

**STATE OF CONNECTICUT
DPUC OF PUBLIC UTILITY CONTROL**

DOCKET NO. 00-01-11

**DPUC INVESTIGATION INTO
THE JOINT APPLICATION OF
CONSOLIDATED EDISON, INC. AND
NORTHEAST UTILITIES
FOR A CHANGE IN CONTROL**

SUPPLEMENTAL TESTIMONY OF

**DAVID A. SCHLISSEL
SCHLISSEL TECHNICAL CONSULTING, INC.**

ON BEHALF OF THE

OFFICE OF CONSUMER COUNSEL

APRIL 25, 2000

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David A. Schlissel. My business address is Schlissel
3 Technical Consulting, Inc., 45 Horace Road, Belmont,
4 Massachusetts 02478.

5 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS**
6 **PROCEEDING?**

7 A. I am testifying on behalf of the Office of Consumer Counsel.
8 (“OCC”)

9 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**
10 **PROCEEDING?**

11 A. Yes. I filed testimony on March 20, 2000, in which I noted that I
12 had not been able to complete my detailed investigations because
13 the Connecticut Light & Power Company (“CL&P” or “the
14 Company”) had not fully answered the interrogatories that the
15 OCC had submitted on the potential impact of the proposed merger
16 between Northeast Utilities and Consolidated Edison, Inc.,
17 (“CECONY” or “CEI”) on the reliability of electric generating
18 capacity, transmission and distribution within the State of
19 Connecticut.

1 **Q. HAS CL&P SUBSEQUENTLY ANSWERED ALL OF THE**
2 **INTERROGATORIES THAT WERE OUTSTANDING AS OF**
3 **MARCH 20, 2000?**

4 A. Essentially yes. However, several of the files that the Company has
5 provided will not work. Although I requested assistance from
6 CL&P as soon as I received the files last week, I have not yet
7 heard back from the Company. Consequently, I may have to
8 supplement this testimony when I appear at the hearings in this
9 proceeding.

10 **I. THE POTENTIAL IMPACT OF THE MERGER**
11 **ON THE RELIABILITY OF THE ELECTRIC**
12 **SERVICE PROVIDED TO CUSTOMERS IN**
13 **CONNECTICUT**

14 **Q. HAVE YOU SEEN ANY RECENT COMPANY**
15 **ASSESSMENTS OF THE RELIABILITY OF THE**
16 **ELECTRIC SERVICE CL&P PROVIDES TO CUSTOMERS**
17 **IN CONNECTICUT?**

18 A. Yes. The Company has provided copies of Presentations that were
19 given to the Corporate Affairs Committee of the NU Board of
20 Trustees in May and December 1999 which reported on the
21 reliability of the electric service provided by NU's operating
22 companies.

1 **Q. WHAT WERE THE CONCLUSIONS OF THE MAY 1999**
2 **PRESENTATION TO THE NU BOARD OF TRUSTEES?**

3 A. The May 1999 Presentation reported that the reliability of the
4 electric service provided by CL&P had been worse than the
5 reliability of other utilities in the Northeast during the 1990s and
6 had been much worse than the reliability of other utilities when
7 major storms were included.¹ In fact, CL&P's reliability was
8 "inadequate to meet customer and regulator expectations."²
9 Moreover, the members of the Corporate Affairs Committee were
10 told that reaching acceptable reliability performance levels would
11 require five years of intensive capital investment.³

12 **Q. DID THE MAY 1999 ASSESSMENT IDENTIFY THE**
13 **REASONS FOR CL&P'S POOR RELIABILITY?**

14 A. Yes, The May 1999 Assessment identified a number of reasons for
15 CL&P's poor reliability including:

- 16 • The high density of trees in the Company's service area⁴
- 17

¹ May 1999 Presentation on "NU's Reliability 1999-2003," CL&P's Response to Interrogatory OCC-181(b), at pages 9 and 16.
² May 1999 Presentation on "NU's Reliability 1999-2003," CL&P's Response to Interrogatory OCC-181(b), at page 29.
³ May 1999 Presentation on "NU's Reliability 1999-2003," CL&P's Response to Interrogatory OCC-181(b), at page 30.
⁴ May 1999 Presentation on "NU's Reliability 1999-2003," CL&P's Response to Interrogatory OCC-181(b), at page 12.

