

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

February 2, 2016 - 1:49 p.m.
Concord, New Hampshire

DAY 1
AFTERNOON SESSION ONLY

RE: DE 14-238 PUBLIC SERVICE COMPANY OF
NEW HAMPSHIRE: Determination regarding
PSNH's Generation Assets.

DE 11-250 PUBLIC SERVICE COMPANY OF
NEW HAMPSHIRE: Investigation of
Scrubber Costs and Cost Recovery.

PRESENT: Commissioner Martin P. Honigberg, Presiding
Commissioner Kathryn M. Bailey
Special Commissioner Michael J. Iacopino
Jody Carmody, Clerk

APPEARANCES: Reptg. Public Service Co. of New Hampshire:
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Robert A. Bersak, Esq.

Reptg. the City of Berlin and the Town of
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Reptg. the Conservation Law Foundation:
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Reptg. the Sierra Club:
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COURT REPORTER: STEVEN E. PATNAUDE, LCR NO. 52

ORIGINAL

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10 **Reptg. Retail Energy Supply Association:**

11 Melissa Lauderdale, Esq. (Exelon)

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E X H I B I T S

EXHIBIT ID	D E S C R I P T I O N	PAGE NO.
UU	Federal Energy Regulatory Commission Order 145 FERC 61057, issued October 17, 2013 in Docket No. EL 13-43-000 regarding the Council of the City of New Orleans, Louisiana	6
VV	ISO New England "Generator Asset Registration Options Checklist: Settlement Only or Modeled Generator Asset" (October 2014)	6
WW	RECORD REQUEST (To describe the degree to which the Settlement Agreement does or does not address what happens with respect to the clauses concerning property taxes in the event of a failed auction...)	112

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1 England "Generator Asset Registration Options Checklist:
2 Settlement Only or Modeled Generator Asset". And, that
3 will be "VV".

4 And, here is VV, make sure you have UU.

5 MS. CARMODY: Thank you.

6 (Atty. Bersak distributing documents.)

7 (The documents, as described, were

8 herewith marked as **Exhibit UU** and

9 **Exhibit VV**, respectively, for

10 identification.)

11 MR. BERSAK: Thank you. Good afternoon,

12 Mr. Shuckerow.

13 WITNESS SHUCKEROW: Good afternoon.

14 **REDIRECT EXAMINATION**

15 BY MR. BERSAK:

16 Q. Do you recall during your direct examination being
17 asked about Exhibit CC, which is a FERC decision in
18 Exelon Wind 1?

19 A. Yes, I do.

20 CHAIRMAN HONIGBERG: Just to be clear,
21 that was during his questioning by Attorney Geiger, right?

22 MR. BERSAK: Ms. Geiger, that's correct.

23 CHAIRMAN HONIGBERG: Okay. I wouldn't
24 have called that his "direct examination". But we're all

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1 in the same place.

2 MR. BERSAK: I'm sorry.

3 CHAIRMAN HONIGBERG: That's okay.

4 BY MR. BERSAK:

5 Q. Somebody asked you some questions about this document,
6 correct?

7 A. Yes. Thank you.

8 Q. Okay. Got you. And, you were asked to read from some
9 highlighted sections of the document, back around
10 Paragraph 57, I believe -- or, 52. Do you recall that?

11 A. Yes.

12 Q. In that Paragraph 52, FERC stated that "The problem
13 with the methodology proposed by SPS", that's
14 Southwestern Power Service, "and adopted by the Texas
15 Commission is that it is based on the price that a QF
16 would have been paid had it sold its energy directly to
17 the EIS market, instead of using a methodology of
18 calculating what the costs to the utility would have
19 been for self-supplied, or purchased, energy "but for"
20 the presence of the QF or QFs in the markets, as
21 required by the Commission regulations."

22 So, the question to you is, what is the
23 cost to PSNH for energy that would have to be
24 self-supplied or purchased, but for the presence of

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1 QFs?

2 A. The cost to PSNH would be the real-time cost of power.

3 Q. Could you please turn to Page 20 of your testimony, and
4 that's Bates Page 251. Let me know when you have that.

5 A. I have Page 20.

6 Q. Okay. In response to the questioning at Line 25, you
7 referred to a FERC decision that's docketed as "EL
8 13-43", "City of New Orleans". Do you see that?

9 A. Yes, I do.

10 Q. Is that the New Orleans decision that you briefly
11 referred to during your cross-examination?

12 A. Yes, I did.

13 Q. And, is what has now been marked as "Exhibit UU" for
14 identification that FERC decision?

15 A. Yes.

16 Q. Did FERC issue the City of New Orleans decision before
17 or after the Exelon Wind 1 decision?

18 A. Yes, it did. The Exhibit UU, the FERC decision, was
19 issued on October 17th, 2013. The Exelon decision we
20 were discussing earlier was in August of 2012.

21 Q. So, the New Orleans decision is more recent, correct?

22 A. Correct.

23 Q. Okay. Does the FERC include a reference to the Exelon
24 Wind decision, what's been marked as "Exhibit CC" here,

[WITNESS: Shuckerow]

1 in its order regarding the City of New Orleans, Exhibit
2 UU?

3 A. Yes, it does. That reference is within their Section
4 II, called "Petition for Declaratory Order". And, it
5 would be Paragraph 8.

6 Q. So, when FERC issued the City of New Orleans decision,
7 it was aware of and actually commented on the Exelon
8 Wind 1 decision?

9 A. Yes, it did.

10 Q. In the New Orleans order, did the FERC discuss the use
11 of "as available sales" in the City of New Orleans
12 order?

13 A. Yes, it does.

14 Q. And, where in their order does it do that?

15 A. That would be on Page 7. And, also, it's referred to
16 in the "Background" section. So, it would be Section
17 I, "Background", Paragraph 3.

18 Q. Is an "as available" sale in the Midwest ISO equivalent
19 to a real-time sale in ISO New England?

20 A. That's what the order implies.

21 Q. And, where does it imply that?

22 A. Under the Section I, "Background", Paragraph 3.

23 Q. Can you read the sentence that you're referring to?

24 A. Yes. The sentence is "For QFs electing the

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1 behind-the-meter option, their sales of "as variable"
2 energy will not be part of the utility's day-ahead
3 schedules, because by definition such QFs do not have
4 to schedule their energy to the utilities; they simply
5 sell to the utilities with no notice, in real-time.
6 Instead, "as available" QF sales will be shown in the
7 real-time market and will be treated as reduced load to
8 the utility."

9 Q. In the City of New Orleans order, you testified that
10 "FERC was aware of the use of LMPs to set avoided
11 cost", is that correct?

12 A. Yes.

13 Q. Can you refer the Commission to where that particular
14 reference is in this order?

15 A. Yes. That would be in the order actually through a
16 footnote. It's Footnote 64.

17 Q. In Footnote 64, did the Commission say that the use of
18 LMPs is improper as a standard for setting PURPA
19 avoided costs?

20 A. What it says is "It appears that various states have
21 opted to use LMPs in calculating avoided costs. See
22 Entergy February 21st, 2013 Answer at 19-20. The
23 record in this proceeding does not contain extensive
24 evidence on the particular methodologies that are being

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1 used by these states, and these methodologies have not
2 otherwise been the subject of Commission proceedings."

3 Q. So, from that, it appears that FERC is aware of the use
4 of LMPs, but is stating that it has not had a
5 Commission proceeding to opine on the proper use of
6 LMPs as avoided cost methodologies?

7 A. Correct.

8 Q. Commissioner Bailey asked you some questions regarding
9 the current status of QFs in New Hampshire, and the
10 significance of the 20-megawatt capacity limitation.
11 Do you recall that?

12 A. Yes.

13 Q. And, to try to provide a little bit more information in
14 that area, in New Hampshire, are there QFs that are
15 greater than 1 megawatt in size?

16 A. Yes.

17 Q. And, are there some that are greater than 20 megawatts
18 in size?

19 A. Yes.

20 Q. Do you have a copy of Exhibit GG -- what's been marked
21 as "Exhibit GG" available? This is a FERC order issued
22 in April 2010.

23 A. Yes. I have it.

24 Q. And, this order is an order granting in part and

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1 denying in part the Application to Terminate Mandatory
2 Purchase Obligations filed by the Public Service
3 Company of New Hampshire with FERC, is that correct?

4 A. That's correct.

5 Q. In this order, did FERC grant PSNH's request to
6 terminate the mandatory buy obligation under PURPA from
7 QFs that have capacities greater than 20 megawatts?

8 A. Yes, it did.

9 Q. And, did it deny the Company's request to terminate the
10 mandatory buy obligation from QFs with capacities of 20
11 megawatts or less?

12 A. That's correct.

13 Q. And, had FERC granted PSNH in total, we wouldn't be
14 here today arguing about this, would we?

15 A. Yes.

16 Q. Are you aware of whether that 20-megawatt cut-off that
17 the FERC put into the PSNH order has been consistently
18 applied by FERC for similar requests to terminate PURPA
19 buys from utilities across the country?

20 A. Yes. That's my understanding.

21 Q. Are there QFs or generators that could qualify as QFs
22 in New Hampshire that are greater than 20 megawatts?

23 A. Yes, there are.

24 Q. Do you know whether PSNH has any purchases from any

[WITNESS: Shuckerow]

1 such entities?

2 A. Yes. We have two, in fact. One is located in northern
3 New Hampshire, it's called "Burgess". It's
4 approximately 60 megawatts in size, give or take. The
5 other is a wind facility, called "Lempster", located in
6 the western part of the state. It's in the 20 to 25
7 megawatt range.

8 Q. So, both Burgess Biomass and Lempster are qualifying
9 facilities under PURPA?

10 A. Yes.

11 Q. And, do we pay avoided cost prices to either of those
12 QFs?

13 A. We do not. We have long-term contracts with each of
14 those.

15 Q. And, who reviewed and approved those long-term
16 contracts?

17 MS. GEIGER: Excuse me, Mr. Chairman.
18 I'm going to interpose an objection here. I'm not sure
19 how this is relevant to the issues that Mr. Shuckerow has
20 testified to on direct and on cross.

21 CHAIRMAN HONIGBERG: Mr. Bersak.

22 MR. BERSAK: What I'm trying to do is I
23 think that Commissioner Bailey had some questions about
24 "what is the state of QFs in this state?" I'm just trying

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1 to make sure she understands where we are, and how this
2 fits into the greater scheme. But, if it's something that
3 the Commissioners don't want to hear about, I can
4 certainly move on.

5 CHAIRMAN HONIGBERG: I'm sympathetic to
6 Ms. Geiger's point. If you can bring it to a close fairly
7 quickly, that will be helpful.

8 MR. BERSAK: Sure. I'll just let it lay
9 where it is then.

10 BY MR. BERSAK:

11 Q. Commissioner Bailey also asked you about "settlement
12 only generators", or what you referred to as "SOGs".
13 Do you recall that?

14 A. Yes.

15 Q. Are you aware of an ISO New England Operating Procedure
16 Number 14, titled "Technical Requirements for
17 Generators, Demand Resources, Asset Related Demands,
18 and Alternative Technology Regulation Resources"?

19 A. Yes, I am.

20 Q. In that operating procedure, the ISO New England says
21 that "A generating facility less than 1 megawatt that
22 is interconnected below 115 kV (1) may register as a
23 settlement only generator, or (2) may elect to not
24 register, if not participating in any wholesale

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1 electric markets other than as a load reducer." Are
2 you aware of that provision?

3 A. Yes, I am.

4 Q. I'd like you to take a look at what's been marked as
5 "VV" as an exhibit, the "Generator Asset Registration
6 Options Checklist" from ISO New England. Do you have
7 that document?

8 A. Yes. I have that in front of me.

9 Q. Are you familiar with that document?

10 A. Yes, I am.

11 Q. Does this Checklist reflect what you just stated? That
12 is that "generators less than 1 megawatt, when
13 connected at 115 kV or below, shall be registered as
14 settlement only generators within ISO New England"?

15 A. Yes.

16 Q. Are settlement only generators modeled in the day-ahead
17 market?

18 A. They are not.

19 Q. Are generators that do not register at ISO modeled in
20 the day-ahead market?

21 A. They are not.

22 Q. Under this ISO rule, isn't it true that resources that
23 are -- that fit the definition, that is 1 megawatt or
24 less, connected to the grid at voltages of 115 kV or

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1 below, cannot be in the day-ahead market?

2 A. Yes. That's correct.

3 Q. So, conversely, those small generators must be
4 accounted for in the real-time market, is that correct?

5 A. Correct.

6 Q. Now, is there a workaround to this restriction, if
7 several smaller QFs desired to voluntarily join
8 together to create a virtual day-ahead entity?

9 A. Yes. That opportunity is before them. They could do
10 that.

11 Q. So, in your direct testimony, where you said, if a QF
12 wanted to participate in the day-ahead market, it could
13 do so?

14 A. Through a combination of arrangements with others.

15 Q. Do PSNH's owned generating assets, the ones we are
16 talking about divesting, do they participate in the
17 day-ahead market?

18 A. Yes, they do.

19 Q. So, they are bid into that day-ahead market at ISO New
20 England every day of the year before ISO's 10:00 a.m.
21 deadline?

22 A. Correct.

23 Q. And, is that somebody from your staff that does that
24 every day of the week?

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1 A. Correct.

2 Q. Saturdays and Sundays?

3 A. Yes, Saturdays and Sundays.

4 Q. Got it. You were asked by Attorney Geiger about the
5 avoided cost standard for utilities in Virginia. Do
6 you recall that?

7 A. Yes, I do.

8 Q. Do you know whether Virginia is part of ISO New
9 England?

10 A. They are not.

11 Q. Okay. So, do ISO New England restrictions on
12 participation in the day-ahead market apply to Virginia
13 utilities?

14 A. They would not.

15 Q. If PSNH was required to compensate QFs that cannot be
16 modeled in the day-ahead market day-ahead prices, would
17 there be a mismatch between what was paid and the value
18 of that output?

19 A. The answer is "yes".

20 Q. PSNH purchases the output from nearly all of GSHA's
21 members' facilities. Do those facilities occasionally
22 stop generating, due to mechanical issues or lack of
23 water or other reasons?

24 A. Yes. Of course.

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1 Q. When that happens, how does PSNH replace the generation
2 that would otherwise have been produced by the QFs?

3 A. We would basically purchase it from the real-time
4 energy market.

5 Q. Do any of GSHA's members' generation allow PSNH to
6 avoid day-ahead energy market purchases?

7 A. They do not.

8 Q. Does the output from GSHA members' generation allow
9 PSNH to avoid real-time energy market purchases?

10 A. Yes, they do.

11 Q. Does PSNH, under the provision in the Settlement
12 Agreement, which has been in place since 2000, pay
13 these resources the rate which PSNH avoids making?

14 A. Yes.

15 Q. Do you have -- let me just make sure I've got the right
16 reference here. It is. What has been marked as
17 "Exhibit Z", the response by PSNH to Granite State
18 Hydro Association, Data Request 1-025?

19 A. I believe I do.

20 Q. Here. So, you don't go searching, I'll just give you
21 mine.

22 *(Atty. Bersak handing document to the*
23 *witness.)*

24 WITNESS SHUCKEROW: Thank you.

[WITNESS: Shuckerow]

1 BY MR. BERSAK:

2 Q. You were asked by Attorney Geiger about that exhibit,
3 about that response. She asked you about the first
4 sentence in that response. Can you read the second
5 sentence in the response?

6 A. I will. Again, this is a data response, GSHA 1-025.
7 "However, at the margin 100 percent of the time there
8 was some amount transacted in the real-time energy
9 market."

10 Q. Does that response mean that the real-time market sets
11 the marginal price for PSNH?

12 A. Yes, it does.

13 Q. In your testimony, at Page 5, Line 17, you refer to a
14 decision of this Commission that "found that
15 calculations of the proper avoided cost rate is
16 dependent upon the identification of generating units
17 operating on the margin." That's the *Industrial*
18 *Cogenerators Group* case that Attorney Geiger asked you
19 about. Do you recall that?

20 A. Yes.

21 Q. At the margin, in today's market, is PSNH's cost of
22 energy the real-time market price?

23 A. Yes, it is.

24 Q. Do you have in front of you Exhibit II, which you were

[WITNESS: Shuckerow]

1 questioned about by Attorney Geiger? That's a table
2 showing self-supplied energy costs. It's in my book
3 there, if you need it.

4 A. I have it.

5 Q. You have it. The second line of that table, captioned
6 "F/H", or "Fossil/Hydro", "O&M,", that's "Operations &
7 Maintenance", "depreciation and taxes". Do you see
8 that?

9 A. Yes, I do.

10 Q. Do QF purchases allow PSNH to avoid payment of O&M,
11 depreciation or taxes?

12 A. They do not. Those are fixed costs.

13 Q. Should those costs be included in the value of
14 generation that could be avoided by purchases from QFs?

15 A. They should not.

16 Q. The third line in that table is captioned "Return on
17 Rate Base". Do you see that?

18 A. Yes, I do.

19 Q. Do purchases from QFs allow PSNH to avoid the cost of
20 return on rate base?

21 A. They do not.

22 Q. So, should those costs be included in costs that the
23 purchase of generation from QFs would allow the Company
24 to avoid?

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1 A. They should not.

2 Q. So, based upon those two questions, if you look at that
3 table, would that mean that the self-generation costs
4 from PSNH are actually the number in that first line,
5 under "Final", which is "3.24 cents" in this, for the
6 January through June 2015 time period?

7 A. That's correct.

8 MR. BERSAK: That's it. No further
9 questions. Thank you, Mr. Shuckerow.

10 CHAIRMAN HONIGBERG: Thank you, Mr.
11 Bersak. I think you can return to your seat then,
12 Mr. Shuckerow.

13 WITNESS SHUCKEROW: Okay. Thank you
14 very much, sir.

15 CHAIRMAN HONIGBERG: Am I correct that
16 the next up is the panel?

17 MS. AMIDON: That is correct.

18 CHAIRMAN HONIGBERG: We'll go off the
19 record while the panel sets up.

20 (Off the record.)

21 (Whereupon **Leszek Stachow,**

22 **Dean M. Murphy, Eric H. Chung**

23 **John Antonuk, James J. Brennan, and**

24 **Thomas C. Frantz** were duly sworn by the

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Court Reporter.)

2 CHAIRMAN HONIGBERG: Who's going to
3 start?

4 MS. AMIDON: A change of plans for
5 staff. Attorney Speidel will conduct the direct. I will
6 have a couple of questions in the course of the subsequent
7 period. But he's going to be doing the -- we'll start
8 off.

9 MR. SPEIDEL: Oh, wait. We will start
10 off?

11 MS. AMIDON: Sure.

12 MR. SPEIDEL: I was wondering that, with
13 the Company being the moving party, would be next?

14 CHAIRMAN HONIGBERG: It really doesn't
15 matter. I think all we're doing is getting these
16 witnesses qualified. So, Mr. Speidel, if you're ready to
17 go, if you don't mind taking the conn, go ahead.

18 MR. SPEIDEL: Sure. Thank you, Mr.
19 Chairman. I would direct my first question to Mr.
20 Stachow. Mr. Stachow, good afternoon.

21 WITNESS STACHOW: Good afternoon.

22 MR. SPEIDEL: Could you please make sure
23 you have the microphone turned on.

24 WITNESS STACHOW: It's on.

{DE 11-250/DE 14-238} [Day 1 PM Session only] {02-02-16}

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 **LESZEK STACHOW, SWORN**

2 **DEAN MURPHY, SWORN**

3 **ERIC H. CHUNG, SWORN**

4 **JOHN ANTONUK, SWORN**

5 **JAMES BRENNAN, SWORN**

6 **THOMAS C. FRANTZ, SWORN**

7 **DIRECT EXAMINATION**

8 BY MR. SPEIDEL:

9 Q. And, could you please state your full name for the
10 record.

11 A. (Stachow) Leszek Stachow.

12 Q. And, what is your position and title?

13 A. (Stachow) I'm the Assistant Director in the Electrical
14 Division.

15 CHAIRMAN HONIGBERG: Off the record.

16 *[Brief off-the-record discussion*
17 *ensued.]*

18 CHAIRMAN HONIGBERG: All right. We're
19 back on the record.

20 **BY THE WITNESS:**

21 A. (Stachow) All right. Assistant Director in the
22 Electrical Division of the New Hampshire PUC.

23 BY MR. SPEIDEL:

24 Q. And, Mr. Stachow, are you familiar with the testimony

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 that has been marked as Item "D"?

