if called upon,
18 your plants could operate?

19 A. (Smagula) That is our job.

20 Q. Well, I'm referring --

21 A. (Smagula) And, I have confidence that we're going to do
22 it. We're going to meet our expectation for tomorrow.

23 Q. Well, I'm sure you're familiar with the event of
24 September of 2010, when a lot of plants were called on

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 in New England, I don't know specifically if there were
2 any Public Service plants, but a lot didn't respond.
3 And, it ended up costing ISO-New England and half the
4 ratepayers I think around 7 or \$8 million in fines or
5 penalties.

6 A. (Smagula) I believe we operated on those days to meet
7 our needs.

8 CMSR. HARRINGTON: That's all I had.
9 Thank you.

10 WITNESS SMAGULA: Yes.

11 CHAIRMAN IGNATIUS: Commissioner Scott,
12 questions?

13 CMSR. SCOTT: Probably good, most of my
14 questions have been asked and answered, which is a good
15 thing.

16 BY CMSR. SCOTT:

17 Q. Quickly, on the -- in the forecasted period here for
18 migration, I just wanted to make sure I understood, is
19 that -- that "38 percent", is that a projection or --
20 for that forecasted period, or does that look like it
21 was May -- actual data from May?

22 A. (White) Yes. It's based on actual data into the month
23 of May, when we analyze actual loads that have -- that
24 have come in, and it's used throughout the forecast

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 period.

2 Q. So, based on that, so the presumption would be that you
3 expect that to be relatively stable during the forecast
4 period?

5 A. (White) We forecast it at a stable level. Doing
6 otherwise might influence -- it would influence the
7 rate that we set, and it would then -- it might have a
8 -- it might affect the amount of migration that
9 actually occurs in the market. So, we don't want to
10 influence it by making an assumption about what may
11 happen. And, that's been our practice over the last
12 few years.

13 Q. Okay. Thank you. And, back to the discussion
14 regarding "staffing levels" and economies that you're
15 working on at the plants. I assume, you weren't asked
16 explicitly, you were asked about the facilities
17 themselves, with the staffing levels. I don't want to
18 put words in your mouth, I assume that the overhead, if
19 you will, at Manchester, that the Staff that cover all
20 the plants, you've done similar things, is that
21 correct?

22 A. (Smagula) The staff that covers all the plants has not
23 gone down. It seems as though, over the last few
24 years, although our plants have been called on less,

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 our duties to fulfill obligations with different
2 regulatory agencies and other commitments has actually
3 increased to a greater extent than our capacity factors
4 have come down. So, our compliance obligations
5 continue to grow significantly in all arenas, whether
6 it be state or federal. So, we have about 23 people on
7 staff that fulfill budgeting, technical engineering,
8 air, water, waste, permitting and operation, they
9 support all of the plants. They're an adjunct group
10 that supports all plant functions as well. And, we're,
11 at the moment, extremely busy.

12 Q. And, similarly, obviously, in the -- under Exhibit 14,
13 you provided staffing levels for the different plants.
14 Are those dedicated to the plants or --

15 A. (Smagula) Yes. Those are the numbers of people who
16 actually work full time at the stations.

17 Q. So, I guess my question is, for instance, obviously,
18 Newington and Schiller, locationwise, they're fairly
19 close. Do you cross --

20 A. (Smagula) Yes, we do. We share resources between those
21 two facilities. We also take our Generation
22 Maintenance Group, which is based in Hooksett. It's
23 really a group of about 22 machinists and code welders.
24 And, they also work at our stations and shift

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 themselves, based on where the work priorities are.

2 So, our work force will fluctuate and go back and
3 forth.

4 Q. Excellent.

5 A. (Smagula) Yes. And, they also, between Seacoast,
6 Newington and Schiller, there are times when their
7 assets do come to Merrimack, and Merrimack goes there,
8 but that's generally infrequent.

