

ORIGINAL

P.U.C. Case No. DE 11-250

EXHIBIT No. #46

Thomas Frantz

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**In Re:**

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

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

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

STATE OF NEW HAMPSHIRE LEGISLATURE

ELECTRIC UTILITY RESTRUCTURING LEGISLATIVE  
OVERSIGHT COMMITTEE

AUGUST 7, 2013

COMMITTEE MEMBERS PRESENT:

David Borden - House  
Laurence Rappaport - House  
Robert Backus - House  
Robert Introne - House  
Jacqueline Cali-Pitts - House  
Bradley - Senate  
Charles Townsend - House  
Herbert Vadney - House

PRESENTATION BY GARY LONG, PSNH

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1 PROCEEDINGS

2 REP. BORDEN: Good afternoon.

3 I hope everybody got some lunch, and I hope

4 Gary Long is here. Oh, there you are.

5 Welcome.

6 MR. LONG: Want me to come on

7 up?

8 REP. BORDEN: Yes, come on up.

9 Thanks for coming.

10 MR. LONG: Well, thank you for

11 letting me be here and talk about one of my

12 favorites topics. I'm Gary Long. I'm

13 president of something. [Laughter] I know

14 many of you may have known me over the years,

15 so you're probably caught up on the fact that

16 a little over a week ago was my final day as

17 president of PSNH. I'd done that job for 13

18 years, been with the company 37 years. I

19 made the decision that I did it long enough.

20 I was ready to step down. That led to me

21 stepping up to another position, which is

22 president --

23 REP. BACKUS: Could you use

1 INDEX

2

3

4

5 PRESENTATION BY GARY LONG

6

7 QUESTIONS FROM COMMITTEE MEMBERS:

8

Rep. Backus 43, 61

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Sen. Bradley 48, 74

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Rep. Cali-Pitts 60, 71, 90

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Rep. Rappaport 82

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Rep. Walz 84

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Rep. Borden 93

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23

1 the microphone, please.

2 MR. LONG: Is it working?

3 REP. BACKUS: They can't hear

4 you. Yeah, it's supposed to work.

5 UNKNOWN SPEAKER: It's not on.

6 MR. LONG: I think the

7 button's on. Can you hear me now a little

8 better?

9 REP. BORDEN: Yeah. How about

10 in the back of the room? Can you -- you can

11 hear. They can't hear. Is there some

12 technical reason we can't hear?

13 UNKNOWN SPEAKER: It should be

14 fine. Maybe if you tilted it up a little

15 bit.

16 MR. LONG: It's a little bit

17 loose. But how's that? Can you hear me?

18 REP. BORDEN: Close enough.

19 UNKNOWN SPEAKER: That's good.

20 REP. BORDEN: Can you hear in

21 the back?

22 UNKNOWN SPEAKER: That's good.

23 REP. BACKUS: You get the

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1 thumbs up.  
2           REP. BORDEN: Thank you very  
3 much.  
4           MR. LONG: I'll put this in my  
5 face.  
6           So, anyway, I decided to step  
7 up and focus on New Hampshire energy policy,  
8 particularly the renewable energy policy and  
9 the Northern Pass project. So I have a title  
10 of President of New Hampshire Renewable  
11 Energy Policy Development. That's sort of  
12 what I'm doing now. But I live in New  
13 Hampshire, work in New Hampshire. This is my  
14 focus.  
15           So, I'm just here today to  
16 talk about some of the subjects and topics  
17 that you've been hearing about, that others  
18 may have testified to this morning. But as  
19 we consider New Hampshire's energy future,  
20 obviously there's some important  
21 considerations for all of us. One is, how do  
22 we ensure energy reliability? How do we  
23 protect our customers, our consumers from

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1 price volatility? How do we maintain some  
2 level of control at the local level, at the  
3 New Hampshire level? How do we implement  
4 these policies that have been established by  
5 the state, and policies like the Regional  
6 Greenhouse Gas Initiative, which obviously  
7 has the goal of reducing carbon emissions,  
8 our renewable portfolio standard that  
9 establishes a goal to achieve 25 percent of  
10 energy from renewables by the year 2025?  
11 We've had a longstanding policy of having  
12 fuel diversity. We obviously want to use  
13 energy and energy projects to advance our  
14 in-state economic health. We just have a lot  
15 of things to implement based on policies that  
16 we've already established. And the question  
17 is: How does New Hampshire best position  
18 ourselves with respect to energy supply and  
19 reliability, and also those issues that the  
20 ISO-New England has expressed, which I'll  
21 talk about in a little bit. In my 37 years,  
22 the challenges that we have before us now are  
23 as great as I've ever seen them, although the

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1 markets and the conditions and the rules are  
2 very different than they've been in the past.  
3           So if you look back at the  
4 last 12 years in electric restructuring, I  
5 believe that New Hampshire has chosen a wise  
6 path. And it's been very successful. Our  
7 last 12 years in the open access  
8 restructuring environment has been  
9 successful. We've provided consumers with  
10 competitive options. We have policies that  
11 promote the growth of renewable energy. We  
12 have that safety net for our customers to  
13 avoid the problems like those experienced in  
14 California and elsewhere. It's been a very  
15 successful model. And we should build upon  
16 that model and strengthen that model, not  
17 destroy it, as some would suggest.  
18           So, I'm sure this morning  
19 you've heard from -- a refrain from many  
20 others with their own special economic  
21 interests that want you to change that model.  
22 And you've probably heard about things like  
23 migration and unsustainable default energy