2 A. (Stachow) I am.

3 Q. "Exhibit D?"

4 A. (Stachow) I am.

5 Q. Do you have any corrections that you would like to make
6 to that supplemental testimony?

7 A. (Stachow) No.

8 Q. Thank you. Mr. Murphy, could you please state your
9 full name for the record.

10 A. (Murphy) Dean Murphy.

11 Q. And, with whom are you affiliated?

12 A. (Murphy) I'm a Principal with The Brattle Group.

13 Q. And, as a Principal with The Brattle Group, did you
14 serve as a consultant for Non-Advocate Staff during
15 this proceeding?

16 A. (Murphy) Yes. Brattle was engaged by Non-Advocate
17 Staff.

18 Q. Are you familiar with the material that has been
19 submitted and marked as "Exhibit E"?

20 A. (Murphy) Yes, I am.

21 Q. Do you have any corrections that you'd like to make to
22 that material at the present time?

23 A. (Murphy) No corrections.

24 Q. Would you be able to summarize, for the benefit of the

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Commission and the people in this hearing room, in
2 about 3 or 4 minutes or less, what the matters
3 pertaining to your testimonial elements are?

4 A. (Murphy) Yes, I'd be happy to. I was asked by Staff to
5 analyze the customer savings, to redo the analysis of
6 customer savings due to the divestiture. The approach
7 I took was to look at the total cost in dollars, rather
8 than rates, for reasons that I'll explain in a moment.
9 But, primarily, because, in order to understand the
10 effect on rates, you first need to understand the
11 effect on cost. And, of course, I was comparing the
12 case with no divestiture versus the case with
13 divestiture.

14 In the case without divestiture, the
15 costs include the fixed costs of operating and owning
16 the plants. That's the depreciation and return and the
17 fixed operating costs. And, those are offset by the
18 market revenues that the plants can earn, primarily
19 energy and capacity revenues.

20 Of course, there's also the cost of
21 serving load from the market. That is included for
22 completeness, although it subtracts out when you do the
23 comparison of the cost with divestiture -- with no
24 divestiture versus divestiture. The cost of serving

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1 load is the same in both of those cases. So, I put
2 less emphasis on that cost, because I knew it would
3 subtract out.

4 In the divestiture case, the only
5 relevant costs that remain are the securitized stranded
6 costs, the rate reduction bond costs. And, this is
7 evidenced in the figure on I believe it's Page 5 of my
8 testimony, which shows the conceptual structure of the
9 analysis. There's another figure later, which looks
10 very similar, that shows the actual numbers on this.

11 But you can see from this figure that
12 the total cost of serving load is common across the two
13 cases, and, therefore, doesn't affect the difference
14 between them. On the left, in the "no divestiture"
15 case, I'm comparing the depreciation, return, and fixed
16 O&M costs net of the market revenues of those
17 generators, versus, on the right, the RRB costs, the
18 securitized stranded costs.

19 So, in order to actually perform this
20 analysis, I worked with Eversource, with
21 representatives from Eversource, who provided those
22 fixed costs for the generation, the depreciation, and
23 the return, based on their financial projections, and
24 their fixed O&M cost, based on their operating budgets

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 for, I believe, the next five years. And, these assume
2 full Scrubber recovery, these costs assume full
3 Scrubber recovery.

4 And, I, myself, calculated the market
5 revenues that would offset those fixed costs in two
6 components. The capacity component is simply the
7 capacity of the plants, their seasonal capacity rating
8 of each of the plants over the year, times the capacity
9 price. Now, the capacity prices are known for delivery
10 through May 2019, because those auctions have already
11 occurred. And, we used a projection from SNL Financial
12 of the future capacity costs beyond that. They were
13 similar to the current capacity costs, not exactly the
14 same, but similar.

15 For the energy revenues, in order to
16 understand the energy revenues from the plants, I
17 needed to take that in a couple of steps. And, the
18 first is to make a projection of future prices. And, I
19 did this at an hourly level, by starting with
20 historical hourly day-ahead prices, and adjusting them
21 for projected future prices, by using the expected
22 future gas and CO2 prices on the -- on the
23 understanding that, in the vast majority of hours in
24 New England, it is a gas plant that is setting the

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1 marginal price. And, it is the cost of fuel and CO2
2 that are driving that price. So, if gas prices go up,
3 electricity prices tend to go up. And, this allows me
4 to capture that. It is -- and, it allows me a way to
5 capture that with an hourly -- at an hourly level of
6 detail.

7 Once I've got that projection of hourly
8 prices into the future, I can do a virtual dispatch of
9 the plants. So, simulate the dispatch of the plants,
10 taking into account not only their operating
11 parameters, their fuel costs, their heat rate,
12 *etcetera*, but also their operating constraints, their
13 minimum operating time, the minimum downtime, *etcetera*,
14 to get a more realistic measure of their energy
15 revenues. And, this is for the dispatchable fossil
16 plants. For the hydro, and also the Schiller biomass
17 plant, those are essentially baseload plants that run
18 all the time, when they are able to. And, so, they get
19 the average energy price for the amount of energy that
20 they produce, which we looked at monthly, on a monthly
21 level.

22 So, putting that into the framework that
23 I've illustrated on Page 5 of my testimony, I find that
24 in the -- in a base case that reflects current market

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1 information, the current expectation for gas price and
2 CO2 prices. In the "no divestiture" case, you can see,
3 at the top of -- I'd turn you to the second figure,
4 which is on Page 11 of my testimony, the operating and
5 ownership costs in the top left of that figure, that's
6 the depreciation, the return, and the fixed O&M, total
7 about 213 million. Again, this is information
8 primarily from Eversource.

9 When -- we can put aside the market cost
10 of serving load, because that's the same in both cases.
11 If I take that 213 million of fixed costs and offset it
12 with the market revenues that these plants may be able
13 to earn, those market revenues are estimated at
14 132 million, which leaves about 82 million in costs.
15 And, that's the average over the first five years after
16 assumed divestiture. So, from the beginning of 2017
17 through the end of 2021, those -- there would be about
18 an \$82 million net cost of owning the generation.

19 In the divestiture case, the comparable
20 costs, the costs that should be compared to this, are
21 the \$49 million average RRB cost, the securitized
22 stranded costs. This analysis was taken from the --
23 this was taken from the original Eversource analysis
24 that looked at the net plant, ultimately, the rate

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1 base, and securitizing the remaining rate base, after
2 being offset by the sale price of the plants, at
3 approximately a 3 percent rate, and recovering that
4 over a 15-year period.

5 So, when I compare the "no divestiture"
6 case, that 82 million in cost, versus the 49 million in
7 the "divestiture" case, that gives me a difference of
8 33 million per year over the first five years following
9 assumed divestiture.

10 I also did some sensitivity analyses
11 around the key inputs to this. The key inputs being
12 the energy price, the capacity price, and the sale
13 price of the assets at auction. And, I conclude that
14 the -- under expected conditions, the divestiture will
15 result in about \$33 million per year in customer
16 savings over the first five years. Divestiture also
17 eliminates the natural hedge that's provided by owned
18 generation, and results in greater exposure to markets
19 prices for customers.

20 MR. SPEIDEL: Thank you, Dr. Murphy.
21 Staff would like to reserve the right to ask, through
22 Attorney Amidon, some very limited friendly cross
23 questions of these two witnesses and the other panelists
24 during the cross phase of the proceeding. And, --

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1 MS. AMIDON: The questions that I have
2 relate to whether the panelists understand the Scrubber --
3 the settlement of the Scrubber issue in the Settlement
4 Agreement to be an appropriate and resolution of those
5 issues and in the public interest. That's all I have to
6 ask of these individuals.

7 CHAIRMAN HONIGBERG: Why don't you ask
8 those questions now. And, we'll get that questioning out
9 of the way.

10 MS. AMIDON: I could. I could. That's
11 what we were trying to figure out what you would like.

12 BY MS. AMIDON:

13 Q. Mr. Stachow, are you familiar with the Settlement
14 Agreement?

15 A. (Stachow) I am.

16 Q. And, you understand the terms with respect to the
17 disposition of the -- the proposed disposition of the
18 Scrubber proceeding?

19 A. (Stachow) I do.

20 Q. Do you believe that that resolution is reasonable and
21 in the public interest?

22 A. (Stachow) Yes, I do.

23 Q. Thank you. Mr. Antonuk, do you have any opinion on
24 that issue?

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1 CHAIRMAN HONIGBERG: Ms. Amidon, I may
2 have misunderstood. I thought your questions were just
3 going to be directed to the two witnesses who had just
4 been questioned. I'm sorry. I misunderstood.

5 MS. AMIDON: Okay.

6 CHAIRMAN HONIGBERG: Why don't we get
7 all of the witnesses up front. I misunderstood what you
8 said.

9 MS. AMIDON: I apologize. I probably
10 should have made note of that earlier myself. Thank you.

11 CHAIRMAN HONIGBERG: So, apologize,
12 Mr. Antonuk. We're just going to have to hang on that
13 answer for a while.

14 All right. Mr. Bersak, why don't you go
15 next.

16 MR. BERSAK: Yes, Mr. Chairman.

17 BY MR. BERSAK:

18 Q. Mr. Chung, could you please state your name.

19 A. (Chung) Eric Chung.

20 Q. And, by whom are you employed and what is your
21 position?

22 A. (Chung) I'm Director of Revenue Requirements and
23 Regulatory Projects for Eversource Energy.

24 Q. And, you're testifying here on behalf of Eversource

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1 Energy?

2 A. (Chung) Yes, I am.

3 Q. Your prefiled testimony, as redacted in support of the
4 Litigation Settlement Agreement, has been marked as
5 "Exhibit G". And, there's also attachments that have
6 been marked to your redacted testimony. Do you have
7 any updates or corrections to either your testimony or
8 the attachments thereto?

9 A. (Chung) No, I do not.

10 MR. BERSAK: Thank you. That's all I
11 have.

12 CHAIRMAN HONIGBERG: Mr. Aslin.

13 MR. ASLIN: Thank you, Mr. Chairman.

14 BY MR. ASLIN:

15 Q. Mr. Antonuk, good afternoon. If you could please state
16 your name for the record.

17 A. (Antonuk) John Antonuk.

18 Q. And, what company do you work for?

19 A. (Antonuk) I'm the President of the Liberty Consulting
20 Group.

21 Q. And, in what -- or, on whose behalf are you
22 participating in this docket?

23 A. (Antonuk) I'm working on behalf of the Governor's
24 Energy Office.

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1 Q. The Office of Energy & Planning?

2 A. (Antonuk) Sorry.

3 Q. Thank you. Mr. Antonuk, you, I believe, have what's
4 been marked as "Exhibit Q" in front of you. Is that
5 the testimony that you prefiled in this docket on
6 July 17th?

7 A. (Antonuk) It is.

8 Q. And, was that joint testimony?

9 A. (Antonuk) Yes. It was joint with Jim Letzelter, who's
10 with us today.

11 Q. Okay. Have you previously testified before the
12 Commission?

13 A. (Antonuk) I have. I testified, you know, I think I'm
14 going to miss one or two. Most material here, I
15 testified in the Seabrook divestiture proceedings. I
16 was part of the State Team that produced that
17 settlement. And, then, following that, the Commission,
18 which managed the audit -- or, the divestiture of
19 Seabrook, also went through a process of vetting and
20 selecting and then actively managing the auction
21 manager. And, I was part of the team that was assigned
22 to support the Commission in that effort, acting under
23 the Commission's General Counsel. And, I'm sure there
24 was public testimony. I know there were quite a number

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1 of private sessions with the commissioners to brief
2 them on that process as it unfolded.

3 Q. Thank you. Do you have any additions or corrections to
4 the testimony, Exhibit Q?

5 A. (Antonuk) I do not.

6 Q. If you could give us a very brief summary of why you
7 support the Settlement Agreement and believe it's in
8 the public interest?

9 A. (Antonuk) Yes. And, it's a fairly direct and simple
10 message. We've just heard a discussion of one
11 analysis, which I think is entitled to due respect.
12 But I think the overarching point is that, for a period
13 that's now approaching three years, analysis after
14 analysis has shown essentially the same thing. And,
15 what it has shown is that the difference between what
16 PSNH default service customers pay and the market is
17 attributable to the high capital fixed operating and
18 variable costs of PSNH's power plants. What that means
19 is that the Settlement is worth, following divestiture
20 and securitization, an amount that's in the range of
21 \$100,000 a day.

22 There's no reasonable scenario on the
23 horizon that we believe threatens the continuing
24 validity of that conclusion, which has been reinforced

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1 under a series of market changes over the past two and
2 a half years. That means it truly is time. It's time
3 to finish what was started back when I was here first
4 talking about Seabrook. And, time lost is customer
5 savings lost. And, those are real savings, and they're
6 savings that are shared equitably by customers all
7 across the state.

8 MR. ASLIN: Thank you. I have no
9 further questions. Mr. Antonuk is available for cross.

10 CHAIRMAN HONIGBERG: Ms. Chamberlin.

11 MS. CHAMBERLIN: Thank you.

12 BY MS. CHAMBERLIN:

13 Q. Mr. Brennan, could you state your name please.

14 A. (Brennan) Jim Brennan.

15 Q. And, what's your position?

16 A. (Brennan) Finance Director at the office of Consumer
17 Advocate.

18 Q. And, could you summarize your credentials please.

19 A. (Brennan) Yes. I have an MBA in Finance. My
20 professional background includes ten years as an
21 officer at a commercial bank, Chemical Bank, now JP
22 Morgan Chase, where I performed commercial lending,
23 making lending decisions and recommendations on
24 commercial loans, based on analysis, I have performed

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1 loan financial statements, cash flow analysis, cash
2 flow projections.

3 On assignments at the PUC, and now at
4 the OCA, I have completed courses in utility analysis
5 from the Center for Public Utilities,
6 PricewaterhouseCoopers, and University of Michigan's
7 Grid School.

8 Q. Thank you. Did you file testimony in this proceeding,
9 which has been premarked as "Exhibit N"?

10 A. (Brennan) Yes, I did.

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

12 A. (Brennan) No, I don't.

13 Q. Please summarize the OCA's position on the Settlement
14 Agreement filed, as I believe it's "Exhibit A"?

15 A. (Brennan) The OCA supports the Settlement Agreement
16 because of the combined benefits of divestiture of
17 generation assets, coupled with the benefits of
18 securitization, as a benefit to the residential PSNH
19 default service ratepayers, which creates reductions in
20 risk and reductions in cost. PSNH has roughly 500,000
21 customers. The majority of those customers are
22 residential. And, most of those residential customers
23 take PSNH's default service for their energy service.

24 PSNH's Default Energy Service rate is

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1 higher than the competitive market rate. And, in my
2 testimony, I have reviewed the three fundamental facts
3 that cause their rate to be higher than the competitive
4 market rate. And, I'll just list them briefly.

5 The first one is that PSNH, their
6 Generation Division, is a capital-intensive industry,
7 as is normal for a generation company. They have high
8 levels of fixed cost, maintenance cost, depreciation
9 cost, and return cost. These costs are fixed,
10 relatively fixed, and they do not vary or go down with
11 sales volume.

12 The second fact is that PSNH's
13 Generation Division has become increasingly less
14 competitive in the deregulated wholesale electric
15 market. And, to a significant extent, those heavy
16 capital-intensive assets remain idle for portions of
17 the year.

18 The third fact is that, under statute,
19 PSNH is what's referred to as a "hybrid" situation.
20 And, what that means is that all of those, those fixed
21 costs and return costs associated with their
22 generation, are flowing automatically into the Default
23 Service rate, regardless of the competitive situation.
24 So, if PSNH is running at full capacity factor, or if

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1 their plants are sitting idle, those fixed costs and
2 return costs are being paid for by the default service
3 customers. And, essentially, what this means is that
4 the competitive risk of PSNH's generation plant is
5 borne by the default service ratepayer.

6 So, under Settlement, divestiture will
7 bring -- will eliminate this "hybrid" model. It
8 eliminates these fixed costs, the depreciation costs,
9 and return costs that flow into default service. They
10 remove the competition risk that is squarely on the
11 shoulders of the default service ratepayers. And,
12 broadly speaking, going forward, the risk of owning and
13 operating a legacy coal-fired generation fleet is
14 removed.

15 So, when you take into account the
16 securitization, which is part of this deal, it is
17 better for default service customers to pay that low
18 fixed interest rate on a capped level of stranded cost,
19 which will amortize and decline to zero over a 15-year
20 period. It's better for them to pay that known certain
21 amount, than it is to pay unknown costs, future costs,
22 associated with owning and running a relatively
23 uncompetitive, non-economic generation fleet. Thank
24 you.

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1 MS. CHAMBERLIN: Thank you. That's all
2 I have.

3 CHAIRMAN HONIGBERG: Ms. Ross.

4 MS. ROSS: Thank you.

5 BY MS. ROSS:

6 Q. Mr. Frantz. Could you state your name for the record
7 please.

8 A. (Frantz) Thomas Frantz, F-r-a-n-t-z.

9 Q. And, what is your current position?

10 A. (Frantz) Director, Electric Division, here at the
11 Commission.

12 Q. And, I'm turning your attention to Exhibit M, which is
13 your prefiled direct testimony. Was this actually
14 prepared by you or under your supervision?

15 A. (Frantz) Yes.

16 Q. And, is this, in fact, the testimony that you adopt
17 today?

18 A. (Frantz) Yes.

19 Q. Would you mind just explaining to the Commission why
20 you have supported the Settlement, the Litigation
21 Settlement today?

22 A. (Frantz) Yes. I provided testimony that indicated the
23 role of Designated Staff, which is Attorney Ross and
24 myself, played in reaching the Settlement Agreement. I

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1 also provide some historical context to electric
2 restructuring in New Hampshire, and how the Settlement
3 Agreement will complete that.

4 I also want to state that I believe this
5 is the best opportunity to complete that process. And,
6 I urge the Commission to approve the Settlement
7 Agreement as filed.

8 Some of the history I'll give, I won't
9 go through the whole history of the twenty years of
10 electric restructuring. But, recently, the Commission,
11 in IR 13-020, directed Staff to investigate PSNH's
12 Default Service rates. With the gentleman to my right,
13 and the one sitting back there, we hired Liberty
14 Consulting to help us in the first report. That report
15 was followed by a report with LaCapra Associates. And,
16 our conclusions from that report were that PSNH's rates
17 will continue to have a disparity between the Default
18 Service rates for its customers versus those market
19 prices going forward, and questioned whether or not
20 that was sustainable over the long term.

21 In my opinion, this Settlement Agreement
22 will lower costs to customers, benefit the New
23 Hampshire economy, reduce risk of continued ownership
24 of generating assets, and move New Hampshire's largest

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1 electric utility into the same position for securing
2 default service for its customers, as Liberty Utilities
3 and Unitil do for their default service customers.

4 I and Anne Ross both support the
5 Settlement Agreement, and urge the Commission to
6 approve it as filed. Thank you.

7 Q. Mr. Frantz, I just have one additional question. Were
8 you directly involved in the sale of the Seabrook
9 Nuclear Power Plant?

