

STATE OF NEW HAMPSHIRE

PUBLIC UTILITIES COMMISSION

January 16, 2013 - 10:11 a.m.
Concord, New Hampshire

NHPUC JAN30'13 AM 11:05

RE: DE 12-116
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE:
2011 Reconciliation of Energy Service
and Stranded Costs.

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

Sandy Deno, Clerk

APPEARANCES: Reptg. Public Service Co. of New Hampshire:
Matthew J. Fossum, Esq.

Reptg. Residential Ratepayers:
Susan W. Chamberlin, Esq., Consumer Advocate
Stephen Eckberg, Utility Analyst
Office of Consumer Advocate

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

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

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	FREDERICK B. WHITE	
	MICHAEL D. CANNATA, JR.	
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1	2011 Reconciliation of Energy Service and Stranded Costs filing, including the testimonies of Robert A. Baumann, Frederick B. White, and William H. Smagula, including attachments (05-01-12)	13
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P R O C E E D I N G

1
2 CHAIRMAN IGNATIUS: I'd like to open the
3 hearing in Docket DE 12-116, PSNH's reconciliation of
4 Energy Service and stranded costs for calendar year 2011.
5 On May 1st, 2012, PSNH filed testimony and schedules in
6 support of its proposed reconciliation of revenues and
7 costs associated with its Energy Service Charge and its
8 Stranded Cost Recovery Charge for calendar year 2011. The
9 filing covers the reconciliation between the revenues and
10 expenses included in the SCRC and Energy Service charges,
11 the performance of PSNH's fossil and hydro generation
12 facilities, and how PSNH met its energy and capacity
13 requirements during calendar year 2011.

14 We have a hearing today that's been
15 noticed. And, I understand a Settlement has been entered
16 into among some of the parties. So, let's begin first
17 with appearances please.

18 MR. FOSSUM: Good morning. Matthew
19 Fossum, for Public Service Company of New Hampshire.

20 CHAIRMAN IGNATIUS: Good morning.

21 MS. CHAMBERLIN: Good morning. Susan
22 Chamberlin, Consumer Advocate, for the residential
23 ratepayers, and with me is Stephen Eckberg.

24 CHAIRMAN IGNATIUS: Good morning.

1 MS. AMIDON: Good morning. Suzanne
2 Amidon, for Commission Staff. With me is Steve Mullen,
3 the Assistant Director of the Electric Division, and also
4 Michael Cannata, who is our consultant working for Accion
5 Group.

6 Also, for your information, I did speak
7 with Attorney Patch, who intervened, entered his
8 appearance and intervened on behalf of TransCanada. And,
9 he indicated to me that he will not be participating in
10 the hearing today.

11 CHAIRMAN IGNATIUS: All right. Thank
12 you. So, are there any matters to take up before evidence
13 on the Settlement proposal?

14 (No verbal response)

15 CHAIRMAN IGNATIUS: Seeing none, why
16 don't you get settled with -- is it a panel that's
17 testifying?

18 MR. FOSSUM: Yes. From the Company, it
19 will be Bob Baumann and Rick White and Bill Smagula, on
20 behalf of the Company, and I believe they will be
21 presented in a panel along with Mr. Cannata for Staff.

22 CHAIRMAN IGNATIUS: All right. And,
23 this time, let's give Mr. Cannata a big chair. You got
24 the tiny one, we could barely find you last time. Why

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

1 don't you get settled. This is off the record.

2 (Brief off-the-record discussion ensued.

3 (Whereupon **Robert A. Baumann,**

4 **William H. Smagula, Frederick B. White,**

5 and **Michael D. Cannata, Jr.,** were duly

6 sworn by the Court Reporter.)

7 CHAIRMAN IGNATIUS: Are you ready?

8 Please proceed.

9 **ROBERT A. BAUMANN, SWORN**

10 **WILLIAM H. SMAGULA, SWORN**

11 **FREDERICK B. WHITE, SWORN**

12 **MICHAEL D. CANNATA, JR., SWORN**

13 **DIRECT EXAMINATION**

14 BY MR. FOSSUM:

15 Q. So, I'll just go down and get all of the formalities
16 completed for the record. Start with Mr. Baumann.

17 Could you state your name for the record please.

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

19 Q. And, by whom are you employed?

20 A. (Baumann) I'm employed by Northeast Utilities Service
21 Company, that provide services to all of our operating
22 subsidiaries, including Public Service Company of New
23 Hampshire.

24 Q. And, what are your responsibilities in your position?

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

1 A. (Baumann) I'm the Director of Revenue Requirements.
2 And, my responsibilities are all the revenue
3 requirement calculations filed for Public Service
4 Company of New Hampshire.

5 Q. And, have you previously testified before this
6 Commission?

7 A. (Baumann) Yes.

8 Q. And, Mr. Smagula, could you state your name for the
9 record please.

10 A. (Smagula) William H. Smagula.

11 Q. And, by whom are you employed?

12 A. (Smagula) I'm employed by Public Service Company of New
13 Hampshire.

14 Q. And, what is your position and responsibilities in that
15 position?

16 A. (Smagula) My position is Vice President of Generation.
17 And, I have responsibility for all fossil and hydro
18 generating assets owned by Public Service Company.

19 Q. And, have you previously testified before this
20 Commission?

21 A. (Smagula) Yes, I have.

22 Q. And, lastly, Mr. White, could you state your name for
23 the record please.

24 A. (White) Frederick White.

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

1 Q. And, what is your position? I'm sorry. And, by whom
2 are you employed?

3 A. (White) I'm employed by Northeast Utilities Service
4 Company.

5 Q. And, what is your position and your responsibilities in
6 that position?

7 A. (White) I'm a Supervisor in the Energy Supply
8 Department. And, my responsibilities include analysis
9 of the Public Service of New Hampshire Company's load
10 and power supply portfolio.

11 Q. And, have you previously testified before this
12 Commission?

13 A. (White) Yes, I have.

14 MS. AMIDON: Thank you.

15 BY MS. AMIDON:

16 Q. Mr. Cannata, would you state your full name for the
17 record please.

18 A. (Cannata) Michael D. Cannata, Jr.

19 Q. For whom are you employed?

20 A. (Cannata) I am employed by Accion Group, who's under
21 contractual arrangement with the Commission to provide
22 services of this nature.

23 Q. So, in connection with your engagement, you reviewed
24 the filing in this docket and other matters, is that

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

1 correct?

2 A. (Cannata) That is correct.

3 Q. And, have you testified before this Commission
4 previously?

5 A. (Cannata) Yes, I have.

6 MS. AMIDON: Thank you.

7 BY MR. FOSSUM:

8 Q. And, now, I guess for Mr. Baumann, Mr. White, and
9 Mr. Smagula, did you file prefiled testimony in this
10 docket?

11 A. (Baumann) Yes.

12 Q. And, was that testimony prepared by you or under your
13 direction?

14 A. (Baumann) Yes, it was.

15 Q. And, the same is for all of you?

16 A. (Smagula) Yes. The testimony was prepared by me or
17 those working with me, and was filed in this docket.

18 A. (White) Likewise, for my portion of the testimony.

19 Q. Thank you. And, are there any -- strike that. Mr.
20 Baumann, are there any updates or corrections to your
21 testimony today?

22 A. (Baumann) No.

23 Q. And, if you were asked the same questions that are in
24 your testimony, would your answers be the same today as

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

1 they were when it was filed?

2 A. (Baumann) Yes.

3 Q. And, Mr. Smagula, are there any updates or corrections
4 in your testimony today?

5 A. (Smagula) No.

6 Q. And, if you were asked the same questions today, would
7 your answers be the same today?

8 A. (Smagula) Yes, they would.

9 Q. And, Mr. White, are there any updates or corrections
10 for your testimony today?

11 A. (White) Yes, there are. There's some edits that I'd
12 like to read into the record.

13 Q. Yes.

14 A. (White) And, these edits do not impact the financial
15 reconciliation filed by the Company. This is
16 supplemental information provided for explanatory
17 purposes. It's developed separately from the financial
18 reports in the filing. And, I would direct everyone to
19 Page 3 of my testimony, which is Bates Page 052. And,
20 I'll read through the necessary edits. On Line 24,
21 "41.20" per megawatt-hour, should be "41.12". On Line
22 25, total expense figure of "33.8 million", should be
23 "33.7 million". And, on Line 26, the average cost of
24 "43.39" per megawatt-hour, should be "43.03". The last

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1 correction on this page is in Line 33, energy purchase
2 costs of "103.9 million", should read "103.8 million".

3 There are associated corrections in
4 Exhibit FBW-3. I don't have the Bates reference for
5 that with me. But it's Attachment FBW-3, just a few
6 pages behind, at the end of my testimony section.

7 CHAIRMAN IGNATIUS: That would be
8 Page 059 on the Bates?

9 MR. FOSSUM: Yes, that would be Bates
10 Page 059.

11 CHAIRMAN IGNATIUS: Thank you.

12 WITNESS WHITE: Thank you.

13 **BY THE WITNESS:**

14 A. (White) In that table, the section at the bottom, in
15 the bottom left section, under "Off-Peak" purchases,
16 the third column in, labeled "Total Bilateral
17 Purchases", the entry for the month of May should read
18 "3,111", rather than "3,178". And, in the next column
19 to the right, under "Average Price", should read
20 "43.95", rather than "44.88". And, in the "Totals"
21 line, at the bottom of that section, under "Total
22 Bilateral Purchases", should read "7,970", rather than
23 "8,036". And, under "Average Price", it should read
24 "43.03", rather than "43.39".

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1 So, these represent small decreases in
2 purchase costs and off-peak purchase costs. Again,
3 this is supplemental information provided for
4 explanatory purposes, doesn't impact the financials.
5 And, the parties in this proceeding were notified of
6 these changes I believe it was last September, during
7 the technical session, including Mr. Cannata. So, he
8 was aware of this information in preparation in his
9 work.

10 BY MR. FOSSUM:

11 Q. Thank you. And, with those changes and updates, is
12 this testimony true and accurate to the best of your
13 knowledge and belief today?

14 A. (White) Yes, it is.

15 MR. FOSSUM: Thank you. I would enter
16 the combined testimony of the PSNH witnesses as the first
17 exhibit for identification.

18 CHAIRMAN IGNATIUS: That's fine. And,
19 then, is it what we received in the gray binder?

20 MR. FOSSUM: Yes. The complete filing
21 from May, I believe May 1st of 2012.

22 CHAIRMAN IGNATIUS: Thank you. We'll
23 mark that for identification as "Exhibit 1".

24 (The document, as described, was

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1 herewith marked as **Exhibit 1** for
2 identification.)

3 MR. FOSSUM: I know that lately the
4 Commissioners have decreased the amount of testimony being
5 summarized from the stand. I'm willing to forgo having
6 the witnesses summarize their testimony and move onto the
7 next item or, if you prefer, we can have the witnesses
8 briefly summarize their testimony?

9 CHAIRMAN IGNATIUS: I think that's fine.
10 We don't need it summarized.

11 MR. FOSSUM: Thank you.

12 BY MS. AMIDON:

13 Q. So, Mr. Cannata, I'm addressing this question to you.
14 Did you file testimony on behalf of Staff in this
15 docket?

16 A. (Cannata) Yes, I did.

17 Q. And, I have in front of me a document that indicates
18 "Direct Testimony of Michael D. Cannata, Jr., P.E.",
19 dated October 26, 2012. Do you have that document?

20 A. (Cannata) Yes, I do.

21 Q. And, with the attachments, it consists of 296 pages, is
22 that correct?

23 A. (Cannata) I can take a quick look here. The answer is
24 "yes".

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

1 Q. Thank you. Do you have any corrections or other
2 updates to this, to your testimony?

3 A. (Cannata) No, I do not.

4 Q. So, if you were asked the same questions today, you
5 would provide the same answers, would that be correct?

6 A. (Cannata) Yes, I would.

7 MS. AMIDON: Thank you. I would like to
8 mark this for identification as "Exhibit 2". And, I
9 believe I've given copies, now that I think of it, to the
10 stenographer and to the clerk. Thank you.

11 CHAIRMAN IGNATIUS: So marked. Thank
12 you.

13 (The document, as described, was
14 herewith marked as **Exhibit 2** for
15 identification.)

16 MS. AMIDON: Pardon me, madam Chairman.
17 May I just ask one final question of my witness?

18 CHAIRMAN IGNATIUS: Of course.

19 BY MS. AMIDON:

20 Q. Mr. Cannata, I had meant to ask you, did you
21 participate in settlement agreements in this docket,
22 that led to the Settlement Agreement between Staff and
23 the Company?

24 A. (Cannata) Yes, I did.

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

1 MS. AMIDON: Thank you. Thank you,
2 madam Chair.

3 BY MR. FOSSUM:

4 Q. And, returning to the Company's witnesses, did each of
5 you participate in Settlement discussions in this
6 docket?

7 A. (Baumann) Yes, I did.

8 A. (Smagula) Yes.

9 A. (White) Yes.

10 Q. And, those are the discussions that resulted in the
11 Settlement Agreement that was filed on December 26,
12 2012?

13 A. (Baumann) Correct.

14 A. (Smagula) Yes.

15 A. (White) Yes.

16 Q. And, each of you familiar with the terms of that
17 Settlement Agreement?

18 A. (Baumann) Yes.

19 A. (Smagula) Yes.

20 A. (White) Yes.

21 MR. FOSSUM: Thank you. I would enter
22 the Settlement Agreement as "Exhibit 3" for
23 identification.

24 CHAIRMAN IGNATIUS: So marked.

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

1 (The document, as described, was
2 herewith marked as **Exhibit 3** for
3 identification.)

4 MR. FOSSUM: I would, I guess, ask the
5 same question with regard to the Settlement Agreement as
6 with the testimony. If the Commissioners would like, we
7 can offer a brief summary of the Settlement Agreement or
8 we can simply move on?

9 CHAIRMAN IGNATIUS: I think, if there
10 are items in particular to note in the Settlement, we've
11 read it, obviously, and can explore it in more detail.
12 But you might perhaps have the witnesses walk through the
13 sort of key provisions that you think bear some further
14 explanation.

15 MR. FOSSUM: Certainly.

16 BY MR. FOSSUM:

17 Q. Mr. Baumann, Mr. Smagula, or Mr. White, as may be most
18 appropriate, would you very briefly explain some of the
19 provisions of the Settlement Agreement that was filed
20 on December 26, 2012.

21 A. (Baumann) Sure. Why don't I start. Really, the terms
22 of the Settlement Agreement start on Page 3, in Roman
23 Section III, titled "Settlement Terms". And, there are
24 just a couple. And, then, I'll turn it over to my

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1 colleagues.

2 The first section talks about energy
3 purchases and procurement of energy during 2011. It
4 finds that the values presented were accurate, they
5 were made with sound management decisions, and that the
6 capacity factor projections used in the procurement
7 process were reasonable. And, last, with respect to
8 purchases, there's a discussion on the focus on the
9 short-term market in 2011, which reduced costs, and a
10 recommendation that this should be continued into the
11 near future. That's the first section.

12 The second section, up on Page 4,
13 entitled "Unit Outages" or "C", it really is a section
14 that just says that "PSNH will not seek recovery of
15 \$2,203 of replacement power costs" associated with a
16 handful of outages during the 2011 reconciliation
17 period. And, those outages are actually found on
18 Page 3 of the Settlement in a table.

19 And, then, the last section is really,
20 which is Section D, as in "dog", in Page 4 of the
21 Settlement. And, it's a series of recommendations
22 regarding the operation and maintenance of the PSNH
23 generating units for the year. And, there's a wide
24 range of issues, and I would defer to my colleagues to

1 the left here to discuss them.

2 And, lastly, I would just ask the
3 Commission, on behalf of the Company, that you would
4 review and approve in its totality the Settlement
5 Agreement as filed in this docket. Thank you.

