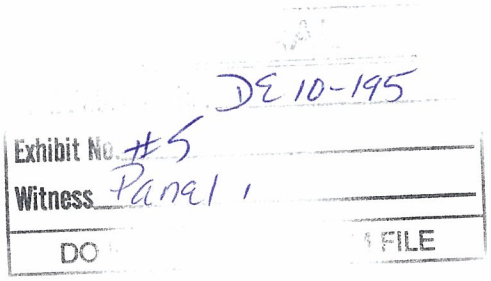

STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DE 10- ____

DIRECT TESTIMONY OF

RICHARD C. LABRECQUE

Request for Approval of Power Purchase Agreement
Between
Public Service Company of New Hampshire
and
Laidlaw Berlin BioPower, LLC

July 26, 2010

INTRODUCTION AND PURPOSE

Q. Please state your name, position and business address.

A. My name is Richard C. Labrecque. I am Supplemental Energy Sources Manager for PSNH. My business address is Public Service Company of New Hampshire ("PSNH"), Energy Park, 780 North Commercial Street, Manchester, New Hampshire.

Q. What are your duties and responsibilities in your position of Supplemental Energy Sources Manager?

A. My duties include the administration of interconnection agreements and purchase contracts with non-utility generators.

Q. Have you previously testified before the Commission?

A. Yes. I have testified on several occasions before the Commission.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to explain the key terms and conditions of the Power Purchase Agreement ("PPA") between PSNH and Laidlaw Berlin BioPower, LLC ("LBB").

Q. Please provide a general description of the PPA.

A. PSNH (the "Buyer") and LBB (the "Seller") reached agreement on June 8, 2010 on the final terms and conditions of the PPA concerning LBB's plans to construct, operate and maintain a 70 MW (gross) biomass-fueled generation Project in Berlin,

New Hampshire (the "Project"). Under the terms of the PPA, PSNH will purchase 100% of the output of the Project for a term of twenty (20) years. The PPA includes separate pricing terms related to the purchase of: i) the energy output of the Project, ii) the capacity of the Project, and iii) the Renewable Energy Certificates (RECs) and other environmental attributes of the Project. The PPA also includes a "Right of First Refusal" by which PSNH has a limited right to purchase the Project during the twenty year term and a "Purchase Option Agreement" that provides PSNH, its successors and assigns with the right, but not the obligation, to purchase the Project at the conclusion of the PPA term.

Q. Can you further describe the products that PSNH will purchase via the PPA?

A. Yes. The PPA includes specific definitions of the "Products" that will be purchased by PSNH. To summarize, the products are any electrical products or services that are created by the Project and earn compensation via the ISO-NE markets, including but not limited to energy, capacity, and ancillary services. In addition, the Products include any "Renewable Products", but exclude any "Tax/Grant Benefits" as each of these is defined in ARTICLE 1 of the PPA.

Q. Please explain the meaning of "Renewable Products" in the PPA.

A. Renewable Products are the New Hampshire Class I Renewable Energy Certificates (RECs) for which the Project must qualify under the terms of the PPA. However, the Buyer of the Renewable Products (PSNH) is also entitled to any other environmental attribute, applicable now or in the future, related to the Project; including certain credits, certificates, benefits, emission offsets, allowances, etc.

Q. Why is it important for PSNH to be entitled to the other environmental attributes?

A. Programs designed to incent renewable forms of generation, or generation with particular emission characteristics, are subject to change. Currently, PSNH is obligated to comply with NH RSA Chapter 362-F, the New Hampshire Renewable Portfolio Standard ("RPS"). The PPA terms include flexibility such that, should RSA 362-F be revised, replaced, or superseded by new legislation, including a Federal RPS program, PSNH's customers would continue to receive the benefits associated with purchases from the Project. In addition, if a totally new program was enacted that operates in concert with RSA 362-F, for example, a program designed to incent zero carbon generation, the PPA would entitle PSNH's customers to also receive these benefits related to purchases from the Project.

Q. What are the "Tax/Grants Benefits" that have been specifically excluded from the products being purchased?

A. These refer to any and all tax credits, investment tax credits, grants in lieu of tax credits, fuel subsidies or other non-tax cash grants or subsidies, credits or benefits that may be available to the owner of a facility.