10 A. (Frantz) Yes, I was.

11 Q. And, what was your role?

12 A. (Frantz) I led a team that worked on the sale, put
13 together the bids, interviewed potential auction
14 advisors, helped the Commission hire an auction
15 advisor, oversaw the auction advisor, with some help
16 from others. And, then, we also, as part of our team,
17 accompanied potential bidders to Seabrook. Virtually
18 every aspect of the auction was either under my
19 direction, or our team worked on the auction, every
20 aspect.

21 MS. ROSS: Thank you. I have nothing
22 further.

23 CHAIRMAN HONIGBERG: All right. I know
24 Ms. Amidon has questions for other witnesses on this

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1 panel. Do any of the other Settling Parties have
2 questions they wish to ask other members of the panel than
3 their own witnesses?

4 *[Show of hands.]*

5 CHAIRMAN HONIGBERG: I see Ms. Ross's
6 hand. Mr. Boldt, we'll get to you. But I'm talking about
7 the lawyers who have witnesses up there, if they're going
8 to circle back to other witnesses, I'm going to deal with
9 them, and then call on the other parties to ask their
10 questions.

11 So, Ms. Amidon and Ms. Ross, are they
12 the only two?

13 *[No verbal response.]*

14 CHAIRMAN HONIGBERG: Okay. Ms. Ross,
15 proceed.

16 MS. ROSS: Thank you. Is this working?

17 CHAIRMAN HONIGBERG: It's working
18 beautifully.

19 MS. ROSS: Okay. I have a follow-up
20 question for Mr. Chung.

21 **CROSS-EXAMINATION**

22 BY MS. ROSS:

23 Q. Mr. Chung, earlier, when Mr. Smagula was testifying,
24 Commissioner Bailey questioned him concerning the Level

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1 1 Environmental Assessments and the results. And, I
2 believe Mr. Smagula indicated that the Level 1s have
3 been completed, and that there was no material
4 remediation required.

5 What I would like to ask you to do is to
6 refine that a little further. And, my question is,
7 although nothing is required of the sites at this time,
8 is it possible that down the road, in working with an
9 auction advisor, the Company might determine that some
10 additional environmental work would be beneficial on
11 the Schiller site, in order to make it ready to convert
12 to another use or to be sold to a buyer that might want
13 to convert it to another use?

14 A. (Chung) The short answer is "yes", and I'll elaborate a
15 little bit. I concur with Mr. Smagula, in terms of the
16 ESAs did not produce any new compliance obligations or
17 things of that matter. As we prepare for a potential
18 auction, we've retained John Reed of Concentric Energy
19 Advisors. And, one of his recommendations is that we
20 consider, at the Schiller Station, removing the mercury
21 lead, and asbestos that is associated with the retired
22 mercury boilers that are -- as a legacy from the
23 purchase, as I understand it.

24 And, as I understand it, there is no

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1 compliance obligation with this material. However,
2 Mr. Reed's advice to us has been that, from a buyer's
3 perspective, we may maximize the sales proceeds, which
4 would benefit New Hampshire customers, if we
5 proactively remove the -- remove the units, and thereby
6 remove the mercury, lead, and asbestos. And, so,
7 that's a possibility.

8 We can't pursue that unilaterally. That
9 is something that we would need to have a Commission
10 order that would enable us to pursue that. We can
11 certainly do prework. We've done a competitive RFP to
12 examine the costs. But we, you know, certainly would
13 need to have a Commission blessing, if you will, in
14 order to proceed.

15 MS. ROSS: Thank you. I have no further
16 questions.

17 CHAIRMAN HONIGBERG: Now, Ms. Amidon,
18 circling back.

19 MS. AMIDON: Thank you.

20 BY MS. AMIDON:

21 Q. Mr. Antonuk, the Office of Energy & Planning is a party
22 to the 2015 Settlement Agreement, is that right?

23 A. (Antonuk) Yes.

24 Q. Do you have any position with respect to the

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1 disposition of the Scrubber docket, as it is contained
2 in the Settlement Agreement?

3 A. (Antonuk) I do. First, I want to say, I was not a
4 participant in that docket, as an advisor or a witness.
5 So, I come to it, I don't know if it's fortunately or
6 unfortunately, much later and to a much lesser extent
7 than most of you. And, I do not propose to substitute
8 my judgment for the judgment of the folks who've heard
9 the record, are prepared or were prepared to make a
10 decision. So, I don't think I'm competent to tell you
11 all what I thought you were going to decide.

12 But here's my thinking about it. I
13 spent a far amount of time talking to the other people
14 who were on the Settlement Team who were engaged in the
15 process. I've looked at some of the documents. And,
16 looking at the Settlement as a whole, I think it is
17 reasonable to conclude that docket in the context of
18 this Settlement.

19 And, it's predominantly for this reason.
20 Because, again, I don't propose to tell you what I
21 think you should have decided or would have decided.
22 But it's simply this: A litigated outcome is really
23 just, at the Commission, is just stage one. There will
24 be -- there will be blood, known as appeals. For every

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1 year it takes following a disallowance order to become
2 final through the court process, the \$30 million that
3 share owners contribute to this Settlement will have to
4 grow by another 30 million.

5 The annual savings in that level -- of
6 that level, pardon me, mean that, if it takes a year to
7 decide the case through the courts, then 30 million
8 will have to be 60. If it takes two years, 30 will
9 have to be 90.

10 On top of that, you have to remember
11 this, that, once you reach the end of the court
12 struggle, you still have not divested. Whatever value
13 is still left in the plants is still earning a return,
14 in the range of 10 to 11 percent, versus the 3, that
15 I'm going to really refer to it in terms of a "gap",
16 not raw percentages, we save 7 percent by securitizing.

17 So, at the end of litigation, we still
18 have whatever's left on the books after disallowance,
19 if there is any, if it's sustained, earning 10 percent.
20 And, we still have to deal with securitization. We
21 still have to go through the process that gets us
22 there, which is going to mean more litigation or
23 another settlement. So, for however long it takes
24 after the litigation finally wends its way through the

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1 courts, you have to recall that, until you get to
2 securitization following that, we're still, as
3 customers, financing those plants at a rate that's 7
4 percent higher than is available through
5 securitization.

6 So, when you look at that, it tells you
7 that the win, a disallowance win at the Commission not
8 only has to be very large, but it has to be sustained,
9 in order to come close to the benefits that we can get
10 today by putting this behind us and moving to
11 divestiture and securitization.

12 Q. Thank you. That's why I asked if you had a position,
13 because I know you didn't participate in the docket.
14 But I appreciate that explanation.

15 Mr. Frantz, you participated in the
16 11-250, which is the proceeding concerning the costs
17 and cost recovery for the Scrubber installation at
18 Merrimack Station, didn't you?

19 A. (Frantz) Yes, I did.

20 Q. And, so, you're familiar with the subject. In your
21 review of the 2015 Settlement Agreement, did you
22 conclude that the proposed resolution of the issues
23 related to the Scrubber are reasonable and in the
24 public interest?

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1 A. (Frantz) I thought it was a fair resolution of all the
2 issues. The Scrubber was one of the most challenging
3 and difficult and, really, to use a non-regulatory
4 term, "ugly" proceedings I've ever actually
5 participated in in 26-27 years here at the Commission.
6 It wasn't easy. There was many days of hearings. And,
7 I don't know how the Commission would have come out.

8 I do know that the Electric Division
9 hired a consultant to look at the prudence of the costs
10 that PSNH incurred in building the Scrubber and
11 managing the Project. They stated that the costs were
12 prudently incurred. They were available for
13 cross-examination during the proceeding and the
14 hearing.

15 I think, based on many of the things Mr.
16 Antonuk said just before me, that this is a fair
17 resolution. We could argue for a long time, preferably
18 over beers, how that proceeding would have turned out.
19 But I think this resolves all those issues in a fair
20 and equitable manner for everybody.

21 Q. And, that is keeping in mind that the 2015 Settlement
22 Agreement is a global agreement resolving several
23 issues, one of them being the cost recovery of the
24 Scrubber?

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1 A. (Frantz) Correct.

2 Q. Okay. Thank you. Mr. Brennan, you participated in the
3 11-250, the Scrubber proceeding, correct?

4 A. (Brennan) That's correct.

5 Q. Do you have any opinion on whether the Settlement
6 Agreement is a fair and reasonable resolution of the
7 issues related to the Scrubber and in the public
8 interest?

9 A. (Brennan) I feel that, all things considered, with the
10 Settlement Agreement leading to a divestiture and the
11 benefits of securitization, that it is, it fairly does
12 resolve the issues of that case, yes.

13 Q. Thank you. And, finally, Mr. Chung, could you please
14 address the same issue, whether you think the
15 resolution is in the public interest?

16 A. (Chung) I do. I think, in the context of the
17 comprehensive Settlement that's encapsulated in the
18 term sheets from March of 2015, as well as the
19 Settlement Agreement itself, I think there are a lot of
20 issues resolved. The Scrubber issue is one of them. I
21 was a witness in that docket, and I feel very strongly
22 about the Company's position in that proceeding. And,
23 I think the record stands for itself.

24 However, you know, looking at the big

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1 picture, and all the pieces of the Settlement, I do
2 think this is a good resolution to a number of issues.

3 Q. Including resolution of 11-250?

4 A. (Chung) Yes.

5 MS. AMIDON: Okay. Thank you. I have
6 no further questions.

7 CHAIRMAN HONIGBERG: All right. Let's
8 see who else has questions for these witnesses.

9 Mr. Irwin?

10 MR. IRWIN: Thank you, Mr. Chairman.

11 BY MR. IRWIN:

12 Q. I'd like to direct my first question to Mr. Frantz. Do
13 you have your testimony in front of you?

14 A. (Frantz) I do.

15 Q. Great. If you could please turn to Page 5, Line 131.
16 And, starting at Line 131, you can read the first two
17 sentences there please.

18 A. (Frantz) "My opinion is that many factors make this the
19 right time to complete restructuring. The pressure on
20 PSNH's energy service rate from low natural gas prices
21 and significant migration of load to CEPS, as well as
22 the constant risk of increased environmental compliance
23 costs, make continued ownership of PSNH's generating
24 assets challenging."

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Q. So, your reference to "the constant risk of increased
2 environmental compliance costs", would that include the
3 risks of potential further capital investments, higher
4 fixed cost associated with compliance with the Clean
5 Water Act and the Clean Air Act?

6 A. (Frantz) Yes.

7 Q. And, with specific regard to the Clean Water Act, are
8 you familiar with the permitting process? Were you in
9 here earlier today when we discussed the document
10 marked as "OO", NPDES Fact Sheet for Merrimack Station?

11 A. (Frantz) I was in the room.

12 Q. Okay.

13 A. (Frantz) I wouldn't say I was carefully listening.

14 Q. Okay.

15 A. (Frantz) But I was in the room.

16 Q. Are you generally familiar with that process, that
17 NPDES permitting process at EPA?

18 A. (Frantz) I'm aware that there's a permitting process.
19 I'm not an expert in environmental compliance.

20 Q. Do you have a sense of the potential scale of
21 investment that could be required as a result of that
22 process?

23 A. (Frantz) I think it depends on who you ask. But, to
24 some, it could be significant. And, in my testimony, I

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1 wasn't addressing any one particular environmental
2 risk. I was addressing lots of environmental risks.
3 Whether it's greenhouse gases, whether it's cooling
4 towers. There's a number of them out there. And, we
5 looked at those in both reports to some degree. So,
6 this was a general statement. But they're out there
7 and they need to be recognized. They're risks and
8 they're potentially costly.

9 Q. And, would you say that one of the benefits of
10 divestiture is relieving ratepayers of those risks?

11 A. (Frantz) Well, it shifts the risks to the competitive
12 wholesale market, which is one of the reasons for
13 moving to an electric industry that was restructured in
14 the first place.

15 Q. Thank you. I have a question for -- or, potentially a
16 few questions for Mr. Brennan. Mr. Brennan, if you
17 could turn to Page 15 of your testimony. Starting on
18 Line 2, if you could just recite that sentence there
19 about "fixed O&M and capital components".

20 A. (Brennan) "The fixed O&M and capital components of PSNH
21 Energy Service place rising costs onto a declining base
22 of mostly residential ratepayers who now subsidize PSNH
23 profits on uneconomic assets."

24 Q. Mr. Brennan, if we were in a No Divestiture scenario,

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 if there were no divestiture, and PSNH were required to
2 make capital expenditures to comply with the Clean
3 Water Act or the Clean Air Act, or other environmental
4 regulations, would it exacerbate the concern that
5 you've laid out here?

6 A. (Brennan) Yes, it would.

7 Q. My next question is directed to Dr. Murphy. And, if I
8 could direct your attention to Page 6 of your
9 testimony. And, there you basically state what you
10 stated a few minutes ago, about fixed costs being a
11 factor in your consideration for the non-divestiture
12 scenario, is that correct?

13 A. (Murphy) Yes. The fixed costs of owning and operating
14 the generation. Is that what you're referring to?

15 Q. Yes.

16 A. (Murphy) Yes.

17 Q. So, I assume you would include in those fixed costs
18 additional costs that may be incurred to comply with
19 environmental regulations?

20 A. (Murphy) I did not explicitly include those costs. I
21 am not aware of the extent to which the operating costs
22 and the capital expenditures that Eversource provided
23 to me may include some environmental costs. Anything,
24 of course, that is any new environmental requirements

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 were presumably not included in those numbers and would
2 be additional.

3 Q. So, if you could turn your attention to Figure 2 of
4 your testimony, on Page 11.

5 A. (Murphy) Yes.

6 Q. If you -- if they were additional costs, and if you
7 were to factor them into your figure, where would
8 they -- where would they go?

9 A. (Murphy) Well, it depends a little bit on the type of
10 cost. If future environmental requirements were to
11 increase operating costs, they would go into the "Fixed
12 O&M" category, which is -- happens to be 98 million on
13 this.

14 If it required additional capital cost,
15 those would go into the rate base, which would
16 depreciate over time, it would add to the depreciation
17 element initially, and then over time, and would also
18 increase the required return on the rate base, because
19 it increases the rate base itself.

20 If you've got specific and detailed
21 questions on what's in the numbers that I use, I might
22 refer you to Mr. Chung, who provided those on behalf of
23 Eversource.

24 Q. Okay. Thank you. So, I guess I'd like to just direct

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 a question to the panel generally, and pose a question
2 whether the panelists consider it to be in the public
3 interest and a benefit of divestiture to allow
4 ratepayers, current Eversource ratepayers, the ability
5 to avoid potential fixed -- additional fixed costs
6 associated with environmental compliance, such as under
7 the Clean Water Act or Clean Air Act?

8 A. (Antonuk) I didn't do Round 1, so maybe I'll start
9 Round 2.

10 Q. Okay. Please.

11 A. (Antonuk) Absolutely. I think, if you look at the
12 environmental costs, you have to also consider variable
13 costs as well, because a number of environmental
14 activities that have been taken also rob -- basically
15 use station power. So, they can affect variable costs
16 as well, depending on what their precise nature is.

17 As Mr. Frantz mentioned, we looked into
18 the issues you mentioned. In fact, I recall meeting
19 with state environmental officials with respect to each
20 of the issues I think you went through earlier today.
21 And, my view of those is that, given the value that we
22 put on the plants, those environmental issues have the
23 ability to wipe out more than the remaining value in
24 the plants.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 I suppose there is a chance that
2 environmental pressure will lessen. I think it's
3 vanishingly -- only vanishingly possible that we'll
4 have an easing of environmental constraints that will
5 make the coal -- the fossil plants look better in the
6 future than they look now.

7 You know, now there are some "big
8 picture" environmental issues, which I think have been
9 termed a "war on coal". I don't use that term, but it
10 doesn't really bother me when I hear it. It doesn't
11 seem inaccurate to me.

12 And, I think, even with respect to
13 current conditions, you were having a discussion today
14 about how the EPA is approaching very specific
15 already-on-the-table problems. And, I guess my view of
16 the EPA is that, if they've got you on the mat, and
17 it's a legal hold, you can expect a pin, not mercy.

18 So, I think those risks are very high.
19 And, they're why, whatever you assume about changing
20 fuel markets, I don't think they can arise anywhere
21 near to the extent or the probability of the
22 environmental risks that these plants face.

23 CHAIRMAN HONIGBERG: Does Mr. Antonuk
24 speak for all of you or does anybody else want to provide

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1 an answer to Mr. Irwin's question?

2 *[No verbal response from the witnesses]*

3 CHAIRMAN HONIGBERG: I think that's
4 good. You're all set, Mr. Irwin?

5 MR. IRWIN: Yes. Thank you.

6 CHAIRMAN HONIGBERG: Mr. Fabish, do you
7 have any questions?

8 MR. FABISH: I do, yes.

9 BY MR. FABISH:

10 Q. So, this first question or set of questions is to Mr.
11 Stachow. And, so, I guess Page 9 of your testimony.
12 And, we've heard a little bit about this already today,
13 but I just have a couple of questions, and you
14 mentioned it, so I thought I'd ask you. Page 9 of your
15 testimony refers to "legacy mercury residue in certain
16 facilities at Schiller Station". Is that correct?

17 A. (Stachow) Correct.

18 Q. Could you explain the nature of this "legacy mercury
19 residue"?

20 MR. SPEIDEL: I would object to that
21 question, because Mr. Stachow does not have direct
22 knowledge. I would suggest that the question be
23 redirected to Mr. Chung of the Company, if at all.

24 CHAIRMAN HONIGBERG: Mr. Fabish?

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1 MR. FABISH: I'm struggling a little bit
2 here with having a panel of six witnesses to begin with.
3 I mean, it is in his testimony. I want to know what he's
4 talking about in his testimony. I'm not sure that an
5 objection is warranted. I think he can answer to the best
6 of his ability, but --

7 CHAIRMAN HONIGBERG: Mr. Stachow, you
8 can answer the question. It is in your testimony, you can
9 answer.

10 WITNESS STACHOW: I will answer to the
11 best of my ability.

12 **BY THE WITNESS:**

13 A. (Stachow) That is to say, I'm not an environmental
14 specialist. I looked at the results of the Haley and
15 Aldrich --

16 *[Court reporter interruption.]*

17 **CONTINUED BY THE WITNESS:**

18 A. (Stachow) I'm not an environmental specialist. I
19 looked at the results of the Haley and Aldrich
20 analysis. And, I understand that there is a potential
21 concern with mercury, residual mercury at that site, at
22 the Schiller site.

23 BY MR. FABISH:

24 Q. Okay. Thank you. I guess I'll kind of move my way

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1 down the line then.

2 Dr. Murphy, next question or set of
3 questions for you. So, I think, on Page 14 of your
4 testimony, you characterize, and I know that, you know,
5 you can cut the math different ways, but it says the
6 benefits to ratepayers, based on your analysis, roughly
7 33 million per year over the first five years post
8 divestiture, is that correct?

9 A. (Murphy) Yes. That's correct. In expectations, based
10 on current expectations of the future.

11 Q. Understood. Understood. And, one of those
12 expectations is an assumed price that the generating
13 assets would receive at auction, is that correct?

14 A. (Murphy) Yes, that's right. For this analysis and
15 these numbers, I used the 225 million sale price that
16 had been used in the original Eversource analysis.

17 Q. And, then, I think on the previous page, Page 13, and I
18 just want to make sure I understand, you say "Each
19 additional 100 million of sale price would decrease RRB
20 costs and increase customer savings by 9.2 million per
21 year." Is that correct?

22 A. (Murphy) Yes.

23 Q. Okay. And, that's over that same five year --

24 A. (Murphy) That's, on average, over the first same five

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1 years, yes.

2 Q. Okay. Does the same follow for a \$100 million decrease
3 in the sale price?

4 A. (Murphy) Yes, it would.

5 Q. Okay.

6 A. (Murphy) It would.

7 Q. So, and, again, bear with me, I'm a lawyer, I don't do
8 math very well. If the auction returned 125 million,
9 instead of 225 million, you'd suggest the customers
10 would still likely benefit roughly about 24 million a
11 year?