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1 service rates. And divestiture seems to be a  
2 hot topic these days also.  
3           I'm here to tell you that  
4 those are all false choices. Those are based  
5 on false premises. I will tell you that  
6 everything that you're hearing now I've heard  
7 many, many times over the last dozen years.  
8 But the premises really are no different.  
9 The motivations are no different. It's not  
10 surprising to me at all that competitive  
11 suppliers want PSNH out of the energy  
12 business. It's nothing new in our world. I  
13 think protecting consumers from volatility  
14 and energy shortages and planning for the  
15 future may not serve the interests of some of  
16 these other parties, but it's been very good  
17 policy for New Hampshire to be engaged in.  
18           So, the system's working as  
19 you intended. Customers have a choice of  
20 supplier, as intended. PSNH serves as a  
21 safety net through our default service, and  
22 our regulated default service has worked well  
23 and has been reasonably priced. However,

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1 there are state policies that have very large  
2 impacts on the price of our default service,  
3 and they really drive that price. And you  
4 have a lot of control over those results.  
5 And I'll talk about what those policies are.  
6 I think many of them are outdated.  
7       There's also considerable risk  
8 with radically changing the model, again, as  
9 some are suggesting. The system's working.  
10 The idea of divestiture is not to be taken  
11 lightly. Once you divest, you can never go  
12 back. You lose forever the ability for New  
13 Hampshire to control its energy future and to  
14 mitigate against these risks. You lose  
15 forever your ability to deal with price  
16 volatility, changing market conditions, and  
17 to provide -- help provide for our own  
18 reliability.  
19       I know you've heard this from  
20 others, but I want to talk about how we got  
21 here, because I think sometimes people miss  
22 the point of how New Hampshire ended up where  
23 we are, which was not by accident, but a

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1 little fortuitous. Some people say we  
2 haven't fully restructured. That's  
3 absolutely false. That's a false premise.  
4 And I'll explain why it's false.  
5       So, anyway, in 2001, New  
6 Hampshire restructured its electric utility  
7 market, energy market, and we opened the  
8 choice for customers. We opened up for  
9 competition in electric supply. And before  
10 then, you know, we were a full-service  
11 company that provided all service to  
12 customers. That all changed when we opened  
13 up our system. So, that system caused --  
14 allows customers to choose a supplier. PSNH  
15 was -- our role was to provide a safety net,  
16 to make sure the customers have electricity  
17 at reasonable prices under any set of  
18 circumstances when they are not served by a  
19 competitive supplier. And that's what we  
20 call "default energy service."  
21       It also at the time -- when  
22 this was first introduced, PSNH was required  
23 to sell all of our generating plants. And we

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1 continue to own distribution and transmission  
2 and deliver power to customers.  
3       So at that time, five New  
4 England states, California and a few other  
5 states, all required their local utilities to  
6 divest their own generation as part of  
7 electric restructuring. And following the  
8 opening of systems and electric  
9 restructuring, California experienced  
10 devastating results, which ended up in power  
11 shortages, power outages, business and  
12 economic destruction and extremely high  
13 prices, which led to utility bankruptcies  
14 and, in less than three months, a \$50 billion  
15 state deficit based on their energy  
16 purchases.  
17       The thing that people sort of  
18 miss in this era is, when these other states  
19 divested their generation, nobody knew what  
20 the energy market would be like. It was --  
21 there was some anticipation about what the  
22 market would be. There was some theories out  
23 there, but nobody had any actual real-life

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1 experience. And all of these -- these other  
2 four states in New England divested before  
3 they had any actual experience in the market.  
4 California was a "sea change" because  
5 California gave both a glimpse of what the  
6 market could bear and what could happen to  
7 you. In fact, it really did happen. It  
8 really did happen to that state.  
9       And so before California  
10 happened, PSNH had divested its interest in  
11 its nuclear assets, including the Seabrook  
12 station. So that was all done according to  
13 plan. And we were in the process of  
14 divesting our non-nuclear assets in  
15 accordance with state policy. But I think  
16 the thing that was fortunate for the state of  
17 New Hampshire is that, now, California  
18 provided real-life, real-world experience for  
19 what can happen in a restructured world. And  
20 the other states, it was too late for them to  
21 do anything about it. They had already sold  
22 their generation. Like I say, it's a one-way  
23 street. Once you sell it, you can't get

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1 back. They had already sold their  
2 generation. New Hampshire -- and, again, it  
3 wasn't planned. It just happened. Like I  
4 said, it was a little fortuitous. But New  
5 Hampshire was not yet complete with  
6 divestiture, and then California happened.  
7 So, New Hampshire learned from that  
8 experience. We learned things that other  
9 states never had the opportunity to learn.  
10 And what New Hampshire learned is that  
11 there's great risk for customers in this  
12 marketplace. And if you really want a safety  
13 net for customers, if you really want to  
14 protect customers, the way to do that was to  
15 keep state-regulated generation for the  
16 purpose of default energy service, and only  
17 for that purpose. So, when people say that  
18 we haven't fully implemented restructuring,  
19 we have absolutely fully implemented  
20 restructuring. Our customers have the same  
21 choice as any of those states in New England  
22 where their utilities do not own generation.  
23 But what New Hampshire has done that nobody

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1 else was able to do, just because of timing,  
2 is we were able to protect our customers by  
3 having a portfolio and having physical assets  
4 that they had already given up and they  
5 couldn't turn and go back on.  
6 So, since California, there  
7 were 15 states -- I should say before  
8 California, there were 15 states, including  
9 New Hampshire, all the states in New England,  
10 except Vermont -- 15 states that went to  
11 retail open access since California and 35  
12 that have not. So the model we have in New  
13 England, out of five states, is in the  
14 minority of what's happening in the nation.  
15 And for PSNH, we have extra value in having  
16 physical assets for providing a safety net to  
17 our customers. And that's what's different.  
18 We have fully implemented electric  
19 restructuring, but we just happen to have  
20 more tools to deal with the market variances  
21 than anybody else has. And the fact that  
22 nobody restructured since California, the  
23 fact that no electric utility was directed to