Q. Can you describe the pricing terms in the PPA?

A. Yes. As described in ARTICLE 6, the PPA provides for three separate payments to be made via each monthly invoice: an energy payment, a capacity payment, and a REC payment. The energy and REC payments are determined each month by multiplying a $/MWH price by the actual Project production (MWH) during the

invoice period. The capacity payment is a $/KW-month price multiplied by the specific capacity of the Project (in KW) recognized by ISO-NE in that month.

Q. Please describe the energy pricing.

A. The energy base price is $83 per MWH and applies to the first calendar quarter of commercial operation. In each subsequent calendar quarter, the energy base price will be revised to incorporate a "Wood Price Adjustment" ("WPA") which is described in ARTICLE 6.1.2(a)(ii). The WPA will reflect the difference between the actual average price per ton that PSNH paid for biomass fuel at the Northern Wood Power Plant (Schiller Station) in the immediately preceding quarter and the base wood price of $34 per ton. The difference (in $/ton), whether positive or negative, will be converted into a $/MWH adjustment using a multiplier of 1.8 tons per MWH. The final energy price payable in the invoice period will be the base price, as adjusted by the WPA.

Q. What is the purpose of the WPA?

A. The parties to the PPA were concerned that the cost of biomass fuel delivered to the Project could vary over the twenty year term of the PPA. Without the WPA, LBB could be faced with increasing fuel costs and declining operating margins or even losses, perhaps to the extent that production would have to cease. This risk could pose an insurmountable barrier to LBB obtaining financing for the Project. PSNH was also concerned that biomass fuel prices could decline during the twenty year term of the deal. This would result in PSNH's customers being asked to pay higher prices for purchases from the Project and thus contributing to a higher profit margin

for LBB. By negotiating the WPA, a solution was obtained to protect both parties from undue risk during the term of the PPA.

Q. Why is the WPA indexed to the cost of biomass fuel at Schiller Station rather than the LBB site?

A. PSNH negotiated this condition to provide assurance that the WPA would be linked to an index under the full procurement control of PSNH and regulated by the New Hampshire Public Utilities Commission. In this way, PSNH's customers will not be adversely affected by sub-optimal wood procurement conditions or procedures at the LBB site. This is an important price protection feature of this PPA.

Q. How was the 1.8 tons per MWH conversion factor determined?

A. This conversion factor, which is fixed for the term of the PPA, is considered indicative of the fuel conversion efficiency of the LBB Project. The actual conversion efficiency may be slightly higher or lower and can fluctuate over time based on plant conditions and fuel characteristics. The conversion factor gives LBB the incentive to operate as efficiently as possible while protecting PSNH's customers from inefficient operation.

Q. Please describe the capacity pricing.

A. During the first five years of commercial operation the capacity price is $4.25 per KW-month of "Capacity" (as defined in ARTICLE 6.1.2(b) of the PPA). That price is increased by $0.15 per KW-month in each of the final fifteen years of the term.

Q. How is "Capacity" defined in the PPA?

A. Capacity is the output of the Project as measured in megawatts for which the Project has obtained a capacity supply obligation as a result of participation and clearing in an ISO-NE administered Forward Capacity Market ("FCM") auction and is receiving compensation pursuant to that obligation via the ISO-NE market settlement process.

Q. Why is the definition of Capacity an important protection for PSNH's customers?

A. ISO-NE has established a FCM to obtain the generation capacity required to reliably operate the New England electric system. The FCM is a relatively new and complex market that has very specific methods of qualifying capacity for participation. Simply put, just building a generating Project does not necessarily mean that the Project will earn capacity compensation. PSNH included this definition of capacity as a way to protect PSNH's customers from paying for non-qualified capacity with no real value within the FCM structure.

Q. What price will PSNH pay for RECs?

A. The price for RECs is indexed to amounts defined in RSA Section 362-F:10 (Renewable Energy Fund) for Class I which may be paid into the fund by electricity

providers in "lieu of meeting the portfolio requirements of RSA 362-F:3 for a given year if, and to the extent sufficient certificates are not otherwise available at a price below the amounts specified" in Section 10 (hereinafter referred to as "Alternative Compliance Payments" or "ACP").