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- The age of the Company’s distribution system
 - 33% of the poles were over 40 years old and CL&P had had no Inspection and Treatment program between 1991 and 1998.⁵
 - 34% of the conductor was over 40 years old although the Company recognized that old conductor would not last forever and that there would be higher repair expenses as time went on.⁶
- The percent of covered wire at CL&P was low compared to other distribution companies in the general area even though CL&P knew that covered wire had less than half the interruptions per mile as did bare wire.⁷
- Many Company substations had “antiquated” and obsolete equipment.
- Lots of Storms.⁸

Q. DID THE DECEMBER 1999 ASSESSMENT REACH SIMILAR CONCLUSIONS?

A. Yes. The December 1999 Presentation to the Corporate Affairs Committee of the NU Board of Trustees similarly reported that CL&P’s reliability had been worse than the average Northeast

⁵ May 1999 Presentation on “NU’s Reliability 1999-2003,” CL&P’s Response to Interrogatory OCC-181(b), at page 10.
⁶ May 1999 Presentation on “NU’s Reliability 1999-2003,” CL&P’s Response to Interrogatory OCC-181(b), at page 11.
⁷ May 1999 Presentation on “NU’s Reliability 1999-2003,” CL&P’s Response to Interrogatory OCC-181(b), at page 13.
⁸ May 1999 Presentation on “NU’s Reliability 1999-2003,” CL&P’s Response to Interrogatory OCC-181(b), at pages 9 and 14.

1 performance each year since 1989 both with and without storms.⁹

2 In fact, in many years CL&P's reliability had been significantly
3 worse than that of other peer utilities.

4 The December 1999 Presentation also noted that there were
5 significant gaps between customer expectations and NU's
6 performance and that customer satisfaction at CL&P was poorer
7 than the national average.¹⁰ As a result, CL&P needed to:

8 * "Dramatically improve" the reliability of the service it
9 provided to peer company levels.

10

11 * Focus on improvements that would affect major storm
12 performance.¹¹

13

14 **Q. WAS CL&P'S RELIABILITY IMPROVED IN 1999?**

15 A. Yes. According to CL&P's 2000 Transmission and Distribution
16 Reliability Performance Report, the reliability of the service
17 provided to the Company's customers was improved in 1999 over
18 what it had been in previous years.

⁹ December 1999 Presentation on the "Reliability of NU's Energy Delivery System," CL&P's Response to Interrogatory OCC-181(b), at page 4.

¹⁰ December 1999 Presentation on the "Reliability of NU's Energy Delivery System," CL&P's Response to Interrogatory OCC-181(b), at page 6

¹¹ December 1999 Presentation on the "Reliability of NU's Energy Delivery System," CL&P's Response to Interrogatory OCC-181(b), at page 10.

1 Q. HAS THE COMPANY'S RECENT BUSINESS PLAN
2 IDENTIFIED THE FACTORS WHICH HAVE LED TO
3 CL&P'S POOR RELIABILITY?

4 A.

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11 DISCUSSES PROPRIETARY MATERIALS^{12 13 14}

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¹² PROPRIETARY
¹³ PROPRIETARY
¹⁴ PROPRIETARY

1 **Q. WERE THE CONCLUSIONS OF THESE RECENT**
2 **COMPANY ASSESSMENTS CONSISTENT WITH THE**
3 **FINDINGS OF ITS EARLIER EVALUATIONS?**

4 A. Yes. The conclusions of the May and December 1999
5 Presentations on NU system reliability were very consistent with
6 the findings of earlier Company evaluations. For example, a
7 presentation to the June 27, 1995 meeting of the Corporate
8 Responsibility Committee of the NU Board of Trustees had
9 reported that CL&P's reliability was poorer than that of the other
10 NU companies and that significant improvement was required.¹⁵
11 Similarly, a Status Report to the May 20, 1997 meeting of the
12 Corporate Affairs Committee of NU's Board of Trustees on "the
13 Energy Delivery Business and Distribution System Reliability"
14 noted that "CL&P's customers [were] without power more often
15 than most other companies."¹⁶ Indeed, this Status Report showed
16 that CL&P's operational performance was significantly worse than
17 industry average performance based on 1995 data.

¹⁵ Response to OCC-173.

¹⁶ Status Report to the May 20, 1997, meeting of Corporate Affairs Committee, a copy of which was included in CL&P's response to Interrogatory OCC-173, at page 7.

1 **Q. DID THESE EARLIER EVALUATIONS PROVIDE ANY**
2 **REASONS FOR CL&P'S POOR ELECTRIC SYSTEM**
3 **RELIABILITY?**

4 A. Yes. The May 20, 1997, Status Report to the Corporate Affairs
5 Committee of NU's Board of Trustees reported that in preceding
6 years the Company had reduced its workforce and deferred
7 maintenance.¹⁷ For example, the Status Report noted that the
8 following maintenance activities had been deferred:

- 9 * Removing double poles
- 10
- 11 * Replacing old obsolete equipment
- 12
- 13 * Replacing direct buried cable
- 14
- 15 * Inspecting and treating poles¹⁸
- 16

17 The reliability-related materials from the Company's 1997 Budget
18 Presentation to the Board of Trustees similarly noted that the
19 Company had reduced the numbers of workers where possible and
20 had deferred the filling of 60 open positions until the second half of

¹⁷ Status Report to the May 20, 1997, meeting of Corporate Affairs Committee, a copy of which was included in CL&P's response to Interrogatory OCC-173, at pages 8 and 9.

