

**New Hampshire Public Utilities Commission
Docket No. DE 99-099**

**Order Approving Settlement Agreement with Modifications
April 19, 2000**

Executive Summary¹

Following 33 days of hearings, the receipt of more than 300 exhibits and the consideration of testimony from dozens of witnesses, the New Hampshire Public Utilities Commission (Commission) today approves the proposed Settlement Agreement between Public Service Company of New Hampshire (PSNH) and representatives of the State of New Hampshire, including the Governor, the Attorney General and the Executive Director of the Commission. However, the Commission has conditioned its approval on the Settling Parties accepting certain modifications that, in the judgment of the Commission, are necessary in order to make the proposal consistent with the public interest.

A. Key Settlement Agreement Provisions

If implemented, the Settlement would resolve the ongoing federal litigation between PSNH and the State over electric industry restructuring. It would also conclude ten open dockets at the Commission concerning various aspects of PSNH operations, open the PSNH service territory to retail competition in energy supply and reduce electric rates for PSNH customers.

PSNH estimates its total stranded costs are \$2.3 billion, approximately. Under the proposed Settlement Agreement, PSNH would write-off \$367 million before taxes or \$225 million after taking into account tax effects. After the write-off, PSNH's recoverable stranded costs would be approximately \$2.0 billion which are divided into three groups for recovery. Part 1 Stranded Costs consists of those costs proposed to be securitized, \$725 million; Part 2 Stranded Costs are the above market costs of independent power producers and the costs of nuclear decommissioning; and Part 3 are the remainder of PSNH's recoverable stranded costs. The Settlement Agreement contains a risk-sharing mechanism that could subject PSNH to non-recovery of some Part 3 Stranded Costs.

¹ Readers of this Executive Summary are cautioned that it constitutes no part of the Commission's order in this proceeding. The Executive Summary is provided purely for the convenience of those seeking a reasonably succinct briefing on the Commission's decision in this docket. To the extent that this Executive Summary may conflict with the Commission's order, the order shall in every instance govern.

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The Settlement Agreement calls for PSNH to divest itself of all generation facilities, including its interest in the Seabrook nuclear power plant. PSNH's rates would be unbundled to include a separate Delivery Service Charge, Stranded Cost Recovery Charge, System Benefits Charge (to pay for low-income and energy efficiency programs, among other things) and, for customers who do not obtain power from a competitive supplier, an energy charge for either Transition Service or Default Service. Transition Service would be available over a three-year period for customers who do not yet choose a competitive supplier or, in certain circumstances, customers who discontinue service from such a supplier.

B. Authority and Standard of Review

The Legislature has instructed the Commission to "consider negotiated settlements to expedite restructuring, near term rate relief for customers and customer choice." 1998 N.H. Laws, 191:1, II. The New Hampshire Supreme Court has made clear that the Commission is not limited to traditional rate cases, but can consider alternative methods of resolving issues such as those raised by the Settlement Agreement, as long as the result is just and reasonable. *Appeal of Richards*, 134 N.H. 148, 164 (1991). The Commission evaluated the Settlement Agreement pursuant to several specific standards as required by law: the 15 interdependent policy principles in the Electric Utility Restructuring Act, RSA 374-F:3, the mandate for "near term rate relief," 1998 N.H. Laws, 191:1, V, and the requirement that stranded cost charges be equitable, appropriate, balanced and in the public interest, RSA 374-F:4, V. The Commission is particularly aware of the Legislature's specific mandate that, "[i]n making its determinations, the commission shall balance the interests of ratepayers and utilities during and after the restructuring process." RSA 374-F:3, XII (a).

C. Benchmarking

To determine the reasonableness of the Settlement Agreement, the Commission compared the proposal to the likely results of the ten open Commission dockets the Agreement would resolve. The parties in this proceeding were specifically instructed to present evidence on this subject.

In conducting its benchmarking analysis, the Commission focused on a likely "rate path" for PSNH that is based on assumptions the Commission considers conservative and realistic. This is not an effort to predict the PSNH rates that would apply in the event there is no Settlement Agreement. Rather, it is simply an attempt to provide a reasonable estimate of whether the benefits claimed by the proponents of the Settlement Agreement are as significant as claimed when compared to a different, but plausible path of events. The assumptions employed by the Commission in its benchmarking analysis do not represent the Commission's final determination on any issues raised by the dockets the Settlement Agreement would resolve. The

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Commission therefore reserves its authority to reach a different determination in any of those dockets, should they be fully litigated.