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1 divest generation should tell you something:  
2 Divesting generation is not a good idea. And  
3 I'm not so sure what would have happened if  
4 those other states would have looked at  
5 their -- would not have divested until after  
6 California. They may have changed their  
7 mind, too.  
8 So, I reject the idea that we  
9 haven't fully restructured. We actually have  
10 fully implemented restructuring. And I'm  
11 going to talk about so-called "migration"  
12 here in a bit, in a minute. I mean,  
13 customers are obviously exercising choice,  
14 which means electric restructuring has been  
15 implemented and is working.  
16 Then, also since that time  
17 when New Hampshire decided to open up the  
18 system, New Hampshire's made other policy  
19 changes, and very important ones. The  
20 Regional Greenhouse Gas Initiative is one  
21 example of a very significant policy change  
22 really geared towards reducing carbon. And  
23 then, just this year you've -- the

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1 legislature has tightened up enough and made  
2 it a little more restrictive. Renewable  
3 portfolio standards have been implemented  
4 since electric restructuring. Again, some of  
5 these things that were pretty well regulated,  
6 they have a little bit more of a challenge in  
7 a marketplace world.  
8 During this time since  
9 restructuring, New Hampshire also implemented  
10 something called the "New Hampshire Clean Air  
11 Act," which required mercury reductions and  
12 other reductions of emissions at our power  
13 plants. And later, another law, which I  
14 think is very much of attention these days is  
15 what we called the "Scrubber Law," the law  
16 that mandated PSNH to install a scrubber.  
17 All these laws were passed after electric  
18 restructuring. So they are guided by the  
19 laws that were established since electric  
20 restructuring. And also, other things like  
21 net metering has grown as a policy in this  
22 state since electric restructuring.  
23 So, the world continues and

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

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

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

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

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1 people are focused on today's prices, they're  
2 not really looking at the future; whereas, we  
3 do. And I would encourage you to also.  
4       Market abuse continues. The  
5 California experience, Enron was front and  
6 center on this, got fined. Their company  
7 went bankrupt. People went to jail. So --  
8 because of market abuse and manipulation. If  
9 you think California was the end of it, you  
10 know, it's not. In July, in July alone,  
11 almost a billion dollars in fines was issued  
12 by the Federal Energy Regulatory Commission  
13 to market participants for market  
14 manipulation. And there's been previous  
15 fines to July. So there continues to be the  
16 risk of market manipulation. So the question  
17 I would ask you is -- having generation in  
18 this state of New Hampshire under state  
19 control is a good way to help mitigate  
20 against potential market abuse and market  
21 manipulation, and the reason is because we're  
22 regulated. Everything we do is reviewed,  
23 monitored by the State of New Hampshire. The

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1 purpose of our power plants is strictly to  
2 serve our customers. So it's yet another  
3 value of having in-state regulated generation  
4 in a world where you have the risk not only  
5 of prices due to market conditions, but also  
6 of potential manipulation by market players.  
7       So, New England has some real  
8 serious energy challenges. I'm sure most of  
9 you have heard this before. ISO-New England  
10 has done a great job of documenting those  
11 risks and trying to create dialogue on those  
12 risks. One of the risks -- I'm going to list  
13 four of them. One of those risks is resource  
14 performance and flexibility. What they mean  
15 by that is, when you pull a power plant to  
16 run, will they actually start up and run?  
17 Because you're counting on them to run  
18 because you're trying to balance load and  
19 production. So, one of the risks that  
20 they've experienced in New England is power  
21 plants that have been able to run and being  
22 flexible.  
23       I will tell you that PSNH

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1 resources have a very high availability, and  
2 we are available when called upon. I'll tell  
3 you, in this heatwave that we had, this very  
4 hot wave, at the end of that month, every  
5 one of our -- a hundred percent of our power  
6 plants were running. All of our units were  
7 running, and even the ones that -- we call it  
8 "peakers." These are older. They're jet  
9 engines, combustion turbines that very, very  
10 rarely run. And they can be used for  
11 emergency starts. They can be used  
12 for...(indecipherable)... type situation.  
13 One hundred percent of our generation was  
14 called upon, and we delivered 100 percent.  
15 One hundred percent. They all started up.  
16 They're all available. They're all flexible.  
17 So, having generation, we are mitigating and  
18 addressing that concern that the ISO has.  
19       ISO has another concern. Its  
20 concern is the region's increased reliance on  
21 natural gas-fired capacity, and that relates  
22 also to the pipeline capacity. So, PSNH also  
23 mitigates against that risk for our

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1 customers. All these values go to our  
2 customers because we're not out -- we're not  
3 a merchant generator. Our fleet is  
4 fuel-diverse. And our energy policy in the  
5 state of New Hampshire calls for diversity of  
6 fuel, and we've done that. Unlike the rest  
7 of New England, we're not overly dependent on  
8 natural gas. Our Newington plant, which  
9 burns natural gas, can also burn oil. And I  
10 will tell you, during the heatwave when  
11 natural gas availability and price was  
12 difficult, we were running on oil. We can  
13 run on oil on the fly while it's happening.  
14 So, natural gas shortages are not a concern  
15 to our fleet because we have alternatives.  
16       I believe, also, PSNH has a  
17 higher percentage of renewable energy in any  
18 portfolio of any New England utility. We've  
19 taken very specific steps on that to give us  
20 an in-state... (indecipherable)... to meet  
21 that. So we're very well positioned to meet  
22 the state's goal of having 25 percent of our  
23 portfolio renewable by the year 2025. In

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1 fact, I think we're in better shape than  
2 anyone in New England.  
3         The third concern that the ISO  
4 has is with the potential retirement of  
5 generators. I'm going to say that again  
6 because I know others are calling for  
7 retirement and divestiture. The third  
8 critical concern of the ISO-New England is  
9 the potential retirement of generators. It's  
10 kind of ironic to me that when people talk  
11 about divestiture, which I think is a method  
12 of closure or a method of taking things out  
13 of New Hampshire's hands, at the same time  
14 ISO-New England has said they're concerned  
15 about plants not being able to operate. Now,  
16 I've already told you 100 percent of our  
17 plants operated in the heatwave. And that  
18 certainly will happen in the winter, and it  
19 will happen in the next heatwave. So that's  
20 why the ISO-New England is concerned about  
21 retirement generators. And it's not natural  
22 gas generators; it's oil and coal, because  
23 they're worried about not having enough,