¹⁸ Status Report to the May 20, 1997, meeting of Corporate Affairs Committee, a copy of which was included in CL&P's response to Interrogatory OCC-173, at page 9.

1 1998.¹⁹ The same presentation also listed the major needs that had
2 not been funded:

- 3 • More aggressive reliability improvement program
- 4
- 5 • Planned replacement of obsolete equipment
- 6
- 7 • Staffing additions for some classifications
- 8
- 9 • [Information Technology] initiatives to improve service to
- 10 customers and Energy Delivery efficiency
- 11
- 12 • Storm restoration costs may be under funded.²⁰
- 13

14 **Q. HAS THE COMPANY INDICATED THE MAGNITUDE OF**
15 **THE WORKFORCE REDUCTIONS CARRIED OUT**
16 **DURING THE EARLY 1990'S?**

17 **A.** Yes. The Company's response to Interrogatory AG-17 in this
18 proceeding reveals that the number of CL&P employees assigned
19 to electric distribution work progressively declined from 1,505 in
20 1990, to 1,102 in 1994, and 922 in 1997.²¹ This represented a
21 27% decrease from 1990 to 1994 and a 39% decrease from 1990 to
22 1997.

¹⁹ 1997 Budget Presentation, included in CL&P's response to Interrogatory OCC-181(b), at page 7.

²⁰ 1997 Budget Presentation, included in CL&P's response to Interrogatory OCC-181(b), at page 27.

²¹ CL&P response to Interrogatory AG-17, page 4 of 4.

1 Since 1997, the Company has increased the number of employees
2 assigned to distribution work to 1,092.

3 **Q. HAS THE COMPANY MADE A COMMITMENT NOT TO**
4 **REDUCE THE NUMBER OF EMPLOYEES WORKING ON**
5 **DISTRIBUTION SYSTEM OR TRANSMISSION SYSTEM**
6 **MAINTENANCE IN CONNECTICUT AS A RESULT OF**
7 **THE PROPOSED MERGER WITH CON EDISON?**

8 A. No. CL&P has not made such a commitment. Instead, the
9 Company has said that it has not yet formulated plans in sufficient
10 detail to say whether it intends to reduce the number of employees
11 working on distribution system and transmission system
12 maintenance in Connecticut as a result of the merger.²²

13 **Q. HAS THE DPUC EXPRESSED CONCERN ABOUT CL&P'S**
14 **POOR RELIABILITY?**

15 A. Yes. The DPUC has repeatedly expressed concern since 1993
16 about CL&P's reliability and the need for the Company to
17 complete planned and funded improvement projects. For example,
18 the DPUC specifically noted in its 1993 Decision in Docket No.
19 92-11-11 that, while the Company's overall reliability in 1992 was

²² CL&P response to Interrogatory OCC-158.

1 acceptable, it was concerned with a number of factors that could
2 culminate in a steady decline in reliability. These factors included:

- 3 1) CL&P's reductions in budgeted expenditures for both
4 reliability improvement and distribution maintenance,
5
- 6 2) the failure of the Company to complete scheduled
7 distribution maintenance in 1992,
8
- 9 3) the Company's current emphasis on nuclear performance
10 enhancement which could diminish management attention
11 from efforts to improve distribution reliability.
12

13 Consequently, the DPUC specifically warned CL&P that it would
14 not tolerate "any significant degradation in reliability."

15 The DPUC continued to express its concern about CL&P's poor
16 reliability in subsequent dockets:

17 **Docket No. 95-11-20:** "Systematically updating aging plant
18 equipment has been neglected by CL&P too long. Company
19 strongly encouraged to expand line maintenance activities to
20 include proactively addressing reliability before Department orders
21 Company to do so."
22

23 **Docket No. 97-05-12:** "The Department is convinced that the
24 reactionary mode of reliability at CL&P for 10 years has made
25 little headway. CL&P has failed to build and maintain a
26 distribution system that provides an acceptable level of reliability.
27 CL&P must make permanent improvement to its distribution
28 system."
29

30 **Docket No. 97-11-10:** "Overall system reliability has declined
31 significantly over the period 1992-1996 when the impact of major
32 storms is considered."
33

34 **Docket No. 98-01-02:** "The Department reaffirms the conclusions
35 it reached in the August 21, 1998 Decision in Docket Nos. 86-12-

1 03 and 97-11-10 that the reliability of CL&P’s distribution system
2 should be improved, particularly under major storm conditions.
3 Implementing covered wire and related rebuild work, combined
4 with enhanced tree trimming on three-phase backbones, should
5 provide a major benefit in terms of reducing tree contact outages,
6 under both storm and non-storm conditions. These programs
7 represent a major new commitment on the part of the Company to
8 improve its service reliability following years of neglect. The
9 Department encourages the Company to follow through on these
10 programs as they have been represented in this proceeding.”