9 Q. Okay. And, you already discussed with Commissioner
10 Harrington, I just don't want to put words in your
11 mouth, but one of the questions he had and I had, too,
12 is are you able to compare your staffing to comparable
13 facilities? And, I just want to make sure I understood
14 the answer to that.

15 A. (Smagula) I can compare Newington to a comparable
16 facility. But the lack of exchange of information in
17 the last decade, compared to other generating
18 facilities, has become quite a challenge. More and
19 more facilities are independently owned, and they don't
20 provide data to the other generators. So, we don't
21 have a good comparison as we have in the historical
22 past.

23 Q. And, obviously, the tone of this has been "how are you
24 economizing as a company?", obviously. I assume

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 there's other programs that you have. I know,
2 certainly, frankly, just listen to the language that
3 your employees use, you're always thinking about the
4 ratepayers. So, I can see that. But are there
5 programs in place?

6 A. (Smagula) Yes. We have a pretty aggressive maintenance
7 philosophy, as well as an operations philosophy.
8 Where, if we have a piece of equipment that is not
9 operating or not functioning properly, our first
10 approach is to try to repair it with parts, and then
11 the next approach would be to try to replace it. But
12 every decision is based on what's more economic. But
13 "economic" isn't always "what's the lowest cost for
14 that task?" You have to look at, you know, "will there
15 be another repair in six months?" And, in general,
16 what's the most economic decision is driven by, you
17 know, "do you fix it three times or is it better to
18 replace it?" And, we try to make those decisions with
19 our work force on a daily basis. And, you know, we're
20 always experimenting with synthetic oils, in order to
21 increase the time between oil changes. We do oil
22 analysis much more aggressively, rather than just
23 change oil on a periodic basis. We use a lot more
24 non-destructive examination of our equipment. We do a

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 lot more vibratory testing of our rotating equipment,
2 in order to anticipate maintenance and avoid it or make
3 balancing when the equipment is not available or needed
4 to run.

5 So, we have a pretty aggressive program
6 to try to maximize availability of our units, and
7 minimize cost. As a matter of fact, during this period
8 when our units have not been operating, we've had some
9 large projects occur. We declared our units not
10 available, and we worked those projects with our own
11 employees, no contractors, on straight time. And,
12 we've taken weeks to do it, rather than four or five
13 days working around the clock with contractors. So,
14 we've totally modified our approach to our practices
15 significantly, more than I've ever seen in my career in
16 the last year, to year and a half, in response to our
17 -- you know, what's expected of us and the market
18 conditions.

19 Q. Does the Company have, I don't want to use the word
20 "process" twice in the same sentence, but I will. Do
21 you have a formal process to look at your processes?

22 A. (Smagula) Not in a formal context, no. The only
23 processes we look at or -- I won't say "we look at",
24 one of the methods upon which we become reviewed for

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 such techniques is during the annual review of our
2 maintenance and operations practices that should -- has
3 already started, where we look at 2011. And, we look
4 at those outages, those get reviewed by your
5 consultant, who, historically, has been extremely
6 thorough, looking at our -- every outage we have on
7 every unit, as to why and what occurred and how did we
8 manage, were we prepared for it, and what are we doing
9 to amend similar problems in the future, should that be
10 appropriate.

11 We also look at our budgeting levels, we
12 look at our staffing levels, we look at a lot of the
13 major decisions we make. We look at having the
14 appropriate number of critical spare parts, not too
15 many, not too few. We look at our non-destructive
16 examination and analytical techniques for our
17 equipment. It's a extremely thorough review. And, I
18 think much of what you seem to be interested in, I
19 believe is covered and routinely on an annual basis.