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1 particularly when there's a gas shortage.  
2         The fourth concern of the  
3 ISO-New England is in the integration of what  
4 they call a greater level of variable -- that  
5 means intermittent -- resources. They're not  
6 really talking about wind, primarily because,  
7 you know, wind, you're dependent on wind to  
8 get the power. And so you can't really, when  
9 you dispatch or when you plan in the future,  
10 you can't count on it being available. So as  
11 we increase our use of renewables, wind --  
12 and solar is the second one that depends on  
13 the sun -- when we increase our renewables  
14 as we approach our target to get to this  
15 25 percent renewable, it does create other  
16 concerns on the system. And I will tell you,  
17 our plants are not intermittent. Our plants  
18 are all dispatched. You know, they all have  
19 their fuel sources. They can run regardless  
20 of the weather conditions, regardless of  
21 whether the wind's blowing. So, on every one  
22 of these concerns that the ISO-New England  
23 has, our generation fleet mitigates those

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1 concerns. So when people with their own  
2 economic interests say, "Well, we think you  
3 need to divest," you need to consider a whole  
4 lot of things other than, you know, whether  
5 you can advance their agenda.  
6         So, the other challenge that  
7 New England has that is just barely  
8 surfacing, at least in more of the public  
9 eye, but it's very real, is how is New  
10 England going to reach 25 percent renewable  
11 by the year 2025. If you look at the  
12 numbers, it's an enormous goal. As I said,  
13 PSNH is in very good shape. But what's the  
14 situation in New England? It's going to be  
15 very difficult to hit the -- I think  
16 25 percent is a generality. Different states  
17 have different percentages, but they all head  
18 towards 25 percent. And just as I just said,  
19 if you take a day like today, or even a hot  
20 day, you get about six, maybe seven percent  
21 of New England is hydroelectric power. But  
22 it doesn't qualify. Most of it does not  
23 qualify for renewable portfolio standards.

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1 And then you look at what they call  
2 "renewable" in New England, and that might be  
3 five or six percent, about half of that is  
4 wood. Most of the rest is landfill gas and  
5 methane, and then the other part is wind.  
6 You know, wind is about, I think, 4 percent  
7 of that 6 percent. So that -- so if we just  
8 look at those numbers alone, New England has  
9 a long way to go. And you know, obviously,  
10 that's a different challenge that I think  
11 policy makers need to look at.  
12         I want to move on to what I  
13 call the "migration" discussion. Now,  
14 nowhere in the law do we see the word  
15 "migration" when you talk about electric  
16 restructuring. You see "open access." And I  
17 think when people are using the word  
18 "migration," they really mean customers  
19 exercising choice, what percent of your  
20 customers have actually exercised the choice  
21 to buy from the marketplace. And for about  
22 the first seven or eight years, that number  
23 was very, very low for PSNH. And then, when

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1 the gas situation emerged, there's been a  
2 substantial growth in a number of customers,  
3 you know, going to the market. And when you  
4 think about that, we set up a system to allow  
5 customers to choose. And customers are  
6 choosing. Nowhere in state law or policy or  
7 discussion did anyone say 5 percent is all  
8 that we want to choose or 10 percent is all  
9 that we want to choose or 50 percent or  
10 80 percent. So the number is whatever the  
11 number is. The number or percentage of  
12 customers who have gone to market in and of  
13 itself is irrelevant. The number of  
14 customers or potential customers going to  
15 market is simply, you know, a measurement of  
16 what customers have chosen. And isn't that  
17 the system that we established? Isn't that  
18 what we wanted to allow customers to do? So,  
19 the level of migration, there is no policy  
20 about what is the right level. And in and of  
21 itself, it's not really important because  
22 it's just customers making choice. And PSNH  
23 does support an open access system. We think

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1 that is the right model. We think New  
2 Hampshire has the right model.  
3       So the question is, really,  
4 who should pay for the safety net? It really  
5 comes down to that. Who should pay for this  
6 default service safety net that PSNH has, and  
7 how do our current policies relate to how or  
8 who pays for that safety net? Our role is as  
9 safety net. We don't go out to the market.  
10 We don't go out there and market for  
11 customers to choose. We certainly do not  
12 sell to any other retail customers anywhere,  
13 except for in a franchise area, in a very  
14 limited role as a safety net, as a default  
15 service provider.  
16       So I can give you three or  
17 four state policies that have a very large  
18 impact on that rate and that you can actually  
19 make that rate below market very easily, if  
20 that's what you wanted to do, or you could  
21 let it be where it is.  
22       The legislature has an  
23 inconsistent policy when it comes to cost

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1 recovery. I'll give you an example with the  
2 scrubber. \$420 million investment. There's  
3 one state law that says only default service  
4 customers will pay for that cost recovery.  
5 The law very clearly provides for cost  
6 recovery. So the question is how do you --  
7 who pays for it? So there's one state law  
8 that says only default service customers  
9 should pay for it. Then there's another  
10 state law that says, if you divest, all  
11 customers should pay for it. Same costs,  
12 different customers. So we have two  
13 different policy decisions as what we think  
14 is fair for recovery of those costs. The law  
15 that mandated the installation of the  
16 scrubber says that this scrubber will benefit  
17 all customers, will benefit all citizens of  
18 New Hampshire. So, the law has already found  
19 that the benefit is to all, but we have one  
20 state law that says only some should pay, and  
21 then we have state law that says under  
22 certain conditions all should pay. Now, I  
23 know that this has been politically difficult