12 A. (Murphy) It would be the 33 million, less the 9.2. So,
13 yes, roughly.

14 Q. Okay. Good. Good. I'm glad that arithmetic, I can do
15 that. What if it was \$200 million less?

16 A. (Murphy) And, so, if the plants sold for only
17 \$25 million in aggregate?

18 Q. Sure. Sure.

19 A. (Murphy) Then, it would be linear, because you'd be --
20 I'm assuming that the cost of securitization won't
21 change with changes in the amount that is securitized.
22 But each additional 100 million, or a fraction or
23 multiple thereof, would result in a change of about 9.2
24 million, over that first five years, in the cost to

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1 customers.

2 Q. Okay. So, then, even getting a very small amount at
3 auction, under your analysis, divestiture still makes
4 sense, for ratepayers?

5 A. (Murphy) Again, on an expectation with a current view
6 of the world, --

7 Q. Sure.

8 A. (Murphy) -- I would say that, yes. If the plants were
9 divested for zero, then, I'd say "well, you've got two
10 and a quarter times the 100 million." So, two and a
11 quarter times 9.2 is, ballpark, 20 million. It would
12 reduce the savings to customers over those first five
13 years by about 20 million per year. So, your 33 would
14 drop down to about 13 million per year.

15 Q. Okay.

16 A. (Frantz) May I jump in?

17 CHAIRMAN HONIGBERG: Sure. That's one
18 of the things about a panel. If someone else feels like
19 they need to provide an answer, you can do that.

20 WITNESS FRANTZ: Thank you.

21 **BY THE WITNESS:**

22 A. (Frantz) The only thing I want to point out on that is,
23 there's a lot of assumptions that go into that decrease
24 of 100 million or increase of 100 million, which

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1 essentially means that there's some fairly significant
2 changes in market conditions that may be going on, that
3 would either reduce that \$225 million sales price from
4 -- in the La Capra report, to 125 or to \$25 million.

5 And, I just wanted to make that point.
6 That's all. Thank you.

7 CHAIRMAN HONIGBERG: Mr. Fabish, you may
8 continue.

9 MR. FABISH: Okay. Well, I actually
10 think I'm done at this point. So, thank you very much.

11 CHAIRMAN HONIGBERG: I saw Senator
12 Feltes come in the room. How you are a party to all of
13 this, do you have any questions for the witnesses who are
14 up there?

15 SENATOR FELTES: I do not. Good
16 afternoon, Mr. Chairman and members of the Commission.
17 Just for the record, Dan Feltes. I'm State Senator,
18 District 15. I don't have any questions. But thank you
19 for the opportunity. Thank you.

20 CHAIRMAN HONIGBERG: Mr. Boldt.

21 MR. BOLDT: Two very minor housekeeping
22 questions.

23 BY MR. BOLDT:

24 Q. Mr. Frantz, when you refer to your leadership of the

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1 "team" concerning Seabrook divestiture, that was a team
2 within the Office of the Public Utilities Commission,
3 correct?

4 A. (Frantz) Absolutely.

5 Q. And, for the panel as a whole, and for Mr. Frantz and
6 Mr. Stachow, when you are referring to your support for
7 the Settlement Agreement, that is not only Exhibit A,
8 but it is Exhibit B that amends Exhibit A, correct?

9 A. (Frantz) Yes.

10 A. (Stachow) Let me just catch up with that. Yes.

11 Q. Any objections --

12 A. (Antonuk) Yes.

13 Q. -- from the other members of the panel?

14 A. (Antonuk) I said "yes" to "I agree", not "yes" to "I
15 object".

16 MR. BOLDT: Hearing none, that's the
17 last question.

18 CHAIRMAN HONIGBERG: Mr. Aalto.

19 MR. AALTO: Thank you.

20 BY MR. AALTO:

21 Q. For Dr. Murphy, --

22 CHAIRMAN HONIGBERG: Hold on. You're
23 going to need to find a microphone. Because unlike
24 Mr. Boldt, you don't project quite strong enough.

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1 MR. AALTO: I don't yell enough?

2 CHAIRMAN HONIGBERG: No, you don't yell
3 enough.

4 MR. AALTO: Thank you very much. I
5 should have gotten here earlier. Are we on? Okay. Thank
6 you.

7 BY MR. AALTO:

8 Q. Dr. Murphy, when you were doing your analysis, what did
9 you, for looking at the five-year stream, what did you
10 see as the average net income from the facilities
11 operating as they do now? And, by that, I mean all of
12 their operating -- income, minus operating costs, not
13 including any capital servicing costs, return on
14 equity, or anything like that?

15 A. (Murphy) Well, I was not looking at net income from,
16 for instance, a shareholder perspective, --

17 Q. That's correct.

18 A. (Murphy) -- taking into account taxes, *etcetera*.

19 Q. Well, taxes would be continuous. But, by "taxes", I
20 don't mean "income taxes", but local taxes, as an
21 operating -- as part of the normal ongoing cost, not
22 servicing the ratepayer -- the stockholders, or banks.

23 MR. SPEIDEL: I would raise an objection
24 to Mr. Aalto's question on vagueness. Could he please be

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1 more specific about what metric he is seeking Dr. Murphy
2 to respond to.

3 BY MR. AALTO:

4 Q. What I'm trying to find out is what the income is, not
5 including any income that goes to support PSNH's
6 revenue requirements for profit, or for servicing
7 loans?

8 A. (Murphy) And not including depreciation as well?

9 Q. Exactly.

10 A. (Murphy) If you'll look at Figure 2, which is on Page
11 11 of my testimony, if I understand your question
12 correctly, you're asking about the market revenues that
13 the plants would earn, offset by their fixed operating
14 costs?

15 Q. Exactly.

16 A. (Murphy) And, I'm finding, over this first five years,
17 132 million in market revenues, 98 million in fixed
18 operating costs. And, so, if you're just looking at
19 the net between those two, that's about \$34 million.

20 Q. So, that is the source of the 34 million and roughly
21 that you see as a savings?

22 A. (Murphy) No. That's not actually where I get that
23 33 million in savings.

24 Q. Okay.

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1 A. (Murphy) The 33 million in savings comes from the total
2 fixed cost, which include the return of -- or, the
3 return on rate base and depreciation. So, that's
4 213 million, consisting of depreciation, return, and
5 fixed O&M. That is offset by the 132 million of market
6 revenues, leaving a net of approximately 82 million.
7 I'm comparing that against the 49 million a year of the
8 RRB costs. That difference there is the 33 million in
9 customer savings.

10 MR. AALTO: Thank you.

11 CHAIRMAN HONIGBERG: Mr. Cunningham.

12 MR. CUNNINGHAM: Just a quick question.

13 Has Mr. Chung given his direct yet?

14 CHAIRMAN HONIGBERG: Did we skip Mr.
15 Chung?

16 MS. AMIDON: No.

17 MR. BERSAK: No.

18 CHAIRMAN HONIGBERG: No. I think Mr.
19 Chung identified Exhibit G as his testimony and adopted
20 it. Did you do that, Mr. Chung?

21 WITNESS CHUNG: Yes, I did.

22 MR. CUNNINGHAM: And, he did not
23 elaborate? Okay. Fair enough.

24 BY MR. CUNNINGHAM:

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1 Q. Mr. Stachow, are you, in connection with this question
2 about the reasonableness of the Scrubber expense, can
3 you tell us what part of the stranded cost proposal is
4 the Scrubber expense?

5 A. (Stachow) Well, first of all, I was not part of 11-250.
6 So, my comment on the reasonableness is based on the
7 reasonableness of the whole Agreement.

8 Q. I'm sorry?

9 A. (Stachow) My comment on the reasonableness is based
10 upon the whole Agreement, the Settlement Agreement.

11 Q. So, you have no specific knowledge of the number
12 involved in --

13 A. (Stachow) I may have some knowledge, but I wasn't a
14 party to that docket.

15 Q. And, I'll ask that same question of Dr. Murphy. I
16 think, in your testimony, you assume the Scrubber costs
17 in your calculation. And, could you tell us what
18 number you used please?

19 A. (Murphy) Well, in my calculation, I wasn't making any
20 assumption about the potential resolution of the
21 Scrubber docket. I was comparing the cost of no
22 divestiture, if there were no disallowance, and I'll
23 refer to my colleague, Mr. Chung, here to confirm that
24 there is no disallowance in the cost numbers that he

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1 provided to me. But, yes, for this comparison, my
2 understanding is the cost numbers that I was including
3 did not -- did not reflect a disallowance.

4 Q. So, your testimony based -- that states that the
5 Scrubber costs are "reasonable", is based not on your
6 own knowledge, but on the information provided by Mr.
7 Chung?

8 MR. SPEIDEL: I object. That's leading
9 the witness. I would challenge Mr. Cunningham to identify
10 where there is a finding by Mr. -- I'm sorry, by Dr.
11 Murphy that the Scrubber costs are reasonable.

12 CHAIRMAN HONIGBERG: Mr. Cunningham may
13 lead, although he may not mislead. I don't think Dr.
14 Murphy did testify to the reasonableness of those costs.
15 It may be somewhere in his documentation, but he hasn't
16 done it orally.

17 MR. CUNNINGHAM: Okay. I just took it
18 from his answer that he used that as a premise, that must
19 have been the Chung number that he used as a premise for
20 your calculation and projections.

21 CHAIRMAN HONIGBERG: I think he's just
22 testified to that.

23 MR. CUNNINGHAM: Okay.

24 CHAIRMAN HONIGBERG: That he used

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1 Mr. Chung's numbers in his work.

2 WITNESS MURPHY: That's correct.

3 BY MR. CUNNINGHAM:

4 Q. And, I'll direct these questions to both Mr. Stachow
5 and Dr. Murphy. Are either of you familiar with the
6 timeline for the Scrubber? When it was commenced?
7 When it became operational? When the first rate bump
8 was approved in the Scrubber?

9 CHAIRMAN HONIGBERG: Mr. Bersak?

10 MR. BERSAK: Let him answer.

11 MS. AMIDON: Mr. Chairman, I object.

12 The rate -- strike that. The record in the Scrubber
13 docket is closed. All of those questions pertain to
14 issues that were discussed in 11-250. That record is
15 closed. And, I do not understand the relevance of
16 revisiting when the Scrubber went into rates, when the
17 Scrubber was operational, as it relates to whether or not
18 the Commission should approve the Settlement Agreement
19 before it today.

20 CHAIRMAN HONIGBERG: Mr. Cunningham?

21 MR. CUNNINGHAM: The question, Mr.
22 Chairman, of reasonableness of the Scrubber cost has been
23 opened by Staff, the Non-Advocate Staff. And, I'd really
24 like to cross-examine the basis of the conclusion that

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1 "the Scrubber costs are reasonable".

2 CHAIRMAN HONIGBERG: I believe that
3 Non-Advocate Staff has asked "whether the resolution of
4 the Scrubber docket in this context was reasonable?" I
5 believe that's the question they were asked, and the
6 question that they answered.

7 MS. AMIDON: Thank you, Mr. Chairman.

8 CHAIRMAN HONIGBERG: I haven't ruled
9 yet. But, just so we're clear about what's actually been
10 asked and answered, Mr. Cunningham, do you want to try
11 again, in terms of making an argument why that question --
12 why you should be allowed to proceed?

13 MR. CUNNINGHAM: Well, if the
14 residential ratepayer cannot question the conclusory
15 testimony that "the Scrubber costs are reasonable" in this
16 docket, because having been raised by the proponents of
17 this Settlement Agreement, I think that's manifest error.

18 CHAIRMAN HONIGBERG: Well, I think your
19 question at the end of what you started with was "well,
20 when could they?" And, there's an answer to that
21 question, in Docket 11-250, which residential ratepayers
22 would have been allowed into as intervenors, including
23 your client. So, there's a pretty clear answer to that
24 question, is there not?

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1 MR. CUNNINGHAM: No, there is not, Mr.
2 Chairman, if the finding of the Commission is that "the
3 Scrubber costs are reasonable", based on testimony we
4 heard today.

5 CHAIRMAN HONIGBERG: That's not the
6 testimony heard today. As we just -- the objection is
7 sustained. Move on.

8 BY MR. CUNNINGHAM:

9 Q. Let me go to Mr. Antonuk. Mr. Antonuk, in your
10 testimony, I think you have it in front of you?

11 A. (Antonuk) I do.

12 Q. You determined, you made a finding, and you provided
13 testimony on when the default service rate for PSNH
14 increased beyond other generators in New Hampshire?

15 A. (Antonuk) Do you have a reference? I don't recall that
16 specific statement.

17 Q. If I can find it.

18 A. (Antonuk) It is certainly my opinion that they have
19 been higher for PSNH default service customers.

20 Q. Can you tell us when that transpired? When that took
21 place?

22 A. (Antonuk) My recollection is that that phenomenon
23 started to reverse maybe, there's a chart, I think it's
24 maybe in the 2009 or so timeframe. And, I believe that

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1 actually is taken from the report that we worked with
2 Mr. Frantz on back in 2013, which is an attachment to
3 the testimony. If you give me a second, I'm sure I can
4 find the chart. I'm remembering it.

5 Q. It's in the Liberty report?

6 A. (Antonuk) The Liberty/Staff report.

7 Q. On Page 9.

8 A. (Antonuk) Page 9?

9 Q. And 10.

10 A. (Antonuk) Yes. That's the chart.

11 Q. And, if you look at Page 10, the first sentence in the
12 last paragraph in the Liberty report. If you would
13 read that, the first sentence or two to me or for me.

14 A. (Antonuk) The first sentence of the last paragraph?

15 Q. Of the last paragraph on Page 10 of the Liberty report.

16 A. (Antonuk) The first sentence of that last paragraph?

17 Q. Yes.

18 A. (Antonuk) "It is clear from Figure 1 that a significant
19 swing in market conditions evidenced itself in
20 mid-2009."

21 Q. And, continue to read please.

22 A. (Antonuk) "PSNH's Default Service rate" --

23 CHAIRMAN HONIGBERG: Mr. Antonuk, read
24 slowly, so Mr. Patnaude can get it.

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[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 WITNESS ANTONUK: He's been telling me
2 that for about 20 years now.

3 CHAIRMAN HONIGBERG: And, it's still
4 true.

5 WITNESS ANTONUK: And still true.

6 **BY THE WITNESS:**

7 A. (Antonuk) "PSNH's Default Service rate had been
8 consistently below the default service rates of the
9 other New Hampshire electric utilities since 2006. In
10 2009, the situation reversed and, with only very
11 short-term exceptions, PSNH's Default Service rate has
12 exceeded the others' rates since mid-2009."

13 BY MR. CUNNINGHAM:

14 Q. And, what data or what information did you use to
15 render that -- do you agree with that conclusion in the
16 Liberty report?

17 A. (Antonuk) It is, I will have to say, two and half years
18 later it's past recollection recorded. We worked with
19 Staff and exchanged a lot of data. And, I'm sure we
20 can recover the source. But I do not independently
21 recall it at this point.

22 Q. And would you disagree with the Liberty report?

23 A. (Antonuk) I do not. Other than the fact that I want to
24 keep describing it as the "Liberty and Staff report".

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Q. All right. And, you incorporated that report into your
2 testimony, did you not?

3 A. (Antonuk) That statement was part of the foundation for
4 our belief today, yes, and during the course of the
5 settlement discussions.

6 Q. And, do you know, Mr. Antonuk, what the status the
7 construction of the Scrubber was on the date that you
8 described in 2009?

9 A. (Antonuk) I do not.

10 Q. And, do you know whether or not the Scrubber was
11 operational on that date?

12 A. (Antonuk) I do not recall those dates at the present
13 time.

14 Q. And, in your capacity, do you give company management
15 advice?

16 A. (Antonuk) Much more commonly, we give commissions
17 advice about company management. But, on numerous
18 occasions, we have also consulted to management.

19 Q. And, were you asked to consult on this Scrubber with
20 respect to these rates that you describe that happened
21 in 2009?

22 A. (Antonuk) No. If you're referring to what we were
23 doing at that time, we were not engaged in any
24 consultation with management or the Commission

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 regarding the Scrubber.

2 Q. All right. Now, another question I was interested in,
3 you said that "the Scrubber deal is a good deal,
4 because litigation is a bad deal"?

5 A. (Antonuk) No. I said "the Settlement", which is about
6 more than the Scrubber, "is a good deal." And,
7 certainly, the views of the Settling Team about the
8 Scrubber formed a part of that, but it was done in a
9 holistic way. The Scrubber was never a unique and
10 separate part of, certainly, our deliberations and our
11 considerations. It was always an integral part of
12 looking at "what is the best way to carve a future for
13 customers that will produce the best rates in the
14 short-term and the best prospects for continuing low
15 rates in the longer term?"

16 Q. What I'm asking about is you described that "if this
17 litigation continues on and on and on, that will be a
18 bad deal for ratepayers". Is that what you said?

19 A. (Antonuk) No. What I said was, whatever value you put
20 on the Scrubber disallowance, you have to consider the
21 fact that it may take you a number of years to achieve
22 that result. And that, during those years, you will
23 have lost the benefits of securitization. So that
24 every year it takes to resolve the Scrubber case

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[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 finally, the amount of that disallowance will have to
2 grow, and it will have to grow by roughly, I think
3 Brattle would say "\$33 million a year", the numbers we
4 were using were in the same range.

5 Q. Well, let me put it this way. Why is a litigation risk
6 wagging this dog? Why not go ahead with the
7 divestiture, as quickly as we can go ahead with the
8 divestiture, and let the litigation proceed?

9 A. (Antonuk) Well, because there would be litigation about
10 that outcome. And, I don't understand how that
11 litigation would take any less time.

12 Q. Not, sir, if the shareholders assumed that
13 responsibility.

14 A. (Antonuk) I'm not sure --

15 Q. Instead of the ratepayers.

16 A. (Antonuk) You have to give me a lot more, a lot better
17 framework for what your alternative is here. Because I
18 see, when I think about forced divestiture without
19 resolving these issues, what I see, frankly, is
20 Seabrook back in the '90s. That's exactly what we had.
21 And, we had a federal judge calling the "New Hampshire
22 banana republic", and we were tied up in grotesque
23 knots that looked like they were never going to end.

24 And, I will tell you, that's a lot of my

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 frame of reference now. Is litigation, once you start
2 it, and once you put PSNH on the other side of it, and
3 you basically put them in a "bet the ranch"
4 proposition, you're in for one long, hard slog.
5 Sometimes it is better to switch than fight.

6 Q. But the answer to your question is premised on the fact
7 of the Settlement being in place, and the ratepayers
8 assume all the costs. My question to you is, what
9 would be wrong with some of the -- the shareholders
10 assuming some of these costs, and then litigating it
11 after divestiture?

12 A. (Antonuk) How do we -- what I don't understand -- I do
13 not want to answer your question with a question. I
14 apologize.

15 CHAIRMAN HONIGBERG: Mr. Antonuk, stop.
16 Mr. Cunningham, you're largely just arguing with him about
17 a settlement that isn't in front of us. We're not looking
18 at that scenario right now. We're looking at a large
19 Settlement Agreement that the Parties entered into that
20 resolves many issues.

21 I think there are interesting questions
22 you could ask him about the statements he made about the
23 Scrubber resolution portion of this. And, you asked one
24 of them. If you wanted to continue along those lines,

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1 that might be of interest. I have some questions about
2 what he said.

3 But, at this point, you're really just
4 suggesting to him "why didn't you bring us a different
5 deal?" And, that's really not going to help us right now.

6 MR. CUNNINGHAM: All right. All right,
7 Mr. Chairman.

8 BY MR. CUNNINGHAM:

9 Q. I'm going to ask Mr. Frantz about the Scrubber
10 timetable, the same questions. When did the Scrubber
11 construction commence?