The most reliable evidence of the rate path produced by the Settlement Agreement is contained in Phase 1, Exhibit 86, which assumes that Competition Day for PSNH's occurs on July 1, 2000. The State signatories to the Settlement Agreement estimated that the proposal would yield benefits of more than \$790 million over 12 years in comparison to the "business as usual" (BAU) rate path, and would produce an average rate decrease of 18.3 percent in the first year.

In its analysis of BAU, the Commission used two rate paths. The first, which relies on conservative assumptions about the likely results from PSNH's base rate case, uses a rate reduction of 7.59 percent. The second path, which relies on less conservative assumptions, employs an assumed base rate reduction of 10.07 percent. The Commission's analysis of PSNH's rate path under BAU also reflects projected results of the other dockets the Settlement Agreement proposes to resolve. For purposes of comparing its BAU analysis to the Settlement Agreement, the Commission gave less weight to the savings realized by the Settlement Agreement after 2007, when rates would drop significantly under both the Agreement, as recovery of Part 3 Stranded Costs concludes with the Recovery End Date, and under BAU as the rate orders for many of the independent power producers end. The Commission believes that, absent the Settlement Agreement, it is likely that PSNH would reach some kind of agreement to securitize costs related to its obligation to purchase power from the Seabrook nuclear power plant.

Applying this analysis, the Settlement Agreement produces a net benefit compared to the BAU, ranging from \$128 million to \$64 million - significantly less than the net benefits estimated by the State signatories to the Agreement. The Commission is aware that the Settlement Agreement provides other benefits: the end of uncertainty as to future rates, a clearer path to the introduction of retail competition for the right to provide energy to PSNH customers, and a functional "risk-sharing" mechanism that may lead to further reductions in stranded cost charges, as required by RSA 369-A:1, X(e). While some benefits to customers will occur over time, the benefits to PSNH and its parent company, Northeast Utilities (NU), are immediate: relief from the obligation to provide generation service, open access to retail markets, an end to litigation risk, the resolution of more than a decade of difficult relations with its customers and the State, and the replacement of regulatory uncertainty with guaranteed recovery, through securitized financing, of a large portion of investment. These benefits attractively reposition PSNH and NU so that companies like Consolidated Edison are interested in acquiring them at a significant premium. It also appears likely that, despite the benefits of the Settlement, rates will remain above the regional average for a significant period, until the Rate Reduction Bonds are fully paid. Accordingly, the Commission concludes that the Settlement Agreement in its present form requires modification in order to be consistent with the statutory standards.

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When NU acquired PSNH following PSNH's bankruptcy more than a decade ago, NU, the Attorney General and the Governor signed a document known as the Rate Agreement. Some of the parties here have asked the Commission to decide whether the Rate Agreement is a binding contract, a question at issue in the federal litigation. The Commission believes that doing so would not be of assistance in evaluating and rebalancing the equities in this Settlement Agreement. Similarly, the Commission deems it neither appropriate nor necessary to address the claim that the subsidiary Sharing and Capacity Transfer Agreements have been breached.

D. Required Modifications Relating to Stranded Costs

As a condition of approving the Settlement Agreement, the Commission requires certain modifications to its provisions. The key modifications relating to the level of stranded cost recovery are:

PSNH must credit Accumulated Deferred Income Taxes (ADIT) related to the securitized assets at the stipulated rate of return rather than at the rate associated with the Rate Reduction Bonds. ADIT is generated by the different depreciation rates used by a utility in ratemaking and federal tax contexts. In essence, the utility collects more revenue for taxes from today's ratepayers than it needs to pay those taxes. Usually, these sums are deducted from the Company's rate base so that it will not earn a return on them. Under the Settlement Agreement as drafted, they are not deducted from rate base. Instead, they are carried as a credit to customers but at a rate that is lower than the Company's overall cost of capital. The Commission finds that this customer credit must be carried at the Stipulated Rate of Return rather than the lower rate specified in the Settlement Agreement. This will be a credit to Part 3 stranded costs that the Commission estimates to be approximately \$22.4 million.

The Commission must not be limited to using comparable transactions in setting a confidential minimum bid for PSNH's Seabrook entitlement. Because the market for nuclear generation assets is rapidly developing, it would be imprudent to rely solely on comparable transactions in setting the minimum bid.