11
12 **Q. DID THE DPUC ALLOW CL&P TO RECOVER THE**
13 **PROJECTED COSTS OF DISTRIBUTION RELIABILITY**
14 **IMPROVEMENT PROJECTS AND ACTIVITIES FROM**
15 **RATEPAYERS?**

16 A. Yes. The Company has been permitted to charge ratepayers for
17 planned distribution reliability improvement projects and activities.
18 Unfortunately, the Company has reduced the number of
19 distribution workers and has deferred needed projects and
20 improvements.

21 **Q. HAS THE COMPANY CITED OR PROVIDED ANY**
22 **STUDIES OR ANALYSES TO SUPPORT ITS CLAIM THAT**
23 **THE PROPOSED MERGER WOULD ENHANCE THE**
24 **RELIABILITY OF THE ELECTRIC SERVICE PROVIDED**
25 **BY CL&P TO CUSTOMERS IN CONNECTICUT?**

1 A. No. The Company was unable to provide any studies or analyses
2 to support its claim that the proposed merger would lead to
3 improved service reliability.²³

4 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING THE**
5 **POTENTIAL IMPACT OF THE PROPOSED MERGER ON**
6 **THE RELIABILITY OF SERVICE PROVIDED TO CL&P'S**
7 **ELECTRIC CUSTOMERS IN CONNECTICUT?**

8 A. My conclusions regarding the potential impact of the proposed
9 merger are as follows:

- 10 1. Ratepayers are already paying for improved electric service
11 reliability. The DPUC must ensure that CL&P spends
12 ratepayer supplied funds on improving the reliability of the
13 electric service it provides to customers in Connecticut.
- 14 2. The proposed merger may drain needed financial,
15 management and worker resources away from essential
16 reliability projects in Connecticut. CL&P's poor distribution
17 system reliability since the early 1990's shows what can
18 happen when the Company is allowed to reduce the number

²³ See for example, CL&P's Responses to Interrogatories EL-54, EL-128, OCC-48, and OCC-157.

1 of employees assigned to distribution work and to defer
2 essential improvement projects.

3 3. Given the magnitude of the efforts required to improve
4 service reliability in Connecticut, it is not realistic to expect
5 that the Company will be able to realize the merger savings
6 that it claims are achievable from reductions in the numbers
7 of electric distribution employees. Moreover, the DPUC
8 should be concerned that in the attempt to achieve merger
9 savings the combined companies would reduce the financial,
10 management and worker resources currently assigned to
11 electric distribution reliability improvement efforts in
12 Connecticut.

13 4. Neither CL&P or CECONY has been able to provide any
14 evidence supporting the claim that the proposed merger
15 would enhance the reliability of the electric service provided
16 to customers in Connecticut.

17 **II. THERE ARE SIGNIFICANT REASONS**
18 **WHY THE DPUC SHOULD BE**
19 **CONCERNED ABOUT CECONY'S**
20 **DISTRIBUTION SYSTEM RELIABILITY**

21
22 **Q. DO YOU AGREE WITH THE CLAIM BY CECONY**
23 **WITNESS SCHOENBLUM THAT CECONY IS BY MOST**

1 **MEASURES THE MOST RELIABLE ELECTRIC UTILITY**
2 **IN THE U.S. AND THEREFORE CONCERNS ABOUT**
3 **CECONY’S RELIABILITY ARE UNWARRANTED?**

4 A. No. While the studies cited by Mr. Schoenblum appear to show
5 that, according to certain measures, CECONY is the most reliable
6 utility among the companies included in the various comparative
7 surveys, there are a number of reasons why the DPUC nevertheless
8 should be concerned about the reliability of the electric service
9 provided by that Company:

10 1. Mr. Schoenblum’s conclusion is that “by most measures”
11 CECONY is the most reliable electric utility. If you
12 examine the studies provided by CECONY to support this
13 claim, you find that CECONY is far from the most reliable
14 electric utility if you consider the CAIDI (Customer Average
15 Interruption Duration Index) which measures the average
16 restoration time for interruption during the year.²⁴ This is
17 especially true if you consider the CAIDI including major
18 storms. In fact, CECONY has experienced four outages of

²⁴ TB&A “Annual Electric Distribution Reliability Best Practices Survey,” provided in response to OCC-094, at pages 15 and 19.

1 greater than 24 hours duration as a result of storms within
2 the past two years.²⁵

3 2. There are many different ways for utilities to develop their
4 reliability data. For example, some individual utilities might
5 consider only those outages of more than 5 minutes in
6 duration while others might include all outages of greater
7 than 1 minute or 3 minutes in duration. Similarly, individual
8 utilities may apply different definitions of what constitutes a
9 major event or of the types of outages that should be
10 considered. Unfortunately, it is not apparent whether the
11 two inter-company reliability studies upon which Mr.
12 Schoenblum relies have made sure that the reliability data
13 from each utility was reported or developed on a consistent
14 basis.