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1 for people. But we've advocated that all  
2 customers should pay for that. If that were  
3 the -- if you were to have a consistent  
4 policy, and if you were to say that mandated  
5 costs that benefits all citizens of this  
6 state, that all customers should pay for it,  
7 our energy service rate would be about a  
8 penny lower. Very significant. Be about a  
9 penny lower.  
10       There's another policy of the  
11 state, and it goes like this: When electric  
12 restructuring first started, as I said, you  
13 know, no one knew what the market would  
14 yield. No one knew what would happen in the  
15 market. And people were trying to sort of  
16 jump-start that market. As I said, that's  
17 why people divested. They didn't know what  
18 was going to happen with the market, and then  
19 once they found out the market, then they  
20 said, no, no, you shouldn't divest.  
21       But another place where this  
22 shows up is on billing. So, when electric  
23 restructuring began, you know, people were

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

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

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

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

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1 changing policy.  
2 So, I think, you know -- so  
3 that's some solutions, if you want solutions.  
4 Those are solutions. But they take a  
5 commitment. And I think, like most things,  
6 it takes a hard time to get agreement amongst  
7 people as to how to solve.  
8 I want to debunk the myths  
9 that -- there's a lot of myths of  
10 divestiture. And you've probably heard a lot  
11 about divestiture this morning, and I know  
12 you had one or two even tell you what the  
13 process is for divestiture. But this is  
14 nothing new. I'll tell you, I've heard this  
15 dozens of times, you know, from those who  
16 have other economic interests. It's been  
17 reviewed. It's been considered by the  
18 legislature and rejected already, and here we  
19 go again. But there's not been really the  
20 facts or sound analysis that would ever  
21 support a divestiture. And in fact, I'll  
22 kind of give you sort of the simple way of  
23 thinking about this.

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1 If a power plant is not  
2 economic, if it's not valuable, if it doesn't  
3 help you with your reliability, if, when you  
4 consider all those impacts, including  
5 community impact, the value for mitigating  
6 risk and economic value, if there's not -- if  
7 there's not value in it, you close it. It  
8 does make -- it has no relationship to  
9 divestiture. If it doesn't have value, close  
10 it. PSNH has closed power plants in the  
11 past. Our headquarters in Manchester is in  
12 what used to be a power plant. We've closed  
13 hydro plants in the past, the distant past.  
14 So, if a plant isn't economic, you close it.  
15 If it is economic -- it's only going to be  
16 one or the other. If it is economic and  
17 provides value, then that value should be  
18 used for customers, because under New  
19 Hampshire law customers are going to pay  
20 whether you divest or don't divest. Okay?  
21 You can't escape costs by divesting. So,  
22 it's -- when you divest, customers end up  
23 paying but not getting any value. And so if

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1 a plant has value, divestiture doesn't make  
2 any sense. You ought to use that value for  
3 customers. Our role is to provide  
4 electricity to customers. So why would we  
5 not need assets to do that role? Our primary  
6 role is to provide electricity to electric  
7 customers. So that's one of the myths of  
8 divestiture.  
9 People will claim that  
10 divestiture will somehow lower costs. It  
11 will not lower costs. Divestiture will raise  
12 costs. Not only will it raise costs, but we  
13 lose control over our energy future. The  
14 state loses control, just like the other  
15 states lost control when they divested before  
16 they learned from California. We will lose  
17 control. You will have no regulatory  
18 oversight of any generation. You just  
19 deferred all of that to the federal  
20 government. So that's another risk of  
21 divestiture. You lose the impact. You lose  
22 the ability to impact different programs and  
23 different ideas you might have towards

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1 addressing these ISO problems when you get  
2 out of that situation. You made the safety  
3 net not so safe anymore. You've now explored  
4 -- exposed our customers to anything that  
5 could happen in the market, and there's  
6 nothing you can do about it because you lost  
7 control. And customers would incur new  
8 stranded costs if you divest. As I said,  
9 customers pay for this. It's just a question  
10 of do they get the value. And right now they  
11 get their value. But if you divest, they  
12 don't get the value, but they have to pay for  
13 it. So it's, you know -- so I hope that you  
14 don't go off quickly thinking that  
15 divestiture is an answer to anything, because  
16 it's not. If you want low energy service  
17 rates, you can get them without divestiture.  
18 And I really don't think we should mortgage  
19 our future by divesting.  
20 So I'll just summarize, and  
21 I'd be happy to get in a dialogue with  
22 anybody. But to summarize, our current  
23 system in New Hampshire of customer choice is

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

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

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

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

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

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

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

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

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1 adjudicating, you know, the prudence of the  
2 scrubber, there's almost no way that your  
3 default service rates aren't going to  
4 increase in the future and further fray that  
5 rate as more and more people leave. I mean,  
6 that's the classic definition of a "death  
7 spiral" now. Whether we're at a tipping  
8 point or not, you can argue. But it would  
9 seem to me that the volatility and the safety  
10 net that you're talking about are almost  
11 things of the past, and they're going to be  
12 further exacerbated by, you know, what may or  
13 may not come out of the scrubber. If they  
14 find some of your costs imprudent, we're  
15 probably in court. And if they find them  
16 prudent, the migration will be 90 percent,  
17 just like that. How do you call that a  
18 "safety net"?

19 MR. LONG: I respectfully  
20 disagree that it's fraying. The system  
21 continues to work. And if you think the rate  
22 is too high, you can change it as the way I  
23 just described how you can change it. Again,

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1 it's no one's goal to say 50 percent,  
2 60 percent of customers choosing is a bad  
3 thing. There's inherently nothing wrong with  
4 50 or 60 percent of customers choosing. It  
5 comes back to cost recovery. And, you know,  
6 I think the real question is: Are we being  
7 fair to customers? By having a percentage of  
8 our customers pay a hundred percent of the  
9 scrubber costs, is that really fair policy?  
10 Because you could change that policy, and we  
11 wouldn't even be having this conversation.