6 A. (Smagula) Good morning. In order to supplement the
7 information that Mr. Baumann just provided, I will
8 comment that, in the area of the generating assets, an
9 extremely thorough review was conducted last year for
10 these -- for the work and the management of the
11 generating assets for 2011. This was done in
12 significant detail, with numerous interviews of many
13 people and a review of a huge amount of documents. The
14 conclusion, I believe, that was reached was that a
15 handful of outages were deemed to have some questions
16 regarding actions of the Company. And, as has been
17 stated, there are a few thousand dollars worth of
18 replacement power costs that were put into question.
19 And, as is stated in the Agreement, PSNH agreed to
20 forgo recovery of these power costs, in an effort to
21 reach settlement agreements, and it is not an admission
22 of any imprudence on the outages or management
23 decisions that were made.

24 In addition to the review of those

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1 specific actions or those specific outages, a number of
2 recommendations have been identified in the agreements.
3 I think there's a total of 12. And, PSNH generation,
4 to a great extent, is responsible to follow through and
5 conduct studies, to conduct reviews, to modify
6 practices, as a result of them, in an effort to try to
7 further improve and enhance the management of our
8 facilities. And, those actions are being worked on,
9 and will continue to be worked on until they are
10 completed. I believe that summarizes the generation
11 aspect of this Agreement.

12 MR. FOSSUM: Thank you. And, I guess,
13 subject to Staff having any direct questions for its
14 witness, the Company's witnesses are available for cross.

15 CHAIRMAN IGNATIUS: All right. Thank
16 you. Ms. Amidon.

17 MS. AMIDON: Just very briefly.

18 BY MS. AMIDON:

19 Q. In connection with the recommendations that was
20 referenced by Mr. Smagula, is it true that you also
21 reviewed recommendations that you had made in prior
22 reconciliation dockets, to determine whether those
23 activities had been completed or needed to continue to
24 be monitored?

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

1 A. (Cannata) Yes. A complete review was done of the open
2 recommendations from previous dockets, and there's two
3 or three. Some were recommended to be closed, and the
4 reasoning is there, and there are a few that are being
5 carried forward or being requested to be carried
6 forward for further review when they become further
7 complete.

8 Q. Thank you. And, did you have anything else you wanted
9 to add to Mr. Smagula's description of the
10 recommendations that begin at Section D?

11 A. (Cannata) No. His description was accurate.

12 MS. AMIDON: Thank you.

13 CHAIRMAN IGNATIUS: All right.

14 Ms. Chamberlin, questions?

15 MS. CHAMBERLIN: Yes, I have a few
16 questions.

17 **CROSS-EXAMINATION**

18 BY MS. CHAMBERLIN:

19 Q. I'm going to start by just going more or less in order
20 of the testimony. I just have a few questions for
21 each. So, Mr. Baumann, if I may. You have stated that
22 the Energy Service rate is based on a forecast of
23 PSNH's actual, prudent, and reasonable costs. Is that
24 a fair statement?

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

1 A. (Baumann) Yes.

2 Q. And, in terms of whether a cost is prudent, you look at
3 alternatives? For example, do you check the spot
4 market to check the price on what that would be,
5 compared to running your own generation?

6 A. (Baumann) So, you're referring to a specific
7 methodology we use to purchase power?

8 Q. Yes.

9 A. (Baumann) I think I'll defer that to Mr. White, if
10 that's okay?

11 Q. Sure. I'll stay with Mr. Baumann for now, though.

12 A. (Baumann) Oh.

13 Q. And, then, I'll get to you. Is there, as you're
14 looking at whether or not something is reasonable, is
15 there a cents per kilowatt-hour cost number which, when
16 it gets to that point, it's just unreasonable? Do you
17 have a cut-off point?

18 A. (Baumann) No. It's based on the costs incurred. Now,
19 you're talking about a rate?

20 Q. A rate impact, yes.

21 A. (Baumann) Setting a rate. And, in this docket, we're
22 obviously talking about the actual costs for 2011 as
23 incurred. So, you know, with that respect, these are
24 the actual costs, they're general electric costs that

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1 were presented here. When you're presenting a rate for
2 forecast purposes, again, you put together a parameter
3 and a simulation that has details that will, as
4 accurately as possible, forecast the next year's rate
5 to be recovered -- that would adequately recover costs.

6 And, a good example is 2011. If you
7 take out the Scrubber costs, which were a separate item
8 in this filing, there was really only about a \$200,000
9 underrecovery, when you compared revenues to expenses
10 for 2011. It's actually the closest I've ever seen it
11 in all my many years being here. So, that's really the
12 objective when you set a rate, would be to forecast the
13 costs as closely as possible to what actual would be,
14 so that you could bill a rate that was as accurate as
15 possible.

16 Q. And, in this case, it's a 13.5 million underrecovery,
17 is that approximately correct?

18 A. (Baumann) It was 13.3 in my testimony, and 13.1 of it
19 was due to the Scrubber costs. But, if you put them
20 aside, which, in effect, we are for recovery purposes
21 in 2011, it was really just \$200,000, or 0.2 million
22 underrecovery, for the entire year, which is an
23 extremely accurate forecast.

24 Q. Now, if you -- you make your forecast, you incur your

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

1 actual costs. But, for reasons beyond your control,
2 your projection is way off. Is there any moment that
3 the rate impact is so high that you say "you know what,
4 this is unreasonable", even though we're using actual
5 costs?

6 A. (Baumann) Well, again, in the forecast, you use
7 projected costs. If, during the period -- during the
8 year, there is a midterm adjustment methodology, where
9 you can adjust that rate midterm, if you feel it's
10 appropriate. And, the Commission has chosen to do that
11 on many alternatives.

12 Q. If you have a very high underrecovery, so you're going
13 to experience rate shock if you implement this, do you
14 have a number in mind that is "rate shock" to you?
15 That you would say "You know what, we need to do
16 something else, because this is just too high"?

17 A. (Baumann) No, I have never really defined it, a number
18 for rate shock.

19 Q. So, essentially, it's actual, prudent at the time, no
20 matter what the impact, you believe it's reasonable?

21 A. (Baumann) No. In numerous -- well, not "numerous", in
22 a few occasions in the past we have had large over-
23 and/or underrecoveries that we actually, as a company,
24 have proposed to smooth out the rate impacts. So, we

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

1 -- I know, just recently, we had a large overrecovery
2 that we had recommended that would be smoothed. The
3 Commission did not take our recommendation in that
4 respect. That was in the 2012 billing period. We've
5 had large underrecoveries that we've asked to be
6 smoothed in the past. And, I believe, in most of those
7 situations, the Commission did approve a smoothing
8 impact.

9 Q. So, that would be your proposal, if it reached some
10 undefined, but really high underrecovery, perhaps you
11 would come forward with a delayed mechanism to collect
12 the rates?

13 A. (Baumann) Well, that would be a consideration,
14 certainly. We have done it in the past. We would
15 certainly consider it in the future. You have to look
16 at the rate structure, the carrying charges, there are
17 a lot of different things you look at. But PSNH has
18 certainly been open to mitigating a one-time rate
19 impact for large overrecoveries or underrecoveries in
20 the past.

21 Q. And, would you consider simply not seeking recovery of
22 a cost, because you didn't want to burden your
23 customers with it?

24 A. (Baumann) If a cost was prudently incurred, PSNH would

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

1 ultimately seek recovery of that cost.

2 Q. No matter what? Can't imagine a situation where you
3 wouldn't?

4 A. (Baumann) Correct.

5 Q. All right. I was looking at your testimony from the
6 prior year. And, I'm just trying to just get an
7 understanding of some of the differences between the
8 years. The testimony stated that coal generation
9 resources were put into reserve shutdown and
10 alternative market purchases were taken. Is that the
11 same thing that happened this year?

12 A. (Baumann) Again, I'll have to defer to my --

13 Q. Okay.

14 A. (Baumann) -- experts here, probably Mr. White.

15 A. (White) Yes. It's fair to say, in general terms, that
16 occurred in 2011, yes.

17 Q. In describing the coal units, this is actually -- I've
18 gone to Mr. White now. You include coal as a baseload
19 unit. Is that still an accurate description?

20 A. (White) Well, it's -- it would be -- it's duty, when it
21 was built and put into service, was as a baseload unit.
22 And, for the majority of its life, to date, it served
23 that duty. As we've discussed, it is not baseload
24 across all months in a year, in recent years. But I

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1 think it would be fair to describe it as "baseload"
2 over given periods of time, perhaps a week, two weeks,
3 a month at a time, such that, when it's on line, it
4 stays on line. And, typically, we'll run at full load
5 across peak hours. We're talking about Merrimack,
6 correct?

7 Q. Just coal units in general, but Merrimack, that's -- we
8 can get more specific -- I'll get more specific with
9 Mr. Smagula's testimony. Another point from the prior
10 testimony was, when fuel expense for Newington is lower
11 than the cost of purchasing power, that's when the
12 Newington Station runs? Is that statement accurate for
13 this year?

14 A. (White) Yes. That's correct. And, it's not just -- it
15 doesn't only run when PSNH has a need to serve load.
16 So, you may not be looking at a necessary purchase as
17 an alternative. It may simply be that prices in the
18 market are high, and that value can be gained for ES
19 customers by generating energy from Newington.

20 Q. And, selling it back into the market, is that what you
21 mean?

22 A. (White) That's correct.

23 Q. Okay.

24 A. (White) And, that would happen when its fuel costs were

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

1 below market prices.

2 Q. And, Newington is oil and gas, is that correct?

3 A. (White) Yes. It can burn either.

4 Q. Right. Looking at -- you're familiar with the fact
5 that PSNH's generation operates in a regional market,
6 correct?

7 A. (White) That's correct.

8 Q. And, it's dispatched by the ISO-New England?

9 A. (White) That's correct.

10 Q. And, you've received capacity payments as a discount or
11 as an offset for the Energy Service rate?

12 A. (White) Yes. PSNH generation sells capacity into the
13 regional market. And, PSNH load pays for capacity in
14 the regional market. So, within the ES portfolio, the
15 two, to some degree, offset.

16 Q. My recollection is it was \$45 million, is that correct?

17 A. (White) Of revenue --

18 Q. Of the capacity payment from ISO-New England to NU or
19 PSNH?

20 A. (White) That sounds correct. I can check, because I
21 believe that number is in testimony, on Page 5, of
22 45.1 million in revenue in 2011.

23 Q. Okay. And, that's counting all of your generation.

24 You got credit for all of your units? For instance,

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

1 you get capacity credit for Newington, whether it runs
2 or it doesn't run?

3 A. (White) That's correct.

4 Q. Because it's there?

5 A. (White) Yes.

6 Q. Okay. And, have you run a sensitivity analysis, let's
7 say you retied Newington, what impact would that have
8 on your capacity payments?

9 A. (White) Well, we're aware of what portion of the 45.1
10 is attributable to Newington.

11 Q. So, you can run that factor pretty quickly, you just
12 haven't done it yet, or you haven't -- you don't have
13 it in your mind right now?

14 A. (White) I don't have a number that I could give you
15 right now.

16 Q. But that can be determined?

17 A. (White) Because the payments are by resource, and by
18 the capability of each individual unit.

19 Q. So, if it's running at its maximum capacity,
20 100 percent, you would have a certain amount of power,
21 and that's what you get paid for, even if you don't
22 actually run it, because your unit is available?

23 A. (White) Well, we're speaking about the capacity market
24 now. So, as I thought you had stated, even when the

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

1 unit is not generating, it has capacity value and
2 receives payments, even during a month where it may not
3 have generated any energy.

4 Q. Right.

5 A. (White) And, those payments are based on "its
6 capability", which is by a rating system used in the
7 regional market. So, you --

8 Q. Yes. Now, one of the factors that affects the rate
9 impact on customers is the amount of migration of
10 residential/commercial customers from PSNH, as a
11 supplier, to competitive suppliers, correct?

12 A. (White) That's correct.

13 Q. And, the migration has been about 36 to 38 percent. Is
14 that still correct?

15 A. (White) During 2011, I believe migration was generally
16 in the low 30s, and increased toward the upper 30s.
17 So, my recollection, the average over the year was 35
18 or 36 percent.

19 Q. And, do you have a projection going forward what that
20 might be?

21 A. (White) I can tell you that our calculation of
22 migration through December 2012 was 41.5 percent. The
23 ES rate setting in December utilized 42 percent.

24 Q. Okay. Turning to Mr. Smagula's testimony, Page 3, you

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

1 use the word "availability", "unit availability". That
2 is different from "capacity factor", correct?

3 A. (Smagula) Yes.

4 Q. And, can you explain the difference please?

5 A. (Smagula) Yes. "Capacity factor" is the amount of
6 hours in a given period that the unit -- the
7 megawatt-hours that are generated over a period of
8 time, as compared to the maximum number of
9 megawatt-hours that are generate -- that could be
10 generated. So, that would be the "capacity factor".
11 How much they produced, as compared to the maximum
12 amount they could have produced.

13 Q. Okay.

14 A. (Smagula) Whereas, the "availability" is determined by
15 the number of hours that the unit is available to
16 operate, as compared to the total number of hours in
17 that period.

18 Q. And, at the back of your testimony you have some fossil
19 plant graphs. There aren't any Bates stamps, but
20 they're the last two pages of the document that I have.

21 A. (Smagula) In the testimony or the appendix?

22 Q. Well, let's see. I think it's the appendix. Yes, it's
23 the appendix. Last two pages.

24 A. (Smagula) I have those pages.

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1 Q. Okay.

2 A. (Smagula) There are a number of pages. Which ones are
3 you --

4 Q. Well, we can go backwards.

5 A. (Smagula) Okay.

6 Q. We can start with the one entitled "Fossil Plant Graphs
7 - Planned Outages Omitted".

8 (Court reporter interruption.)

9 MS. AMIDON: And, just for
10 clarification, I apologize, I wanted to say that there is
11 a Bates stamp. I believe 123 and 124.

12 MS. CHAMBERLIN: Oh. Yes.

13 MS. AMIDON: Just for the sake of people
14 who are looking for it. Thank you.

15 BY MS. CHAMBERLIN:

16 Q. Okay. I'm on Page 124.

17 A. (Smagula) Okay. Yes. I have that page.

18 Q. Okay. And, you've got the dark line with the square,
19 "AVI". Is that average?

20 A. (Smagula) Yes. That's "Availability 1". It's a
21 certain characteristic of calculating availability
22 with, as the title of the page indicates, with the
23 planned outages omitted. Because the rationale for
24 that is, that if, during the course of a year, a unit

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1 has a planned four-week maintenance inspection that's
2 occurred, if you then would assume that the year is
3 four weeks shorter, your analysis is based on, "of all
4 the weeks that the unit was not planned to be
5 unavailable, what would the capacity factor be?" So,
6 one is availability, the blue, and then the capacity
7 factor is the lower value, the lower curve, which, in
8 my sheet, is red.

9 Q. Okay. And, in mine, it's just lighter, with a triangle
10 on it.

11 A. (Smagula) Yes.

12 Q. So, starting at the Schiller Unit 4, the availability
13 stays fairly high, above 90 percent. And, then, if you
14 look at the lower one, at around 2008 it starts to drop
15 down, to 2011 it's way down at the bottom. So, that
16 tells us that it was ready to run, but it just didn't
17 run very often for economic reasons?

18 A. (Smagula) That's correct.

19 Q. Schiller 5, that's the unit that is now burning wood,
20 is that correct?

21 A. (Smagula) Yes.

22 Q. And, that one, the same two lines, around 2006, it
23 starts going up. Do you recall when you converted to
24 wood?

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

1 A. (Smagula) The conversion began in December 1st, 2006.

2 Q. A coincidence. And, then, the Schiller 6, similar to
3 Unit 4, the actual run time, around 2008, starts to
4 drop off significantly. And, --

5 A. (Smagula) Yes. It drops from the 80s, down into the
6 50s, right.

7 Q. And, the Unit 4 and Unit 6, are those both coal units?

8 A. (Smagula) Excuse me? Yes.

9 Q. And, would you expect, as units get older, that they
10 will have more planned outages or are there ways to
11 mitigate that impact?

12 A. (Smagula) There's numerous ways to mitigate that. So,
13 more planned outages is not relevant to age. In fact,
14 with somewhat reduced capacity factors, planned outages
15 have some likelihood of being reduced or conducted at
16 all -- or, not conducted at all.