20 CMSR. SCOTT: Great. Thank you.

21 WITNESS SMAGULA: Yes.

22 CHAIRMAN IGNATIUS: Thank you. Just a
23 couple more questions, and then we'll let everybody out of
24 here.

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1 BY CHAIRMAN IGNATIUS:

2 Q. Continuing on the staffing questions, Mr. Smagula, you
3 had mentioned that you have compliance obligations, and
4 many people who work in compliance functions that
5 support the generation units. Are those people
6 included in the FTE counts in the Staff data response
7 -- the responses to the Staff data requests that was
8 part of Exhibit 14, or are they in addition to the
9 numbers that are listed there?

10 A. (Smagula) A number of those people who are functioning
11 at the Station, which is part of the data request, do
12 have that -- do have compliance obligations as part of
13 their work. However, numbers of people who work in a
14 staff function in Manchester, which is in the low
15 twenties, are not listed here. But, to a great extent,
16 that is much of their work. And, that workload, as I
17 indicated, is growing quite a bit.

18 Q. So, the numbers on the data response are really on-site
19 people?

20 A. (Smagula) Yes.

21 Q. Okay. When -- you had said that when you're in a
22 shutdown period, you've been good at finding projects
23 -- not finding, but handling projects with your own
24 people, and not racing the clock, and saving on

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 overtime. Can you think of other activities that
2 employees do when you're in a period of shutdown?

3 A. (Smagula) Well, they perform a lot of preventative
4 maintenance work. We always have a backlog of
5 maintenance activities, and we'll say the backlog is
6 shrinking. I think it's normally accepted practice in
7 our industry to have a large backlog of maintenance and
8 other tasks, so that your work force can be working on
9 critical work. But our work backlog has become
10 reduced. We have done some corrective and we have done
11 some preventative maintenance work, in anticipation of
12 our operations this summer, which we're going to get a
13 little test of that here this week.

14 So, I feel good that our equipment is
15 prepared and ready, but not overly so. We haven't made
16 -- we haven't looked for work, we haven't looked to
17 install equipment, and that, as a result, create a cost
18 to customers, but only where we believe it's prudent to
19 do so. We've been able to get to things this year that
20 we otherwise may not have been able to get to. So, I
21 think it's actually been a good time for us to catch up
22 on some things that can get by without being done, but
23 it really -- we've been able to pack that list down.
24 So, we have plenty of work for the people we have.

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 We're just not employing contractors as we routinely
2 had, especially at Merrimack Station, and, to a great
3 extent -- to some extent at Schiller.

4 Newington has operated and maintained
5 itself in a much different mode. The Schiller units
6 and the Merrimacks are kind of following into that path
7 now, of being more self-sufficient and doing things on
8 straight time, with --

9 Q. I had thought -- I'm sorry.

10 A. (Smagula) -- on straight time, with their own
11 employees.

12 Q. I had thought you said you were "cutting back on
13 maintenance" as a cost-saving measure, and that seemed
14 contradictory to what you just said now about looking
15 for "preventive maintenance that you can get caught up
16 on". So, how do those two statements fit together?

17 A. (Smagula) Yes. I'll be happy to explain that. The
18 maintenance work that's done at Schiller and Merrimack
19 Station typically is much more than can be handled by
20 the routine staff. It's really staff for very modest
21 activities. We employ contractors to a great extent.
22 We spend millions and millions of dollars every year,
23 to hire millwrights, boilermakers, insulators,
24 pipefitters, and so on, to help us keep up with the

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 maintenance work in our plants, especially Merrimack,
2 and to some extent Schiller.

3 With the reduced capacity factors, those
4 costs are not being borne. And, we also budget quite a
5 bit for forced outages. When we have a forced outage
6 of these units, and we identify the problem, we shut
7 down the unit, we attack an aggressive backlog --
8 aggressively attack a backlog of critical maintenance.
9 We fix the problem, working 24 hours a day, seven days
10 a week, with our own employees and contractors. We
11 aren't budgeting for that type of work anymore. If our
12 units come off, we're not doing it as aggressively.
13 And, on the on-site use of contractors, which is often
14 the case, we're not budgeting for them anyway. So,
15 what work we do have, we're handling with our own
16 employees, which is a pretty small amount, but they're
17 doing it all themselves, on straight time. So, there's
18 plenty of work, at a very large facility, with a lot of
19 equipment, there is always plenty of work to be done.
20 We just -- but I think our budgets are coming down
21 significantly.