12 A. (Frantz) Well, I think it commenced in somewhere
13 around -- it was a long process. There was planning,
14 preconstruction, a lot of engineering work, permitting.
15 So, that's a -- if you ask me "when did that commence?"
16 I'd say, probably pretty soon after the law that
17 discussed the Scrubber and mandated it was passed. If
18 you ask me "when the Scrubber became operational?" I
19 believe that was in 2011.

20 Q. And, so, that was two years after Mr. Antonuk described
21 in his testimony that PSNH rates exceeded the rates of
22 other generators in the State of New Hampshire?

23 A. (Frantz) When it became operational is subject to
24 check. It's been a while since I was on the stand

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1 testifying in the Scrubber proceeding. But it was
2 after, it became operational after that chart. That is
3 correct.

4 CHAIRMAN HONIGBERG: Ms. Amidon?

5 MS. AMIDON: Mr. Chairman, thank you. I
6 just wanted to say, the temporary cost recovery of the
7 Scrubber, the temporary rate for cost recovery of the
8 Scrubber, which was a partial rate, you know, it was not
9 full cost recovery, commenced with an order issued by the
10 Commission in April 2012, in 11-250. Just for your
11 information.

12 CHAIRMAN HONIGBERG: Thank you. Mr.
13 Cunningham.

14 BY MR. CUNNINGHAM:

15 Q. And, the temporary rate increase that happened in
16 April 2012 was after the default rates became known --
17 that the PSNH default rates became known to be
18 exceeding all other rates in the State of New
19 Hampshire, isn't that correct?

20 A. (Frantz) Well, based on that chart, the rates of PSNH
21 were lower than other default service rates for
22 electric distribution companies for a period of time.
23 And, then, they switched and went -- and were higher
24 starting around 2009. And, that's what the chart

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1 shows.

2 Q. And, did you, as a member of Staff, you were not part
3 of Advocate Staff at that time, did you question that,
4 in terms of the cost of the Scrubber, when it became
5 operational in the Fall of 2011?

6 MR. BERSAK: Mr. Chairman?

7 CHAIRMAN HONIGBERG: Mr. Bersak.

8 MR. BERSAK: It really appears we're
9 going over the prudence of the Scrubber once again. The
10 Commission has already ruled that the evidentiary record
11 in DE 11-250 is closed, and there is no further
12 opportunity for discovery and testimony on the prudence
13 issues. I think we've crossed that line, and we're now
14 into prudence issues regarding the Scrubber.

15 CHAIRMAN HONIGBERG: Mr. Cunningham?

16 MR. CUNNINGHAM: I can only repeat my
17 argument, Mr. Chairman, that these witnesses opened this
18 question of "reasonableness". And, that's before the
19 Commission, and I have a right to cross-examine the basis
20 of that opinion.

21 CHAIRMAN HONIGBERG: Well, I think they
22 have answered that. They have given the basis for that
23 opinion. Do you want to make an offer as to what you
24 expect they would say, if you were allowed to continue

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1 questioning them?

2 MR. CUNNINGHAM: Well, I want to go on.
3 I want to ask a few more questions.

4 CHAIRMAN HONIGBERG: I think you're --
5 that Mr. Bersak's objection is about to be sustained. So,
6 if you want to make an offer of proof as to what you
7 expect the record would show if you were allowed to
8 proceed, I'm going to allow you to do that.

9 BY MR. CUNNINGHAM:

10 Q. Mr. Frantz, --

11 CHAIRMAN HONIGBERG: No. You're going
12 to make an offer of proof about what you think the
13 witnesses would say, if you were allowed to question them.

14 MR. CUNNINGHAM: Well, I expect the
15 witnesses would say that they knew that the PSNH rates had
16 increased significantly in 2009, beyond the rates of other
17 generators in the state. That they went ahead, two years
18 later, without objection, approved a rate for the
19 Scrubber. I think the witnesses would say, if I was
20 permitted to ask, that they did not challenge the quality
21 of management decisions that allowed PSNH to proceed on,
22 after their rates jumped so significantly, that they went
23 on to proceed on spending more and more money on the
24 Scrubber.

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1 CHAIRMAN HONIGBERG: So, Mr. Bersak is
2 correct. You're interested in arguing the prudence of the
3 Scrubber. And, you have a record to work with, which
4 we've given you full access to, in Docket 11-250. And,
5 you are free to make the arguments that, based on that
6 record, whatever you want to say about it, and then use
7 that to make an argument that the resolution of all of
8 these dockets, which includes resolution of 11-250, is not
9 reasonable.

10 But, I think, if that's what you expect
11 these witnesses to give you, the objection is sustained
12 formally. And, you are preserved with what you would have
13 gotten from them -- what you think you would have gotten
14 from them, had you been permitted to ask.

15 So, why don't you move on to a different
16 topic.

17 MR. CUNNINGHAM: Thank you, Mr.
18 Chairman.

19 BY MR. CUNNINGHAM:

20 Q. I have a few questions for Mr. Chung. Now, Mr. Chung,
21 you're familiar, are you not, with the La Capra report?

22 A. (Chung) I'm generally familiar with it. And, can you
23 clarify which report you're referring to?

24 Q. The original 2014 report.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Chung) I'm generally familiar with it, yes.

2 Q. In fact, I think, if you look at your testimony, you
3 referred your report -- or, referred to the La Capra
4 report?

5 A. (Chung) Yes. Let me clarify. In the La Capra report,
6 I refer to the overall sale proceeds that they cited.
7 I should clarify, anything else is really the Staff/La
8 Capra analysis. So, the forecasts were from the Staff
9 report.

10 Q. Is there anything in the La Capra report that you
11 disagree with? Let me ask a specific question. Do you
12 disagree with the La Capra assessment of the market
13 value of Merrimack Station?

14 A. (Chung) I'm not in the forecasting business. So, I
15 don't have an opinion on it. That is a number they
16 came up with. And, I, for the purposes of my analysis,
17 I accepted their fleet valuation.

18 Q. And, correct me if I'm wrong, the La Capra assessment
19 of the value of Merrimack Station, based on their
20 discounted cash flow analysis, is, as of the date of
21 the report, or as of the following first of the year,
22 January 1st, 2014 -- or '15, is zero, is that correct?

23 A. (Chung) I'm going to take a look at the report, if I
24 have it.

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1 Q. By all means.

2 A. (Chung) Thank you.

3 Q. Don't let me misstate something.

4 CHAIRMAN HONIGBERG: While Mr. Chung is
5 doing that, Mr. Cunningham, give me a sense of how much
6 longer you have, because we're probably going to need to
7 take a break for Mr. Patnaude soon?

8 MR. CUNNINGHAM: Yes. I need a break as
9 well. I am very dry.

10 CHAIRMAN HONIGBERG: All right.

11 MR. CUNNINGHAM: This is tough going,
12 Mr. Chairman.

13 CHAIRMAN HONIGBERG: All right. Then,
14 that's what we're going to do. We're going to break now,
15 and we'll come back in ten minutes.

16 *(Recess taken at 3:29 p.m. and the*
17 *hearing resumed at 3:49 p.m.)*

18 *[Brief off-the-record discussion*
19 *ensued.]*

20 CHAIRMAN HONIGBERG: Mr. Cunningham, the
21 floor is yours.

22 BY MR. CUNNINGHAM:

23 Q. I was asking Mr. Chung about the La Capra report. And,
24 whether he was familiar with it and whether he was

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 familiar with the appraisal conclusions that La
2 Capra -- what conclusions they reached on the values?

3 A. (Chung) Mr. Chung, so, during the break I turned out to
4 not have the report, and Mr. Frantz was kind enough to
5 loan me his copy. So, I'm familiar with -- I guess
6 I'll read you what I'm looking at. I'm looking at
7 Page 68, the paragraph is under the heading "10.1 DCF
8 Results - Merrimack Station". I'll just read what's
9 there, you can correct me if I read it wrong. "The
10 results of the cases, shown in the table below, have
11 12/31/2014 current value outcomes ranging from a high
12 of 159 million to a low of zero."

13 Is that the part you're referring to?

14 Q. Yes.

15 A. (Chung) Okay.

16 Q. And, again, back to the question of the
17 "reasonableness" of the Scrubber deal, does it make
18 sense to you that La Capra appraises Merrimack Station
19 a value of zero just two years after or three years
20 after the investment was made?

21 MR. BERSAK: Objection, Mr. Chair.

22 We're back to, what he's really asking is "was the Company
23 prudent in building a scrubber that the law of this state
24 required the Company to build in light of things in the

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 marketplace?"

2 CHAIRMAN HONIGBERG: Overruled. He can
3 answer that.

4 WITNESS CHUNG: Could you repeat the
5 question?

6 CHAIRMAN HONIGBERG: Does it make sense
7 that the value is zero two years after the Scrubber went
8 on line?

9 **BY THE WITNESS:**

10 A. (Chung) I don't know how to answer that question. So,
11 I'll answer a different one, which I think is what
12 you're asking.

13 CHAIRMAN HONIGBERG: Are you sure you
14 really want to do that, Mr. Chung?

15 WITNESS CHUNG: Well, yes. I just want
16 to be helpful. I just, I mean, I don't have a way to
17 answer that. Again, I'm not a forecaster. I don't do
18 valuation for a living. And, what I am looking at is a
19 global settlement. This is one issue that is settled.
20 And, do I think it's reasonable, looking at the
21 constellation of terms, to include this term -- the way --
22 the resolution of the Scrubber docket, along with the
23 other ones, I absolutely think that's reasonable.

24 BY MR. CUNNINGHAM:

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1 Q. Were you are present, Mr. Chung, during the La Capra
2 deposition?

3 A. (Chung) Yes, I was present.

4 Q. And, do you recall me asking the La Capra witness where
5 they got their data to make the DCI projections?

6 A. (Chung) I don't recall that.

7 Q. And, the answer that the La Capra witness provided was
8 that PSNH gave them much information on fixed costs,
9 the variable operating costs and the like, and that
10 they used that data to make their discounted cash flow
11 appraisal valuations?

12 A. (Chung) I don't remember you saying that. But my
13 recollection of the process is essentially what you
14 described.

15 Q. And, that information would have been available to you
16 and your peers there at Eversource, would it not?

17 A. (Chung) Yes. Since we provided the data to them, we
18 had access to it.

19 Q. And, based on that data, let me ask this question
20 again, does it make sense for the ratepayers to have to
21 pay 422 million, or whatever it is, for a Scrubber
22 that's valued at zero two years later?

23 CHAIRMAN HONIGBERG: Sustained.

24 MR. BERSAK: Thank you.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 CHAIRMAN HONIGBERG: It's a different
2 question than the one you asked a minute ago.

3 MR. CUNNINGHAM: Yes. I apologize, Mr.
4 Chairman.

5 CHAIRMAN HONIGBERG: I mean, if you want
6 to go back to the question you asked, I'll let him answer
7 that.

8 MR. CUNNINGHAM: I'm sorry. I forget
9 what the question was. Can you repeat the question? I'm
10 asking the court reporter.

11 *[Court reporter indicated that the*
12 *question was asked a few minutes back*
13 *and may take time to retrieve the*
14 *original question.]*

15 MR. CUNNINGHAM: I'll let it go, Mr.
16 Chairman. I think I've made my point.

17 CHAIRMAN HONIGBERG: Fair enough.

18 BY MR. CUNNINGHAM:

19 Q. Are you familiar, Mr. Chung, with the Settlement
20 Agreement itself?

21 A. (Chung) Yes, I am.

22 Q. And, did you participate in the negotiation of that
23 Agreement?

24 A. (Chung) Yes.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Q. And, were you responsible in any way for the wording of
2 the Agreement?

3 A. (Chung) I don't understand the question. Could you
4 rephrase it?

5 Q. Well, do you have the Agreement in front of you?

6 A. (Chung) Give me one second, I'll make sure.

7 Q. Sure.

8 A. (Chung) Yes. I have it in front of me.

9 Q. And, would you look at Page 10 please.

10 A. (Chung) I'm there.

11 Q. "Part 1", the second paragraph.

12 A. (Chung) Yes.

13 Q. And, it has this language: "RRBs shall be authorized
14 in an amount sufficient to fund reasonably expected
15 stranded costs, cost and revenue deferrals, transaction
16 costs, transaction advisor fees, tax liabilities,
17 employee protections, tax stabilization payments,
18 decommissioning costs, retirement costs, environmental
19 costs, and other costs, liabilities, and expenditures".

20 And, where, Mr. Chung, could I find the
21 quantification of those amounts?

22 A. (Chung) So, those amounts will be finalized -- well,
23 let me back up. The securitized amounts would be
24 finalized in the auction proceeding that would be

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 subsequent, and partially in parallel to this one,
2 where the -- if there's a winning bidder or bidders
3 selected, then there would be a review of the amount to
4 be securitized.

5 For the purposes of my exhibits, I did
6 my best to evaluate a set of estimates for those
7 stranded costs, knowing that they're just estimates,
8 because, you know, you don't know when you're going to
9 securitize. In my exhibits, I believe it is EHC-1,
10 Pages 3 and 4. So, those are some of the line items.

11 And, like I said, you really don't know
12 what the final numbers are going to be until you get
13 down to the actual securitization. We don't know what
14 the final securitization amount is until we have a sale
15 proceeds to net against any gross stranded costs.

16 Q. Well, let me ask it this way. What is meant, in that
17 sentence, what is meant by "decommissioning costs"?

18 A. (Chung) Well, I think this paragraph was meant to
19 encompass the range of things that one might typically
20 securitize, without being specific, because those costs
21 are just not known at this time. Like I said, I did my
22 best to estimate them in my exhibit. But, you know, we
23 just don't know what those costs are.

24 Q. And, what are "decommissioning costs"? Is it just not

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 part -- is that part of a sale?

2 A. (Chung) I didn't hear what you said. Could you please
3 repeat that.

4 Q. Are decommissioning costs part of a divestiture?

5 A. (Chung) I don't know. I'd have to -- I'm not an
6 auction advisor. So, I'd have to defer to an expert on
7 that.

8 Q. And, let me ask the same question about "retirement
9 costs". Would that be part of a divestiture?

10 A. (Chung) I think there's a category of things that might
11 happen. You know, give me -- you know, if some of the
12 units do not sell, and the Commission chooses to not
13 pursue a separate auction in addition, and there's a
14 failed auction, then maybe a unit would be retired. In
15 that case, there might be a retirement cost.

16 Q. And, the same question about "environmental costs"?

17 A. (Chung) I think that's, you know, the same category.
18 These are broad categories. And, there are things that
19 one can't estimate until we have a final sale that we
20 are evaluating in front of the Commission.

21 Q. And, "other costs" and "liabilities", your answer, I
22 assume, is the same?

23 A. (Chung) Yes, it is.

24 Q. And, in terms of the sale, in terms of your estimated

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 costs that you cannot determine at this time, suppose
2 there's a failed auction. How does that work?

3 A. (Chung) I'm not an auction advisor. So, I can't answer
4 to the details of it.

5 Q. Well, how does that work in the sense of securitized
6 costs?

7 A. (Chung) So, I don't think it is specifically laid out
8 in the Settlement Agreement, but there is a provision
9 for having a Commission process, in the case of a
10 failed auction, and assessing what costs go into
11 securitization.

12 Q. For example, if Schiller, with its mercury
13 contamination, doesn't sell, how is the Commission to
14 determine what the stranded costs are? Do they roll
15 over? Does the continued operation of that plant
16 remain part of the ongoing operation of your company?

17 A. (Chung) That's purely speculative. We don't have a,
18 you know, like I described before, this would be a
19 Commission order. If the Settling Parties thought this
20 was -- that particular project were in the best
21 interest to go forward, and given the advice of an
22 auction manager, then the Commission would have an
23 opportunity to approve or not approve.

24 Q. Well, isn't that the point here, that so much of this

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 language in this Agreement provides for speculative
2 recovery of costs?

3 A. (Chung) I wouldn't call it that. I'd say it's a
4 framework for recovery. And, I don't think you can --
5 I think speculation is not an appropriate way to
6 characterize this. The Settlement Agreement and the
7 term sheet before it were frameworks for accomplishing
8 a major topic, which is the completion of restructuring
9 and the stabilization of rates in the Settlement.

10 Q. But when, sir, will we ever know what the costs are for
11 the purposes of this docket, and when will it end?

12 A. (Chung) When you say "when will it end", could you be
13 more specific?

14 MS. ROSS: I'm going to object for Mr.
15 Bersak. It's been asked and answered. It isn't going to
16 end until there are sales and other decisions are made.
17 We've been over this ground several times.

18 CHAIRMAN HONIGBERG: Mr. Cunningham?

19 MR. CUNNINGHAM: Well, that's my point,
20 Mr. Chairman. That this Agreement is so vague as to be
21 unenforceable. This Agreement is so vague, how can
22 ratepayers know what the stranded costs are going to be?
23 How can ratepayers know what the ongoing costs will be?
24 For example, Merrimack Station, we have significant

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 testimony that's uneconomical to operate.

2 CHAIRMAN HONIGBERG: Okay. That's a
3 closing argument. You're trying to ask questions here of
4 this panel of witnesses that will give you factual
5 information, that will give you a basis to make an
6 argument at the end of this.

7 MR. CUNNINGHAM: Fair enough. Based on
8 that, I don't have any further questions of Mr. Chung.

9 CHAIRMAN HONIGBERG: Okay. Do you have
10 any questions for any of the others or are you done?

11 MR. CUNNINGHAM: I am done.

12 CHAIRMAN HONIGBERG: Okay.

13 MR. CUNNINGHAM: Thank you.

14 CHAIRMAN HONIGBERG: Ms. Lauderdale, do
15 you have any questions?

16 MS. LAUDERDALE: No, sir.

17 CHAIRMAN HONIGBERG: Ms. Holahan?

18 MS. HOLAHAN: No thank you.

19 CHAIRMAN HONIGBERG: Is that it? Is
20 that everybody? I think I hit everybody, right?

21 *[No verbal response]*

22 CHAIRMAN HONIGBERG: Okay. Commissioner
23 Bailey.

24 COMMISSIONER BAILEY: Good afternoon.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Most of my questions are probably about the technical
2 details of the Settlement. So, anybody who can answer
3 them, or, if more than one of you can answer them, that
4 would be great.

5 BY COMMISSIONER BAILEY:

6 Q. I think I want to start off, though, with you, Mr.
7 Chung, and the question that I asked Mr. Smagula about,
8 the environmental clean-up costs. And, what you know
9 about that. And, maybe, if you don't know, Mr. Reed
10 can inform us further tomorrow.

11 But do you have any idea how much the
12 cost would be to remediate the mercury problem at
13 Schiller?

14 A. (Chung) And, so, I'll caveat my answer by saying I'm a
15 layman, because I'm not an engineer. But I'll describe
16 generally what I know, and maybe Mr. Reed can
17 supplement, when he's available.

18 So, as I understand it, these types of
19 removals are very rare, and they don't, you know, they
20 certainly don't use this technology anymore, and
21 there's a very small number of them ever used. I'm
22 talking about mercury boilers. And, that's why, to
23 understand the potential cost of removal, we went
24 through a competitive RFP process preemptively, and

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 that way we thought we could get as much information as
2 possible.

3 What we found, in the process, is that
4 it's difficult to predict the amount of mercury, lead,
5 and asbestos that comes out, until you actually start
6 the project. So, as a result, the bids were on a per
7 unit basis.

8 However, with some of our own internal
9 analysis and working with the bidders, I can represent,
10 in a ballpark, is probably 20 to 30 million. And, you
11 know, I think it's -- I'd say 30 is a very conservative
12 estimate. You know, again, you could ask either Mr.
13 Smagula or Mr. Reed, but I think it might be towards
14 the bottom of that spectrum.