17 Q. Now, flipping back to Page 123.

18 A. (Smagula) Yes.

19 Q. We have different units, similar drops occurring at
20 2008, looking at Merrimack Unit 1, capacity factor
21 going down to -- are you saying that the capacity
22 factor of Merrimack Unit 1 is 70 percent? In 2011?

23 A. (Smagula) It was. That's the capacity factor, if you
24 exclude the planned outages.

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

1 Q. Okay. And, if you include the outages, it goes down
2 to, I'm looking at Page 121, you're saying
3 "50 percent"?

4 A. (Smagula) I think it's in the 50s.

5 Q. Okay. And, then, unit two starts to drop in 2009,
6 without -- with planned outages, it's down to 40,
7 between 40 and 50, is that correct?

8 A. (Smagula) In which curve are you looking at?

9 Q. Well, I'm looking at Page 121, "Unit 2 Historic
10 Performance Data", it's the middle graph.

11 A. (Smagula) Yes. I think it's in the high 40s. Is that
12 what you indicated? Yes.

13 Q. I think so, yes. And, looking at Newington, does --

14 CHAIRMAN IGNATIUS: Can I ask,
15 Ms. Chamberlin, you've moved between two different ways of
16 depicting this, "with planned outages" and "without".
17 And, which -- are you sticking with the 123/124 pages or
18 are you now in 121/122?

19 MS. CHAMBERLIN: Well, I've been
20 comparing, as you noticed, the planned outages and the
21 planned outages omitted. I'm trying to grasp the impact
22 of the way it was calculated. I can understand the
23 concept, but I'm trying to coordinate the numbers. So, I
24 will go -- I will go back to the planned outages, and try

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1 to stay there.

2 CHAIRMAN IGNATIUS: So, Pages 121 and
3 22 [122?]?

4 MS. CHAMBERLIN: No, 123/124.

5 CHAIRMAN IGNATIUS: So, without the
6 planned outages?

7 MS. CHAMBERLIN: I'm sorry, planned
8 outages omitted, yes.

9 CHAIRMAN IGNATIUS: Okay. Thank you.

10 BY MS. CHAMBERLIN:

11 Q. So, looking at Newington, which is the bottom graph,
12 2006 it goes down to about 10 percent. Since Newington
13 is a gas -- has the option of running on gas, I'm
14 surprised it hasn't run more. Can you explain why it
15 hasn't run more?

16 A. (Smagula) Newington does not -- is not dispatched on
17 firm gas purchases. As a result, when the economics of
18 the market are such that the unit is -- has some
19 likelihood of running, we look at each fuel that it can
20 burn and determine which would be the lower cost on a
21 given day. And, based on gas availability and gas
22 price, at the price we buy gas, because we're not a
23 firm customer, we would look at the spot market or the
24 intraday market, and we would then determine what the

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1 price of the unit would be to be dispatched on a given
2 day. Whether it be a very -- a warm day or a hot day
3 or a cold day, and we then would bid our unit in
4 accordingly, in order to make sure that we would be
5 reimbursed for our fuel purchase. And, then, the ISO
6 would determine, based on the market conditions,
7 whether that unit would be picked up or not. So, it's
8 not a easy answer. It's just not based on what we can
9 go buy gas on, because that's a dynamic situation. For
10 example, gas prices at the moment are very high,
11 because there is a high demand, due to energy needs of
12 residential customers and the limitations of the
13 transportation system to bring gas into New England.
14 New England doesn't have much storage of gas. So,
15 we're kind of subject to the transportation market.

16 Q. So, is it a fair summary that Newington isn't running
17 not because gas is inexpensive, essentially, but that
18 it's not available to the Newington unit, for a variety
19 of reasons?

20 A. Oh, no, gas would be available, but it's the price that
21 the gas would be available. And, if the price is
22 extremely high, or higher than would allow us to bid
23 the unit in economically and it's not picked up. So,
24 there are a number of variables that are factored into

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1 a decision on what to bid the unit in on any given day.
2 And, then, the market determines whether the unit is
3 picked up. For example, there was a situation a few
4 weeks ago where gas was available at an extremely high
5 price. The market was at an extremely high price.

6 And, we bid the unit in on oil, and the unit was picked
7 up on oil, and provided significant value to customers,
8 versus what we otherwise would have had to buy the
9 energy in the daily market.

10 Q. So, when you look at --

11 A. (Smagula) So, there is flexibility on the fuel, but
12 it's a dynamic situation on a weekly or, in fact, daily
13 basis.

14 Q. Okay. And, if Newington didn't run at all, would that
15 cause you to bid in other plants in a different way, if
16 you retired it?

17 A. (Smagula) Newington is bid in every day. The market
18 consumption and projected consumption, the market needs
19 then dictate which units run in New England. So, we
20 bid the unit in every hour of every day, and we do that
21 daily.

22 Q. Now, recognizing that this is not the planning document
23 [docket?], do you at any point say "This plant just
24 isn't running very much, it would be more economic to

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1 shut it down"?

2 MR. FOSSUM: I guess I would, before
3 going on, I would ask, I mean, the question was prefaced
4 by the statement "this isn't the planning docket". So, I
5 guess I would, in this particular docket, I would question
6 what that question is trying to elicit.

7 CHAIRMAN IGNATIUS: Ms. Chamberlin.

8 MS. CHAMBERLIN: I'm trying to look at,
9 when they -- the alternatives, when they are making a
10 prudent choice, what are they looking at? And, if you
11 say, "it's not my job, I just bid in the plants", you
12 know, fine, that's the answer. But I'm interested to see
13 where the decision-making happens, and, if it happens, in
14 what way?

15 CHAIRMAN IGNATIUS: I think that's fair.
16 Mr. Smagula.

17 **BY THE WITNESS:**

18 A. (Smagula) You know, I think there are studies that have
19 been made that are on file with the Commission that
20 illustrate that Newington provides value to customers,
21 even with the capacity factors that are demonstrated on
22 this sheet. And, that has to do with its overall value
23 to customers in providing energy, which is limited, but
24 also in its capacity value and its benefit to customers

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1 for other products that it possesses in the ISO-New
2 England market.

3 BY MS. CHAMBERLIN:

4 Q. So, the benefit is for the whole ISO-New England
5 market, not specifically New Hampshire?

6 A. (Smagula) No, it's for PSNH customers directly.
7 There's value there for the unit in the way it operates
8 right now.

9 Q. And, would you say there is also value to the ISO-New
10 England region as a whole?

11 A. (Smagula) Yes, there is. And, that's why we are
12 reimbursed for capacity, with capacity payments and
13 other things. So, yes, it's a benefit for the region,
14 and that benefit flows to our concerns.

15 Q. So, when you're doing this snapshot, you're doing a
16 projection, and then you're doing this reconciliation,
17 you don't make the analysis at that point which would
18 be less expensive, going to the spot market or retiring
19 the plant?

20 A. (Smagula) Well, we make a determination as to which is
21 more beneficial to customers, either procuring energy
22 or running Newington. We do that on a daily basis, and
23 bidding the unit in on a daily basis. Retiring the
24 plant is not something we do on a daily basis. That's

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1 done -- that's a broader issue, and I think it is
2 relevant to the integrated least cost docket. And, I
3 believe there is information there, which on -- with
4 regard to Newington, may assist you. But I think the
5 summary that I provided, that there is net value to
6 customers with the Newington station running and
7 existing with the current capacity factors, is correct.

8 Q. So, in your daily prudence analysis, you don't think
9 "well, are we going to shut it down today?" You assume
10 that you're going to -- that the plant is operational,
11 and your choices are among bidding it in for oil or gas
12 or the price that you bid it in, that's how you make
13 your alternatives?

14 A. (Smagula) We bid the unit in at the lowest price we
15 can, based on fuel price. And, then, the ISO-New
16 England determines whether the unit runs for energy in
17 the subsequent day.

18 Q. Just a final comment on the Schiller Unit 5, the wood
19 conversion. Out of these six graphs, that's the only
20 one that is not going down. That's actually going up.
21 And, is that due to the availability of wood?

22 A. (Smagula) No. It has nothing to do with wood. There
23 has been a consistent availability of wood and a very
24 consistent price for wood, over the last four to five

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1 years. The reason the availability is going up, and
2 I'll say it is due to the engineering work and
3 operations work being done at Schiller Station, based
4 -- in order to eliminate carriers and pieces of the
5 unit that had been identified causing small amounts of
6 outages and small amounts of reduced capacity factor,
7 through targeted maintenance and targeted modest
8 capital investments, the unit's reliability has
9 continued to climb. In fact, it made more power in
10 2012 than it had in any other prior year, and ran in
11 its longest duration of 155 days without an outage in
12 2012. So, the performance of the unit continues to
13 grow. And, you'll see that, in next year's docket on
14 this issue, that the amount of generation will, in
15 fact, climb further.

16 Q. Okay. I have a couple questions for Mr. Cannata. On
17 Page 5 of your testimony, you discuss -- you say that
18 the -- let me get the exact words. That "PSNH's filing
19 is an accurate representation of the capacity and
20 energy purchases." And, then, down on Lines 9 and 10,
21 you say that the purchases are "consistent with its
22 2010 Least Cost Plan." Are you referring to the filed
23 2010 plan?

24 A. (Cannata) There was a document, I believe it was in

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1 September of 2010, which updated PSNH's Least Cost
2 Plan. My review of PSNH's actions during 2012 were
3 consistent with that document.

4 Q. So, you're aware that the document has yet to be
5 approved by the Commission?

6 A. (Cannata) My understanding was that the 2010 document
7 was approved, and there is an additional document
8 pending to be approved by the Commission, which is
9 going to be the 2012 Least Cost Plan.

10 Q. Well, we can leave that. Your recommendation is that
11 approximately \$2,000 will not be recovered in this
12 reconciliation, is that correct?

13 A. (Cannata) That is correct.

14 Q. Do you have a cents per kilowatt-hour, you know, 0.0002
15 impact analysis of what that is?

16 A. (Cannata) On customer rates?

17 Q. Yes.

18 A. (Cannata) No.

19 Q. No. Thank you.

20 A. (Cannata) It would be small, though.

21 Q. It would be small.

22 MS. CHAMBERLIN: Thank you. That's all
23 I have.

24 CHAIRMAN IGNATIUS: Thank you.

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1 Commissioner Harrington, questions?

2 CMSR. HARRINGTON: Yes. Good morning.

3 BY CMSR. HARRINGTON:

4 Q. Let's just kind of follow up with some of the issues
5 that we were just discussing, having to do with the
6 availability factors and capacity factors. I'll be
7 dealing with those same, 121, 122, and so forth pages.
8 And, in your last answer on Schiller, Mr. Smagula, you
9 were talking about various improvements, and I don't
10 know if it was design changes or modifications, but
11 that that's what led to the higher capacity factor.
12 But that doesn't seem to match, if you look at the
13 Merrimack unit, for example, Merrimack 1, which has an
14 availability factor extremely high, yet its capacity is
15 going down. So, it would seem as if improvements in
16 operation and design, whatever, may increase the
17 availability factor, which, of course, could increase
18 the capacity factor, but the main thing driving the
19 capacity factor is cost, isn't it?

20 A. (Smagula) Yes. That's correct. I think in my comments
21 were primarily associated with Schiller 5, which was
22 the area of focus in the last set of questions.

23 Q. And, one of the biggest reasons that Schiller 5 has
24 better cost figures and a higher capacity factor is

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1 because it's able to qualify for RECs under the
2 Renewable Portfolio Standard, --

3 A. (Smagula) Yes.

4 Q. -- which the other units are not.

5 A. (Smagula) And, there's also a federal tax credit.

6 Q. Okay. And, there was a lot of discussion on Newington
7 and bidding, and just tell me if I'm wrong here.

8 Basically, each, on the day before, you bid -- I'm
9 assuming you bid into the day-ahead market with
10 Newington?

11 A. (Smagula) Yes.

12 Q. So, you put in a bid based on your going forward cost,
13 where your biggest variable from day-to-day is the cost
14 for fuel?

15 A. (Smagula) Correct.

16 Q. Okay. And, then, that either clears the day-ahead
17 market or it doesn't clear, based on what happens in
18 all the rest of New England, is that correct?

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

20 Q. So, the going forward cost on Newington are mostly
21 driven by the cost of gas, and potentially oil, as you
22 mention, in some cases, because, if gas spikes on a
23 particular cold day, then oil may be cheaper and may
24 actually be dispatched, is that correct?

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1 A. (Smagula) That is correct, yes.

2 Q. And, you were talking -- you were asked about Newington
3 and how often it ran and so forth. And, you did a lot
4 of discussion on availability of gas and so forth. But
5 isn't it correct that Newington is I guess what you
6 call a "thermal gas plant", and it's not a combined
7 cycle gas plant?

8 A. (Smagula) Yes.

9 Q. So, it is inherently much less efficient than a modern
10 combined cycle gas plant?

11 A. (Smagula) It is. And, it has a different heat rate, a
12 higher heat rate. That's correct, yes.

13 Q. And, so, what would you rate the thermal efficiency of
14 the Newington plant to be approximately, either in heat
15 rate or percentage?

16 A. (Smagula) Just under 11,000. So, about ten eight.

17 Q. So, what does that come out to be? Somewhere --

18 A. (Smagula) 10,800.

19 Q. -- about around 30 percent efficient?

20 A. (Smagula) About 35 percent efficient.

21 Q. Thirty-five percent, okay. As compared to a modern
22 combined cycle gas plant, which it's now approaching,
23 looks like they're in the 60 percent range?

24 A. (Smagula) That could be. I'm not sure what the plants

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1 in the region are, based on their age.

2 Q. Okay. And, on Page 123, when talking about Merrimack
3 1, and the capacity factor, the last block there
4 appears to be -- I'm trying to get this -- does that
5 triangle show up in the middle of 2011, the end of
6 2011, or the beginning?

7 A. (Smagula) It's intended to be for that calendar year.

8 Q. Okay. So, for the calendar year 2011, the capacity
9 factor was 70 percent?

10 A. (Smagula) With the planned outages omitted.

11 Q. With the planned outages omitted, okay. And, --

12 A. (Smagula) 2011, if you recall, is our tie-in year with
13 the Clean Air Project. So, both Merrimack 1 and
14 Merrimack 2 had outages associated with that, but those
15 are excluded in this case. So, that's right. This
16 would be outside of those planned outages.

17 Q. Okay. So, for including the planned outages, we go to
18 121, that would be somewhere in the --

19 A. (Smagula) Yes.

20 Q. -- in the high 50s.

21 A. (Smagula) And, that's why those units took a dip in
22 that year, because of the Scrubber tie-in work.

23 Q. You had made a statement earlier, in talking about the
24 prudence, and this is, again, Mr. Smagula, and you had

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

1 said something, that "there was no indication of any
2 imprudent management decisions." Would you limit
3 imprudency to only PSNH management actions, or, if an
4 operator or a mechanic did something incorrect, would
5 that be considered imprudent as well?

6 A. (Smagula) Yes. I think my statement was a reiteration
7 of a statement that existed in the Settlement
8 Agreement. But, in fact, on Page 4, at the top
9 paragraph, which is a general statement, but, in
10 response to your question, yes. An "imprudency"
11 discussion could relate to a management decision or an
12 employee action.