12 SEN. BRADLEY: All right. So  
13 one of the --

14 MR. LONG: You could change  
15 the billing policy, and we wouldn't even have  
16 this conversation. So I disagree that it's  
17 fraying. I disagree that it's not working.  
18 It's working exactly as defined. We are the  
19 safety net. And I just gave you one example  
20 of a supplier defaulting in January. What  
21 would have happened if we weren't there?  
22 Those customers would have been in really  
23 dire straits. So it's working exactly as

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1 defined. You know, if you think the rate's  
2 too high, you can change it. Otherwise,  
3 you're going to continue to have a percentage  
4 of customers paying a hundred percent of the  
5 scrubber costs rather than all; you're going  
6 to continue to have us subsidizing  
7 competitive suppliers. You continue to have  
8 us paying costs others don't have to pay  
9 because of our policies.

10 So I'll -- you know, I know  
11 you, and I know each of you well, so I know  
12 you won't take this in an offensive way. But  
13 I'll throw it right back at you. We found a  
14 problem, and it is us -- it is you. It is  
15 the legis -- I mean, I can fix these problems  
16 overnight if I had legislative support.

17 SEN. BRADLEY: Okay. So it's  
18 my turn now to jump in.

19 MR. LONG: Sure.

20 SEN. BRADLEY: Okay. You were  
21 willing and complicit in the passage of House  
22 Bill 1673 in 2006. I wasn't here. But even  
23 though the legislature ordered that and

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1 ordered the specific technology, you embraced  
2 it.

3 MR. LONG: Are you talking  
4 about the scrubber?

5 SEN. BRADLEY: Yes.

6 MR. LONG: Oh, sure. Yeah, we  
7 were very cooperative --

8 SEN. BRADLEY: You embraced  
9 it.

10 MR. LONG: -- and  
11 collaborative with the state --

12 SEN. BRADLEY: Exactly.

13 MR. LONG: -- with the  
14 senators --

15 SEN. BRADLEY: Exactly.

16 MR. LONG: Sure. It was a  
17 collaborative effort.

18 SEN. BRADLEY: So, to throw it  
19 at us and say the blame is totally on the  
20 legislature is not right. It's not -- it's  
21 just not correct. If PSNH saw the future as  
22 coal being king in 2006, you were here  
23 advocating for that scrubber and --

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1 MR. LONG: We were not  
2 advocating to recover it all from one group  
3 of customers. That was something the  
4 legislature decided. It was not part of the  
5 settlement.  
6 SEN. BRADLEY: Well, but it  
7 was part of a law and --  
8 MR. LONG: Which was changed  
9 after the settlement was agreed to.  
10 SEN. BRADLEY: It was part of  
11 the law. But then you continued, even though  
12 the original estimates were \$250 million,  
13 you've continued to whatever it ended up  
14 being, \$425 million, without, you know, a  
15 reset button and --  
16 MR. LONG: Well, the law was  
17 very clear. We were mandated to do that.  
18 And I won't go getting into a legal argument  
19 with you. It's extremely clear to us. And  
20 the reason the law was written that way,  
21 because when we went to electric  
22 restructuring, we had to take a large  
23 write-off. And we said we're not going to

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1 make another investment, you know, having  
2 people change their rules on us along the  
3 way. So the scrubber law was written very,  
4 very clearly to provide for cost recovery.  
5 And, you know, it's really to me sort of  
6 unfair that after that was done, people are  
7 now looking for -- to not allow cost recovery  
8 when the law and the constitution is very  
9 clear on that.  
10 SEN. BRADLEY: I think what's  
11 good for the goose is good for the gander  
12 here. And while I would sit here and say  
13 today, in probably a 50-year-old plant, it  
14 clearly is a mistake that that scrubber was  
15 ever built. And I think you'd agree with me  
16 on that.  
17 MR. LONG: I would say if the  
18 legislature felt that way, they could have  
19 rescinded the law, and you did not.  
20 SEN. BRADLEY: Well --  
21 MR. LONG: We were mandated to  
22 put it in.  
23 SEN. BRADLEY: But the point

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1 is that that voice of the utility was never  
2 raised to say, "You know what? This is going  
3 to be uneconomic as the price of natural gas  
4 developed." So the point --  
5 MR. LONG: Senator, we can go  
6 back and forth --  
7 SEN. BRADLEY: Well, we are  
8 going back and forth.  
9 MR. LONG: -- but the fact is  
10 the legislature had more power than we ever  
11 had. We were the ones that were mandated,  
12 required by law to do that. It's only the  
13 legislature that could have changed that law,  
14 not us.  
15 SEN. BRADLEY: But you never  
16 spoke up for changing that law. And so  
17 that's -- for you to sit here and blame the  
18 legislature --  
19 MR. LONG: Well, I'm speaking  
20 up today about changing the laws so that it's  
21 more fair, that it's recovered from all  
22 customers, that you remove our billing  
23 requirements so that we can start managing

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1 our costs as a company who has freedom to do  
2 would do, and, you know, to go for billing,  
3 for instance. You know, there's nothing in  
4 the law that says we have to do that. It's  
5 outdated. Change it. Change it, and the  
6 problem starts going away.  
7 SEN. BRADLEY: I'm not going  
8 to argue you with you there. I'm just -- as  
9 the Commission is dealing with this prudence  
10 argument, I think it cuts both ways. And I  
11 think that you folks need to recognize that  
12 also.  
13 MR. LONG: Well, I know we're  
14 going to agree to disagree --  
15 SEN. BRADLEY: We will.  
16 MR. LONG: -- and you and I  
17 have a long history of working together and  
18 agreeing and disagreeing and then, you know,  
19 working things out. But --  
20 SEN. BRADLEY: Right. So let  
21 me ask my next question.  
22 MR. LONG: But absolutely,  
23 positively, we have -- we're entitled by law