15 Q. Well, I asked Mr. Smagula, and he said the most was
16 100,000?

17 A. (Chung) Well, I think he answered it in the context of
18 the Environmental Site Assessments. This was not
19 raised as an issue in the Environmental Site
20 Assessments, because there's no compliance obligation.
21 So, there's no condition to report or have an
22 obligation on it. So, you know, that was how I
23 understood his answer.

24 Q. Okay.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Chung) And, this comes up, as I mentioned before, in
2 the context of thinking about "how do we maximize the
3 total transaction value for the benefit of customers?"
4 And, Mr. Reed suggested this might be something that he
5 would recommend from a buyer's perspective.

6 Q. Right. Okay. Thanks. Mr. Frantz, maybe you know
7 this. How much of the \$225 million in the asset sale
8 is attributed to Schiller?

9 A. (Frantz) If I may have a moment?

10 Q. You certainly may, because I don't know where it is.

11 A. (Frantz) La Capra, on "Table 26: Summary of PSNH
12 Generation Fleet Valuation".

13 Q. Okay. Wait a second. Who's testimony is that in?

14 A. (Frantz) This is the La Capra report. And, I --

15 SP. COMMISSIONER IACOPINO: Exhibit V.

16 COMMISSIONER BAILEY: V. Exhibit V,

17 like "Victor". We were just looking at it.

18 CHAIRMAN HONIGBERG: And, so, what page
19 were you referring to, Mr. Frantz?

20 WITNESS FRANTZ: I'm looking at Page 95,
21 the very end of the report. It has a table, Table 26.

22 **BY THE WITNESS:**

23 A. (Frantz) That values Schiller at approximately
24 \$5 million.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Chung) If I can add just one comment to that. As I
2 understand the La Capra report, and Mr. Frantz can
3 correct me if I'm wrong, they looked at not what a
4 buyer might pay for the plants, but they looked at a
5 range of discounted cash flows related to if you
6 operated the plants on a continuing operation basis.
7 So, any other usage of that, of the Schiller site,
8 was -- I don't understand that to be embedded in that
9 figure that Mr. Frantz cited.

10 A. (Frantz) That's true. A buyer may pay more for the
11 site. But what La Capra did was, based on the variable
12 O&M of the unit, it looked out over time, the
13 timeframe, and it has a production cost model that it
14 usually incorporates each of the units into the
15 production cost model, to see when they'd run, and
16 potentially what revenues it would receive in any one
17 of those hours for the megawatts that were bid or would
18 have cleared in the supply stack, over the 8,760 hours
19 of each year through the number of years that they
20 looked out, and then discounted it back into today's
21 dollars.

22 BY COMMISSIONER BAILEY:

23 Q. Okay. And, that's how they determined it was worth
24 5 million?

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Frantz) Yes.

2 Q. But that isn't necessarily what the price is going to
3 be at the sale?

4 A. (Frantz) No one knows until you actually put them up
5 for sale. And, a good example of that was Seabrook.
6 We looked at that, had a lot of hearings on Seabrook,
7 estimates at the time, based on comparable sales, were
8 very low. And, we ended up with one of the highest
9 prices, if not the highest price, for a nuclear sale up
10 to that time for Seabrook.

11 Q. Okay. Thanks. Okay. Going back to the Settlement
12 itself, Exhibit 1 [Exhibit A?]. On Page 21, at the top
13 of the page you're talking about necessary "federal
14 approvals" for any facilities that are
15 FERC-jurisdictional. Can you tell me which facilities
16 are "FERC-jurisdictional"?

17 A. (Chung) So, I believe that refers to the hydroelectric
18 facilities. So, it would be the -- we have nine
19 hydroelectric facilities.

20 Q. And hydro facilities are FERC-jurisdictional?

21 A. (Chung) Yes. Yes.

22 Q. Okay. Now, you only have two PPAs, Lempster and
23 Burgess Biomass, right, that are involved in this?

24 A. (Chung) You know, subject to check, I believe there are

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 other smaller IPPs that are in the current Stranded
2 Cost Recovery Charge. But those are the main ones.

3 Q. Okay.

4 A. (Chung) Yes.

5 Q. Is there anything preventing you, if this all gets
6 approved and you get divested, from entering into PPAs
7 in the future?

8 A. (Chung) I don't -- I'm not the market expert for the
9 companies. So, my layman's understanding is "no", but
10 I'd have to go back and check it. And, I can certainly
11 do that, if you'd like.

12 Q. Okay. Anybody else have an opinion on that?

13 A. (Frantz) Well, the Commission is allowed to approve
14 long-term PPAs for renewable power. And, that's
15 actually how the Burgess Biomass Project was approved
16 for a long-term PPA, as well as Lempster. So,
17 theoretically, someone could come in and ask for, under
18 the statute for renewable energy, a long-term PPA to be
19 approved by the Commission.

20 Q. And, if the price of that PPA were over market value,
21 would the difference -- the difference wouldn't be
22 included in the stranded costs, because we're going to
23 securitize those stranded costs, right?

24 A. (Frantz) I think that would be up to the Commission how

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 it gets recovered. I mean, the Commission has handled
2 it in different ways. All the costs, I believe, of the
3 Burgess Biomass Project are in the Default Service rate
4 right now. There was approval of the PPAs for the
5 small wood-powered generators that came to the
6 Commission, based on negotiations that I led. And,
7 those over-market costs were not included in default
8 service, as I recall, and were actually included in the
9 stranded cost recovery. Based on -- that was not how
10 it was originally proposed, but the Commission amended
11 the Agreement and PPAs and said "That's what's going to
12 happen. And, we'll bid those into the market. And,
13 over-market costs of those PPAs associated with those
14 wood-fired generators would be recovered through
15 stranded costs."

16 Q. And, now, the same thing is happening with Burgess and
17 Lempster?

18 A. (Frantz) All the costs of -- they would be treated
19 similarly, correct.

20 Q. Okay. Thank you. How long -- how many years are left
21 on the PPAs with Burgess and Lempster?

22 A. (Chung) I believe that Lempster -- Lempster's last year
23 is 2023, and Burgess's last year is 2033.

24 Q. And, we're going to pay all those stranded costs in the

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 next 15 years, I guess 2033?

2 A. (Chung) Well, no. The way we've set it up is that, so,
3 Part 1 is the securitized amount, and that would be a
4 15-year -- likely be a 15-year securitization time.

5 Part 2 are the ones that they may or may
6 not last 15 years. You know, another example is the
7 Settlement Agreement proposes tax stabilization
8 payments for the benefits of the town.

9 Q. Right.

10 A. (Chung) That would end in three years. These contracts
11 would end just whenever they end, so, 2023 and 2033.

12 Q. That's why I had that question. Thank you.

13 A. (Chung) Sure.

14 A. (Antonuk) Can I add just a point of clarification, just
15 to make sure we're not misleading? I think what Tom
16 said was accurate. But you asked about future PPAs.
17 If you look at Page 5, Line --

18 *[Court reporter interruption.]*

19 **BY THE WITNESS:**

20 A. (Antonuk) Yes. If you look at Line 133, it's on Page 5
21 of June 2015 Agreement. It defines PPAs that are
22 covered by this Agreement to include only those
23 existing ones now that are mentioned. So, this isn't
24 kind of an, -- there's no onramp into this Agreement

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 for future purchase power agreements.2.

2 BY COMMISSIONER BAILEY:

3 Q. Okay. Thank you. Okay. Now, I want to talk a little
4 bit about the possibility of failed auctions. And,
5 there are some provisions in the Settlement Agreement
6 that I don't understand how they would work if there
7 was a failed auction.

8 So, you had the first auction, and just
9 say one of the plants doesn't sell. And, you had a
10 second auction, the Commission approves the second
11 auction, hypothetically, and it doesn't sell. Then,
12 the Settlement Agreement says, at that point in time,
13 it's going to be retired, is that right?

14 A. (Antonuk) Yes. Yes.

15 Q. Okay. Do we have to wait to issue the RRBs until we've
16 been through both of those auctions?

17 A. (Chung) I think that would be a good question for our
18 Treasury witnesses, who will be available on Thursday.
19 So, the Company witnesses are Phil Lembo and Emilie
20 O'Neil.

21 Q. Okay.

22 A. (Antonuk) I think, certainly, if you have a failed
23 auction, the goal is going to be to determine very
24 quickly why. Was it something fundamental and

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 irreparable about the unit or the units? Was it a
2 packaging issue? Does it appear that doing it a
3 different way would work? And, I think, by definition,
4 that's all going to be done on an expedited basis.
5 And, with recognition that, if there's not a clear
6 prospect for success the second time, that that would
7 be it. Then, there would be a need to do an assessment
8 of what it will take to close it down.

9 And, PSNH remains responsible for
10 operating it until retirement, because there's,
11 obviously, an obligation to continue to operate an
12 asset prudently, even if you're shutting it down.

13 But the goal would be, once you decide
14 that it is not going to move, either through a second
15 auction or after a second auction, then, in order to
16 handle it through the RRBs, you would have to kind
17 of -- you'd have to identify a firm estimate of the
18 cost involved and provide for that. You know, because,
19 obviously, retirements could take an extended period of
20 time.

21 Q. Right.

22 A. (Antonuk) Take, for example, Schiller, if retirement
23 includes remediation of the mercury, and that's going
24 to take some time, then I think you'd have to make a

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 judgment call about what to do. You know, how long do
2 you want to wait to get that final increment of dollars
3 put into the RRBs. I think those will all be judgment
4 calls that would be before the Commission in what I'm
5 going to call the "auction approval process".

6 And, I think there would be some things
7 that are not black-and-white. I think there would be
8 some judgment calls there. Do we really want to get
9 the last 5 or 10 million of retirement costs pinned
10 down, before we issue bonds in the amount of, you know,
11 four or \$500 million. And, I think that's basically a
12 value proposition to me.

13 Q. Okay. I'd like to ask each one of you for your opinion
14 on which do you think is the most likely property to
15 fail at auction?

16 A. (Frantz) I don't see a lot of volunteers going first.

17 *[Laughter.]*

18 BY COMMISSIONER BAILEY:

19 Q. I'm just trying to -- I'm just trying to get a handle
20 around it, around --

21 A. (Antonuk) I think, well, first of all, from a marketing
22 perspective, I'd like to say that these all present
23 tremendous opportunities for buyers, and, therefore,
24 for customers. I think the difficulty in answering the

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1 question is not so much where the value is and is not
2 in the plants directly, but what can be done with the
3 sites. We see value, potentially, in all the sites for
4 repowering. And, we put some value there. When you
5 see a "zero", that basically doesn't mean the plant's
6 worth zero on a DCF basis, it usually means it's worth
7 less than zero. But we put a minimum value on all of
8 them, because we think they have site values.

9 And, here's the other thing that I think
10 is kind of interesting. If I were buying them, and at
11 this point I didn't have any short-term plans for, but
12 I thought someone else might, I might be happy to buy
13 it on the basis of having a long-term plan.

14 On the other hand, if somebody sees a
15 particular value in that one site, and really wants to
16 get in the market on a limited basis, and no one else
17 is particularly interested in putting that in this
18 package, maybe you get a good bid there.

19 So, I think it's really very complicated
20 to answer that question, because of the fact that
21 repowering is an option that potentially exists, even
22 for the ones that look the worst from a discounted cash
23 flow point of view.

24 Q. Okay.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Antonuk) And, you know, to the extent I want to see
2 these all generate a lot money, you know, I'm sort
3 of -- I certainly don't want to, if I had an opinion, I
4 wouldn't want to put it out there probably.

5 Q. Okay. So, you think that there's a likely possibility
6 that all the properties will sell?

7 A. (Antonuk) I think so. I think, if there was one -- if
8 there were one or ones for which the prospects were
9 very dim, we would have -- we would have said "why
10 don't we try to hive that off, so that we, you know,
11 that we can birth this 800-pound gorilla more quickly."

12 Q. "Hide it off"?

13 A. (Antonuk) "Hive it off". Take it out of the process.

14 Q. Oh. Okay.

15 A. (Antonuk) Deal with it a different way. So, I think,
16 if we saw, you know, just a fundamental problem with
17 one of the sites, the recommendation probably would
18 have been "let's not put that one in the main mix, but
19 we'll try to deal with it separately." They're all in
20 the mix. And, I think that the collective judgment is
21 then that's the right way to look at it. Is that they
22 all have a potential to be attractive to the market.

23 Q. Okay. Anybody want to add anything here?

24 A. (Stachow) Yes, Commissioner. I had an opportunity

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 with --

2 Q. Can you pull the mike closer please.

3 A. (Stachow) Sure. I had the opportunity with my team to
4 talk to a number of potential auction managers who have
5 come along to present their case. And, so far, I
6 haven't had an impression from any of them that they
7 would consider any of these assets to be in danger at
8 this point. So, they're all interested, and they
9 believe that there's a possibility of a productive
10 transaction.

11 Q. Okay.

12 A. (Stachow) Which reinforces what Mr. Antonuk is saying.

13 Q. Great. All right. Thank you.

14 A. (Antonuk) And, we may both be perfectly wrong
15 eventually.

16 A. (Stachow) Of course.

17 A. (Antonuk) The answer is, we can't be sure.

18 Q. But that's what you believe right now, as the experts,
19 with the information that you have?

20 A. (Antonuk) Yes.

21 Q. All right. So, my next question was going to be, and I
22 don't know if I need -- I'll ask it, and you can tell
23 me if you have the same answer. But, you know, what
24 happens, if one of the plants has to be retired, to the

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1 property tax stabilization payment? So, you know, we
2 go through a couple of auction processes, it doesn't
3 sell, understanding that that's unlikely. The
4 municipality doesn't want to buy it.

5 A. (Antonuk) I'd have to take a look. I think the answer
6 is in there, but I can't answer that off the top of my
7 head. Having known you for a long time, I should not
8 have expected easy questions.

9 Q. Sorry.

10 A. (Antonuk) I mean, if you want, I mean, we can stop or
11 go on, and we'll take a look as you continue.

12 Q. Okay. All right. I think it was under the property
13 tax exemption -- or, tax stabilization payment section,
14 but we can come back to that.

15 A. (Chung) I'm just looking at the section which I think
16 starts on Page 22, and it goes onto the next page. I
17 don't see any nod to how those are treated in the
18 situation of a failed auction. I think, with a lot
19 of -- like a lot of things, if we're in that situation,
20 I think we just have to have some collaboration in
21 front of the Commission and, you know, agree on what
22 makes sense, giving, in that situation, the towns are,
23 obviously, impacted anyway.

24 Q. Right. That was my -- my take was that it wasn't

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 covered. And, what happens, if it needs to be covered?
2 And, your answer is "We'll have to come back and figure
3 it out"?

4 A. (Chung) I think so. And, that's just the nature of
5 these types of agreements. We try to go down all of
6 the different trees that happen. But I think it's
7 silent on this issue, but I think, you know,
8 approaching it reasonably and collaboratively would
9 make sense.

10 Q. Okay.

11 A. (Antonuk) I think, would it be appropriate for us to
12 undertake to kind of give you a written description, --

13 Q. Sure.

14 A. (Antonuk) -- if, on further review, we kind of see what
15 specifically is in there? You know, I don't know what
16 the process is for -- Canada, they call them
17 "undertakings".

18 COMMISSIONER BAILEY: A record request,
19 maybe?

20 CHAIRMAN HONIGBERG: That is what we
21 would call it. We would call it a "record request". How
22 long would it take for such a document to be created?

23 WITNESS ANTONUK: By tomorrow morning.

24 MR. BERSAK: Overnight.

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1 CHAIRMAN HONIGBERG: All right. So, we
2 can reserve a space for it, which would be "WW"?

3 MS. AMIDON: That's what I have.

4 *[Exhibit WW reserved.]*

5 MR. BERSAK: And, what is precisely
6 being requested?

7 CHAIRMAN HONIGBERG: I think Mr. Antonuk
8 just made an offer. Mr. Antonuk, why don't you explain
9 what it is you are offering to create.

10 WITNESS ANTONUK: We are offering to
11 describe the degree to which the Settlement Agreement does
12 or does not address what happens with respect to the
13 clauses concerning property taxes in the event of a failed
14 auction. And, if it does affect it, we will explain what
15 we believe the Agreement's treatment of that situation is.

16 COMMISSIONER BAILEY: Thank you.

17 BY COMMISSIONER BAILEY:

18 Q. On Page 26, Paragraph C, you talk about an "annual
19 report" and "the results of the sale of the output from
20 PSNH's plants". So, originally, I was thinking that
21 this annual report would be -- would happen after
22 divestiture, but that's not what it means, if you're
23 still talking about "output of PSNH's plants". So,
24 what is that paragraph talking about?

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Antonuk) Until divestiture, or on a continuing basis,
2 if, in the case of a failed auction, where we're still
3 deciding what to do with the plant in the future.

4 Q. You think that's going to take years?

5 A. (Antonuk) No. No. I'm guessing that's -- that's
6 probably one -- it certainly should be one report,
7 because there will be an interim period, there may be
8 two. And purchase obligations. So, to the extent
9 purchase agreements go on, there will be regular
10 reporting about those as well.

11 Q. What's a "purchase agreement"?

12 A. (Antonuk) Power purchase agreements.

13 Q. Which are going to be rolled into stranded costs,
14 aren't they?

15 A. (Antonuk) Yes. But what this allows is for the
16 Commission to kind of get whatever sort of operational
17 information they want about those agreements, how
18 they're being managed; if they have amendment
19 provisions, how are they being treated; if there's any
20 change in the status of the seller, for example. It's
21 really just there for the Commission to have a vehicle
22 to get any information that it needs to deal with any
23 kind of let's call them "continuing entanglements" on
24 the supply side of the business, principally affecting

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 the plants till divestiture, but also potentially there
2 may be information needs the Commission may want about
3 purchase obligations that continue as well.

4 Q. Okay.

5 A. (Antonuk) And, it's really more operational
6 information, kind of the status. You know, who's --
7 who in the zoo, who's running it? Are there problems?
8 Is delivery an issue? That sort of thing.

9 A. (Frantz) I mean, this is under the section of
10 "Marketing the Energy". So, up until the divestiture,
11 PSNH still has the obligation and requirement to
12 prudently operate and manage their generating assets,
13 both to help customers, but also to make sure that and
14 ensure that we have a well-maintained fleet of assets
15 for the sale.

16 Q. No, I appreciate that. But what threw me off was that
17 this was going to be an "annual report". And, --

18 A. (Frantz) It will be just one annual report.

19 Q. Right. Well, "annual" sort of sounds like "recurring"
20 to me. But, okay.

21 Okay. Page 28, at the bottom of the
22 page, where it talks about the "RRBs in an amount
23 sufficient to refinance unrecovered net book value of
24 the generation assets, deferrals, transaction costs,

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 tax stabilization payments, employee protections...less
2 the 25 million in deferred equity return", I understand
3 all that. But why is the \$5 million in the Clean
4 Energy Fund not included in that accounting?

5 A. (Chung) The 5 million in the Clean Energy Fund, you
6 know, is something the Company is funding, and the
7 customers aren't paying for. So, that's why it's not
8 included in this. It is treated separately.

9 Q. Well, but that's the same as the "25 million in
10 deferred equity return", isn't it?

11 A. (Chung) It's a separate category.

12 Q. I know it's a separate category. But it's the same
13 concept?

14 A. (Chung) It's a different concept. So, I'd say we --
15 so, we are, you know, I think it's very separately
16 allocated for energy efficiency and distributed
17 generation.

18 Q. I get that.

19 A. (Chung) But I'd say it's coming from a "different
20 pocket", if you will, and we don't -- so, you know,
21 we're not expecting customers to pay for it. So, it
22 shouldn't be part of the accounting in this particular
23 section on the "Commission Order".

24 Q. And, the same applies for the 25 million that you're

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 not going to charge customers for the Scrubber?