13 Q. Okay. I just wanted to --

14 A. (Smagula) Or any number of things that could occur, a
15 wrong part, anything.

16 Q. I just wanted to make sure we weren't trying to limit
17 it only to management actions?

18 A. (Smagula) No.

19 Q. Okay. Maybe I misunderstood.

20 A. (Smagula) No, and I didn't intend that. I was just
21 trying to reiterate the language in the Agreement.

22 Q. One thing that's been kind of a new phenomenon in our
23 electric markets here is that we're actually seeing
24 higher electric prices on the wholesale level in the

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- 1 wintertime now. And, historically, even though we have
2 a summer peak on load, we've always had a summer peak
3 on price to go along with that. But, due to our large
4 dependency on natural gas, we're actually seeing
5 electric prices on the wholesale level become higher in
6 the winter than they have been in the summertime, and
7 that's, obviously, because the price of gas has spiked,
8 as you mentioned, and you were able to actually have
9 Newington run and be dispatched on oil for a few days.
10 What action have you taken to account for the fact that
11 your fossil units are now going to be running more in
12 the wintertime than they would in the summertime, which
13 is sort of a reverse of what we expected in the past?
- 14 A. (Smagula) There is no specific action that we take in
15 order to enhance our reliability and our unit
16 operations in the winter. Our units are ready to run
17 at any given time during the year. I will say, though,
18 that in the winter, with cooler water, our efficiency
19 is incrementally improved, based on condenser back
20 pressure, and that improves the efficiency of the
21 thermodynamic cycle a bit. But, other than that, we
22 don't take any special precautions. Our units are
23 designed and able to run in any weather.
- 24 Q. Well, I wasn't meaning so much for special precautions

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

1 to make sure, but more like in scheduling of outages
2 and maintenance?
3 A. (Smagula) Oh. Excuse me, yes. Thank you for
4 clarifying to me what you were seeking. Yes. Our
5 units, we manage our fleet in concert with wholesale
6 marketing and bidding, in order to maximize benefit to
7 customers. And, we always take our planned maintenance
8 inspections or overhauls during what's often referred
9 to as the "shoulder months", or those months of the
10 year when demand is lower, because we're in a
11 transition. We're not in the dead of winter with high
12 demand and we're not in the summertime period with high
13 demand. We try to take them in the spring or the fall.
14 And, that practice continues now. And, in fact, if we
15 do have any other reason to take an outage, such as a
16 piece of equipment should be repaired, we will defer
17 that action to take the unit off line for a week or
18 two, and if we see the weather breaking. For example,
19 a few weeks ago Merrimack 1 needed to come off line to
20 do some maintenance, it is now back on line. But we
21 did it during that warm period last week, when demand
22 was down, prices were down, and so that it could be
23 available and, in fact, is on line now, because the
24 prices have gone back up.

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1 So, not only our planned outages, where
2 we have to schedule occasional contractors or other
3 specialty technicians to assist us, that's often in the
4 spring or the fall. But, otherwise, during the year,
5 we're doing that same thinking, continuously working in
6 concert with wholesale marketing to determine what's
7 best, and at the lowest cost.

8 Q. And, I guess -- I guess what I'm trying to get at is
9 that there has been rather a quantum change here in the
10 New England market. Such as, for example, I don't
11 remember the exact date, but sometime last June or July
12 there was a -- I think a front page article in the
13 Union Leader about the Merrimack Station was going to
14 be closed for six weeks or something during the summer,
15 and there was a lot of speculation you were closing the
16 plant down, which was obviously incorrect. But that is
17 something that would have never been thought of doing a
18 few years back, because during the summer months is
19 when the demand was highest and the prices were
20 highest. But I'm just wondering if you made a
21 management change, such as with personnel scheduling
22 vacations, scheduling any type of maintenance, or even
23 activities that would have a higher probability of
24 taking the plant off line, moving those towards summer,

1 and away from the winter, --

2 A. (Smagula) No.

3 Q. -- given that you have a higher chance of running in
4 the winter?

5 A. (Smagula) No. We would want our plants to always be
6 available in the summer period. So, any type of
7 planned maintenance would be in the spring or the fall.

8 Q. Okay.

9 A. (Smagula) Sometimes we do now, in order to assist us in
10 reducing our cost, take our outages during these lower
11 load/lower price periods, and we may extend the length,
12 which what might have been a three-week inspection, we
13 may use five weeks, for example, or, in the case you
14 quoted, six weeks. We do that, because the extended
15 period of time still does not subject our customers to
16 any incremental cost. And, what it allows us to do is
17 do the work on a straight-time basis, rather than work
18 double shifts, seven days a week, which had been the
19 case in the past. We lengthen that now, use our own
20 employees to a greater extent, and work it on
21 straight-time. So, our reduction in availability isn't
22 causing our customers any more costs, in fact, is
23 saving our customers money.

24 Q. Because you're not going to run, you're buying power in

1 the market regardless?

2 A. (Smagula) At a lower price, yes.

3 Q. Okay. Let's see. I'm just going to ask a few
4 different questions now, and whoever is most
5 appropriate to answer them. I guess this would be for
6 Mr. Cannata. In your -- in the Settlement Agreement,
7 it states that "Mr. Cannata reviewed PSNH's capacity
8 and energy transactions and concluded that PSNH's
9 capacity factor projections used in 2011 were
10 reasonable." The reason I ask this question is,
11 because during the recent least cost planning docket,
12 we were basically told that Public Service doesn't
13 really make capacity projections, that they just assume
14 that the -- like, the Merrimack plant is a baseloaded
15 plant, it would run like a baseloaded plant. And, as
16 we've seen by these statistics, it's been -- the
17 capacity factors have been going down. So, what were
18 the projections for capacity factors that you,
19 obviously, were able to have access to?

20 A. (Cannata) What you say, Commissioner, may have been
21 true in the past, but the current process, which is the
22 same process, does not make that global assumption,
23 that the Merrimack units and Schiller units are
24 baseloaded, and, therefore, no reduction. They are put

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1 into the monthly analysis, and there is a number that
2 comes out that projects the economic reserve shutdown
3 periods for that month. And, what I referred to was is
4 that the prices that PSNH was using to meet those
5 projections, in preparation for its December 10 filing,
6 and its update the following July, were reasonable.

7 Q. Okay. So, what you're saying is that there is a
8 method, that wasn't explained to us previously, I
9 guess, but that where, on a monthly basis, Public
10 Service looks ahead, and I assume at future gas prices,
11 availability of other plants, transmission outages,
12 *etcetera*, and projects what they believe the capacity
13 factor will be for each of their fossil units?

14 A. (Cannata) Yes. And, I'm going to refer you to a data
15 request, which might even help make that clearer. And,
16 it's Staff 1-13 and Staff 1-14, and I'll get you the
17 page numbers here.

18 Q. And, that's in your --

19 A. (Cannata) In my testimony.

20 MR. MULLEN: And, if I could, if it
21 helps somewhat, Mr. Cannata, if you -- there's a chart on
22 Page 52 of your testimony, that includes the projected
23 capacity factors?

24 WITNESS CANNATA: Yes.

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1 MR. MULLEN: If that helps the
2 discussion.

3 WITNESS CANNATA: Sure.

4 **BY THE WITNESS:**

5 A. (Cannata) Yes. It's actually Staff 1-9 and Staff 10,
6 and that is at Page 141. If you look at the Attachment
7 to Staff 1-9, this was their projected -- the analysis
8 that I just spoke of. And, in there --

9 BY CMSR. HARRINGTON:

10 Q. I'm sorry, did you say "141" or 142?

11 A. (Cannata) The attachment would be Page 142, yes.

12 Q. Okay.

13 A. (Cannata) You can see that there was some economic
14 reserve shutdown hours modeled in the projected
15 capacity factors.

16 Q. And, maybe you can just walk us through these. Let's
17 just use Merrimack 1. And, the first column,
18 obviously, we have is the date, then we have
19 megawatt-hour --

20 A. (Cannata) Yes. It's the rating of the unit, if you
21 will. And, this is just a summary of, okay, when they
22 ran their models, their monthly models --

23 (Court reporter interruption.)

24 **CONTINUED BY THE WITNESS:**

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1 A. (Cannata) When they ran their monthly models, and I
2 believe this is for the filing, for the December 10
3 filing as noted, for the ES filing, that it showed that
4 there would be 377 hours for Merrimack 1 of reserve
5 shutdown during that month.

6 Q. Okay. So, everybody's clear, could you define the term
7 "reserve shutdown" please.

8 A. (Cannata) The unit is ready to run, but is not needed
9 because -- or, it does not run because of economics.

10 Q. So, what you're saying is that, in all other months,
11 other than May, it would run, if it was actually
12 available?

13 A. (Cannata) That is correct.

14 Q. Okay. And, then, the next one, where it talks about --
15 and, again, I'm trying to follow this. Let's just
16 start at the beginning. "Megawatt-hours per hour"?

17 A. (Cannata) Yes.

18 Q. What does that mean, "megawatt-hours per hour"?

19 A. (Cannata) Unit 1 is rated, and I'll just take the month
20 of January for talk purposes, Unit 1 is rated as 114
21 megawatts in the month of January for its capacity. If
22 it runs for one hour, it would generate 114
23 megawatt-hours in that one hour.

24 Q. So, that's a seasonal claimed capability that you're

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1 reflecting?

2 A. (Cannata) Yes, monthly. It's like a monthly claimed
3 capability, yes, Commissioner.

4 Q. Okay.

5 A. (Cannata) And, based on that, if we go to "May", the
6 analysis done by PSNH said that there would be "377"
7 hours in which "114" megawatt-hours would not be
8 available.

9 Q. Would not be produced?

10 A. (Cannata) By that, yes.

11 Q. Okay.

12 A. (Cannata) Produced by Merrimack 1, because of economic
13 reserve shutdown.

14 Q. And, in the other -- the last column, where it says
15 "Actual", what does that exactly mean?

16 A. (Cannata) That jumps ahead to the actual time period.
17 Remember, we are using data that was probably compiled
18 for a fuel forecast in the Fall of 2010, --

19 Q. Okay.

20 A. (Cannata) -- to make the filing in December of 2010, to
21 get the projected model number. The number in the
22 other column is actual May 2011 actual data.

23 Q. Okay. So, I'm just trying to get this straight now.

24 If the -- if we, let's just say, for example, in the

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

1 modeled one, that the month of May, the "377", was also
2 zero. Would that imply, if the unit was able to run,
3 it would be running at 100 percent capacity?

4 A. (Cannata) Yes.

5 Q. Okay. And, so, what they modeled was the only time
6 that it would not be economical to dispatch the unit
7 was for 377 hours in the month of May?

8 A. (Cannata) Yes.

9 Q. And no other time?

10 A. (Cannata) Correct.

11 Q. And, what was unique about May?

12 A. (Cannata) Well, May is traditionally the lowest load
13 period of the power year period. It's the lightest
14 load. And, generally, that's when you will have the
15 lowest costs on an ISO basis. The prime driver of the
16 economic reserve shutdown would be the price of gas.
17 And, in your earlier conversations, you talked about
18 some things that affect the price of gas. And, as a
19 wholesaler, like if you have a warm winter, all of a
20 sudden you don't have demand for gas in the following
21 summer to fill your caverns, and the price of gas
22 drops. And, that did happen in 2012, which has other
23 ramifications. You don't know that, when you're making
24 the projections.

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

1 Q. So, in this case, they projected that it would not be
2 economic to dispatch it for a total of 377 hours, and,
3 in fact, it was not economical for 952?

4 A. (Cannata) That is correct.

5 Q. But, jumping to "Merrimack 2", they projected that it
6 would be -- it would be economic to dispatch any hour
7 of any month that it was available. That's the zeros?

8 A. (Cannata) Yes.

9 Q. Okay. But, in fact, it wasn't economic to dispatch it
10 "2,331" hours?

11 A. (Cannata) That's correct.

12 Q. Okay. And, going across to "Schiller 4", we have the
13 same thing. The projection was a little over a
14 thousand; the reality was over 4,000. "Schiller 5",
15 I'm not quite sure why it shows zeros in both columns?

16 A. (Cannata) Because it's a wood plant. It's not based on
17 coal. And, as was discussed with the REC credits, in
18 the economics, it becomes basically economic as long as
19 it runs.

20 Q. Okay. So, it runs -- basically, with that, it runs all
21 the time?

22 A. (Cannata) Yes.

23 Q. Okay. And, then, Schiller 6, we have "1,488"
24 projected; and the actual was "4,682". And, in

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1 Newington, it actually ran a little bit more than what
2 was projected, is that correct? The actual on this?

3 A. (Cannata) Yes.

4 Q. Yes. Okay. But, overall, especially for Schiller, the
5 Schiller 4 and 5 and Merrimack 1 and 2, their estimate
6 was off by a substantial amount?

7 A. (Cannata) With the data they used, --

8 Q. Schiller 6 and 4, I'm sorry.

9 A. (Cannata) -- the actual results were much lower, yes.

10 Q. Okay.

11 A. (Cannata) And, if we could go back to -- maybe to Page
12 52 of the testimony, just take a quick look at that
13 chart. And, along the same line, what this chart shows
14 is capacity factors historically, and they would be
15 replicative of the charts you were just discussing, you
16 know, through time. And, we have a projected capacity
17 factor. That projected capacity factor, on the
18 right-hand side of that table, is the number that was
19 generated in the December ES filing, you know, with the
20 data we were just discussing. And, if we go to look on
21 the next page, on Page 53, we can see what those
22 projected reductions were in capacity factor on the
23 right-hand column, and what they actually were in the
24 "2011" column. And, you can see that there is a

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1 significant difference.

2 Q. So, I guess my question would be then, given those
3 significant differences, and that, for the most part,
4 they overestimated the amount of time that their plant
5 would be economic to dispatch, you still conclude that
6 these projections were reasonable?

7 A. (Cannata) Because of the data that was available at the
8 time, yes. It's the price data, Commissioner.

9 Q. And, the biggest variable was the price of natural gas?

10 A. (Cannata) Yes.

11 Q. Okay. And, Mr. Cannata, again, on Page 5 of your
12 testimony, on Lines 16 and 17, and I'll give you a
13 second to get there. And, this may be answered by
14 anybody on the panel. But, on Line 16, it says "The
15 net cost of supplemental energy service decreased from
16 \$217 million in 2009 to \$81 million in 2010 and \$91.4
17 million in 2011." Can you tell us exactly what you
18 mean by "supplemental energy service"? And, this, for
19 example, the difference between the 2009 and 2011 is
20 \$125 million. But where does that manifest itself?

21 A. (Cannata) Okay. When I say "net cost of supplemental
22 energy", that's the total net cost as seen by
23 customers. Public Service buys energy, sells energy,
24 they have excess energy on their system. And, whatever

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1 they do with those purchases and sales comes to the net
2 cost to customers.

3 Q. Excuse me just one second, so I'm clear on that. When
4 you say that, so, if the -- the energy that they
5 produce at their own plants and use to serve their own
6 load is not included in this?

7 A. (Cannata) Yes, it is.

8 Q. It is. Okay. So, this is all energy, whether they
9 produce it or they -- or they buy it?

10 A. (Cannata) Use it for myself, or sell it on the market,
11 whatever has happened, you put it all together and you
12 come up with a net number, and that's what these
13 numbers represent.

14 Q. Okay. All right.

15 A. (Cannata) In 2000 -- and, I'll do this as we go on, in
16 2009, there were many long-term contracts that Public
17 Service had entered into, I believe it was in 2007,
18 they were "must take" contracts, and they were
19 extremely more expensive than what was available in the
20 market. But PSNH was not able to reduce their cost,
21 because they were locked into these long-term
22 contracts. And, if we go back to that docket, this is
23 where we start talking about focusing more on the
24 shorter term values, because there was a tremendous

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1 value being lost by customers. As the contracts
2 cranked out, to 2010, some of -- I believe three out of
3 the five dropped off in 2010, and two remained, two
4 50-megawatt long-term contracts remained in 2011, the
5 so-called "legacy contracts". Those contracts ended in
6 2011.

7 So, in determination -- or, excuse me,
8 in addition to the change in the price of the fuels
9 that took place during that time, the loss of the
10 long-term obligation at fixed prices was the main
11 reason why these numbers fell.

12 Q. All right. Thank you.

13 A. (White) If I could clarify one item?

14 Q. Yes.

15 A. (White) Those purchases being referred to as the
16 "legacy contracts", the purchases were made in 2008.
17 And, it's been discussed in other dockets. They were
18 made at market prices at that time. They weren't
19 overpriced at the time they were made. And, that they
20 were determined to be prudent purchases for those
21 years, 2009 and '10, for that reason. That was the
22 market price at the time we entered into those
23 purchases. As it turned out, by the time the delivery
24 year occurred, the market had dramatically changed, due

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1 to the economic collapse across the country, and, as
2 we're seeing more and more now, an influx of gas
3 supply. So, the landscape changed, and has contributed
4 to these numbers. I just want to make that clear for
5 the Commission.