15 3. The remedial actions resulting from the CECONY and
16 public investigations that were conducted after the July 1999
17 outage in the Washington Heights section of New York City
18 will lead to expensive and long-term equipment change-outs.
19 For example, CECONY is budgeting \$20 million for the
20 year 2000 on replacing heat sensitive stop joints from eight

²⁵ Response to Interrogatory EL-210.

1 targeted networks that experienced problems in 1999.²⁶
2 However, the Company has not provided any information on
3 how many years it will take to replace heat sensitive stop
4 joints in its remaining forty seven networks in New York
5 City or how expensive this work will be.

6 4. Similarly, the Company's Independent Review Board Report
7 for the Washington Heights outage recommended that
8 CECONY make a much more aggressive use of thermal
9 modeling and temperature monitoring.²⁷ According to the
10 Independent Review Board, this would allow the Company
11 to do a better job of understanding the thermal environment
12 in which its underground equipment operates and of keeping
13 all underground cables and equipment within their rated
14 temperature limits. The Independent Review Board also
15 recommended that CECONY develop an improved cable
16 rating system that relates more closely to the real-time
17 temperature environment in which the equipment is

²⁶ Response to EL-69, page 6 of 7.

²⁷ "Washington Heights Network Shutdown of July 1999," provided in response to Interrogatory OCC-130, at page 10.

1 operating.²⁸ It is uncertain at this time how extensive and
2 expensive the corrective actions that ultimately result from
3 these recommendations will be. However, as the
4 Independent Review Board noted, “Considering the size of
5 the Con Edison network system, it will take years to realize
6 a significant benefit from programs to change out equipment
7 or change equipment or cable specifications on a system-
8 wide basis.”²⁹

- 9 5. At the same time, CECONY’s system still contains a
10 significant amount of aging, paper-insulated cable.
11 According to the Staff of the New York State Public Service
12 Commission, although this is not an obsolete technology,
13 paper-insulated cables are known to be weak areas in
14 CECONY’s network system with higher than average failure
15 rates.³⁰ As explained by the Staff of the New York State
16 Public Service Commission:
17 Paper/lead cables are susceptible to moisture
18 intrusion, even if moisture intrusion through stop

²⁸ “Washington Heights Network Shutdown of July 1999,” provided in response to Interrogatory OCC-130, at page 10.

²⁹ “Washington Heights Network Shutdown of July 1999,” provided in response to Interrogatory OCC-130, at page 10.

³⁰ New York State Public Service Commission “Report on July 1999 Con Edison Outages,” issued March, 2000, at page 4 of the Executive Summary.

1 joints is eliminated, because the cable’s lead sheath
2 can be damaged by collapsed ducts, accidental dig-
3 ins, or salt water corrosion. Undisturbed, paper/lead
4 cable can perform well for many years. However,
5 the older the cable, the more likely it is that harsh
6 conditions have damaged the cable’s lead sheath,
7 increasing the potential for [failure].³¹
8

9 CECONY has replaced such paper-insulated since the
10 1980’s with plastic-insulated cable that is less susceptible to
11 heat stress. Last year, as a result of the July, 1999, outage,
12 CECONY management decided to accelerate the paper-
13 insulated cable removal program, with an expected
14 completion date of 2024.

15 However, the Staff of the New York State Public Service
16 Commission has found that CECONY’s program for
17 replacing paper-insulated cable needs to be better
18 coordinated.³² The Staff also has expressed concern about
19 the proposed 2024 completion date for the replacement
20 program. Consequently, the Staff recommended that

³¹ New York State Public Service Commission “Report on July 1999 Con Edison Outages,” issued March, 2000, at page 31.

³² New York State Public Service Commission “Report on July 1999 Con Edison Outages,” issued March, 2000, at page 31.

1 CECONY evaluate further acceleration of its paper-
2 insulation cable replacement efforts.³³

3 CECONY's system will have a greater susceptibility to cable
4 failures until the paper-insulated cable has been completely
5 removed from its system.

6 **Q. WHY IS CECONY'S ELECTRIC SYSTEM SO RELIABLE?**

7 A. CECONY has constructed a secondary network grid system
8 covering large portions of New York City in which each network
9 operates independently of its neighboring networks and is fed from
10 multiple distribution feeder cables. According to CECONY, this
11 network system:

12 provides maximum reliability and flexibility by an
13 interconnected grid with simultaneous multiple paths
14 for power to flow to customers. The network system
15 employs a second contingency design and is utilized
16 for approximately three-quarters of CECONY's
17 electric customers. Second contingency design
18 criteria allows continuity of service even when any
19 one or two of the three primary supply feeders are
20 out of service.³⁴

21
22 Approximately 86 percent of CECONY's customers are served
23 through this network system.

³³ New York State Public Service Commission "Report on July 1999 Con Edison Outages," issued March, 2000, at page 51.

³⁴ Response to Interrogatory EL-62.