Part 3 Stranded Costs must be reduced by \$78.6 million to reflect a reduction to rate base in connection with the Company's \$65.6 million generation-related regulatory liability and a \$13 million deferred receivable from NAEC, the NU affiliate that operates Seabrook. PSNH did not contest that this amount should be credited to customers.

PSNH may not include in stranded costs amounts associated with the Hydro Quebec transmission line. The Company will be permitted to recover these costs, but it must first

propose an alternative recovery mechanism to the Commission. It will be required, however, to offset these costs by any revenue obtained from the use of its Hydro Quebec transmission rights.

Due to the various adjustments ordered by the Commission, PSNH must recalculate and reconcile its Stranded Cost Recovery Charge (SCRC). The Commission's determination of the level of stranded costs results in an SCRC of approximately \$0.034 per kWh.

PSNH must reformulate the Recovery End Date (RED) mechanism to reduce the so-called RED Cushion. PSNH testified that a five-month "cushion" is built into the mechanism for adjusting the Recovery End Date (which terminates recovery of Part 3 Stranded Costs) to provide additional assurance of recovering these costs. Based on subsequent changes, PSNH stated that this "cushion" would be reduced to two months. The Commission will hold PSNH to the two-month "cushion." The RED mechanism must also reflect the reductions in the level of Part 3 Stranded Costs as ordered by the Commission.

E. Securitization of Stranded Assets

The Settlement Agreement calls for the issuance of \$725 million in Rate Reduction Bonds to finance a portion of PSNH's stranded assets. This "securitization" process calls for the sale of the affected stranded assets to a so-called "special purpose entity" that would then sell securities based on the cash flows generated by the assets, i.e., stranded cost charges paid by PSNH customers. It is expected that the special purpose entity would be able to issue securities at a lower cost than PSNH could, thus resulting in lower debt-servicing costs and savings to ratepayers.

Under the Settlement Agreement, PSNH would securitize four principal categories of stranded assets: the over-market value of the Seabrook purchase power contract (\$494 million), an analogous sum associated with the Millstone 3 nuclear plant in Connecticut (\$82 million), a portion of the Acquisition Premium paid by NU when it acquired PSNH (\$132 million) and securitization costs (\$17 million).

Securitization is properly regarded as a financing tool. Once a decision has been made to allow a particular level of stranded cost recovery, securitization can be used to reduce the carrying charges applicable to those stranded costs. However, as already noted, the public interest requires continuation of the traditional ratemaking treatment of Accumulated Deferred Income Taxes as a deduction from rate base at the Stipulated Rate of Return. Finally, since the net book balances of the stranded assets proposed to be securitized continue to decline as they are recovered in current rates, PSNH must reduce the sum to be securitized to \$688 million. The Commission will allow PSNH to securitize an additional \$37 million to reduce Part 2 stranded cost through buy-downs of existing obligations to purchase energy from Small Power Producers.

F. Stranded Cost Recovery Charge

Under the Settlement Agreement, the Stranded Cost Recovery Charge (SCRC) will be calculated to produce an overall average rate of \$0.0379 per kWh, though the rate individual customers would pay would vary depending upon the customer's service class. Based on the changes outlined above, the Commission estimates the average SCRC will be \$0.034 per kWh. The Office of Consumer Advocate (OCA) has proposed that each customer class pay an equal charge per kWh. The Commission finds some merit to the OCA's approach and determined that, for the 30-month initial delivery charge period, the SCRC for each customer class will be fixed at a point halfway between the charge proposed by the Company and the flat rate proposed by the OCA. This will assure that each customer class is contributing to stranded cost recovery in an amount that better corresponds to the results of a full cost-of-service study and resulting allocation.

G. Transition Service

The Settlement Agreement calls for Transition Service to be priced at \$0.037 per kWh in the first year, \$0.038 per kWh in the second and \$0.039 per kWh in the third, with PSNH procuring the actual service through a competitive bidding process. If the accepted bid prices are lower than the retail prices, any difference would be used to offset Part 3 Stranded Costs. Likewise, if bid prices are higher, any excess would be deferred and collected through the SCRC. The RED would be adjusted in either circumstance.