6 A. (Cannata) And I would agree with that.

7 Q. Okay. And, Mr. White, would you agree then that, with
8 Mr. Cannata's statement, that "the net cost of
9 supplemental energy service", which you're saying is
10 the net cost of buying and selling and producing,
11 whatever, "decreased from 207 [217?] million in 2009 to
12 91 million in 2011"?

13 A. (White) Yes. We provided a lot of the data to Mr.
14 Cannata that leads to these figures.

15 Q. And, that's a rather huge decrease in net cost of
16 supplemental energy service, wouldn't you agree?

17 A. (White) Yes, I would.

18 Q. And, where does that savings show up? How does it
19 manifest itself? We're talking about an over
20 50 percent decrease.

21 A. (White) Well, the "savings" flow to ES customers. It's
22 a result of the volume of purchases made for delivery
23 in year 2009 was a much greater volume than in 2010 or
24 '11.

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1 Q. Okay.

2 A. (White) That, coupled with migration, drove more of
3 those purchases surplus, and sold into a lower-priced
4 market. There was just a greater volume in 2009 than
5 in either '10 or '11. As Mr. Cannata indicated, the
6 volume decreased through those three years, to zero in
7 2012, but the largest volume was in 2009.

8 Q. Okay. So, the combination of the economic slowdown and
9 the migration led to just actually producing and buying
10 less energy, so the net cost went down?

11 A. (White) Yes.

12 Q. Okay.

13 A. (White) That contributes. Yes.

14 Q. Okay. I had a few questions on some of the things that
15 came out of the Settlement Agreement, and I guess
16 what's in there and what's not in there. So, I was
17 quickly going to go through some of my questions. This
18 is on Mr. Cannata's testimony, Exhibit 2. I guess I'm
19 just going to start from the beginning and walk through
20 it. So, I'm on Page 8, in the middle of the page, Line
21 10, I just want to make sure I'm not getting the wrong
22 idea here. Just let me know when you're there, Mr.
23 Cannata.

24 A. (Cannata) I'm there.

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1 Q. Okay. This is talking about the tripping of breakers.
2 Where someone was doing some cleaning, and apparently
3 they inadvertently opened a breaker and caused an
4 inadvertent trip. And, you state in here about
5 "Dusting left to right is possible if it is performed
6 lightly, but this method increases the chance of
7 opening a breaker...Dusting panels vertically will
8 virtually eliminate the possibility of an inadvertent
9 breaker [trip?]. An operator with a reasonable
10 understanding of the breaker panel function...would
11 recognize this." I just want to make it -- get clear
12 here. You're not stating that it was the way the
13 person was cleaning that makes this outage cost prudent
14 or not prudent, but is it simply the fact that an
15 inadvertent action, for whatever reason, by a Public
16 Service employee or contractor caused the outage and,
17 therefore, it's not prudent?

18 A. (Cannata) I think I'm saying both, Commissioner. And,
19 you know, think of a breaker panel in your home, where
20 the breakers fold in when they're on. If you clean --
21 if you were dusting your breaker panel going
22 side-to-side, there would be a possibility of opening
23 the breaker, if you caught the breaker and hit it hard
24 enough, but there is a resistance to do so. Wiping

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1 vertically, it's virtually non-existent to have that
2 probability. The fact that the breaker was tripped
3 meant to me that there was too much pressure applied
4 when cleaning and popped the breaker. And, I did not
5 see that a person that was functional in their job,
6 knew their job parameters, would apply such pressure,
7 if they had a real knowledge of what they were doing.

8 Q. Okay.

9 A. (Cannata) And the consequences of it.

10 Q. I guess what I'm trying to establish is your threshold
11 for what you just decided was prudent and wasn't
12 prudent. Let's just say, in this example, instead of
13 the person dusting caused the breaker to open
14 inadvertently, the person tripped over their shoelace
15 or slipped on something on the floor, and put their
16 hand forward and hit the breaker and opened it by
17 mistake. Would you consider that "prudent" or
18 "imprudent", the resulting costs?

19 A. (Cannata) And, I don't mean to be hard to pin down
20 here, but, if somebody had left a tool box in
21 contradiction to safety rules and procedures, that was
22 in a manner which caused that accident for that person
23 to trip, it may still be imprudent.

24 Q. What if he just tripped, there was no tool box?

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1 A. (Cannata) All right. It would probably not be
2 imprudent. Imprudence is always tied back to
3 management. Always. Only management can be prudent or
4 imprudent. And, if the operator did something he
5 wasn't sure, did management have the proper training
6 program for them? Did management conduct proper
7 training? And, so that, what I try to do is tie that
8 all back to management's actions. You know, did
9 management provide the proper form?

10 Q. Just so I'm getting this, because this morning I want
11 to try to establish what we're using here as a
12 threshold. If somebody just happened to go
13 [indicating], and leaned back against the panel, just
14 not thinking, and they caused the plant to trip, you
15 would say that that would not -- that the ratepayers
16 should pay for that cost associated with that?

17 A. (Cannata) Not necessarily, no. I mean, an operator
18 should be aware of their -- of their actions, no matter
19 what they're doing. And, in my testimony over the
20 years, I refer that to "operator inattention". And
21 "operator inattention" means "in space".

22 Q. And, if there's a policy, you know, "Don't touch panels
23 inadvertently", and somebody touched them
24 inadvertently, because of whatever reason, I'm trying

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1 to determine, would you consider that prudent or not
2 prudent, the costs associated with that outage?

3 A. (Cannata) I would want to look at all the details, and
4 see what management puts forward as their response to
5 the reason why it happened, what procedures were
6 involved, what procedures weren't involved. It isn't
7 something that's just cut-and-dry. And, that's why I
8 look at every single outage with that perspective,
9 Commissioner.

10 Q. Okay. Well, let's look at --

11 A. (Cannata) And, unfortunately, sometimes we look at
12 outages that have very little cost associated with it,
13 but it's the principle of the thing on how you run your
14 organization.

15 Q. Okay. Well, let's look at a couple.

16 A. (Cannata) Sure.

17 Q. I've got another question on Page 13. Because I'm
18 going to go through these as they come, and basically
19 just the order of pages. The bottom of Page 13,
20 starting with Line 19, it talks about a recommendation
21 to Schiller Station regarding two outages. It says "In
22 these events, PSNH experienced a reverse relay problem
23 with Unit 4. PSNH secured and installed a used relay
24 from its electrical contractor. The problem persisted.

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1 Investigation found that, although the relay was
2 functionally tested, full testing was not performed."
3 Now it appears that the lack of full testing is what
4 caused the additional outage. Am I reading this
5 correctly?

6 A. (Cannata) That's correct.

7 Q. Okay. And, would you say, in that case, that it was
8 imprudent of Public Service not to properly test the
9 relay?

10 A. (Cannata) Public Service took a relay that was given to
11 them as functioning properly, as being tested. And,
12 that's why the recommendation is such that, if you're
13 going to be dealing in used parts, and you most likely
14 will as your units get old, because they're not in a
15 new form or from the manufacturer, that you establish
16 some type of a knowledge of testing. What has this
17 relay -- what does it say to us? And, the problem here
18 was is that incorrect information was being interjected
19 into the analysis of tracking down what the problem is,
20 because it's like putting in a brand-new spark plug in
21 your car that's bad, and you've still got your skip,
22 and you start to go into that mode of very difficult to
23 find it. Public Service did the correct things, in
24 terms of tracking it down. That they got into that

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1 mode and starting questioning it, and they finally
2 dragged it out, "hey, the relay is bad." And, then,
3 when the full manufacturer's testing was done, which is
4 not normally done to functionally test a relay, right?
5 When the full manufacturer tested, they found it was
6 bad, but it worked properly on functional testing.

7 Q. Well, let me -- I'm going to use your analogy, and
8 maybe we can come to a closer meeting of the minds
9 here. I take my car into a mechanic because it has a
10 problem, a skip or whatever. He says "well, you need
11 new spark plugs." He puts the new spark plugs in, I
12 drive it home, the same problem shows up. Now, I go
13 back and say "It's still there. The problem didn't go
14 away." So, he takes out one of the spark plugs and
15 does a closer inspection on it, and says, "you know,
16 there's a crack on the insulation on this spark plug.
17 It's no good." Who pays for that? I don't pay for it,
18 for the replacement spark plug. The person who did the
19 inefficient repair pays for it.

20 So, if we're saying that, because of
21 lack of testing and lack of knowledge, when you're
22 buying used or refurbished parts, which I know, from my
23 own experience, that you obviously have to look at
24 those a lot closer than you would new parts under a

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1 manufacturer's warranty, because you're probably buying
2 this without any warranty or whatever, you don't know
3 exactly where they have been, what they have been
4 through. But, if you don't take the proper steps to do
5 the proper test to make sure that that part's going to
6 work, I would think that that would be -- any cost
7 associated with that lack of testing would be borne by
8 the utility and not the ratepayers.

9 A. (Cannata) Well, we're not comparing apples-to-apples in
10 our analogy here. First of all, the mechanic that
11 worked on your car performed no testing of the new
12 parts. He just installed them, making the assumption
13 that they were good. Public Service did have the relay
14 tested for functionality to make sure it worked before
15 it was installed.

16 Q. But the testing was inadequate?

17 A. (Cannata) But the testing was beyond what is normally
18 done for used equipment.

19 Q. Okay. All right. I think we've covered that. We can
20 just continue to move on then.

21 CMSR. HARRINGTON: I have quite a few
22 more questions.

23 CHAIRMAN IGNATIUS: I think we have many
24 more questions to go. So, let's take a break right now,

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1 and go off the record.

2 (Brief off-the-record discussion
3 ensued.)

4 CHAIRMAN IGNATIUS: We'll take a break
5 now for 15 minutes, and resume at five minutes of 12:00.
6 Thank you.

7 (Recess taken at 11:43 a.m. and the
8 hearing resumed at 12:01 p.m.)

9 CHAIRMAN IGNATIUS: All right. We're
10 back on the record. And, continue with questioning from
11 Commissioner Harrington.

12 CMSR. HARRINGTON: Thank you.

13 BY CMSR. HARRINGTON:

14 Q. Again, referring to Exhibit 2, Mr. Cannata's testimony
15 Page 54. And, again, I'm just going to follow
16 numerically my questions through the pages, so they
17 will tend to jump around a little bit. So, let me know
18 when you arrive at Page 54, Mr. Cannata.

19 A. (Cannata) Okay. I'm there, Commissioner.

20 Q. Okay. On the top of this page, it says "With regard to
21 migration, Accion" -- how do you pronounce that?

22 A. (Cannata) "Accion".

23 Q. -- "Accion Group concluded that it is not difficult to
24 do realistic forward looking market purchases when

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1 approximately 35 percent of the load to be served can
2 come and go at will with the low market prices that
3 existed in 2011." I'm a little confused by that
4 statement. It almost sounds as if you would be saying
5 that "it is difficult to do with the fact that the load
6 can come and go at will." But maybe you can comment on
7 that.

8 A. (Cannata) The qualifier is with the low market
9 prices --

10 (Court reporter interruption.)

11 **CONTINUED BY THE WITNESS:**

12 A. (Cannata) The qualifier is with the low market prices
13 that existed. Gas prices went very low in 2011, which
14 actually, although customers had the ability to come
15 and go, the lean side was, they wouldn't.

16 BY CMSR. HARRINGTON:

17 Q. Okay. I see.

18 A. (Cannata) So that the value was very steady. So, one
19 can claim you had customers coming and going, but that,
20 in fact, was not what's been going on. They went and
21 they stayed.

22 Q. Because of the low prices, it was a one-way migration
23 only?

24 A. (Cannata) Yes.

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1 Q. Okay. Thank you. Going to Page 58, and this is in the
2 -- so, I understand what we're talking about here, this
3 has to do with the Merrimack 1 outages for 2011, and
4 it's identified as "K".

5 A. (Cannata) Okay.

6 Q. On 9/30/11. And, it talks about how there was a trip,
7 because an operator was taking a transformer reading,
8 and so he placed a ladder against a cabinet door.
9 "When the ladder was placed against the door, the
10 sudden pressure relay activated, tripping the CAP and
11 the unit." And, it goes on to say "Investigation found
12 that the sudden pressure relay was mounted on a thin
13 metal cabinet door and the placement of the ladder must
14 have jolted the relay, causing its operation. Such
15 [sudden?] pressure relays are usually mounted on the
16 transformer itself and are outdoor installations. PSNH
17 relocated the relay to an area in the back of the
18 cabinet where vibration would not be an issue."

19 Now, this doesn't -- this doesn't appear
20 on that list, so I'm assuming this is one that you felt
21 was a prudent outage. And, it seems to me as if we
22 have a question of a possibly improper design, where
23 the relay was mounted on a thin cabinet door, and then
24 people resting ladders up against the door, banging

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1 ladders on the door for whatever reason, and, in fact,
2 it resulted in a design change by moving it. Why
3 wouldn't this be considered imprudent on Public
4 Service's part?

5 A. (Cannata) The installation of the transformer was a
6 turnkey operation. The transformer was bought on bid,
7 installed, according to an RFP, to whatever performance
8 that it had to make. It made that -- it made its
9 performance requirements.

10 In the meantime, during that, as you
11 say, a sudden pressure relay, which is normally mounted
12 on a very solid surface, was mounted on the thin panel
13 of the door, which could vibrate, even by operation of
14 the transformer. And, it's not uncommon to have to use
15 a ladder to get at these different relays, sight bulbs,
16 to see what the oil level is, and at the bushings,
17 check readings on the transformer, ladders have to be
18 used. I have never seen a sudden pressure relay
19 mounted on a cabinet door in my life. They're always
20 mounted to the base of the transformer on the outside.
21 And, you know, it's only there to detect a sudden
22 increase in pressure internal to the unit signifying a
23 change in gas pressure. And, think of it this way,
24 Commissioner. If I had an old transformer, you know,

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1 with a 2-inch casing on it, nice and solid. And, I put
2 that reverse -- or, that pressure relay there, when
3 that gets a spurt of pressure on the inside of the
4 transformer, it will register it. But, mounting it on
5 a thin material that can vibrate, because it only has
6 to be as physically thick as needed to function and
7 close the door, it can operate the relay. And, that's
8 what happened.

9 Q. I understand what happened. But, I guess, the first
10 one I'd say, "why would they be leaning ladders up
11 against thin metal cabinets?" That would seem to me
12 that would be a improper maintenance practice. But,
13 clearly, what you're saying is there's a design flaw
14 here. Now, the fact that the design was done by a
15 subcontractor, again, it's Public Service's plant, it's
16 their RFP. They must do some inspection or
17 qualification of the person. It sounds like they used
18 someone who come up with a bad design. And, what
19 you're saying is, because of that, the ratepayer should
20 pay for this outage?

21 A. (Cannata) Well, it goes back to my definition of
22 "prudence". As to, what did PSNH do that was
23 imprudent? They went to qualified manufacturers. I'm
24 sure -- and they took out bids, and they did an

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1 assessment. They put in performance requirements of
2 the package, and installed it. And, the thing -- the
3 package was inspected and accepted.

4 Q. Well, okay. Let me make my point with maybe a little
5 more extreme example. Let's say they had a qualified
6 person, qualified manufacturer, qualified vendor, and
7 they came in and they installed something backwards or
8 whatever, such that it blew up a whole extremely
9 expensive transformer and took the plant down for six
10 weeks. Would that be then a prudent -- who should pay
11 for that?

12 A. (Cannata) That would come out in the performance
13 testing, the acceptance testing of the unit. You check
14 your connections and that type. And, so, I would
15 expect something like that, if that did not get
16 included in the inspection testing, that would be
17 something that more than likely would be considered
18 imprudent. If you didn't do testing that would connect
19 -- that would detect improper connections.

20 Q. But you don't think a visual inspection, which would
21 have, as you said, you've never seen this type of thing
22 mounted to a thin metal cabinet before, that someone on
23 Public Service should have looked at it and said "hey,
24 this doesn't make sense. Why is this on this thin

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1 metal door?"