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

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

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

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

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

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

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

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

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

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

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

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

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1 plants and they want to make money? I mean,  
2 why do they want lower prices? You know, why  
3 are they against Northern Pass? It's because  
4 they don't want new sources. So, utilities  
5 aren't going to solve the problem. Merchant  
6 plants aren't unless you give them a  
7 financial reason to do it. And ISO-New  
8 England can't. They can't. All that ISO-New  
9 England can do -- and I shouldn't say "all"  
10 because it's a very, very important role --  
11 is they can study it, they can analyze it,  
12 they can bring it to the public's attention,  
13 they can facilitate public dialogue. But  
14 ISO-New England does not own anything except  
15 the building they're in. They do not own any  
16 electrical assets. They do not own any  
17 transmission, distribution or generation, nor  
18 can they by law. So, ISO-New England has no  
19 ability to solve the problem. They can only  
20 try to create incentives for somebody else to  
21 solve the problem. And the reason I tell you  
22 all this is because this is problematic.  
23 This is the structure you've created, okay.

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1 And so this is why Connecticut says nobody's  
2 going to solve this, so I'll get local  
3 companies -- our customers to pay for putting  
4 in some peaking units or things to help. And  
5 that didn't work out too well for them.  
6 So it is a problem,  
7 Representative. It is a problem. And I say  
8 nobody is responsible for anything. By that  
9 I mean there is no law that requires anybody  
10 to do anything. And that's different from  
11 the 35 other straits who don't have the  
12 situation. So it is a challenge for New  
13 England. And that's why I'm saying, rather  
14 than trying to beat up on PSNH and take money  
15 away or say we want you to divest your  
16 generation, why aren't we working together?  
17 Because this is not an easy problem to solve.  
18 And I'm telling you right now, New Hampshire  
19 is in the best position right now. Don't  
20 destroy it. Let's build something to --  
21 let's build something that protects it, not  
22 destroy it.  
23 REP. BORDEN: Representative

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1 Cali-Pitts.  
2 REP. CALI-PITTS: Gary, what I  
3 don't understand is that, if your prices --  
4 or PSNH's prices are higher now, and it  
5 benefits these new people coming in, why are  
6 they so adamant that your prices -- that you  
7 sell your generation and that your prices  
8 perhaps come down and go into direct  
9 competition with them? I can't -- I'm very  
10 simplistic, but I can't put my head around  
11 that. Why would that be? There's got to be  
12 some underlying motive, because now it would  
13 seem to me, just from their point of view,  
14 from these new suppliers coming in, that you  
15 are no threat because you're out of the ball  
16 game. But that doesn't seem to be the case,  
17 and I really can't figure that out.  
18 MR. LONG: So I think your  
19 question is: What is the motivation of these  
20 merchant plants, the people you heard from  
21 this morning? Why do they want PSNH to  
22 divest? Why do they want PSNH to do this and  
23 that? It's a very, very good question, you

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1 know, and I can't speak to their motives.  
2 REP. CALI-PITTS: The  
3 suppliers.  
4 MR. LONG: Yeah, suppliers.  
5 These are the people who own generating  
6 plants. Over 90 percent of New England power  
7 comes from merchant plants. So, you know,  
8 why are they always fighting with PSNH?  
9 Okay? And they are. And, you know, I can't  
10 speak of what's in their mind. We can  
11 certainly speculate.  
12 I'll ask you: Why are those  
13 exact same people opposing -- oppose it at  
14 the federal level and locally, and why are  
15 they opposing Northern Pass, which brings  
16 renewable energy into New Hampshire? What do  
17 they care? And it comes down to their  
18 financial interests. It's competition. It's  
19 why are the grocery stores closing down in  
20 New Hampshire and why have some grocery  
21 stores gone to court to stop other grocery  
22 stores from being built. You say, why do  
23 they care? It's because, you know, they

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

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

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

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

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1 how all that works. But at the same time,  
2 you know, it really depends on weather and  
3 how much load you have, because whenever you  
4 have high prices like we had in that heatwave  
5 or you have in the cold weather, we get great  
6 savings for customers. And on a day like  
7 today, you know, we can buy from the market  
8 at \$30, and then it's three cents a kilowatt  
9 hour. Okay. In our projection we said it  
10 was going to be five cents or six cents. So  
11 we're doing better than projections on days  
12 like today, too. So, you know, where it all  
13 -- when all the math comes together, I  
14 wouldn't be surprised if our rate went down  
15 in January and --  
16       SEN. BRADLEY: All right. If  
17 I could editorialize it. If your rate goes  
18 down in January, that probably makes the  
19 sustainability issue and the move to  
20 divestiture less. But on the other hand, if,  
21 as a lot of people think, your rates have to  
22 go up because of the embedded cost of the  
23 scrubber, it just makes our job that much

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1 more difficult. We're here to protect  
2 customers.  
3       MR. LONG: Yeah, I --  
4       SEN. BRADLEY: We're here to  
5 protect, you know, the job-producing sector  
6 of New Hampshire also, which largely has  
7 moved away from you because of the large  
8 disparity of pricing. And I think you see,  
9 you know, the pressure points that we're all  
10 under. And we are all in this together,  
11 whether you want to blame me or I want to  
12 blame you -- well, I wasn't here in 2006. I  
13 guess I could say, "Phew." Do you see the  
14 point I'm making, I hope?  
15       MR. LONG: Well, I certainly  
16 see the point where you say we're all in this  
17 together, and I know you sort of rejected my  
18 idea that you could solve it. But you're not  
19 being --  
20       SEN. BRADLEY: Well, I don't  
21 think there's any equity in solving that, to  
22 say to people that have made competitive  
23 choices, now suddenly we're taking away that

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1 competition by shifting the public policy  
2 underneath them. I just don't -- and I don't  
3 think that's equitable. And I can virtually  
4 assure you, because we've had these  
5 discussions, it's not politically feasible  
6 either.  
7       MR. LONG: Yeah. Well, to me  
8 it's analytically feasible, but --  
9       SEN. BRADLEY: It may be  
10 analytically feasible --  
11       MR. LONG: But politically I  
12 can't --  
13       SEN. BRADLEY: -- but you're  
14 an engineer. I'm not.  
15       MR. LONG: So, but, you know,  
16 I'm trying to think of the other part of your  
17 question. You know, as I said earlier, well,  
18 what role of migration do you want? Do you  
19 think 10 percent's the right number? Is it  
20 50 percent, 80 percent --  
21       SEN. BRADLEY: Gary, I'm not  
22 worried about the migration.  
23       MR. LONG: Yeah.