During the first five years of the PPA, the REC price is 80% of the ACP. During the second five years the REC price is 75% of the ACP. The price decreases to 70% during the next five years and to 50% of the ACP during the final five years of the PPA. This declining price is designed to produce increasing value to PSNH's customers over time while providing the developer with a predictable revenue stream.

Q. Has PSNH prepared an exhibit that projects the prices payable during the term of the PPA?

A. Yes. Attachment RCL-1 is a table that shows the projected prices to be paid for energy, capacity, and RECs during the twenty year term.

Q. Does the PPA contain any provisions designed to protect PSNH's customers from paying contract prices that exceed the market price?

A. Yes. The PPA includes a mechanism referred to as the "Cumulative Reduction" as described in ARTICLE 6.1.3 which is designed to calculate and track any energy payments made that exceed the ISO-NE spot market energy price.

Q. Please describe the Cumulative Reduction.

A. For each MWH of Energy delivered under this Agreement, a negative or positive adjustment shall be determined. When the contract energy payment rate set forth above ($/MWH) exceeds the ISO-NE Day-Ahead hourly Locational Marginal Price (LMP) at the delivery point, the hourly negative adjustment shall equal the delivered MWH multiplied by the difference between the LMP and the contract energy rate. When the contract energy payment rate ($/MWH) is less than the LMP, the hourly positive adjustment shall equal the delivered MWH multiplied by the difference between the LMP minus the contract Energy rate. These negative and positive adjustments shall be continuously aggregated over the twenty year term of the PPA. If, at the termination of the PPA, the aggregate balance is negative, that quantity shall be the "Cumulative Reduction" for the purposes of reducing the purchase price of the Project as provided in the Purchase Option Agreement (and described below). If the aggregate balance is positive (that is, over the term of the PPA customers did not pay over-market prices), it shall have no further bearing on the administration of the PPA.

Q. What is the ultimate purpose of the Cumulative Reduction?

A. The Cumulative Reduction is a unique and important feature of this PPA that was essential to PSNH in order to protect customers from unknown future market energy prices. PSNH included this feature to protect PSNH's customers from the potential of paying over-market energy prices over the term of the PPA. In the event actual hourly ISO-NE energy prices during the term of the PPA are, on average, less than the contract energy prices, a fund of dollars will accrue (the Cumulative Reduction) that can be used as a credit to reduce the purchase price of the Project.

This will provide PSNH's customers with the opportunity to recapture the over market payments, if any, made during the PPA term over a subsequent time frame.

Q. In what way does the Cumulative Reduction make the LBB PPA different from the dozens of 1980's and 1990's era PURPA-mandated contracts and Rate Orders that PSNH was subject to?

A. PURPA required PSNH to purchase the output of "qualifying facilities" from developers at a price known as "avoided cost". Many developers elected to use a long-term *forecasted* avoided cost as the basis for their payments under rate orders issued by the Commission. In most all instances, these forecasted avoided costs far exceeded PSNH's actual avoided costs. Thus, most PURPA rate orders resulted in significant over-market payments to the developers. At the termination of the PURPA rate orders, there was no opportunity for PSNH's customers to recapture those over-market payments; i.e., the over-market payments went solely to the benefit of the QF owner. In the LBB PPA, any cumulative over-market energy payment will result in a dollar-for-dollar price reduction in a Project purchase option right that PSNH has negotiated (described below). This provides PSNH's customers with the opportunity to receive value to offset any over-market payments following the termination of the PPA.

Q. Please describe the Purchase Option Agreement (POA)?

A. For a period of one-hundred and twenty (120) days following the conclusion of the twenty year term of the PPA, the POA grants PSNH, and its successors and assigns, an exclusive, irrevocable option to purchase the Project and the Project Site (together the "Project Assets"). The purchase price for the Project Assets shall equal

i) the fair market value of the assets (as if sold free of all financing liens and encumbrances) minus ii) the Cumulative Reduction value, provided the purchase price shall not be less than zero.

Q. Are the purchase rights granted by the POA transferrable to another entity?

A. Yes. PSNH may transfer its purchase option rights to any PSNH affiliate or unaffiliated third party.

Q. How will the fair market value of the Project Assets be determined?

A. If the parties are unable to mutually agree on the fair market value, then each party shall select two qualified independent commercial appraisers to provide a fair market value estimation of the Project. The highest and lowest valuation shall be removed and the remaining two shall be averaged to determine the fair market value.