2 MR. BERSAK: If I may, Commissioner
3 Bailey. This section says that we will be requesting to
4 recover, amongst other things, "the unrecovered net book
5 value of generation assets". If that stands alone,
6 without the \$25 million deduct, we'd be over-recovering.
7 That \$5 million isn't covered by one of these other
8 categories, so, there's no need to deduct it to make the
9 math work.

10 COMMISSIONER BAILEY: Thank you.

11 BY COMMISSIONER BAILEY:

12 Q. How will the RRBs appear on customer bills? Anybody
13 know that?

14 A. (Frantz) I'd expect that a customer's bill will look a
15 lot like it looks now, with a "Stranded Cost Recovery
16 Charge" rate. And, the RRBs, the costs of recovering
17 them, are included in the overall Stranded Cost rate.

18 Q. Okay. So, it's a separate line item. And, --

19 A. (Frantz) Yes. It was before and will be going forward.

20 Q. And, I think right now there's only a Part 2 Stranded
21 Cost Recovery rate on the bill, right?

22 A. (Frantz) Correct.

23 Q. And, in the old -- before, when there were Part 1 and
24 Part 2 and Part 3, were they separately identified?

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 A. (Frantz) No. Not on the customer's bill.

2 Q. Okay.

3 A. (Frantz) There was one Stranded Cost rate, and all of
4 the components were included in the stranded costs.

5 Q. Okay. So, if this goes up, then the stranded cost will
6 just go up, and I got it.

7 A. (Frantz) Correct.

8 CHAIRMAN HONIGBERG: Off the record for
9 a minute.

10 *[Brief off-the-record discussion*
11 *ensued.]*

12 CHAIRMAN HONIGBERG: So, we can go back
13 on the record. Go ahead, Commissioner Bailey.

14 BY COMMISSIONER BAILEY:

15 Q. Okay. Next, on Page 32, this is another thing that I
16 just don't understand. Under the "Credit Enhancement,
17 "the exposure to losses...due to shortfalls in
18 projected sales of energy...must be minimized." I
19 mean, and this is a non-bypassable charge not based on
20 usage, right?

21 A. (Antonuk) It's a per kWh charge.

22 Q. Oh, it is?

23 A. (Antonuk) Yes.

24 Q. Okay. All right. I didn't understand that.

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1 A. (Antonuk) Credit enhancement is because you base the
2 charge based on projected sales and projected time it
3 takes customers to pay. So, in order to get the AAA
4 rating, I'm sure the folks who are going to deal with
5 this later can handle it in much greater detail than I
6 can. The people who issue the bonds require this
7 credit enhancement there to sort of be a pool to cover
8 those kind of differences. It's usually fairly small
9 and nominal, and, ultimately, kind of refundable, if
10 you will, it's all reconcilable.

11 Q. Yes. Okay. All right. Here's another thing that I --
12 it's probably just I missed it, something I don't
13 understand. But, on Page 33, you talk about "when the
14 revenue recovery bonds are fully paid, the balance in
15 the Reserve Subaccount [gets] returned to PSNH".
16 Bottom of the first not full paragraph. The second
17 last sentence in the --

18 A. (Antonuk) Yes. I need to look and see what the
19 "Reserve Subaccount" is. Again, this is something that
20 we may be able to do it generally, but the folks who do
21 the financing will know the details.

22 Q. Okay. I mean, I could wait for the financing guys to
23 be here.

24 MR. BERSAK: That would be beneficial,

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Commissioner Bailey.

2 COMMISSIONER BAILEY: Okay.

3 MR. BERSAK: Our Treasurer, Mr. Lembo,
4 and his Director, Emilie O'Neil, will be able to testify
5 that the Reserve -- the Overcollection account you're
6 talking about is a capital infusion from the Company
7 itself, not customer money.

8 COMMISSIONER BAILEY: Okay.

9 MR. BERSAK: But I'll let them testify.

10 WITNESS ANTONUK: Yes. That's on
11 Page -- on Line 157, on Page 6.

12 BY COMMISSIONER BAILEY:

13 Q. Okay. On Page 34, and I forgot that there are line
14 numbers on these pages, I apologize, look at Lines 908
15 through 910. You, as part of this Settlement
16 Agreement, you're requesting that "following closure of
17 14-238, the Commission open a docket with appropriate
18 ongoing proceedings to address administration of the
19 divestiture auction". And, you have refined that
20 request, have you not? I can't remember where I read
21 it, but my understanding was that you want the
22 Commission to undesignate --

23 A. (Chung) That's correct.

24 Q. -- Advocate Staff and start the docket on the auction

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[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 process right away, before --

2 A. (Chung) That's right. So, that's --

3 Q. -- before we even approve this.

4 A. (Chung) I think you're referring to the motion that the
5 Parties filed to undesignate Staff and begin some of
6 the activities in parallel for the purpose of
7 expediency, and, in particular, the cooperative
8 procurement of an auction advisor. So, I would agree,
9 this is -- I think we intend to not have this be in
10 sequence. But, I think, for given where we are in
11 2016, have them run slightly in parallel.

12 Q. Okay. And, it's your understanding that everybody on
13 the Settlement Agreement agreed to that?

14 A. (Chung) Yes.

15 Q. Agrees with that?

16 A. (Witness Frantz nodding in the affirmative).

17 A. (Antonuk) Yes.

18 Q. All right. Are all parties to the 1999 Agreement part
19 of this Agreement?

20 MR. BERSAK: Commissioner Bailey, I can
21 answer that, because they might not be aware. There are
22 two parties that are not parties to the 2015 Agreement
23 that were parties to the earlier 1999 or 2000 Agreement.
24 Those parties are the Governor of the State of New

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Hampshire and the Attorney General.

2 COMMISSIONER BAILEY: Okay. But the
3 Governor's Office is represented by the Office of Energy &
4 Planning.

5 MR. BERSAK: Well, the Governor's Office
6 of Energy & Community Services was, in fact, a separate
7 party to the 1999 Agreement. That agency now has been
8 renamed to "Office of Energy & Planning". So, you know,
9 the relationship to the Governor is beyond me.

10 COMMISSIONER BAILEY: Okay.

11 MR. BERSAK: And, the Governor was a
12 separate signing signatory to the earlier Agreement, as
13 was the Attorney General.

14 COMMISSIONER BAILEY: And, was the
15 Attorney General representing sort of the Advocate Staff?

16 MR. BERSAK: No. It was representing
17 the State of New Hampshire.

18 COMMISSIONER BAILEY: Okay.

19 WITNESS ANTONUK: One of the principal
20 contributions from the Attorney General's Office, aside
21 from helping with things in general, was to deal with the
22 financial issues associated with RRBs, which were quite a
23 new thing for New Hampshire then. And, they were very
24 instrumental in making sure that that part of the

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1 arrangement was all set up correctly. And, that's on
2 which we have modeled the current Agreement as well.

3 COMMISSIONER BAILEY: Okay. All right.
4 So, there's no issue then about "all parties to the '99
5 Agreement must agree that the '99 Agreement is rescinded
6 and superseded"?

7 MR. BERSAK: We would we seeking, if
8 this Commission was to approve this Agreement, we'd be
9 seeking the concurrence of the Governor and the Attorney
10 General to dismantling the earlier Agreement.

11 COMMISSIONER BAILEY: Okay.

12 BY COMMISSIONER BAILEY:

13 Q. Okay. Now, I have probably some questions for you, Mr.
14 Frantz. This is our only opportunity to talk about the
15 rate design issue, right, with you?

16 A. (Frantz) Tomorrow.

17 A. (Antonuk) Tomorrow.

18 A. (Frantz) Tomorrow we have set aside time to
19 specifically address rate design issues.

20 Q. Oh. So, you'll be back on the stand for that?

21 A. (Frantz) I will.

22 Q. Oh. All right. Then, I don't have to ask you that
23 today.

24 What about, I guess, the questions that

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 I have about the legal standards of review? So, we
2 have to take into account the impact on all PSNH
3 customer classes, that will be under rate design.
4 Consider the impacts on the economy in PSNH's service
5 territory. Are you going to testify tomorrow about the
6 REMI report? And, are we going to have an opportunity
7 to talk about that tomorrow or --

8 A. (Frantz) Yes.

9 Q. Okay.

10 A. (Frantz) And, someone from REMI will also be available
11 to ask questions in more detail than perhaps I can
12 answer concerning their -- the study.

13 Q. Okay. Do any -- can any of the panelists shed light on
14 how the Settlement Agreement will impact the economy in
15 PSNH's service territory?

16 A. (Frantz) Well, I think, based on the analysis that's
17 been done by Brattle, as well as the original analysis,
18 that there will be savings to PSNH's customers overall
19 from divestiture. Those savings then will accrue to
20 those customers, who can then either reinvest them,
21 spend them in the economy, which has multiplier
22 effects. And, we could get into a whole lot of detail
23 about how those are spread across the economy. And,
24 that's exactly what the REMI model does. It's

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 essentially a linked regression input/output model that
2 looks at those issues, what the economy is at the time,
3 different segments of the economy, and then models it
4 to see what those savings will be, and how it then
5 translates into additional jobs, because customers will
6 have more money to actually spend, and where those
7 spendings occur, how much leaks from out of the
8 economy, how much stays in, and increases in gross
9 state product, *etcetera*, based on the savings that
10 accrue from divestiture.

11 Q. Okay. Anybody else on the panel have anything to add?

12 A. (Antonuk) Yes. I want it, not my usual custom to talk
13 about effects on big businesses, but I want to here
14 particularly. You know, they started off nominally
15 outside of the zone of interest here, when it came to
16 Scrubber and stranded costs. And, I think one of the
17 things that a number of them have come to realize is
18 that eventually the migration issue was going to engulf
19 them one way or another as it became unsustainable.
20 And, I think what this Agreement gives them, apart from
21 a share of the -- of the benefits, and also a sharing
22 of the pain, if you will, is a certainty that didn't
23 exist before, predictability, and stability. Because
24 now this looming -- what I would say was a "looming

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 crisis" is now going to be resolved with the Settlement
2 Agreement. So, one of the important things that they
3 get is the ability to plan on a longer term and more
4 secure basis about what their rates are going to be
5 over time. And, I think that's, you know, obviously,
6 they want their rates low, and, to the extent they're
7 lower, they benefit.

8 But I think just having them be much
9 more predictable, and having this -- the engulfing
10 uncertainty taken away from them is a very, very big
11 benefit to the business community of New Hampshire as
12 well.

13 Q. Okay. Thank you. I have the same question, and the
14 answer may be the same, about the ability to attract
15 and retain employment across industries. How does the
16 Settlement do that?

17 A. (Frantz) Commissioner, I think that's probably best
18 left for tomorrow, and for the -- for REMI and myself.

19 Q. Okay.

20 A. (Frantz) Thanks.

21 Q. Okay. Mr. Murphy -- or, sorry, Dr. Murphy, your
22 analysis assumes that there's full recovery of the
23 Scrubber costs in the No Divestiture case?

24 A. (Murphy) In the No Divestiture case, the customer costs

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 that I characterize here do include full recovery of
2 the Scrubber costs. That was what was in the data that
3 I got for the depreciation, return on rate base, and I
4 guess operating costs, that went into my analysis, yes.

5 Q. And, the Divestiture case assumes that \$25 million have
6 been removed?

7 A. (Murphy) That's right.

8 Q. Okay.

9 A. (Murphy) Yes.

10 Q. So, do you think it would be reasonable to compare
11 apples-to-apples and take 25 million out of the O&M
12 costs?

13 A. (Murphy) Well, it wouldn't be 25 million per year.

14 Q. That's right.

15 A. (Murphy) It would -- you'd have to go say "well, how
16 would that reduce the depreciation?" It would be
17 25 million, less depreciation, spread over the life of
18 the Scrubber, and a return on 25 million less, although
19 25 million and declining smaller amount of return. So,
20 and as I understand it, the operating costs, this
21 wouldn't affect the operating costs.

22 Q. Right.

23 A. (Murphy) Mr. Chung might be able to help me on that.

24 A. (Chung) No, that's correct.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 Q. So, even if the Commission, hypothetically, decided to
2 disallow \$25 million --

3 A. (Murphy) In the No Divestiture case?

4 Q. In the No Divestiture case, the savings would be
5 greater in the Divestiture case?

6 A. (Murphy) The savings due to divestiture would still be
7 possible.

8 Q. Okay.

9 A. (Murphy) Yes.

10 COMMISSIONER BAILEY: Thank you. I
11 believe that's all I have. Thank you very much.

12 CHAIRMAN HONIGBERG: Commissioner
13 Iacopino.

14 SP. COMMISSIONER IACOPINO: Thank you.

15 BY SP. COMMISSIONER IACOPINO:

16 Q. First, I just gotten confused by one of the questions.
17 I understood that the costs of the PPAs are in the
18 Non-Securitized Stranded Costs. Am I correct in that,
19 in the Settlement?

20 A. (Chung) That's correct. So, they're part of the RRBs,
21 but they're Part 2, which is Non-Securitized.

22 Q. Okay. All right. Mr. Chung, in the "Approvals"
23 section of the Settlement Agreement, there is a
24 reference that you may need approvals from lenders to

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 the Company. What approvals will the Company need?

2 And, who are the lenders that you need to get approvals
3 from?

4 A. (Chung) Could you please refer me to a line number?

5 Q. I'm looking for it. I had it before. But it's in the
6 "Approvals" section, after you go through the federal,
7 state, and you've got financing, I believe. On Page
8 21, Line 560, it says "The asset sales may require
9 prior concept of certain lenders under PSNH's existing
10 credit agreements."

11 A. (Chung) That would definitely be a question for our
12 Company Treasurer tomorrow or Thursday.

13 Q. Okay. So, you're not aware of who those folks are?

14 A. (Chung) No.

15 Q. Okay. Let me quickly go to Mr. Stachow. At some point
16 in your testimony you reference the Brattle report as
17 being a "directional estimate". Can you just tell me
18 what you mean by that?

19 A. (Stachow) Yes. Let me just find that piece of my
20 testimony first. Can you refer me to the page?

21 Q. Oh. Actually, it will take me too long to find it.

22 A. (Stachow) Well, I think I can try and respond without
23 finding it.

24 Q. Okay.

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1 A. (Stachow) But the Brattle analysis is an analysis, is
2 modeling certain outcomes, is modeling various
3 scenarios. It's a direction. Now, there could be
4 multiple other scenarios that could be created also.
5 So, what that's -- the directional nature is indicating
6 there's a high probability that there would be customer
7 savings.

8 Q. Okay.

9 A. (Stachow) But the 33 million is just one potential
10 outcome.

11 Q. Okay. That I understand. But I wanted to make sure is
12 that the Staff is not suggesting that there is a lack
13 of confidence in this particular study?

14 A. (Stachow) Not at all.

15 Q. Okay. Dr. Murphy, let me move on to you then. You
16 created the model that's part of your testimony,
17 correct?

18 A. (Murphy) Yes, I did.

19 Q. And, you've done -- you've done this before, many
20 times, I can tell from your resumé, correct?

21 A. (Murphy) Things like it.

22 Q. And, just in your own work, how confident are you in
23 the way that this model is actually structured? Forget
24 about the data you've put into it, but the structuring

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 of it?

2 A. (Murphy) Probably the best way to understand it is with
3 the Figure 1, on Page 5 of my testimony. I'm quite
4 confident in the general structure of this analysis.
5 And, the thing that I think helps a lot to understand
6 the customer savings due to divestiture is the ability
7 to abstract out of that question the question of "well,
8 what are market prices going to be and how much is it
9 going to cost to serve our load?" Well, that, which is
10 the largest part of these costs, is uncertain, but it
11 does not contribute to the difference between the
12 Divestiture and the No Divestiture case. Which gives
13 me much more confidence about my ability to estimate
14 the savings as a result of divestiture than perhaps I
15 could about what it will cost to serve customers in the
16 future.

17 The future of the market does leave some
18 uncertainty in this analysis, primarily in what the
19 plants would be able to earn in the market. In a
20 high-price market, the plants will earn more, that will
21 offset more of their fixed costs. In a low-price
22 market, they'll earn less, it will offset less of their
23 costs.

24 But, by structuring the analysis this

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 way, it takes out of this question that sort of larger
2 question of "what will market prices be and what will
3 it cost to serve customers?" Because a large part of
4 that does not contribute to the customer savings.

5 Q. Then, the second part of the model, obviously, is the
6 data that you put into it?

7 A. (Murphy) Yes.

8 Q. And, I know that you -- that's not your data, you've
9 received it from others.

10 A. (Murphy) In some parts, yes.

11 Q. I assume you've done some high-level analysis of it?

12 A. (Murphy) Yes.

13 Q. And, are you comfortable and confident with the nature
14 of the data that you've plugged into the model itself?

15 A. (Murphy) Let me take that in a couple of parts, where
16 the -- based partly on where the data came from and
17 what I did with it. The data that I got from
18 Eversource on the fixed costs of owning and operating
19 the generation is I looked at some historical data that
20 had been provided by Eversource in data responses in
21 this, and I believe in other dockets. And, the costs
22 that they provided to me as an input here was generally
23 in line with the aggregate costs in the -- I believe I
24 had seen numbers projected from 2013 projecting --

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 including projections through 2016, and it was
2 generally in line with those. So, fixed operating
3 costs change from year to year, they do. And, the
4 projections that I was given seem entirely reasonable,
5 in light of what I had seen previously.

6 The numbers they gave me for this model
7 were aggregate across the entire fleet. They didn't
8 break them down plant-by-plant. I didn't ask for that,
9 because I wasn't -- I didn't need that to do this
10 analysis. But those seemed reasonable. And,
11 similarly, the depreciation and the return on rate base
12 were in line with other comparable numbers that I had
13 seen for recent past years.

14 Beyond that, I can't validate them. I
15 would have to refer you to Eversource witnesses. But
16 there wasn't anything in those numbers that struck me
17 as likely to be problematic. And, in fact, there is a
18 reasonable history of operating costs. And, for
19 depreciation and rate base, that is, in part, a
20 financial projection forward of costs, historical costs
21 that are known.

22 So, I've got reasonably good confidence
23 in those numbers. And, in the figure, those are the
24 sort of three top sections of the bar on the left.

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 The market revenues, I'll break out into
2 capacity and energy revenues. For capacity revenues,
3 we already know what capacity prices are through 20 --
4 part way through 2019. So, I don't have any real
5 question about those. The projection I used going
6 forward is for capacity values to remain in that same
7 range of what we currently see for the 2018-2019
8 commitment period. And, that seems reasonable to me,
9 given what I --

10 Q. And, you got that from another source, didn't you?

11 A. (Murphy) That was from SNL Financials, yes.

12 Q. Okay.

13 A. (Murphy) But that seems a reasonable capacity price
14 projection. Is it guaranteed? No. That the current
15 price for FCA 9 is 9.55 a kilowatt-month. Each
16 additional dollar more or less translates to about
17 \$13 million per year. So, and I don't expect capacity
18 prices to be moving by multiple dollars per kilowatt-
19 month going forward, in part because we're retiring a
20 fair amount of baseload generation with coal, oil, and
21 now a couple of nuclear units. So, we are getting rid
22 of what has been a persistent capacity surplus in New
23 England for many years, and had caused the capacity
24 prices to be quite low relative to the cost of new

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1 generation.

2 I can't promise you that those capacity
3 prices will remain at that level. But it certainly
4 doesn't seem -- it certainly seems quite probable to
5 expect that they are likely to.