22 Our O&M budget for this year is, because
23 we don't have any planned maintenance overhauls, that's
24 a major contributing factor, because we had a number

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[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 last year, and this year has been one of our leaner
2 years. But it's of a level that's consistent to what
3 our budget was nine or ten years ago, unescalated. So,
4 it's a significant drop. And, we're going to try our
5 best to hold that next year, but we probably will have
6 to do a little bit more maintenance, because this year
7 is very, very lean.

8 Q. So, even if one of your plants is in a reserve shutdown
9 status, you do not have employees who come to work with
10 nothing to do?

11 A. (Smagula) No. There is never a day when we have
12 nothing to do.

13 Q. Do you have a protocol in place for what you would do
14 if you did face that situation?

15 A. (Smagula) No, I don't anticipate that to be the case.
16 With our obligations to meet a lot of environmental
17 requirements and other things, I'm quite confident that
18 we have work for our employees every day.

19 Q. All right. One other thing on migration, and
20 Commissioner Scott was getting at this. The trying to
21 distinguish between actual numbers and projected
22 numbers. The actual migration, as of whatever the most
23 recent time you've calculated it, is what percentage?

24 A. (White) The most recent calculation is about 38 and a

1 half percent.

2 Q. And, when did you reach that level? What is that,
3 based on what date?

4 A. (White) That's through the end of May.

5 Q. Do you calculate it monthly?

6 A. (White) We look at that monthly, yes. We receive data
7 for some aspects of that calculation throughout the
8 month. And, it was that data, part way through the
9 month, that was the 38 percent that was in the filing.

10 Q. Has that been fairly flat, that 38.5 percent, or is
11 that an increase or decrease from prior months?

12 A. (White) It's increased over the course of this -- in
13 the last several months, it's been on an increase.
14 There is typically some seasonality in that curve,
15 which may indicate some people moving back and forth
16 based on seasonal prices in the market. And, we're
17 about to enter a period where typically we'd see
18 decreases. Whether we will or not, remains to be seen.

19 Q. Have you ever looked at it, let's say, either month to
20 month or quarter to quarter and looked at trends on
21 whether it -- you said "there is some seasonality", but
22 to sort of map it out and see quarter to quarter where
23 you're heading?

24 A. (White) Generally, it's been an up-sloping curve. But,

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 over the last few years, it's been at a slower and
2 slower rate. So, it's leveled off to some degree.

3 Q. And, the percentage you're using is 38 percent in the
4 forecast period?

5 A. (White) Yes.

6 Q. If you've seen a steady increase, although leveling at
7 less of an increase over time, why keep it at a flat
8 rate going forward in your projection?

9 A. (White) Well, we don't -- we don't know where it's
10 going to go. If we were to forecast it increasing in
11 the future, and we set the rate with that assumption,
12 it would result in a higher rate, because we'd be
13 spreading fixed costs over a smaller amount of sales.
14 So, we'd then have a higher rate in the market, higher
15 than what we currently see. That higher rate might
16 spur more migration. So, it would -- it sort of
17 becomes a self-fulfilling prophecy. That, if you have
18 a higher rate in the market, you get more migration, it
19 would exacerbate that situation. Likewise, if you
20 assume the opposite, you'd have a lower rate, you might
21 get -- you might influence migration in the other
22 direction.

23 Q. If the projection you're using turns out to be too low,
24 and there's higher migration than you're projecting,

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 then you'll need to do -- have an under recovery to
2 affect the next time that rates are set, correct?