1 **Q. WILL NU ATTEMPT TO REPLICATE SUCH A NETWORK**
2 **SYSTEM IN CONNECTICUT AS A RESULT OF THE**
3 **PROPOSED MERGER?**

4 A. No. According to CL&P, it would have to incur “the
5 extraordinary cost of constructing a similar secondary network
6 system to enjoy its benefits.”³⁵

7 **Q. WHAT ARE YOUR CONCLUSIONS REGARDING**
8 **CECONY’S ELECTRIC DISTRIBUTION SYSTEM**
9 **RELIABILITY?**

10 A. CECONY’s system appears to be very reliable, essentially as a
11 result of its use of secondary networks. However, if it approves
12 the proposed merger, the DPUC should ensure that CL&P’s
13 current Connecticut customers are not charged any costs related to
14 or resulting from service related problems in CECONY’s system.
15 In addition, there does not appear to be any reason to expect that
16 NU’s customers will receive any significant improvement from the
17 proposed merger in the reliability of the electric service that they
18 receive from CL&P.

19 **III. THE PETITIONERS HAVE FAILED TO**
20 **PROVIDE ADEQUATE EVIDENCE SUPPORTING**
21 **THEIR CLAIM THAT THE PROPOSED MERGER**

³⁵ Response to Interrogatory EL-62.

1 **WILL PROVIDE SIGNIFICANT BENEFITS**

2
3 **Q. WAS CL&P ABLE TO PROVIDE ANY DOCUMENTATION**
4 **SHOWING THE ACTUAL SAVINGS THAT HAVE BEEN**
5 **ACHIEVED AS A RESULT OF OTHER ELECTRIC**
6 **UTILITY MERGERS?**

7 **A.** No. The Company was not able to provide any analyses, reviews,
8 surveys or reports concerning the documented, after-the-fact
9 savings associated with electric utility mergers.³⁶

10 **Q. WAS EITHER COMPANY ABLE TO PROVIDE ANY**
11 **STUDIES OR REPORTS WHICH ADDRESSED THE**
12 **MAGNITUDE OF THE MERGER SAVINGS THAT HAVE**
13 **BEEN ACHIEVED BY ELECTRIC UTILITIES THAT HAVE**
14 **BEEN ACQUIRED BY OTHER COMPANIES?**

15 **A.** No.³⁷

16 **Q. WAS EITHER COMPANY ABLE TO PROVIDE ANY**
17 **DOCUMENTATION THAT DEMONSTRATES THAT THE**
18 **MERGER SAVINGS ESTIMATED FOR THIS**
19 **TRANSACTION ARE REASONABLE?**

³⁶ CL&P response to Interrogatory AG-23.

³⁷ CL&P response to Interrogatory OCC-80.

1 A. No.³⁸ Neither company was able to provide any such studies,
2 reports, calculations or workpapers, other than the synergy study,
3 which they acknowledge was merely a rough approximation.

4 **Q. WAS EITHER COMPANY ABLE TO PROVIDE ANY**
5 **STUDIES OR REPORTS WHICH SHOWED THE**
6 **MAGNITUDE OF THE COSTS REQUIRED TO ACHIEVE**
7 **OTHER ELECTRIC UTILITY MERGERS OR HOW THOSE**
8 **COSTS COMPARE WITH THE ESTIMATED COSTS FOR**
9 **THIS MERGER?**

10 A. No.³⁹

11 **Q. WAS CL&P ABLE TO SPECIFY WHAT COST SAVINGS, IF**
12 **ANY, COULD BE ANTICIPATED IN CONNECTICUT UPON**
13 **COMPLETION OF THE MERGER?**

14 A. No. CL&P only could say that the cost savings that will be
15 attributed to Connecticut have not yet been determined and will not
16 be determined until the work of the Transition Teams is
17 completed.⁴⁰

³⁸ CL&P response to Interrogatory OCC-81.

³⁹ CL&P response to Interrogatory OCC-91.

⁴⁰ CL&P response to Interrogatory OCC-103.

1 **Q. WERE CL&P AND CECONY ABLE TO PROVIDE DETAILS**
2 **CONCERNING THE BENEFITS THAT THEY CLAIM WILL**
3 **RESULT FROM THE PROPOSED MERGER?**

4 A. No. Neither Company was able to cite any details regarding many
5 of the benefits they claim will flow from the proposed merger. For
6 example, the companies could not provide the following
7 information requested by the OCC, the Attorney General or the
8 DPUC staff:

- 9 • The potential economic impact of the merger on the
10 Connecticut economy. (Response to Interrogatory AG-07)
- 11 • A breakdown of the claimed total merger savings of \$1.3
12 billion between (a) Con Ed versus NU, (b) regulated vs.
13 non-regulated operations, and (c) each NU subsidiary.
14 (Response to Interrogatory AG-19)
- 15 • The specific new energy services that NU will be able to
16 offer to customers as a result of the merger. (Response to
17 Interrogatory AG-44)
- 18 • How CEI will enhance service levels in Connecticut after a
19 merger. (Response to Interrogatory EL-54)
- 20 • Each synergy, cost saving and benefit that CECONY
21 believes it will bring to the financial and operating results of
22 NU during the first 10 years of the merger. (Response to
23 Interrogatory EL-124)
- 24 • The short-term (next 12 months) and long-term (12 to 24
25 months) non-financial, direct customer service benefits that
26 NU and CECONY can guarantee to customers in
27 Connecticut that will result exclusively from the merger,
28 including specific improvements to the Company's current
29
30
31
32
33