The weight of the evidence supports a determination that the prices proposed in the Settlement are too low. However, given the requirements of RSA 374-F:3, V(b) for stable and predictable Transition Service prices that should rise over time and in a manner that encourages customers to choose a competitive supplier, simply setting transition service prices at market levels is inappropriate. The Commission has determined that Transition Service prices of \$0.040 per kWh in year one, \$0.041 in year two and \$0.042 in year three accommodate the relevant concerns by limiting likely deferrals while providing stable and predictable prices as well as near-term rate relief. The Commission does not believe it is in the public interest to impose a retail "add" onto Transition Service charges as a means of promoting the development of a competitive retail market.

Several parties suggested that PSNH use its existing generation resources to provide Transition Service for an interim period. The Commission believes this is appropriate and beneficial. Based on reasonable estimates of the time necessary to procure Transition Service and divest generation assets, the Commission determined that PSNH should use its existing resources to provide this service between Competition Day and January 1, 2001.

The process outlined by the Settling Parties to obtain Transition Service thereafter is appropriate. Affiliates of PSNH are not prohibited from bidding, but the bidding process must be run by an independent third party, chosen by the Commission, in order to allay concerns about improprieties.

H. Delivery Service Rate

The Settlement Agreement proposes a delivery service rate (i.e., the charge associated with the delivery of energy to customers over PSNH's transmission and distribution system) averaging \$0.028 per kWh during an initial period of 30 months after Competition Day. Thereafter, the delivery charge would be determined in a rate proceeding conducted by the Commission. Staff testified that a rate of \$0.0267 to \$0.0275 is justified. However, according to PSNH, the delivery charges to which it has agreed would still create a revenue gap of between \$10 million and \$14 million. The Commission concludes that the delivery charge proposed in the Settlement Agreement is appropriate during the initial 30-month period.

I. Consolidated Edison/Northeast Utilities Merger

On October 13, 1999, just as the hearings on the Settlement Agreement were beginning, Northeast Utilities announced that it would be acquired by Consolidated Edison, a New York utility, subject to shareholder and regulatory approvals. The Settlement Agreement expressly provides that such a transaction will be subject to the Commission's jurisdiction and that the merger "shall be approved only if it be shown to be in the public interest." PSNH contends this language merely clarifies that the Commission must approve the merger. The State Team takes the position that this language provides for a broader review than the "no net harm" standard and requires a showing of a net public benefit. The State Team also contends that the Commission may reduce the delivery charge during the initial 30-month period to reflect savings generated by the merger.

Several parties urged the Commission to condition its approval of PSNH's stranded cost recovery on the outcome of the Commission's review of the merger. These parties believe the Commission should, in fixing PSNH's stranded costs, take into account the acquisition premium being paid by Consolidated Edison to gain control of NU.

The Commission concludes that there has been no agreement between the State Team and PSNH with regard to the standard for reviewing the proposed merger or the question of revising the delivery service charge during the initial period based on merger savings. The Commission defers to the merger docket, DE 00-009, questions relating to the standard for approving the merger and issues relating to merger-related savings and the timing or propriety of passing these savings through to ratepayers.

J. Asset Divestiture

The Settlement Agreement's stated goal of maximizing the net proceeds from the sale of PSNH's generation assets and purchased power agreements, and thus mitigating stranded costs, is appropriate. However, the Commission has determined that certain modifications to the means for achieving that goal are necessary.

The public interest is best served if PSNH affiliates are precluded from bidding on the Company's generation assets. This prohibition would also apply to Consolidated Edison and its affiliates, if the proposed merger of Consolidated Edison and Northeast Utilities is finalized prior to the initiation of the divestiture process. Although the Commission does not believe it is appropriate to ban Consolidated Edison from bidding while the merger proposal is pending, the inclusion of prospective PSNH affiliates in the asset bidding process raises concerns that are best addressed by requiring PSNH to hire an independent consultant to conduct the asset sale. If Consolidated Edison or its affiliates do not intend to bid, the hiring of an outside consultant is not necessary.

The Staff of the Commission will have significant involvement in the divestiture process, and the Commission itself must ultimately approve the divestiture plan. Therefore, it is not necessary for the Commission to conduct the sale process itself.

The Commission has determined that the sale of PSNH's hydro assets should be deferred to facilitate more meaningful participation in the bidding process by municipalities. The Commission has determined that the divestiture of the fossil assets should precede the sale of PSNH's hydro assets.