3 A. (White) All other things being equal, that would lead
4 to an under recovery.

5 Q. And, vice versa, obviously, --

6 A. (White) Right.

7 Q. -- if it's less than projected. Although, you said
8 that you can't know what it will be and you don't want
9 to affect the market by setting it at a different rate
10 than the 38 percent you're using, do you have a feeling
11 that the increase has stopped and that the steady
12 uptick has really come to an end, and it's going to
13 remain at 30 percent going forward?

14 A. Well, there's -- I guess we don't really know. There's
15 been a lot of discussion today about where -- what
16 level to set the rate. I mean, that's going to have an
17 influence. I can say that, when we look at what we
18 used as a forecast, and then compare it to what
19 actually happens, the methodology we've used has not
20 been a bad estimate. And, I think the main reason for
21 that is that weather tends to be -- have a bigger
22 influence than our migration assumption. To the extent
23 our forecast winds up being way off in a given month,
24 it's usually because the weather was either -- loads

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1 were either much higher due to weather or much lower
2 due to weather, not because our migration assumption
3 was way out of whack. This assumption will apply for a
4 six-month period. And, there hasn't been dramatic
5 changes, at least not since 2008 or '09, in migration
6 levels over that period of time.

7 Q. Well, in your technical statement, you referred to a
8 revenue decrease of 8.5 million due to migration being
9 greater than what had been predicted. Are you putting
10 the 8.5 million in a "not significant" category? That
11 was the first page of the June 12 Technical Statement.

12 A. (White) I would not put that in an "insignificant"
13 category --

14 (Court reporter interruption.)

15 **BY THE WITNESS:**

16 A. (White) I would not call that an "insignificant"
17 number. I'm not certain that's the only driver of that
18 number.

19 **BY CHAIRMAN IGNATIUS:**

20 Q. What my notes were, when Commissioner Harrington was
21 asking you, you said that was "due to migration
22 primarily, and that migration had been above what was
23 predicted previously."

24 A. (White) We could verify that. I guess my comment would

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 be, that's why we've adjusted the forecast, to pick up
2 that change. That's why we've adjusted from 36 to 38.
3 And, having done so, our expectation might be that it
4 won't differ from that greatly. Certainly, if we left
5 it at 36, and continue with that assumption, this
6 figure would then be an over -- under recovery, rather
7 than an adjustment to the rate.

8 CHAIRMAN IGNATIUS: All right. Thank
9 you. Another question, Commissioner Harrington.

10 CMSR. HARRINGTON: This would be just
11 one.

12 BY CMSR. HARRINGTON:

13 Q. I'm just trying to make sure that, there was a lot of
14 discussion on operation and maintenance costs, and how
15 there was less overtime, less contractors being hired,
16 *etcetera*. So, am I looking at the right place, and I'm
17 on Exhibit 10, on RAB-2, Page 5? And, I'm just
18 wondering if this is the set of figures that would
19 reflect these lower costs? It says, I guess, it's
20 "Fossil/Hydro Operation and Maintenance Cost" on Line
21 13.

22 A. (Baumann) Yes. I believe that's the line.

23 Q. So, these -- this would be, if I were to go back, let's
24 say, two or three years ago, looking at that same line,

[WITNESS PANEL: Baumann~White~Hall~Smagula]

1 I should see some substantially lower figures there --
2 or, higher figures, I'm sorry?

3 A. (Baumann) I would presume so. I circled that "87,399"
4 at the end and have a little note here to go check that
5 myself. So, --

6 Q. Okay. But that is the place where it would show up?

7 A. (Baumann) It should, yes.

8 Q. Okay.

9 A. (Baumann) That's where the amount is.

10 CMSR. HARRINGTON: That's all I wanted
11 to know. Thank you. So, that would be one.

12 CHAIRMAN IGNATIUS: All right. Is there
13 any redirect, Ms. Knowlton?

14 MS. KNOWLTON: No, there's not.

15 CHAIRMAN IGNATIUS: All right. Then,
16 gentlemen, thank you. You've been there a long time, and
17 we appreciate it. You're excused.