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1       SEN. BRADLEY: What I'm  
2 worried about is price for the people that  
3 stay on default service. And our job is to  
4 protect the public.  
5       MR. LONG: And those customers  
6 who are paying for default service, we're  
7 providing the benefit for all customers,  
8 because when the market changes, you can bet  
9 customers are going to rush back to default  
10 service, and in the meantime, they didn't  
11 have to pay anything. And I think that's  
12 unfair. And I think that's where the state  
13 policy falls apart, because it's being unfair  
14 to those customers who are paying that; yet,  
15 the service is sitting there available to all  
16 for all of time. So that's where we may  
17 disagree.  
18       The other thing I think will  
19 be very interesting -- and this is why I  
20 won't project the future -- but this winter,  
21 this winter is the winter to watch in New  
22 England. It's the winter to watch on supply,  
23 on price. It's the winter to watch. So I

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1 think the thing that will be interesting is  
2 not what PSNH prices are in the winter but  
3 what other people's prices are in the winter.  
4       SEN. BRADLEY: Just one more  
5 question, if I might. There was a gentleman  
6 that testified this morning. See if I can  
7 find his card. A David Soltzberg. And he  
8 had -- he raised a question about a friend of  
9 his who had moved, had migrated from PSNH and  
10 then went back on to default service when his  
11 supplier left the market and said there was  
12 some sort of deal, special deal for returning  
13 default service customers. Do you know  
14 anything about that, or is this maybe an  
15 incorrect --  
16       MR. LONG: This sounds like  
17 misinformation to me, as far as that.  
18       SEN. BRADLEY: All right.  
19       REP. BACKUS: ...  
20 (Indecipherable)... know what this is.  
21       MR. LONG: You know, you're  
22 regulated. We --  
23       SEN. BRADLEY: I assumed that

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1 was the case, but I thought it should be  
2 asked.  
3       MR. LONG: We're not marking  
4 and giving incentives. This is purely  
5 customer choice. We honor that. This is  
6 purely customers making decisions, and we  
7 implement their decision is what it amounts  
8 to. So...  
9       SEN. BRADLEY: Okay. Thank  
10 you.  
11       REP. BORDEN: Representative  
12 Rappaport.  
13       REP. RAPPAPORT: Mr. Long, you  
14 said that because you felt that the price of  
15 gas was rising, that nobody was building any  
16 new gas plants. Is anybody building any new  
17 coal plants?  
18       MR. LONG: No. The question  
19 is -- I made the statement that no one's  
20 likely to build new gas plants because the  
21 market can't sustain it. The question is:  
22 Are they building new coal plants? No. And  
23 if you go through the list -- and I think

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1 you'll all agree with me -- we don't expect  
2 anybody to build a new nuclear plant anywhere  
3 in New England. We don't expect anybody to  
4 build a new coal plant in New England. In  
5 fact, New England coal plants are shutting  
6 down. We don't expect anybody to build a new  
7 oil plant. Oil plants are shutting down. So  
8 if you need electricity in New England, and  
9 you need it reliably, you know, you're  
10 probably going to have to build a natural gas  
11 plant, because that's a reliable plant,  
12 provided you have pipeline capacity. So the  
13 future sources are either renewable or  
14 natural gas. But natural gas is that  
15 dispatchable, that reliable source. That's  
16 why I said it's the fossil fuel of choice.  
17 So we're fortunate that we have time, where  
18 it's not an issue right now, today because  
19 we're not needing a new gas plant built  
20 today. But -- and it wouldn't be built,  
21 anyway, because nobody would do it for the  
22 prices that are there.  
23       So it's sort of a Catch-22.

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1 It's circular. The market is circular. The  
2 prices are too low to build. When the prices  
3 go high and then you build, and then prices  
4 go back and go down. So it really is a tough  
5 market to be in.  
6       Merchant plant owners across  
7 the country have taken financial hits.  
8 They're having a real tough time. The low  
9 gas prices have hurt the margins of nuclear  
10 plants. They hurt the margins of hydro  
11 plants. They hurt the margins of renewable  
12 plants. Everybody's been affected by this  
13 very low natural gas price. Now, that's one  
14 side of the coin. The other side of the coin  
15 is customers are doing quite well because the  
16 prices are lower.  
17       REP. BORDEN: Other questions?  
18 Yes, Representative Walz.  
19       REP. WALZ: I have a couple of  
20 questions. We heard testimony this morning  
21 that in ISO-New England's assessment, they're  
22 looking at plants coming off-line, including  
23 coal plants, including Schiller and the

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

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

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

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

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

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

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

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

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

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

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

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

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

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1 that I would say. That's what we're working  
2 on. You know, paint a picture 10 years from  
3 now. Paint a picture 20 years from now.  
4 Where are we going to be? Because we're in a  
5 long-term business, and too often New England  
6 and New Hampshire doesn't look long term. We  
7 look at today. We look at migration today.  
8 We look at market prices today, and we don't  
9 really think about the future.  
10 REP. BORDEN: Okay. We're  
11 going to stop now and...  
12  
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