Several parties have urged the Commission to authorize so-called "linked bids," i.e., simultaneous bids from one entity or set of affiliated entities for the provision of Transition Service and for the purchase of one or more generation assets. In the view of the Commission, the potential value of such bids is outweighed by the compelling need to create bidding processes that produce unquestionably fair results.

The Settlement Agreement contains certain provisions relating to employee protections in the context of the divestiture of PSNH's generation assets. The International Brotherhood of Electrical Workers Local 1837 and the AFL-CIO have, by letter, indicated their agreement with these provisions. The Commission concludes that the employee protections are reasonable and just.

The Office of Consumer Advocate contends that the acquisition of PSNH generation assets by certain market participants could give these entities excessive market power, leading to higher prices for New Hampshire customers. In the view of the Commission, it is not necessary

to amend the Settlement Agreement in order to take this risk into consideration. The Commission does not read the Settlement Agreement as requiring approval of the asset sale results based solely on the highest dollar price offered.

K. Municipal Participation in Asset Sales

According to the municipalities that have participated in this proceeding, the Settlement Agreement does not provide meaningful opportunities to pursue acquisition of PSNH hydro assets. As already noted, it is appropriate to delay the hydro sales so that some of the issues with the municipalities can be resolved. Whatever the intentions of the Settlement Agreement, the Commission agrees with the municipalities that the procedures contained therein do not afford them sufficient time or flexibility to participate meaningfully. However, achieving the maximum sale price for these assets, and thus the maximum mitigation of stranded costs, must remain the paramount objective.

The Commission agrees with the municipalities that there should be no mandatory groupings of the hydro assets, at least not in the first round of bidding. However, the Commission does not accept the proposal to allow a municipality to take any facility at the highest bid price because such a plan would have a chilling effect on the sale process. Nor does the Commission accept the suggestion of a binding arbitration process covering PSNH and municipalities. The Commission agrees with the municipalities that there is no good reason to limit their participation in round-two bidding and, thus, any such restrictions must be removed from the Settlement Agreement.

L. Nuclear Decommissioning

Under the Settlement Agreement, PSNH remains responsible for funding its share of Seabrook's decommissioning liability even after PSNH's Seabrook interest is sold. This obligation is based on full funding by December 31, 2015, with decommissioning estimated to occur in that year. Any increases or decreases in decommissioning costs as of the date of divestiture would become the responsibility of the new owner.

In the view of the Commission, the proposal to allow the new owner to retain the residual of the fund that is not actually needed to decommission Seabrook is inconsistent with RSA 162-F:20, II, which requires such excess to be refunded to ratepayers. PSNH must develop an appropriate mechanism for crediting any excesses to customers. Similarly, it is not acceptable to freeze the decommissioning surcharge for PSNH customers at the level in existence as of the date the Seabrook interest is sold. The surcharge must be adjusted downward in the event the estimate of decommissioning costs goes down after the sale but before the decommissioning itself occurs. In no event may the surcharge be increased beyond the level established by the Settlement Agreement.

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Great Bay Power Corporation, a non-utility joint owner of Seabrook, proposes modification of the Settlement Agreement to provide for recovery of its decommissioning liability through charges assessed against PSNH ratepayers as a means of creating a "level playing field" among joint Seabrook owners. This is neither appropriate nor necessary. Great Bay voluntarily became a Seabrook joint owner as an exempt wholesale generator, knowing it would be responsible for its own decommissioning costs even if this disadvantages Great Bay in comparison to other joint owners. The Commission also believes that it does not have the authority to grant the relief that Great Bay has requested.

M. Rate Design

With regard to rate design, the Settlement Agreement provides for: the same rate reduction to the residential class as received by all other customer classes combined; no cost shifting between the residential classes and other classes; equal charges per kilowatt-hour for all classes with regard to the System Benefits Charge, Energy Consumption Tax and Transition Service; lower bills for all customers after restructuring; and elimination of the so-called "humped" rate design in exchange for more appropriate targeting of low-income assistance and energy efficiency programs. PSNH made certain additional proposals that are not included in the Settlement Agreement.

As modeled by PSNH, the average retail rate, including Transition Service priced at \$0.037 per kWh, would be \$0.10595 per kWh during the first year following Competition Day. The average rate becomes approximately \$0.10605 when the calculation is adjusted to reflect the higher price for Transition Service of \$0.040, the reduced SCRC and about \$0.001 per kWh for Hydro Quebec. The \$0.10605 average rate produces an overall average rate reduction of 18 percent.