1 level of customer service. (Response to Interrogatory EL-
2 128)

- 3
- 4 • The specific improvements that would be planned for the
5 CL&P and YGS franchise areas if the merger were
6 approved. (Response to Interrogatory EL-26)
- 7
- 8 • Estimates of the impact of the merger on CL&P staffing and
9 employment indicating the functional areas where the
10 merger will cause an increase or decrease in employment or
11 whether the increases or decreases will be in non-
12 management, management or executive level employee.
13 (Responses to Interrogatories AG-6 and OCC-109)
- 14
- 15 • The planned activities of the combined companies.
16 (Response to Interrogatory OCC-38)
- 17
- 18 • Which of the various systems developed by CECONY to
19 support reliability are not currently being used by NU.
20 (Response to Interrogatory OCC-48)
- 21
- 22 • Each of the work practices that CL&P will implement in
23 Hartford and other major Connecticut cities as a result of the
24 merger that the Company would not other implement if the
25 merger did not occur. (Response to Interrogatory OCC-157)
- 26

27 **Q. WERE NU AND CECONY ABLE TO PROVIDE STUDIES**
28 **OR ANALYSES SUPPORTING THEIR CLAIMED MERGER**
29 **BENEFITS?**

30 **A.** No. The companies were unable to provide any documentation that
31 supports their claim that many benefits would be realized from the
32 proposed merger. For example, CL&P was unable to provide any
33 documentation:

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- In addition to the synergy study, which it acknowledges is only a rough approximation, that shows the (a) Operating efficiencies to be generated by the combined companies, (b) Economies of scale to be generated as a result of combining the companies, or (c) Cross-selling opportunities available as a result of combining the companies. (Response to Interrogatory OCC-7)

- In addition to the synergy study, that supports any of the following claims:
 - a. That “customers will benefit from long-term synergy-related cost savings which would not be available absent the merger.” (Response to Interrogatory OCC-10)

 - b. That “... savings are presently expected to be realized over time in areas such as reduced operating costs and expenditures resulting from integration of corporate and administrative functions.” (Response to Interrogatory OCC-10)

 - c. That the combined companies will “realize significant long-term cost savings generated by merger-related growth and synergies.” (Response to Interrogatory OCC-05)

- Which shows that, as a result of the merger, NU will be able to:
 - a. Implement state-of-the-art technology across its operations, which are not currently present.

 - b. Implement state-of-the-art maintenance and improvement of infra-structure.

 - c. Improve customer services.

 - d. Improve research and development.

 - e. Improve call center operations.

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f. Improve information technology. (Response to Interrogatory OCC-8)

- Which supports the claim that “The combined company will be a region-wide integrated energy supplier with an enhanced ability to provide better service, more efficiently, at lower costs.” (Response to Interrogatory OCC-10)
- Which shows that the combination of companies will result in “Greater purchasing power of the companies for items such as fuel and transportation services, general and operational goods and services.” (Response to Interrogatory OCC-11)
- Which shows that the combined companies will be able to achieve greater financial stability and strength and greater opportunities for earnings and dividend growth. (Response to Interrogatory OCC-13-SP01)
- Upon which Mr. Morris relied for his conclusion that “...as a stand-alone player, NU would have much less control over its own destiny than the current CEI transaction offers.” (Response to Interrogatory OCC-17)
- Which supports Mr. Morris’ statement that “NU’s customers benefit from combining with CEI, because a region-wide integrated energy supplier is better able to serve them and satisfy their energy needs more efficiently.” (Response to Interrogatory OCC-19-SP01)
- Upon which Mr. Morris relies for his statement that “The new organization is going to need good employees and a larger organization with adequate financial resources will provide current employees with options previously not available.” (Response to Interrogatory OCC-24)
- Which shows that the combined companies can improve their purchasing capabilities. (Response to Interrogatory OCC-32)

- 1 • Which shows that the combined companies will be more
2 efficient at utilizing existing warehouses. (Response to
3 Interrogatory OCC-33)
4
- 5 • Which shows that the merged utilities will contribute to the
6 development of a competitive energy marketplace.
7 (Response to Interrogatory OCC-35)
8
- 9 • Which supports Mr. Schoenblum’s statement that “The
10 combination of the two companies should strengthen the
11 ability of the operating companies to offer additional
12 services to customers.” (Response to Interrogatory OCC-47)
13
- 14 • Which forms the basis for Mr. Schoenblum’s claim that
15 service and reliability improvements can be expected as a
16 result of the merger. (Response to Interrogatory OCC-167)
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18 **Q. PLEASE SUMMARIZE YOUR CONCLUSIONS**
19 **REGARDING THE EVIDENCE PROVIDED BY CL&P AND**
20 **CECONY REGARDING THE BENEFITS THEY CLAIM**
21 **WILL RESULT FROM THE PROPOSED MERGER.**