6 The last piece is the energy revenue
7 that the plants will earn. And, I think that is the
8 most uncertain piece here. Because, at least the
9 fossil plants, Merrimack Schiller and Newington, are
10 all high-cost plants, their operating cost is high
11 relative to the typical price of power in New England.
12 That means they make most of their revenue during
13 relatively short periods of time when prices are high.
14 Just how long those short periods of time will be, and
15 just how prices -- just how high the prices will be
16 during those high-price periods, can be fairly
17 uncertain, even if you have relative confidence in the
18 average price or a typical price of power. Because of
19 that, there can be more variability in the revenues
20 that these units would earn, relative to, say, a more
21 efficient unit that dispatched at a lower price, ran
22 more of the time, earning money through more hours of
23 the year. So, I think that's the most uncertain piece
24 of this analysis.

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1 And, if the energy price were
2 considerably higher than current expectations would
3 lead us to believe, then the plants might earn more
4 value under those higher energy prices.

5 Now, that also raises the question of
6 "Wouldn't the sale price of these plants also go up?
7 If they're more valuable to keep, wouldn't they also be
8 more valuable to sell?" And, the answer is "Possibly."
9 And, that depends to an extent on whether these
10 high-price conditions in the future are foreseen at the
11 time of divestiture or if they're not foreseen. If
12 they are foreseen, then, yes, I would expect the sale
13 price to be higher, which would at least partly offset
14 the loss of their operational value if you divested
15 them.

16 Q. And, in inputting the data into your model, did you
17 include the cost of the employee protection? Is that
18 included in, or was it just like a lump-sum figure you
19 got from the Company?

20 A. (Murphy) It was more like the latter. I understand it
21 includes that. But, for confirmation, we should ask
22 the Eversource witnesses.

23 A. (Chung) So, that's correct. An estimate of the
24 employee protections is included in the stranded cost

[WITNESSES: Stachow~Murphy~Chung~Antonuk~Brennan~Frantz]

1 figure I gave Dr. Murphy.

2 Q. And, was there any inclusion in your data, because
3 there's this term in the Agreement that there's going
4 to be a delay in seeking a rate case, was there any
5 factoring in of that into, at least from your
6 perspective, Dr. Murphy, in your opinion model?

7 A. (Murphy) I did not include that, no.

8 Q. Okay. And, Mr. Chung, do you know if anything you
9 provided to Dr. Murphy encompassed that?

10 A. (Chung) No. I didn't provide him anything related to
11 that.

12 Q. Do you have an independent assessment of what the
13 value --

14 *[Court reporter interruption.]*

15 SP. COMMISSIONER IACOPINO: I'm sorry.

16 BY SP. COMMISSIONER IACOPINO:

17 Q. Do you have an independent assessment of what the value
18 of foregoing a rate case for two years, or until 2017?

19 A. (Chung) I don't. I mean, I can speak generally that,
20 you know, when you look at past rate cases, whether
21 it's our company or others in New Hampshire, it's not
22 zero. There is some benefit to, I believe customers do
23 realize, to a stay-out. And, the option to go in is
24 something that is a give by the Company at any time.

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1 So, I don't, you know, we haven't done a cost of
2 service as part of this docket or anything. So, we
3 don't -- that's not in the record.

4 Q. Okay.

5 A. (Murphy) If I can make a clarification about my
6 analysis. I did not analyze what current rates are.
7 What I looked at is the cost of operating and --
8 operating the generators. And, I assumed, for the
9 purpose of my analysis, that the cost of operating the
10 generators would be accurately reflected in rates. So,
11 I used cost as a proxy for what customers would pay.
12 To the extent that rates get out of line with costs
13 temporarily, I did not include that in my analysis.

14 Q. That was the next question I was going to ask you,
15 actually. That what you've modeled is total cost.
16 What would it take to model rates?

17 A. (Murphy) Well, you need some way to understand or to
18 include in the analysis how rates are set and how they
19 are related to costs. I haven't made any attempt to do
20 that in my analysis. And, I wouldn't want to hazard a
21 guess as to what the effect would be.

22 Q. The Company is essentially foregoing, under their
23 terms, they're foregoing \$25 million of recovery,
24 basically. And, I just want to ask all the Parties

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1 here that are Parties to the Agreement, if that is a
2 settlement position? Or, did the agreeing Parties,
3 have they attributed that to something? And, if we
4 could start with Staff, and go down the aisle.

5 A. (Stachow) I'm not sure I'm competent to respond to that
6 question to the Commissioners.

7 Q. Okay. Well, I don't want you going beyond your
8 competence.

9 A. (Stachow) I will not.

10 Q. And, Dr. Murphy, you're, obviously, not involved in the
11 Settlement Agreement.

12 A. (Murphy) Correct.

13 Q. But, if we could go down, Mr. Frantz, I guess you're
14 next?

15 A. (Frantz) It's a settlement term. It was, you know, I
16 think reasonable people could reasonably disagree about
17 what that right number is. But it was a -- it was an
18 important part of the settlement discussions that we
19 reached agreement on.

20 A. (Antonuk) I think, from my perspective, the principal
21 attribution we made was what I was describing earlier,
22 really is the time value. And, so, by putting it
23 behind us, without having to wait for the litigation
24 course to run its course, and then, presumably,

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1 thereafter, even still have to struggle through how
2 we -- if and when we divest, that, you know, that I
3 kind of view the value of that \$30 million as a
4 multiple, really, depending on how long it takes for us
5 to kind of wend our way through a non-settlement course
6 to get to resolution of the Scrubber case and its final
7 appeal, and then, presumably, thereafter, or maybe
8 partly in parallel, it's not clear to me, the
9 divestiture and securitization course.

10 Q. So, if you weren't so concerned about the timing, you
11 would have asked for more?

12 A. (Antonuk) I think, like Tom, it was never a matter of
13 kind of separating it out. I mean, I think, given
14 everything, and given the value that was produced for
15 customers, a value that I think the latest analysis
16 confirms, subject to the uncertainty that we all agree
17 exists in the market, that that number sounded like it
18 was a good resolution of not just the divestiture
19 case -- or, of the Scrubber case, but also divestiture
20 and securitization, getting -- finding cheap money to
21 finance stranded costs.

22 Q. Mr. Brennan, does OCA agree?

23 A. (Brennan) Yes. My understanding is that it was a
24 settlement number. It was not based on an analysis of

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1 components adding up to \$25 million, but was stated as
2 a settlement amount.

3 Q. And, Mr. Chung?

4 A. (Chung) And, the Company shares that perspective. It
5 was a term as part of a greater settlement package.

6 Q. And, as my final question, this is for Dr. Murphy, in
7 Exhibit 2, not the figure, but the exhibit at the end
8 of your thing?

9 A. (Murphy) Yes.

10 Q. You actually showed a \$75 million savings in year one,
11 and a \$8 million savings in year five. Which seems to
12 me to be a big -- I mean, you've averaged it out to
13 33 million a year. But the difference between years
14 one and eight seems to be a big difference to me. Does
15 that indicate any kind of softness in the model that
16 you've got that wide range?

17 A. (Murphy) What that indicates, primarily, is the change
18 in the capacity revenues over time. Capacity prices
19 for the 2017 delivery year are based on, if I get this
20 right, the Forward Capacity Auction Number 7, which had
21 much lower prices than more recent auctions, which are
22 for later delivery periods.

23 So, if you look at, under the "No
24 Divestiture" case, the "Capacity Revenues" line, you'll

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1 see that is providing -- it's a negative number, it's
2 an offset to costs. In the first year, it's quite a
3 bit smaller, it's about half of what it is in the third
4 year. And, that's what's driving the large majority of
5 that change in annual customer savings over time.

6 Q. Is there a tipping point, though? Where, I mean, in
7 year six, for instance, "'22", you're down to a
8 \$5 million savings, and then it looks like, in the
9 following years, there's no savings. So, it's negative
10 savings.

11 A. (Murphy) Well, if you knew that, no matter when you
12 sold the generators, they would sell for 225 million,
13 you might prefer to -- you might prefer to time it.
14 But the reality, of course, is, given the plants have
15 that lower value in the early years, because of lower
16 capacity value, and higher value in the later years,
17 the sale price might not stay the same, depending on
18 when you sold them.

19 So, for the purpose of this analysis,
20 I've assumed simply that they sell for 225 million.
21 And, I haven't done any analysis to say what's the
22 optimal time to sell. But, if I were to ask that
23 question, "what's the best time to sell?", I would also
24 have to include the fact that the timing of the sale

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1 may influence the price at which I can sell them. So,
2 if I wait a few years and sell them later, I'm -- what
3 the buyer gets is a higher value, because they will get
4 higher capacity value right from the beginning of when
5 they own them, and they might sell for a larger number,
6 which would provide a bigger offset to stranded costs.

7 SP. COMMISSIONER IACOPINO: I don't have
8 any other questions.

9 BY CHAIRMAN HONIGBERG:

10 Q. Dr. Murphy, you testified orally, I think, that you had
11 done certain sensitivity analyses?

12 A. (Murphy) Yes.

13 Q. And, I see a reference to "sensitivity", and you
14 discussed it with respect to the RRB costs and sales
15 price. What other sensitivity analyses did you do?

16 A. (Murphy) Really, three, three variables that I looked
17 at. One was the RRB cost as a function of sales price,
18 and I think I have actually in my testimony that each
19 100 million change in sale price changes the five-year
20 average by 9.2 million per year.

21 I also looked at capacity price. And, I
22 think I just mentioned that, if the capacity price were
23 to increase by one dollar per kilowatt-month, now, it
24 can't increase for the years prior to 2019, because

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1 it's already set, but, if it did, if it increased by a
2 dollar per kilowatt-month for the whole horizon, that
3 translates to an average of about \$13 million per year.
4 And, so, if the capacity price increases, that
5 increases the value of not divesting, which would
6 reduce the savings due to divestiture. I'm sorry, I
7 need to work my way through that.

8 And, with energy, I ran a couple of
9 additional cases. My original case, my base case that
10 is behind the numbers here, is based on a future that
11 looks like the current view of natural gas and
12 electricity prices that you can see in futures and
13 forward prices for those commodities. So, I've
14 calibrated my base case to the current view of gas and
15 electricity prices.

16 If I were to look at a case that said
17 "well, gas, and particularly electricity prices, might
18 not be what the market currently thinks, but they might
19 be substantially higher or substantially lower", I also
20 ran cases associated with those, to see what might be
21 the effect on the energy price. And, I found -- or,
22 not the "energy price", but the energy revenue that the
23 plants can earn.

24 And, if you'll look at Figure 2, which

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1 conveniently shows it graphically, you'll see an energy
2 revenue, in my base case analysis, of \$24 million that
3 offsets the cost of these. I found that, in a high
4 energy price case, I can describe in a moment what that
5 looks like, that \$24 million in revenue could more than
6 double, could be over \$50 million in revenue. In a low
7 energy price case, it could be cut in half.

8 So, if there's less opportunity for it
9 to move down than up, because it can't go below zero,
10 the revenue that these plants earn can't be less than
11 zero. And, there's -- so, there's more upside due to
12 high prices than there is downside due to low prices,
13 because the plants are already fairly inefficient,
14 they're not running very much. If they run even less,
15 there's only so much less than they can earn. But I
16 found that to be the variable to which the results are
17 most sensitive.

18 Q. And, in either scenario, does your conclusion change,
19 in terms of savings to customers?

20 A. (Murphy) In terms of the sign of savings to customers,
21 if I looked at a scenario where energy prices are very
22 high, and yet capacity prices are unchanged and the
23 sale price of the units is unchanged, then it could
24 actually change the sign of the customer savings. The

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1 customers might -- it might cost customers more to
2 divest than to not divest. And, you have to ask "well,
3 what circumstances might that -- might that arise in?"
4 As I think I alluded to, if the plants are divested at
5 a time when energy prices are expected to be low or
6 moderate, and after the -- and, therefore, they don't
7 garner a high price when we auction the plants, so,
8 they don't offset stranded costs by very much. And,
9 yet, after-the-fact, energy prices go extremely high,
10 that could lead you into a situation like the
11 sensitivity analysis that I had done, at least with
12 respect to the sale price.

13 So, it's possible, if you sell the
14 plants when market expectations are, you know, low to
15 moderate, and then suddenly electricity becomes much,
16 much more valuable, you might wish you still had those
17 plants. You can get into -- you can go very far down
18 the rabbit hole of saying "well, does that really make
19 sense? What would have to happen in order for that to
20 occur?" One of the things that might drive electricity
21 prices very high is a need to remove more and more
22 carbon from the power system. And, at least with the
23 coal plants, it's unlikely that they would earn very
24 high revenues, even in the face of high prices, if

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1 there was a high carbon price, because they emit more
2 carbon than most of the plants in New England. So, --

3 Q. That's fine. I mean, I wanted to get a sense of what
4 you had done and how it would change things. And, I
5 mean, I might ask the panel more generally, is the
6 scenario, that scenario that Dr. Murphy just outlined,
7 at all likely? And, I think Mr. Antonuk looks like he
8 wants to answer that question.

9 A. (Antonuk) I'm dying to answer that question.

10 Q. That's what I figured.

11 A. (Antonuk) First of all, the kind of modeling that's
12 been done does not allow you to put probabilities on
13 any of these outcomes. So, it's one thing to say
14 "There's a high case and a low case. What are the odds
15 on the high case? What are the odds on the low case?"
16 And, I don't think there's an answer to that through
17 any of the modeling that's been done.

18 Second, these variables are not
19 independent. Pilgrim, Pilgrim doesn't like its high
20 fixed costs relative to an energy market. If energy
21 prices are high, is Pilgrim going to -- is Pilgrim
22 still going to fold or not? So, high energy prices may
23 affect capacity retirements. So, you can't simply just
24 kind of move all these variables around independently,

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1 and then take a 10 percent high, add another 10 percent
2 high, another 10 percent high, because now you have
3 10 percent cubed, which isn't even 1 percent.

4 So, I think it's dangerous to start
5 talking about these scenarios like they have some kind
6 of equal probability of occurring.

7 Q. I didn't, he did.

8 A. (Antonuk) Pardon?

9 Q. I didn't, he did. So, I don't think anybody suggested
10 it. So, I mean, I'm --

11 A. (Antonuk) Yes. What I'm saying is, it's okay to do
12 this, to sort of say "what if?" You know, I mean, you
13 can do "what if a meteor hits?" It's really a question
14 of, if you're going to use this to make decisions, you
15 have to assess what are the probabilities that this is
16 going to happen? What is the combination of things
17 that has to happen? And, when you predict the high
18 scenario, again, what do you assume about the effect of
19 increasing carbon regulations on coal? What are you
20 more willing to bet on? That there's going to be a
21 persistent high spike in gas and capacity prices? Or,
22 that the war on coal will eventually, essentially, get
23 them all? I know where my bet is right now on that.
24 And, I'm not going to tell you what the odds of that

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1 are either.

2 All I'm trying to tell you is I don't
3 really put a whole lot of stock here on just a
4 qualitative -- a qualitatively driven high and low
5 estimate. Because what you end up with is maybe a
6 one to -- one-tenth of a percent high price, versus
7 maybe a 30 percent low case. And, you've got to take
8 that into account, when you sort of say "what am I
9 going to do with these sensitivities? How am I going
10 to use these sensitivities to make a decision today
11 under uncertainty?"

12 Q. Understood. Mr. Frantz?

13 A. (Murphy) And, I'd like to just say, I don't disagree
14 with anything that Mr. Antonuk just said.

15 Q. I didn't think you would. Mr. Frantz?

16 A. (Frantz) No, I just wanted to say, I know, for myself
17 and Anne Ross, and I think for the others, but I'll let
18 them speak to it, we appreciated what Staff did and
19 what Brattle did by bringing some additional analysis,
20 and taking a look at it in perhaps a different way than
21 we did through the La Capra study, as well as updating
22 numbers and information from that time period.

23 And, I think you can always find some
24 scenario that supports you and some scenario that

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1 doesn't. I think their base case scenario basically
2 says "divest and there's savings". Is it possible down
3 the road that you can find scenarios that don't?

4 Absolutely. So, it's not always an easy call. But I
5 think the overall evidence in this proceeding, based on
6 what we filed, and based on La Capra studies, based on
7 the information from Brattle, supports going forward.

8 Q. I understand all of that. I mean, I appreciate Mr.
9 Antonuk and Mr. Frantz making arguments about this.
10 All I really want to know, and I think you both
11 answered it, but you've answered it with many more
12 words than I want to hear, is how likely is the
13 negative scenario? Now, Mr. Antonuk, you don't have to
14 give me specific odds, it's "one in a hundred" or "one
15 in a thousand". If you say "it's very low", that's the
16 kind of qualitative answer I'm looking for associated
17 with a qualitative directional study.

18 A. (Frantz) I think it's unlikely, based on information
19 that I've looked at. I've looked at the forward
20 curves. We have a good idea what forward capacity
21 market prices will be, and they're going to be fairly
22 stable, based on the ISO's movement to a net cone
23 methodology for capacity.

24 But I've looked at the gas prices. You

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1 know, I read them all the time. And, that doesn't mean
2 it can't be wrong. But, based on the best information
3 I think's out there, I think it's fairly low.

4 A. (Antonuk) Before considering the environmental risk on
5 coal plants, I think it's extremely low. I think the
6 risk, the environmental risk on coal plants is one way,
7 it only goes one way from today. So, if you layer that
8 onto any scenario, I think, even if you're inclined to
9 have a modicum of concern about the high scenario, I
10 would still say "is that your bet?" Or, "is your bet
11 that coal plants are going to continue a continual
12 downward slide to elimination in a reasonably short
13 period of time?"

14 Q. All right. Thank you. New topic. I want to pick up
15 on what Mr. Cunningham wanted to talk to you about, or
16 what I thought he wanted to talk to you about, Mr.
17 Antonuk. Your discussion about the litigation risk,
18 and how it's associated with the decisions that are
19 being made here, you elaborated on it a little bit with
20 Commissioner Bailey. But one of the things, when you
21 were first talking about it, right near the end you
22 said "it would have to be very large before it would --
23 the reduction of them in costs allowed to be recovered
24 would have to be very large before it would make

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1 sense." How large are we talking about, in your view?

2 A. (Antonuk) If you think litigation can end in two years,
3 in one year, it would have to be \$60 million. And, I
4 want to separate now to the initial risk, which is just
5 the delay in getting the disallowances from the
6 eventual benefit coming through securitization. After
7 one year, 30 million becomes 60, because that's the
8 benefit in the first year. After, if it takes two
9 years to get through the litigation, then that is 90.
10 If you put a 50 percent chance on getting 90, that's
11 worth 45. So, if you combine the uncertainty and
12 ultimately winning in court with a large disallowance,
13 with the fact that that disallowance has to grow, I
14 think you're talking about something in the range of
15 \$100 million, if you assume two years. And, that's
16 with a 100 percent certainty that you will prevail at
17 whatever court has final say.

18 And, then, whatever stranded costs are
19 left from that point in time, what if it takes us two
20 years from that point to get securitization. So, we're
21 going to lose, from that point, the 7 percent gap
22 between WACOG of the Company and securitization on
23 however much we securitize.

24 CHAIRMAN HONIGBERG: All right. That's

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1 helpful. I don't have anything further.

2 Does any of the lawyers who sponsored
3 these witnesses have follow-up questions for the
4 witnesses?

5 MS. AMIDON: No.

6 CHAIRMAN HONIGBERG: I see shaking heads
7 all around.

8 MS. AMIDON: No.

9 CHAIRMAN HONIGBERG: All right. I think
10 we're done with these witnesses. Thank you all very much,
11 gentlemen.

12 We're going to be able to adjourn
13 momentarily. And, we will be reconvening tomorrow at
14 10:00. And, I appreciate everybody's cooperation on that.
15 And, I understand you will be getting together starting at
16 9:30. Is that right?

17 MS. AMIDON: That's right.

18 CHAIRMAN HONIGBERG: Okay. Thank you
19 all very much. We are adjourned for the evening.

20 ***(Whereupon the hearing was adjourned at***
21 ***5:19 p.m., and the hearing to resume on***
22 ***February 3, 2016, commencing at***
23 ***10:00 a.m.)***

24