PSNH drafted its proposed Delivery Service Tariff to be consistent with the Settlement Agreement and, to the extent relevant issues are not addressed in the Agreement, to be consistent with the Commission's previous restructuring orders. The average delivery charge would be \$0.03731 for residential customers, \$0.02819 for general service customers, \$0.01424 for primary general service customers and \$0.01166 for large general service customers. Other than calls for unbundling transmission and distribution charges, there were no objections to this basic rate design, which the Commission approves.

The Commission further approves PSNH's proposal to eliminate the so-called "humped" rate design, which discounts the first 250 kilowatt-hours used by residential customers. As originally approved, the rationale for this design was to assist low-income customers, who tend to use lower amounts of electricity. The Commission believes that the Energy Assistance Program provides a direct substitute for the humped rate in terms of addressing the issue of unaffordable rates.

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PSNH proposes to shift certain revenues among its three general service classes so as to provide for a more smooth transition for ratepayers whose load expansion requires them to change rate classes. The Commission approves this aspect of PSNH's proposal.

Under the Settlement Agreement, certain optional rate classes may receive either a lower rate reduction, in percentage terms, or no rate reduction at all. According to PSNH, this is appropriate because these rates are already discounted. PSNH also proposes to close these rates to new applications. These optional rates received almost no discussion on the record. The Commission does not approve the closure of these rates at this time nor the intentional limitation of reductions of these rates as a tool to promote migration from them. However, PSNH is authorized to renew this proposal at the end of the 30-month initial delivery charge period.

PSNH proposes the elimination of its Elderly Discount program, which is already closed to new applicants. The Commission likewise defers action on such a proposal. However, the Commission agrees with PSNH that it is appropriate to eliminate its Targeted Lifeline Rate, and endorses PSNH's proposal to unbundle outdoor lighting rates using actual monthly usage, as opposed to leaving these rates unmetered. The Company's proposal to eliminate its Economic Development Service Rate, Business Retention Service Rate and Load Retention Service Rate are likewise approved.

The Commission does not adopt PSNH's proposal to eliminate the interruptible, N-5 rate, even though no customers are presently taking such service. In the view of the Commission, PSNH should examine why no customers are taking this rate and should develop a revised Interruptible Service tariff in time for it to be useful in addressing this summer's peak energy demand. In light of the need to allow customers to choose interruption as a demand-side option to meet reliability needs, now is not the time to eliminate load curtailment rates.

In the view of the Commission, it is not necessary to require PSNH to unbundle transmission and distribution charges, proposed to be included in the Delivery Service Charge, at this time. However, the Commission reserves the right to order such unbundling, either before or after the end of the initial, 30-month period following Competition Day.

PSNH currently assesses a 1.5 percent per month late-payment charge on certain commercial customers. It proposes to implement a similar charge for residential customers as well as customers on general service and outdoor lighting rates. PSNH also proposes a new field collection fee for such customers, as well as increased fees for connections and reconnections. The Commission agrees with those parties who contend that these issues are better addressed in a later docket.

PSNH proposes to increase its surcharge for line extensions from 4 cents per foot to 8 cents per foot and to increase the credit for the cost of two additional phases along a public way

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from \$150 to \$300. No party objected, and the Commission approves this proposal as just and reasonable.

An additional proposal of PSNH involves the creation of certain charges to be assessed against competitive energy suppliers, e.g., billing, customer service, collection. Since these are new services that will impose additional costs on PSNH, they are approved for recovery.

The Settlement Agreement provides three options for PSNH's special contract customers. They can either stay on their special contracts, take unbundled service including Transition Service from PSNH or seek alternative supply arrangements. The Commission approves this aspect of the Settlement Agreement, but requires PSNH to present relevant amendments of the contracts to the customers for their acceptance and ultimately to the Commission. The Commission further directs PSNH to submit a proposal to address the revenue implications of increasing the Transition Service rate for Special Contract customers.