22 A. The companies’ Petition and supporting testimony makes many
23 unsubstantiated claims for which neither company can provide any
24 details, or supporting studies or analyses. Nor can either Company
25 provide comparative analyses showing that their projected merger
26 related costs are reasonable. Consequently, the DPUC should reject
27 the proposed merger until CL&P and CECONY can provide
28 detailed information which supports their claims that ratepayers

1 will benefit from the proposed merger and shows that the claimed
2 merger related costs are reasonable.

3 **IV. CL&P CUSTOMERS SHOULD NOT**
4 **HAVE TO PAY ANY COSTS RESULTING**
5 **FROM THE CURRENT OUTAGE OF**
6 **CECONY'S INDIAN POINT 2 NUCLEAR PLANT**

7
8 **Q. WHY IS CECONY'S INDIAN POINT 2 NUCLEAR PLANT**
9 **CURRENTLY SHUT DOWN?**

10 A. The plant has been shutdown since mid-February due to a steam
11 generator tube leak.

12 **Q. SHOULD CL&P'S CUSTOMERS BEAR ANY COSTS**
13 **RELATED TO THIS OUTAGE?**

14 A. No. CL&P's customers should not bear any O&M costs,
15 replacement power costs, or capital repair expenditures related to
16 or resulting from this outage. The DPUC also must ensure that no
17 costs related to or resulting from the outage are indirectly allocated
18 to Connecticut customers.

19 **V. CL&P SHOULD NOT BE ALLOWED TO RECOVER**
20 **ANY NUCLEAR DIVESTITURE INCENTIVE COSTS**
21 **AS PART OF AN ACQUISITION PREMIUM**

22
23 **Q. PLEASE EXPLAIN WHY YOU MEAN BY NUCLEAR**
24 **DIVESTITURE INCENTIVE COSTS.**

1 A. There is a term in the merger agreement between Consolidated
2 Edison and Northeast Utilities under which NU shareholders would
3 have the right to receive an additional \$1.00 in value per share of
4 stock if a definitive agreement to sell its interests (other than that
5 held by PSNH in Millstone 3) in Millstone Units 2 and 3 is entered
6 into and is recommended by the UOMA on or before the later of
7 December 31, 2000 or the closing of the merger. This term does
8 not apply to NU's ownership interest in Seabrook.⁴¹

9 **Q. WHAT IS THE POTENTIAL VALUE OF THIS MERGER**
10 **TERM TO NU SHAREHOLDERS?**

11 A. CL&P has said that this merger term could mean an additional
12 \$137,246,329 to NU shareholders.

13 **Q. WHY SHOULDN'T THIS \$137,246,329 BE RECOVERED**
14 **FROM RATEPAYERS?**

15 A. Other OCC witnesses have addressed the propriety of allowing
16 CL&P and CECONY to recover the acquisition premium from
17 ratepayers. I would like to add that the Company is already
18 guaranteed that it will recover the full value of its prudent
19 investments in Millstone Units 2 and 3 through the payments it will
20 receive when it sells the plants and its recovery of the resulting

⁴¹ CL&P Response to Interrogatory OCC-133.a.

1 stranded costs from ratepayers. If the DPUC allows CL&P to
2 recover this additional \$137 million from its customers, either
3 through a rate increase or by allowing the companies to keep cost
4 savings achieved through the merger, ratepayers actually will be
5 paying, and the Company's shareholders will be recovering, more
6 than 100% of the stranded investments in the plants. This should
7 not be permitted.

8 If CECONY's shareholders want to give \$137 million to NU's
9 shareholders as a reward for divesting Millstone Units 2 and 3 as
10 soon as possible, those shareholders, and not CL&P's customers,
11 should pay that reward.

12 **Q. ARE NU AND CECONY COMMITTED TO PURSUING THE**
13 **PROPOSED MERGER EVEN IF A DEFINITIVE**
14 **AGREEMENT TO SELL MILLSTONE UNITS 2 AND 3 IS**
15 **NOT ENTERED INTO OR HAS NOT BEEN**
16 **RECOMMENDED BY THE UOMA ON OR BEFORE THE**
17 **LATER OF DECEMBER 31, 2000, OR THE CLOSING OF**
18 **THE MERGER?**

19 **A.** Yes. Consequently, the \$137 million payment to NU shareholders
20 cannot be said to be an essential cost or condition of the merger.

1 Q. DOES THIS COMPLETE YOUR TESTIMONY AT THIS

2 TIME?

3 A. Yes.