2 A. (Cannata) Right. Correct.

3 Q. Okay. All right. Well, I'll move on. Okay. Moving
4 ahead to Newington outages for 2011, Page 68. And,
5 this is "B". And, I'm not going to read the whole
6 thing, but it talks about there was a problem with a
7 breaker, and resulting -- caused the unit to trip.
8 And, says "During the conversion to an all gas
9 start-up, PSNH configured the start-up procedure to use
10 two gas guns", and goes on and on. And, then,
11 basically, it concludes that PSNH made -- a change to
12 the procedure was made, and "no further incidents have
13 occurred during start-up." So, it appears the problem
14 here was a problem with a PSNH procedure. Again, why
15 is that not imprudent, if their start-up procedure
16 needed to be changed to prevent the incident from
17 occurring again?

18 A. (Cannata) PSNH had a start-up procedure to start the
19 Newington unit on oil. PSNH also had a start-up
20 procedure to start up the unit on gas, but it was not
21 an all gas start-up procedure. It required quite a bit
22 of oil, something on the order, I think, of \$40,000
23 worth of oil to start the unit. PSNH decided to
24 determine what is required to be able to start the unit

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1 on all gas, saving that \$40,000. And, what this was
2 was an iterative process on bringing that mechanism
3 through all gas. And, at this particular point there
4 was a slight surge, where they had to add a different
5 burner in there to reduce the pressure. So, they found
6 something that was wrong, and then, when they changed
7 the requirement on the number of burners, they are now
8 successful to be able to start the unit on all gas, no
9 oil, and pass that \$40,000 of savings to customers.

10 Q. So, this was a -- you might say a "start-up test" that
11 was being done to determine the proper procedure to
12 use?

13 A. (Cannata) R&D, or, you know -- yes.

14 Q. Okay. I guess I wasn't clear from reading this, but
15 you clarified it with your statement. Thank you.
16 Okay. Moving along to Page 84, and this is -- trying
17 to figure out which plant we're in here. I guess its
18 still Newington, I don't see a change. And, this is
19 starting on Page 83, and going onto 84. Again, there's
20 another outage here, and I'm going to, for time, I'm
21 not going to read the whole thing. But it talks about
22 start-up and trip, start-up and trip, start-up and trip
23 repetitive times. "After a one-hour pause, a fifth
24 attempt was made to start the motor and was successful.

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1 Investigation found that new motor protection relays
2 installed during the spring overhaul had a more
3 conservative-than-necessary overload curve built into
4 the start logic. With vendor assistance, PSNH then
5 modified the logic to be less conservative." And,
6 then, it goes on to say, as a result, "the unit has
7 sustained a delayed phasing to the system. PSNH also
8 counseled the operator." So, I don't know exactly what
9 they counseled the operator on, but it sounds like
10 there might have been some operator mistake. And,
11 there was also a incorrect either design or purchase of
12 a part resulting in this "more
13 conservative-than-necessary overload curve being built
14 into the start logic." Why is that the ratepayers'
15 responsibility to pay for?

16 A. (Cannata) The particular process that was taking place
17 was, like I said, starting the induced and forced draft
18 fans, which have been replaced. Now, when they were
19 replaced, the logic and starting logic was changed on
20 what they were able to do by starting the fans. The
21 window -- and the procedure does not say that, "when
22 your induced draft fans hit 17.2 pounds, you press this
23 button, and, when it hits 18, you press this button."
24 It's more of a, not the correct words, "trial and

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1 error", but it's a process -- historical process. You
2 get an amp, you know, so long as it's above five, so,
3 okay. And, the reason why the operator was counseled,
4 it was probably cut a little bit close on the low end.
5 I'm not able to verify whether the button was pushed at
6 5 or 4.9 and caused the problem. Public Service had
7 concern with that, so they counseled the operator.
8 Q. But you still felt that there was no imprudency on
9 their part, even though they had to counsel their
10 operator?
11 A. (Cannata) Well, if I cannot make a case that shows
12 imprudency, I tend not to recommend it.
13 Q. Okay.
14 A. (Cannata) And, I would agree with you, there was an
15 operator issue there. And, they changed the procedure
16 and counseled the operator.
17 Q. Okay. Let's -- moving ahead to Schiller 5, and this is
18 on Page 77. And, I have to admit, I'm having a little
19 trouble following what's going on here. But it starts
20 out on May 21st, and it talks about there was a plant
21 trip. "PSNH found a previous logic update it made was
22 incompatible with the Emerson controller format
23 installed during the overhaul." Then, a few days
24 later, on 5/30, we have "The furnace draft was acting

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1 erratically and tripped on the high furnace" -- no, I'm
2 sorry, that's not -- "high furnace pressure". Then,
3 6/20, "the furnace draft was acting erratically",
4 again, the same thing, "(up and down) and finally
5 tripped on the high furnace pressure. Investigation
6 revealed no cause and...returned to service." So, that
7 happened on 5/30 and on 6/20. On 6/26, "the furnace
8 draft was acting erratically (up and down)" again,
9 "finally tripped on low furnace pressure." So, the
10 same issue now has taken the plant off line, the 5/21,
11 5/30, 6/20, and 6/26, each -- and from various
12 timeframes.

13 And, then, it kind of concludes down
14 here, Emerson, which is the -- I guess the vendor, said
15 that the -- it said that PSNH found among -- let me
16 start with the beginning. "Investigation revealed that
17 the lag time air demand signal was too long and reduced
18 it. PSNH also found that the boiler bias time
19 master... needed setting changes. The changes were
20 made, PSNH found similar setting changes were made in
21 May 2010, and were transferred to Emerson for DCS
22 upgrade during the Spring 2011 overhaul."

23 "Emerson investigation found that the
24 logic control updates made by Public Service were not

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1 compatible with their update and the system reverted to
2 default settings. Emerson states that because of this
3 incompatibility with the new update logic version,
4 updates to this controller need to be made manually."

5 And, then, goes on "Public Service has
6 held discussion with Emerson...and the process for
7 future updates has been changed to reduce...similar
8 occurrences."

9 So, it appears that there was a
10 reoccurring problem here that, for at least the first
11 three times, it was just "We don't know what's going
12 on. Let's just start up again." And, whoops, it
13 causes a trip. "We don't know what's going on, let's
14 return to service. Whoops, we tripped. We don't know
15 what's going on. Our investigation revealed no cause,
16 and returned to service."

17 So, it took, like, one, two, took the
18 fourth outage before they actually did a thorough
19 investigation of this. So, again, I'm somewhat
20 concerned why -- why that has to happen before they
21 took the time to investigate what was causing the
22 problem. And, you know, the root cause of the problem
23 here, it appears to be some settings that were set
24 wrong by somebody. And, again, I'm not quite sure why

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1 that wasn't imprudent on the part of Public Service?
2 A. (Cannata) Okay. These two units use an immense amount
3 of logic controls, which are just computers. You know,
4 they have settings, and, when they hit those settings,
5 they do what they're told to do. And, what we had here
6 was, as it was traced later on, that there was not
7 enough lag to the trip. Each -- when we start off, we
8 have an indication, that an alarm comes in, if its
9 indicated, we have an alarm. And, if it stays in alarm
10 long enough, it will go to a trip. Well, the trip is
11 done either upon the indication, and what Public
12 Service did is they found that to trip, as stated, and
13 you're exactly correct as you go through your logic,
14 and the tripping should not have been taking place,
15 because the indication was incorrect. They were
16 getting incorrect indication, which was leading to it.
17 So, they disconnected the trip circuit, and they still
18 had the alarm circuit, "Is there a problem? Let's go
19 investigate."

20 Once these settings are made, these
21 settings are change all during the year, two years, or
22 between the updates of the controller logic. Emerson
23 came in, even though they had -- even though Public
24 Service said, "okay, on such and such, we found this to

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1 be a problem. We changed it to this to correct it, and
2 now it's working again." Because there are different
3 problems here, it's the same issue, but different
4 problems.

5 They passed them onto Emerson. It was
6 internal to Emerson's control logic that those changes
7 were not compatible. So, their logic controller reset
8 them back to the settings that were causing the trips.
9 So, after they come in through with the annual overhaul
10 above, in the large outage above, these trips started
11 to come out, when Public Service had already researched
12 and put proper settings in a year earlier. And, there
13 was -- I don't know if it was completely a
14 communication problem internally with Emerson, but the
15 recommendation was to make sure that these things get
16 done, and a manual system had to be done to ensure that
17 those changes get done, so they don't have similar
18 interruptions to operation, because these were solved
19 problems. The logic was being changed back to old
20 settings.

21 Q. Okay. Well, when did it get set back to old settings,
22 prior to the 5/21 outage?

23 A. (Cannata) Yes, during the annual overhaul. What
24 Emerson does, it will come into its controller and

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1 perform a master update. Take all the changes that
2 have been made to all the settings, so that you start
3 out with like a new base case, if you would.

4 Q. Uh-huh.

5 A. (Cannata) And, then, you make additional changes to
6 keep track of that. Well, when they made this base
7 case update, they reinserted, you know, I don't know
8 how many settings incorrectly, that were already hunted
9 down by PSNH and corrected.

10 Q. So, prior to the outage, I assume it would be April --

11 A. (Cannata) It would be the annual --

12 Q. -- the outage that started in April, Public Service
13 made adjustments to these settings that such that this
14 problem wouldn't occur. And, then, Emerson came in
15 during the outage, and, as part of their work during
16 the outage, reset the settings such that caused the
17 problem to occur?

18 A. (Cannata) It was automatically reset, yes.

19 Q. Okay. And, was there any attempt by Public Service in
20 order to receive compensation or recover costs from
21 Emerson on this?

22 A. (Cannata) They generally do. But I would like to defer
23 to Mr. Smagula, where he could say exactly what they
24 had out with Emerson on that.

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1 A. (Smagula) You know, some discussions occurred with
2 Emerson regarding their services, but there was no
3 replacement power compensation that was discussed.
4 And, there is no contractor that would do business with
5 a utility that would have that type of clause in any
6 agreement.

7 Q. Well, were there any replacement cost recovery for any
8 of the extra work and so forth done by Public Service,
9 not just -- and forgetting the replacement power costs
10 for a second?

11 A. (Smagula) I don't recall at this time.

12 Q. All right. Thank you. Moving along, to Page 79. This
13 one, I'm just -- it's listed at the bottom of the page,
14 and it says "O". And, the very last couple of words
15 there, after explaining what happened, it says "See
16 Outage P below." But I don't have an "Outage P". You
17 know, so, I just -- I don't know if there is something
18 wrong with my package or --

19 A. (Cannata) Do you have a Page 80?

20 Q. No. Oh, that's why. I'm missing some pages. That's
21 why. Okay. So, --

22 CHAIRMAN IGNATIUS: Yes. I was missing
23 some of the other pages you were talking about for some
24 reason.

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1 BY CMSR. HARRINGTON:

2 Q. Okay. Well, let's forget about that one. That was
3 just blind, anyway. So, I -- I wasn't sure what the
4 big issue was there. Okay. Let's move up to Page 86.
5 And, this is more of a comment. Since this is a public
6 document, I was kind of surprised to see, on the bottom
7 of Page 86, that, and since I don't think it's -- it's
8 no longer the case, but when you -- it's already been
9 made public, "Unit 1 and Unit 2 at Amoskeag have black
10 start capability", I didn't think the naming of black
11 start capable units was issued -- was released to the
12 public, just for security reasons. So, kind of
13 surprised to see that in here.

14 A. (Cannata) Is that something the Commission wishes? We
15 have --

16 Q. Well, I believe it's ISO-New England's policy that they
17 don't identify black start capable units, because
18 they're so critical to restoring the grid if an entire
19 grid crashed. But, I also, and without asking for an
20 answer to the question, I also think there's probably a
21 good start that these units are no longer black start,
22 or will not be shortly, because of the change in ISO
23 policy, where they're going to much larger black start
24 units.

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1 On Page 89, and we're dealing with
2 Amoskeag Station. And, at the very top of the page, it
3 talks about an outage. And, it took three more days
4 than originally planned, which could happen for a lot
5 of reasons. But, in this case, it seems that "PSNH
6 diverted manpower at other location where outage timing
7 was more important. PSNH's approach increased the time
8 of the outage to perform the work scope." Can you just
9 give us some more information on that?

10 A. (Cannata) Sure.

11 Q. I mean, was this bad planning on their part or --

12 A. (Cannata) In order to be thorough, rather than just
13 look at planned outages of the large units, we take a
14 look at the planned outages of the smaller units also.
15 And, what this paragraph reflects is that the outage
16 was planned to be done in four days. Could have been
17 done in four days, but there was no water to run all
18 the units. So, PSNH reassigned their people working on
19 this particular outage to another station, and it could
20 have been Hooksett, or something like it, where it has
21 only one unit, where that extra effort would bring a
22 unit back quicker and produce savings to customers.
23 And, I just wanted to point out that, yes, it overran
24 its time, but there was virtually no cost to customers

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1 in doing so, and there was actually savings at another
2 station.

3 Q. That's fair enough. I just wasn't sure from the
4 explanation.

5 CMSR. HARRINGTON: That's all the
6 questions I have at this time. Thank you.

7 CHAIRMAN IGNATIUS: Thank you.
8 Commissioner Scott.

9 CMSR. SCOTT: Good afternoon. I want to
10 -- I will preference -- preface, excuse me, thanks, Steve,
11 my questions with, I just want to make clear, obviously,
12 we recognize that there is a balance to be made between
13 investigations and how thorough we go, compared to the
14 efficiencies of the Company and the cost/benefit,
15 basically, of what we do here at the Commission and the
16 utilities. So, that's my preface. So, I just want that
17 in the context of my questions.

18 BY CMSR. SCOTT:

19 Q. So, when I look at the Settlement Agreement, I see the
20 agreements, in some respects, it's kind of what the
21 utilities agreed to do, and uses language such as, in
22 many cases, "will review", "will look at", "will make
23 clear to ISO-New England". There's some language on
24 Page 5 about "appropriate and economical", "agrees to

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1 reinforce", "agrees to review", that type of thing.

2 But, my question to the utility, first is, is do you
3 have an idea what the cost will be to implement the
4 Settlement Agreement?

5 A. (Smagula) At this point, as I recall the issues, we
6 will enact a group of people to perhaps study an issue
7 and come up with specific recommendations. The
8 recommendations may result in hardware changes, may
9 result in procedural changes. It may result in a
10 letter being issued to ISO-New England. I don't think
11 -- I see this as part of our normal work, and not
12 additional huge cost. There was some issue here having
13 to do with consider replacing some switches, some
14 Mercooid switches. There may be a cost there. But, if
15 it's an action that results in improved reliability,
16 then it would be an appropriate thing to do. So, I
17 don't see a huge cost here in these activities. If
18 there was, then I think there would have been further
19 discussion in the development of the Settlement
20 Agreement. But I see these as all reasonable things to
21 proceed with.

22 Q. Okay. So, can I get you to say for the record that
23 you, only if you agree, obviously, that you believe
24 that the -- if you did a cost/benefit analysis, the

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1 benefit of anything that came out of the Settlement
2 Agreement exceeds the cost of what goes into that?

3 A. (Smagula) Yes. I would agree with that statement.

4 Q. And, again, I didn't mean to imply that, by signing
5 this, you weren't agreeing to that, but I wanted to
6 hear that on the record. So, thank you.

7 Similarly, again, in the context of
8 balance, obviously, Mr. Cannata did, I think, to use
9 your words, Mr. Smagula, I think you used the word
10 "extremely" thorough, is that fair?

11 A. (Smagula) Yes. That was the most superlative adjective
12 I could think of at the moment.

13 Q. And, again, maybe I'll put you in an unfair position.
14 Clearly, Mr. Cannata's job is to find "were you
15 prudent", and to do a good analysis of your operations.
16 Do you feel that that level of thoroughness was
17 warranted?

18 A. (Smagula) I think, well, I won't -- I think the level
19 of thoroughness that was employed was, I'm assuming,
20 consistent to what the Commission and Staff wanted, and
21 there was a very thorough review. And, if that's what
22 was sought, then that's what was clearly received. But
23 it was lengthy and detailed. And, as you can see from
24 the report, a lot of information was shared openly.