The single largest component of PSNH's stranded costs are those associated with purchases from facilities providing power to PSNH under the federal Public Utilities Regulatory Policies Act (PURPA) and New Hampshire's Limited Electrical Energy Producers Act (LEEPA). The Settlement Agreement allows for the recovery of otherwise-uneconomical purchases made in accordance with these mandates. The Commission authorizes PSNH to use an appropriate level of securitization, if necessary, to effectuate the buy-downs or buyouts of these power purchase obligations. To encourage PSNH to take such action quickly, the Commission will allow PSNH to retain 20 percent of the savings resulting from such agreements before the end of the year from date of the order. Thereafter, PSNH's share will fall to 10 percent if such negotiations are accomplished within two years of the order.

An illustrative chart showing the estimated average rates by customer class which incorporates the Commission's modifications to the proposed Settlement Agreement is attached at the end of this Executive Summary.

N. Other Matters

In September 1999, PSNH entered into a settlement with the New Hampshire Electric Cooperative (NHEC) that terminated NHEC's obligation to take wholesale energy service from PSNH in exchange for an \$18 million termination payment. PSNH is crediting this sum to its stranded asset balance and writing off an additional \$6.2 million in stranded costs associated with its NHEC contract. Further, \$2 million per year in revenue from ski areas in NHEC's service territory will be credited to PSNH's part 3 stranded costs. Although some parties in this docket questioned whether this resolution improvidently increases the stranded costs to be borne by PSNH customers, the Commission believes it is a fair and reasonable outcome with regard to PSNH's obligation to mitigate its stranded costs.

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As already noted, the Settlement Agreement requires customers to pay a System Benefits Charge to fund certain initiatives that include but are not limited to the low income Energy Assistance Program and energy efficiency programs. The Commission approves the proposed System Benefits Charge.

Two parties - the Seacoast Anti-Pollution League and the Conservation Law Foundation - have asked the Commission to require PSNH to operate its Newington, Schiller and Merrimack generation stations to comply with emissions standards for newly built coal and oil-fired power plants. Lacking technical expertise in environmental matters, the Commission concludes that the evidence presented here does not permit a knowledgeable evaluation of such a proposal. However, the Commission stresses that it has the authority to apply economic regulation in a manner designed to reflect appropriate environmental considerations.

The Settlement Agreement calls for PSNH to transfer its ownership share of the Millstone 3 nuclear power plant to an affiliate at zero cost as of Competition Day, with the Company's net book investment recoverable as a Part 1 stranded cost. Subsequently, PSNH requested authority to retain the asset, while accounting for the interest as though it had already been transferred. This request is approved.

The Commission approves the portion of the Settlement Agreement providing for payment of dividends by PSNH to NU once the write-offs are taken. However, if the Settlement Agreement is terminated, PSNH will remain under the dividend prohibition until such time as the Commission orders otherwise.

O. Binding Effect of Commission Approval

According to the Settlement Agreement, the Commission's approval "shall endure so long as necessary to fulfill the express objectives of [the] Agreement" and such approval "is binding with respect to matters contained [there]in." The Commission does not believe it has the authority to bind the State or future Public Utilities Commissions. PSNH has indicated that it will not withdraw its support of the Settlement Agreement based on the Commission's position in this regard. This language in the Settlement Agreement shall be interpreted in a manner that is consistent with the statutory authority of the Commission and shall not create any greater binding or precedential effect than that which is normally accorded a final order of the Commission.

P. Conclusion

The Settling Parties, particularly PSNH, must decide whether they are willing to accept the modifications as required by the Commission. Additionally, the Legislature must approve the securitization provisions of the Agreement. The Commission is confident that, if the Settlement Agreement is ultimately implemented as modified, PSNH will have been restructured and its recoverable stranded costs established in a manner that is equitable, appropriate, balanced and in the public interest.

**Summary:
 Estimated Average Rates by Class
 and Estimated Average Percent Reduction in Rates by Class**

Rate Class	DSC	SCRC	SBC	Tax	HQ	Total DSC	TS	Total Rate	% Decrease
Residential	3.731	3.555	0.25	0.055	0.1	7.69	4.00	11.69	19.56%
Small General	2.819	3.400	0.25	0.055	0.1	6.62	4.00	10.62	17.36%
Primary General	1.424	3.270	0.25	0.055	0.1	5.10	4.00	9.10	17.16%
Large General	1.166	3.046	0.25	0.055	0.1	4.62	4.00	8.62	15.79%
Outdoor Lighting	13.306	3.400	0.25	0.055	0.1	17.11	4.00	21.11	18.27%
Overall Average	2.80	3.400	0.25	0.055	0.1	6.605	4.00	10.61	18.23%