18 WITNESS BAUMANN: Thank you, your Honor.

19 CHAIRMAN IGNATIUS: Is there anything
20 other than addressing the identification on the exhibits
21 that we need to take up?

22 (No verbal response)

23 CHAIRMAN IGNATIUS: If not, then any
24 objection to striking the identification and making those

1 documents full exhibits?

2 (No verbal response)

3 CHAIRMAN IGNATIUS: Hearing no
4 objection, they will be. And, we have an opportunity for
5 closings. Mr. Eckberg.

6 MR. ECKBERG: Thank you, madam Chairman.
7 Attorney Hollenberg had to leave the hearing, and left me
8 with a closing statement to read, which I will do so at
9 this time. The OCA appreciates the Company's
10 consideration of the possible confusion that its customers
11 may experience if the Energy Service rate is adjusted to
12 reflect 100 percent of the existing overcollection related
13 to the first six months of 2012.

14 However, the OCA prefers at this time
15 that 100 percent of that overcollection be returned to
16 customers over the course of the next six months. This is
17 consistent with the policies underlying the Commission's
18 midyear Energy Service adjustment process, which PSNH
19 identified during this morning's hearing in DE 11-217.
20 Specifically, (1) matching costs to the customers causing
21 those costs; and (2) minimizing the size of any over- or
22 undercollection by the end of the ES rate period.

23 With regard to PSNH's changes to the
24 depreciation rates for its generation plants, which are

1 reflected in its calculations of the 2012 Energy Service
2 rates, the OCA agrees with the Company that these changes
3 are appropriate for the Commission to investigate in the
4 reconciliation proceeding related to the 2012 Energy
5 Service rate, which will be convened in the spring of
6 2013. We do appreciate the Company's willingness to
7 respond to questions in discovery and at today's hearing
8 in this proceeding on this subject.

9 Otherwise, the OCA does not object to
10 the Company's proposed 2012 Energy Service midyear
11 adjustment. Thank you.

12 CHAIRMAN IGNATIUS: Thank you. Ms.
13 Amidon.

14 MS. AMIDON: Thank you. Staff does not
15 support the Petition as filed. We agree with the Office
16 of Consumer Advocate that 100 percent of the over recovery
17 should be applied to Energy Service rates for the
18 remainder of 2,012. And, we have nothing further. Thank
19 you.

20 CHAIRMAN IGNATIUS: Ms. Knowlton.

21 MS. KNOWLTON: Thank you. The Company
22 has proposed a midyear rate adjustment for the six-month
23 period July 1st, 2012 to December 31st, 2012, that would
24 result in a decrease in rates from 8.75 cents per

1 kilowatt-hour to 7.93 cents per kilowatt-hour. Based on
2 the testimony and the exhibits that were presented today,
3 the Company believes that this proposal is reasonable,
4 based on a reasonable estimate of future costs, and should
5 be approved as proposed.

6 With regard to how to address the under
7 recovery, the Company's proposal takes into account
8 principles of rate continuity and rate stability,
9 essentially splitting the over recovery, paying 50 percent
10 back now and 50 percent back at a later date. You know,
11 while we are not here to consider the Scrubber costs, I
12 would note that, as Mr. Baumann indicated, it is -- the
13 Company does believe that there will be an increase in the
14 Energy Service rate associated with additional Scrubber
15 cost recovery. And, so, we would just urge the Commission
16 to consider, you know, any lurching back and forth in the
17 rates that could occur, if they dive down here, and then
18 jump back up in January of 2013.

19 And, with that, I thank everyone for
20 their participation in this docket.

21 CHAIRMAN IGNATIUS: Thank you. All
22 right. We will take everything under advisement. I
23 understand the desire is that these rates be in effect for
24 July 1st, and with a couple of days to make all of the

1 rate adjustments. So, we will attend to that schedule and
2 appreciate everyone's attention today.

3 (Whereupon the hearing ended at 2:09
4 p.m.)

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