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1 And, whether it was warranted is for
2 someone else to judge. I just know that it was a very
3 thorough job. And, if that's what the Commission
4 wanted, they certainly got it. And, I think, you know,
5 it's -- we look at these investigations, they're a lot
6 of work for us. But I believe what occurs is that the
7 Commission has a third party to look at how we operate,
8 what decisions we make, actions we take. And, if you
9 look over time, I think, in general, and I'll give you
10 my opinion, I think it demonstrates that we do a pretty
11 good job trying to do the right thing for our
12 customers. And, where there's an opportunity for us to
13 learn or to improve, we grab on to those. We do that
14 ourselves internally. But, if you have an external set
15 of eyes and ears, that's a different perspective that I
16 think, again, benefits us and our customers. So, it's
17 thorough, and there's value there.

18 A. (Cannata) And, if I could comment along that line, if I
19 may? From about 2000 to 2007, 2008, before the market
20 started to change, when the units were baseloaded, the
21 increased output in energy at these stations increased
22 by about 30 percent. Because a lot of the -- you know,
23 we don't just go through looking "you did this wrong"
24 or "you did that wrong." "You could do this better."

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1 They take it back, evaluate it, because only they
2 really have all the information they need to run the
3 company. They take it back and they make improvements.
4 And, a lot of times we see things, as we go through
5 these, details that are inconsistent, they find out
6 they're making changes as we're doing this, I don't
7 call it an "investigation", it's more like a "review".
8 There's a level of a review. And, so, we have a
9 review, they see something, and they're continually
10 trying to improve their operations. They will take the
11 recommendations and come out and try to improve their
12 operations based on those.

13 Q. That's fair enough. Thank you. No, that's helpful.
14 Thank you. Do you feel moving forward that the same
15 level of review is needed or is there a better way to
16 do things on that end?

17 A. (Smagula) Are you asking me?

18 Q. I'm looking at you. So, I guess I am.

19 A. (Smagula) I think our customers gain value. I guess it
20 would be up to the Commission and Staff to determine
21 whether the same level of detail is needed. But we've
22 become accustomed to the level of detail that occurs.
23 And, I think -- I think there's value in it, so.

24 We have a similar approach, that we have

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1 an internal audit group that audits our environmental
2 activities. And, I am the first one to go down to that
3 group, it's based in Connecticut, to solicit their
4 review of all of our facilities each year. Our
5 personnel in our stations know I'm going to do that
6 every year, they would just as soon have a year off and
7 not have a prudency or a very thorough investigative
8 review, but I think it ends up being better for us. So
9 that, should there be an agency review, such as EPA or
10 a DES review, that we are that much better, we are that
11 much more prepared. And, we find very few problems,
12 violations in place, whether it be with any type of
13 audit.

14 So, I enjoy and look forward to reviews
15 and audits. Certainly, here, with the Commission, I
16 have exposure, financial exposure, more than I do with
17 others. But I still think there's benefit.

18 CMSR. SCOTT: Thank you very much.
19 That's all I have.

20 CHAIRMAN IGNATIUS: Thank you. A couple
21 of questions about terms in the Settlement Agreement that
22 I need interpreting.

23 BY CHAIRMAN IGNATIUS:

24 Q. If I look at Page 5, Number 4, I read the words, but I

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1 confess I don't really follow what it means. And,
2 whether someone from PSNH or, actually, since PSNH has
3 agreed to take a step in making clear this issue to
4 ISO, it would be interesting to hear how PSNH
5 interprets what this sentence means: "That all
6 requested unit starts that are shorter than committed
7 start-up times are made on a best efforts basis only"
8 and then here's the part that I don't get, "and it's
9 not responsible if the start-up time requested is less
10 than the committed startup time." Not responsible to
11 who, for what?

12 A. (Smagula) When a unit gets a request to go on line from
13 ISO-New England, we have documents on file that say
14 that, if the unit is in a cold condition, that it will
15 take a certain number of hours. And, also, for a given
16 unit, we say that, if the turbine is in a hot
17 condition, it's a shorter period of hours, because
18 there's already some heat in the equipment.

19 There are times, however, when we get a
20 call and say "can you get the units on as fast as
21 possible?" That's occurred a number of times in the
22 last few days with Schiller Units 4 and 6. And, they
23 were in a hot condition. And, they said "could you get
24 them on as fast as possible?" Now, if our hot start-up

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1 time is -- I'll just, I don't recall exactly what it
2 is, but let's say it's four hours, we may say "yes, we
3 think we can get it on in three hours." If -- you
4 could interpret that communication as a "commitment"
5 that we will be on in three hours. This agreement
6 states that we need to make it clear that, when we
7 communicate that to ISO-New England, that we'll say "we
8 have a four-hour hot start. We will make "best
9 efforts" to get it on in three, but we won't give you
10 that commitment." So that there's no contractual or
11 penalty that could then be, in fact, enforced upon us
12 for being -- not meeting a three hour opinion or verbal
13 commitment. And, I think that's what this is about.
14 Is to make sure that, when we make a statement that we
15 could be on sooner, in concert with a sooner request,
16 that it will be on a "best efforts" basis, and that we
17 are not, the person at the station or any other
18 employee of Northeast Utilities is not making a formal
19 commitment. And, we say that verbally now. We've
20 already instituted these actions. But we will consider
21 what's appropriate to put on record for them.

22 A. (Cannata) The outage in question, Commissioner, was
23 just that. It was an eight-hour start-up time, they
24 asked for it in something like six hours, Public

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1 Service got the unit on in six and a half hours, and
2 got dinged, because they didn't make start-up. You
3 see, there's a penalty that fall back to customers.
4 And, what this was was an effort to be able to prevent
5 the ISO from hurting our customers, working in the best
6 interest of the ISO.

7 Q. But this term in the Settlement doesn't in any way
8 change what ISO-New England does, does it?

9 A. (Cannata) No.

10 A. (Smagula) No.

11 Q. So, it's merely a request that the communications be
12 absolutely clear that, if PSNH says "we'll do
13 everything we can to get it up in the timeframe you'd
14 like, but we still are committed to nothing more than
15 the traditional start-up time"?

16 A. (Smagula) Correct.

17 Q. In the case that you just described, Mr. Cannata, where
18 PSNH came in ahead of the committed time, but not quite
19 on target with the requested time, and you said "ISO
20 dinged them for it", was that explained and any sort of
21 penalty undone?

22 A. (Cannata) I believe it flows through the availability
23 data, you know, when they keep track of that. Because
24 a unit gets complex credits and costs through there, it

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1 gets put into that database. And, I don't believe, and
2 I can be corrected here, but I don't believe there was
3 any undoing on whatever that harm was for that outage.

4 A. (Smagula) I don't recall.

5 Q. That wasn't a financial penalty, it was just changing
6 the data on availability?

7 A. (Smagula) I don't recall the specifics of this case.

8 A. (Cannata) In my opinion, everything gets translated to
9 money somehow. If it goes into a database, you know,
10 you hear about it, and it affects something in some
11 minute way. I'm not sure we could track, it might be
12 like looking at the rate impact of the \$2,200 in forced
13 outage reduction. It's that type of a thing. But,
14 it's in there, and it's in there because of that
15 reason. And, that's why we're trying to bring it,
16 because there is a harm that will come back.

17 Q. Just below that, in Number 5, there is a recommendation
18 based on things that were found in this docket's
19 review. And, then, when you get to the -- following
20 the format of every other recommendation, what PSNH
21 agrees to do, it says to turn to "2012, Number 10",
22 which is on the next page. So, is it fair that the
23 response to Number 5 is that PSNH is agreeing to -- I'm
24 not even sure I understand what the Accion

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1 recommendation is, so, it's a little hard to say what
2 it is that's being agreed to. Maybe we should step
3 back a bit, before we turn to the following page, just
4 on 5 alone. "Accion recommended that if the over trip
5 outages are found to be systemic", after the analysis,
6 "the system reliability design incorporate the unit
7 over trips into system design criteria on a local
8 basis, only if other economic remedies are not
9 available." Can you describe what all of that means,
10 because it's not sinking into my brain?

11 A. (Cannata) Okay. Could I answer that question?

12 Q. Sure.

13 A. (Cannata) PSNH has on their system areas of the system
14 which trip generators that should not trip for the
15 particular fault. Usually, a fault will isolate the
16 element that has the fault on it. These trips were
17 occurring 10 miles away. So that it's due to the
18 system dynamics, the transient stability of the system,
19 these type of things. And, in at least two locations,
20 it appears, with what's been done to date, they're not
21 going to be able to fix it. And, their design criteria
22 requires, for the 34 kV system, that the system be
23 designed to withstand a contingency with one generator
24 out of service on peak load. If you get an over trip,

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1 you wind up with two generators out of service, which
2 would allow you to overload something, which you're
3 designing the system not to overload. What this says
4 is, if you can find something economic to fix it, you
5 do it. Otherwise, incorporate that over trip into your
6 design, so that your system is capable of withstanding
7 the contingencies that you're designing it to. In
8 other words, include the effects of the over trip in
9 the design.

10 Q. But, none of that deals with the problem that started
11 that doesn't seem to be solved, it's just trying to
12 work around it, is that true?

13 A. (Cannata) This recommendation has been in the books
14 since 2009. It's one of the more harder ones to
15 implement. It requires a lot of work. And, Public
16 Service has agreed to do that. So, you know, that is
17 not an issue. This came out as part of the system
18 investigation and the faults that we're seeing. Why
19 should this unit over here trip for a fault in
20 Manchester? It's just wrong, all right. And, when you
21 look at the system, it's really the system impedences,
22 the electrical tightness of the system. It's weak.
23 Either you rebuild the entire system much stronger to
24 correct that or you incorporate it in the design. And,

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1 what that would do is, if you have to include the over
2 trip, you may have to build the line a few years
3 earlier, because it's loading a little bit heavier, but
4 your system is meeting its reliability criteria. Right
5 now, Public Service's 34 kV design criteria is not
6 being met. They cannot say that these over trips are
7 not going to cause overloads if they have the outages.
8 And, all this says is, "well, if you can't fix it, make
9 sure they do, and do the most economic of the two. If
10 you can fix it, well, do it. If not, incorporate it
11 into the design criteria. Whichever is cheapest."

12 Q. And, from PSNH, whoever wants to field this one, is
13 that your -- what is your understanding of the next
14 steps required, looking at both Number 5 and Number 10?

15 A. (Smagula) I believe we will be making sure that we have
16 a person in our company who is familiar with running
17 these analyses, and that the analyses get done. And,
18 perhaps I would say a more pointed focus associated
19 with the generating facilities, such as is the case
20 that we are working -- talking about, has to do mainly
21 with hydros that are at the end of a long line. And,
22 that line, any impacts to the reliability of that line
23 or any transients that occur on that line have a more
24 likely risk of the unit being tripped. We would reset

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1 it, start it up within a short period of time, but you
2 still have more likelihood of that. It's different
3 than one of our fossil facilities or a facility that's
4 larger and more -- and not as remote. But the actions
5 that we need to undertake are clear in our mind. There
6 have been numerous technical discussions internally,
7 there have been numerous technical discussions with Mr.
8 Cannata. So, the expectations of the Company are
9 clear. We need to have competent people who can learn
10 and understand how to run these analytical models of
11 the system, the electrical system, in order to
12 determine whether there are transient problems or not.
13 And, if there are problems, then, as Mr. Cannata
14 indicated, what solution path is prudent to follow and
15 at what cost. And, then, we'll make some
16 determinations, and we'll provide a report and
17 information. So that, in future reviews, we'll further
18 try to resolve these complex, but lingering, issues.

19 Q. So, for the next -- or, how long do you think those
20 studies will take?

21 A. (Smagula) Well, we had changes in personnel, we had
22 changes in the software. I think we have internal
23 resources that were focused on it. I think our
24 intention would be to place a high focus on that this

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1 year. So, I'm afraid the people who do this work don't
2 work for me, it's something I'm familiar with and can
3 discuss, but it's not an area of my direct familiarity
4 or responsibility. So, I'm reluctant to make a
5 commitment. But I think our interest is to try to get
6 a lot of this work done this year. I'm not sure how
7 long it will take.

8 Q. And, so, the first step is the analysis, and then some
9 sort of design, in response to what you've learned, and
10 consultation, after that's been developed with the
11 Staff, or filing something or just installation and we
12 see what happens?

13 A. (Smagula) You run an analysis, you look at the
14 information, and then you have decisions and options to
15 consider. And, then, you make a decision to do
16 something or not. And, if you do decide to do
17 something, do you make a modification with the
18 equipment at the facility? Do you want to make a
19 modification on the line? *Etcetera*.

20 A. (Cannata) And, to be clear, there's more than one
21 generating station involved. That PSNH has targeted
22 their analysis to the most "susceptible" that they're
23 going to be working on first. But, then, after you
24 tackle those, the idea is to go back to the others that

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1 may still have issues, but are less pressing, and go
2 back and correct whatever needs to be corrected there.

3 Q. I know, Mr. Cannata, you had testified that you
4 reviewed the decisions PSNH had made in light of the
5 contents of the 2010 Least Cost Plan, which has not yet
6 been ruled on by the Commission.

7 A. (Cannata) A little update on that? Okay. What I
8 called the "2008 Least Cost Plan" -- or, the "2010",
9 was the Plan that was submitted in 2008, but not really
10 approved until 2010. Prior to that, the previous
11 approved plan was in the Fall of '07, I believe.
12 Currently, there is a plan that was filed in 2010 that
13 is still, I used "2012", but the year has slipped by.
14 And, so, that might be what I would call the "2013
15 requirements".

16 Q. All right. So, what you reviewed, and in your
17 testimony stated that you found the decisions to be
18 consistent with, was the Plan that was last approved by
19 the Commission in 2010?

20 A. (Cannata) That is correct.

21 CHAIRMAN IGNATIUS: I have no other
22 questions. Commissioner Cannata, another question? Or,
23 excuse me.

24 CMSR. HARRINGTON: You just got a new

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1 job, Mike.

2 CHAIRMAN IGNATIUS: Harrington.

3 (Laughter.)

4 CMSR. HARRINGTON: I guess I should just
5 walk out now.

6 BY CMSR. HARRINGTON:

7 Q. A couple questions on the Settlement Agreement. On
8 Page 6, at the bottom of the Page 5 and the top of Page
9 6, you're talking about the "Mercoid switches". Is
10 there some -- I'm assuming that these Mercoid switches
11 are, obviously, they have been made illegal by the
12 state, so they can't be replaced in kind, so the
13 replacement is now some type of the Reed switch. And,
14 again, I'm making assumptions based on what's not
15 written here, I guess. There was no periodic or time
16 based change-out for the Mercoid switches, they would
17 just change them out when they failed?

18 A. (Cannata) Correct.

19 Q. Okay. And, now, the suggestion is that we come up with
20 some type of a scheduled replacement of the Reed
21 switches. Is this due to something about the Reed
22 switches, that they have a known service life, and this
23 is to anticipate --

24 A. (Cannata) If it says "replacement of the Reed

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1 switches", that's incorrect.

2 Q. Okay. I'm sorry.

3 A. (Cannata) It should be "replacement of the Mercoid with
4 Reed switches".

5 Q. Right. That's what I meant.

6 A. (Cannata) Okay.

7 Q. Replacement of the Reed -- what we're saying is that,
8 so, the schedule is -- let me back up a little bit.
9 Why do we need a time-bounded program for the
10 replacement of the Mercoid switches? Or is there any
11 particular reason? I mean, in the past, when they were
12 legal, they would be replaced on failure. And, is
13 there something associated with that law that they have
14 to be removed from the plant by a certain time or is it
15 just removal on failure a replacement with something
16 that doesn't contain mercury?

17 A. (Cannata) Removal on failure would be fair, but they're
18 problematic. They're always causing problems. Some of
19 these switches, when they get replaced, they require
20 new sensors in the inside of the generators or the
21 water wheels, because the bearing temperature. Those
22 can only be changed during times when you have the
23 units apart, which might not be for five years. So,
24 when that says "time based", it's a flexible term, to

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1 allow them to work it into a planned schedule. It may
2 not occur for five years.

3 Q. So, this isn't a attempt to more rapidly get rid of
4 Mercoid switches, it's an attempt to upgrade the design
5 by replacing them with Reed switches, which you're
6 saying -- sounds like is a better choice of action,
7 whether or not mercury was outlawed by the State or
8 not?

9 A. (Cannata) That's correct.

10 Q. Okay. All right. Just trying to get that clear. And,
11 just sort of a general statement on a lot of these
12 conditions. I felt that some of them were kind of
13 surprising. On Page 4, which I don't know which
14 numbers to use, I'll use the "2012-1" number, which is
15 "1". It says that "there are now situations that may
16 exist that could result in failures of both Merrimack
17 units." So, there's some type of a common mode of
18 failure that could take them both out. And, PSNH
19 agrees to review this. I find that rather surprising
20 that they hadn't already done that as just good utility
21 practice. And, rather than -- I'll give you a chance
22 to comment on the end here in a second.

23 The next one down, "2012-2", talks about
24 assumptions that were used to -- in the planning

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1 process for an outage schedule that weren't verified.
2 And, now, "PSNH agrees to review planned outage
3 schedules to detect assumptions that need to be
4 verified." I would think that basic to making an
5 assumption -- a schedule for an outage that you would,
6 if you were making assumptions, you verify that they
7 were accurate.

8 On the next one, "2012-3", this is the
9 testing we already talked about, and "PSNH agrees to
10 add the testing performed on used or refurbished parts
11 to the part's history documentation." Again, if you're
12 using used or refurbished parts, I would think that
13 that would be, just again, good utility practice.

14 Skipping over to Page 6, where it says
15 "2012-8, "PSNH agrees to reinforce to employees the
16 importance of understanding and confirming the
17 appropriateness of a replacement that is not in kind."
18 Again, if you're not putting the same thing back in
19 that you took out, that's just basic Power Plant 101.
20 That people should understand and make sure that the
21 replacement one that's not in kind is going to, in
22 fact, perform the job of the original one. And, you're
23 not making an unanalyzed design change to the plant.

24 The next one down, "2012-9, "PSNH agrees

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1 to review changes in the compatibility of material used
2 in interface connections and to strengthen its
3 training." Again, if you're going to put materials
4 together for interface connection, I think the first
5 thing you would look at is the compatibility of the
6 materials, to make sure that they work together. So,
7 and I will give you, obviously, a chance to comment on
8 this, it strikes me that most of these recommendations
9 are good utility practice that Public Service should
10 have been practicing all along. I find it kind of hard
11 to believe you entered into an agreement saying that
12 "we don't do this, but we will."

13 A. (Smagula) I don't believe that's what the Agreement
14 indicates, Commissioner. And, when you indicated that
15 you don't believe that these things aren't in place
16 now, I'll comment that they are all in place. That I
17 believe, in every case, whether it looks at Item 1
18 where "Accion recommends that we review, possible
19 failure conditions and to determine need for spare
20 parts", I think the key part of the sentence there is
21 "if it has not already done so". We have done this, in
22 rigorous detail, with our own engineers, with the
23 engineers from the equipment suppliers, with their
24 engineers from United -- with URS. I think, however,

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1 questions were raised in discussions, and, as compared
2 to debating the need to go and double-check, the need
3 to go and review again, we determined that, if there
4 was a discussion with the Commission's consultant, that
5 arguing that case and trying to win it on the merits of
6 our technical position that we believe that this has
7 already been done, when, in fact, the discussion
8 continued on, we determined that it was reasonable for
9 us to go back and double-check, to go back and do it.
10 It's not an admission that it wasn't done. It's an
11 admission that there's nothing ever wrong with going
12 back and reviewing something again, because you could
13 learn something, you could find something, and it is
14 not an indication that there is an error.

15 Q. That makes me feel much better.

16 A. (Smagula) Well, I could go down each one of these --

17 Q. No, that's not necessary, if that's your --

18 A. (Smagula) -- with a similar dialogue. But we would not
19 enter into an agreement on something that we felt as
20 though indicated that we were in error. And, we feel
21 as though these recommendations, as has been the case
22 in prior years, that debating the fine points of it are
23 not necessarily providing value in the time and the
24 effort of the Commission's consultant or in our staff,

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1 or on our customers' behalf. But, in fact, there is
2 nothing ever wrong with going back and double-checking
3 practices, procedures, spare parts, large capital spare
4 parts. Over the years we've done a lot of these
5 things. And, through the course of it, I would say the
6 great majority of efforts we've made have resulted in
7 the fact that we were comfortable and we were very with
8 what we had done, and we can demonstrate that in a
9 subsequent year's review that something we had been
10 asked to do was done appropriately, and that we've
11 reviewed it again.

12 There are times, however, when we do
13 find that, yes, there is a refinement, there is an
14 enhancement to a procedure, there is a modification to
15 a spare parts process. There is -- it is always
16 appropriate to look at our planned outage activities
17 before the outage and say, you know, "we know what our
18 scope of work is, we know exactly what the resources
19 are to complete that scope of work, we know what parts
20 are needed, we know what workforce is needed."

21 However, there's nothing wrong with saying that, a week
22 before the outage, "have we learned anything different
23 in the prior few weeks, as compared to when we set our
24 schedule three weeks or four weeks earlier, has

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1 anything been different that we could make a smaller
2 adjustment in our schedule, a small adjustment in our
3 workplan?" And, I'm hard-pressed to say "No, we're
4 perfect. We did it four weeks before the outage.
5 We're good. We don't have to do it." But I think this
6 is saying, "as you get closer to the outage, see if
7 there's more information that's crept in. Make sure
8 you do a double-check. So that, when you initiate your
9 outage, your scope is that much more tuned with regard
10 to resources that are needed."

11 So, hard for me to say "no, we don't
12 need that incremental tuning." So, yes, while it may
13 give an indication that there's something wrong, I read
14 it as though "you can always do a little bit better
15 perhaps". And, that's what we are committing to on
16 each of these, in order to get that much more better
17 based on a recommendation here.

18 Q. Thank you. That makes me feel a lot better.

19 A. (Smagula) Yes.

20 Q. But I think you can understand how some can read it the
21 other way.

22 A. (Smagula) I mean, I'm -- yes, I can understand it.

23 And, as you were going through these, I was very
24 concerned about how they were being read. And, I'm

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1 very thank you for your question. Because, if you
2 didn't ask it, I would be concerned that other people
3 may read it the same way. And, thank you.

4 CMSR. HARRINGTON: Okay. Thank you.
5 That's all the questions I had.

6 CHAIRMAN IGNATIUS: That concludes our
7 questioning. Mr. Fossum, redirect to your witnesses?

8 MR. FOSSUM: No, I don't have anything.

9 CHAIRMAN IGNATIUS: Ms. Amidon, redirect
10 to Mr. Cannata?

11 MS. AMIDON: Yes. With your permission,
12 Mr. Mullen has a few questions.

13 CHAIRMAN IGNATIUS: That's fine.

14 MR. MULLEN: Just quickly.

15 **REDIRECT EXAMINATION**

16 BY MR. MULLEN:

17 Q. Mr. Cannata, could you turn to Page 54 of your
18 testimony.

19 A. (Cannata) I'm there.

20 Q. And, you just had a discussion with Chairman Ignatius
21 in relation to the Least Cost Plan. If you look at the
22 last paragraph on Page 54, it says that "PSNH's actions
23 were consistent with its least cost plan as modified on
24 March 28, 2008."

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1 A. (Cannata) That's correct.

2 Q. Is that the plan that you were referring to that was
3 approved by the Commission in 2010?

4 A. (Cannata) Yes.

5 MR. MULLEN: Okay. Thank you. Just one
6 other thing. Staff would like to recognize that I believe
7 this is Mr. Baumann's last time appearing before the
8 Commission, as he will be retiring very shortly, along
9 with that, Mr. Puzio, who is sitting at the second table
10 on the other side of the room. Staff just wants to
11 express its thanks for their work on this case, as well as
12 the many other cases they participated in over the years.

13 CHAIRMAN IGNATIUS: Thank you. Is that
14 true? Is this really it? Last time --

15 WITNESS BAUMANN: That's true.

16 CHAIRMAN IGNATIUS: Last time he said
17 that you said "No, no, I'm coming back."

18 WITNESS BAUMANN: No, I'm not coming
19 back. I will miss some of the work, and I will miss all
20 of the people.

21 CHAIRMAN IGNATIUS: Well, that's nice.
22 You have always been extremely thorough and forthright on
23 the stand, and always, my sense, has always tried very
24 hard to come up with good answers to questions, even when

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1 we weren't always sure what we were asking. So, I
2 appreciate that.

3 WITNESS BAUMANN: Thank you.

4 CHAIRMAN IGNATIUS: Wish both of you all
5 the luck in the world. I guess you're excused, and we're
6 going to have an opportunity for closings. Before we do
7 that, can I just ask, because there's a weird ringing
8 going on, if anyone's got a cellphone, a computer near the
9 microphone, that may be what's causing it.

10 CMSR. HARRINGTON: Or, if you're not
11 using it, just turn it off. Sometimes that helps as well.

12 CHAIRMAN IGNATIUS: Just talking about
13 it made it better. All right. So, anything other than
14 striking identification -- well, actually, before we do
15 that, is there any objection to striking the
16 identification and making these full exhibits?

17 MS. AMIDON: No.

18 CHAIRMAN IGNATIUS: Seeing none, we'll
19 do that. Anything else to address before closings?

20 (No verbal response)

21 CHAIRMAN IGNATIUS: There is none. If
22 you're okay staying there, why don't you just, if it's
23 easier, stay where you are.

24 So, let's ask first for Ms. Chamberlin,

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1 closing argument?

2 MS. CHAMBERLIN: Thank you. PSNH is
3 authorized under RSA 369-B:3 to collect from Default
4 Energy Service customers the actual, prudent, and
5 reasonable costs. I submit to the Commission that
6 collecting from residential customers the carrying costs
7 of generation in economic shutdown is not reasonable. If
8 PSNH believes that there is value to these plants, then
9 they should carry the costs. Whatever value there may be
10 is to the system as a whole, and does not come directly to
11 PSNH's residential customers, who make up the majority of
12 the Energy Service, the base through which the Energy
13 Service gets collected.

14 Looking at the evidence presented, the
15 Newington plant is an obvious candidate for retirement.
16 It operates the fewest number of hours, it is a thermal
17 plant, it's an old plant. It simply is there. It's no
18 longer operating as a baseload plant, it's operating
19 essentially as a peaking plant. Again, which is a benefit
20 to the ISO region, perhaps, but not a particular benefit
21 to New Hampshire's residential customers. I submit that
22 this plant could be easily replaced with other capacity
23 that is either on line or about to be on line.

24 PSNH has the authority to seek

1 retirement any time it wants under 369-B:3-a, the
2 Commission has to make a finding, but PSNH has the
3 authority to make that request. As PSNH has chosen not to
4 do so, I submit that they should carry the costs of these
5 uneconomic generation. If they have -- if their concern
6 is future capacity, they want to keep these things on line
7 maybe they will be valuable, and maybe they will prevent
8 -- that there's a backstop for the volatility of the gas
9 prices. All of those things, they may be prudent
10 decisions, but they do not result in reasonable costs to
11 New Hampshire's residential ratepayers. And, for that
12 statute to have meaning, it's not just "actual", it's not
13 just "prudent", but it's "actual, prudent, and
14 reasonable". And, at this level, we've come to the point
15 where these costs are no longer reasonable to be borne by
16 the default customers.

17 And, it would be a fairly
18 straightforward calculation to determine what were the
19 carrying costs, what were the capacity payments that were
20 the benefit, offset that, identify the number, and
21 disallow it from recovery. And, that's what I would
22 submit to the Commission should be done in this case.

23 CHAIRMAN IGNATIUS: And, when you refer
24 to "carrying costs", are you referring to a particular

1 defined set of costs or all of the costs of keeping the
2 plants available, in the event they need to be run?

3 MS. CHAMBERLIN: All of the costs
4 keeping the plants available.

5 CHAIRMAN IGNATIUS: So, staffing,
6 equipment, maintenance?

7 MS. CHAMBERLIN: Yes.

8 CHAIRMAN IGNATIUS: Thank you. Ms.
9 Amidon.

10 MS. AMIDON: Thank you. As you know
11 that this docket is conducted on an annual basis to allow
12 investigation of the prior calendar -- of a prior calendar
13 year to determine whether the costs incurred by PSNH are
14 the actual, prudent and reasonable costs of operating
15 their -- of providing Default Service pursuant to 369-B:3,
16 IV(1)(A).

17 We believe that the investigation
18 conducted by Staff's consultant and the resulting
19 Settlement Agreement supports the conclusions in the
20 Settlement Agreement that the costs were reasonable and
21 actual costs incurred by the Company. And, we think that
22 the Settlement Agreement is a just and reasonable solution
23 -- resolution of the issues in this docket, and is in the
24 public interest pursuant to the Commission's Rule Puc

1 203.20(b).

2 And, to comment on the OCA's suggestion,
3 while I understand, and we have seen this thing throughout
4 many of PSNH's cases, that there are issues with the cost
5 of generation resulting from myriad issues in the market,
6 and other sources of energy being at a relatively lower
7 price, I respectfully suggest that, in this proceeding,
8 that's not what the Commission should be looking at. That
9 the suggestion may be more appropriate for a planning
10 docket or a prospective docket.

11 But, I think, where this proceeding
12 concerns the operation of these plants in 2011, the
13 Commission should approve the Settlement Agreement. And,
14 if the judgment is to pursue this issue, to do in a -- to
15 do that in a prospective manner, and not in a
16 retrospective manner. Thank you.

17 CHAIRMAN IGNATIUS: Thank you.

18 Mr. Fossum.

19 MR. FOSSUM: Thank you. I'd like to
20 begin by actually referring back to the Commission's Order
21 25,375, issued on June 18, 2012 in this docket. And, in
22 that order, the Commission set or described the purpose
23 and the scope of this proceeding. Noting that it's an
24 annual filing by PSNH to reconcile revenues and expenses

1 associated with stranded cost recovery and power
2 generation and supplemental power purchases, and this case
3 is for calendar year 2011. And, that these filings allow
4 PSNH to compare its estimated revenues and expenses with
5 those actually incurred in the prior calendar year. And,
6 either credit an overrecovery back or include an
7 underrecovery amount in rates. The Commission also
8 reviews the planned outages and associated power purchases
9 to determine if PSNH acts -- acted prudently regarding
10 those purchases and activities. And, the Commission
11 determines the extent to which cost claims should be
12 recovered by customers and reviews plant performance,
13 plant outages, replacement power purchases, and other
14 purchases of power and capacity, as well as the prudence
15 and reasonableness of PSNH's incurred capital costs, and
16 whether it has appropriately accounted for and reconciled
17 Energy Service and stranded costs and any offsetting
18 revenues. This Commission specifically noted that issues
19 regarding PSNH's planning process or forecasts of power
20 needs, costs or related factors are considered in the
21 context of PSNH's Least Cost Integrated Resource Plan, and
22 will be considered in the context of the LCIRP docket or
23 in a future Energy Service rate setting docket, as
24 appropriate, and are beyond the scope of the instant

1 proceeding.

2 So, keeping in mind that scope, the
3 Staff's consultant reviewed the issues as defined by the
4 Commission. And, as noted in the Settlement Agreement
5 filed on December 26th and presented today, Staff, through
6 its consultant, concluded that PSNH acted prudently and
7 reasonably. Staff did recommend that PSNH not recover
8 certain outage costs, and PSNH has agreed to not seek
9 those costs from customers in the interest of the
10 Settlement. PSNH has also agreed to implement certain
11 recommended changes regarding operation and maintenance on
12 a going forward basis. And, in these circumstances, and
13 in light of the scope of this case, PSNH has acted
14 prudently and reasonably with respect to the operation of
15 its plants, its power purchases, and the accounting of its
16 costs and revenues.

17 And, therefore, PSNH would ask that the
18 Commission accept and approve the Settlement Agreement in
19 this case, with the understanding that issues about plant
20 retirement or the like are not appropriate for this
21 docket. Thank you.

22 CHAIRMAN IGNATIUS: Thank you. All
23 right. With that, we will take the matter under
24 advisement. And, appreciate everyone's work in going

1 through all of the detail contained in the filing. Thank
2 you. We're adjourned.

3 (Whereupon the hearing ended at 1:09
4 p.m.)

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