Q. Under what conditions might PSNH consider exercising the option to purchase the Project?

A. The Project, assuming normal operating and maintenance practices, should have a useful life well in excess of the twenty year term of the PPA. At the conclusion of the twenty years, it is possible that the status of the ISO-NE power and fuel markets will be such that the Project has significant projected value as a provider of economic, renewable, low-emission baseload energy and capacity. If that is the case, the Project will be assessed with a commensurate fair market value that will be based on the present value of expected future cash flows obtained by selling the

Project products (energy, capacity, RECs, etc.) into the applicable power and environmental markets. The POA provides PSNH with the ability to purchase the Project Assets either at the assessed fair market value or at a discount when considering the Cumulative Reduction. The value obtained through exercising this option could then be passed on to PSNH's customers. PSNH's ability to transfer this right to an assignee ensures that this benefit will be available regardless of PSNH's own ability to purchase the Project at that time.

Q. How might the Purchase Option Agreement provide value to PSNH's customers?

A. PSNH could either operate the Project as part of a portfolio of regulated generation assets (similar to today) in order to provide Energy Service to its customers, or it could market the output of the Project into the ISO-NE power and environmental markets (i.e. operate as a merchant plant) with the net value going to PSNH's customers. The choice would likely depend on the future regulatory structure of the New Hampshire electric utility industry as it relates to PSNH. One other way to create value from the option would be to transfer the option, for a price, to an affiliate or third party. In any scenario, PSNH envisions some form of regulatory settlement proceeding would be required to ensure that the net economic benefits associated with the POA would be provided to customers.

Q. Is it typical for PPAs to include a Purchase Option Agreement at the conclusion of the PPA term?

A. No. PSNH believes the POA, in concert with the Cumulative Reduction value, to be a first of a kind structure. As noted earlier, PURPA-mandated contracts and rate orders did not provide for any such customer benefits at their conclusion.

Q. What is the "Right of First Refusal" in the PPA?

A. If at any time LBB desires to sell the Project to a third party pursuant to a bona fide purchase offer, the Right of First Refusal provides PSNH the ability to match that offer and, thus, to purchase the Project on similar terms. The right is also transferrable to a PSNH affiliate. This right is another example of the creative and non-standard elements that PSNH negotiated into the final PPA to provide value to PSNH's customers.

Q. How might the Right of First Refusal provide value to PSNH's customers?

A. The right allows PSNH to review the terms and conditions of any potential purchase and sale agreement between LBB and a third party. PSNH is granted a period of one-hundred and eighty (180) days to consider the terms. This period provides PSNH the opportunity to evaluate the terms and determine if the purchase would likely create economic value for its customers. For example, if LBB and the third party have agreed to transfer ownership of the Project at a purchase price that PSNH believes is significantly below the fair market value of the assets, then PSNH, with Commission approval, could decide to purchase the Project. At that point, PSNH could elect to create value using methods similar to those discussed above regarding the Purchase Option Agreement; i.e. PSNH could either operate the

Project as part of a portfolio of regulated generation assets (similar to today) in order to provide Energy Service to its customers, or it could market the output of the Project into the ISO-NE power and environmental markets (i.e. operate as a merchant plant), or it could attempt to resell the entire Project for a price closer to PSNH's estimate of the fair market value.

Q. Can you comment on how the terms and conditions of this PPA compare to other long-term contracts between electric utilities and renewable Project developers?

A. As mentioned above, this PPA includes a number of unique features to either protect customers or to create potential future value for customers, including: the Wood Price Adjustment mechanism, the strict definition of Capacity, the expanded definition of Renewable Products, the Cumulative Reduction and Purchase Option Agreement, and the Right of First Refusal.

Regarding the pricing terms of the PPA, PSNH has conducted research to discover the pricing terms included in other, recently announced and publically available long-term contracts for renewable generation facilities. PSNH has prepared a brief summary of the readily available information in Attachment RCL-2.

Q. Does this conclude your testimony?

A. Yes.

Attachment RCL-1 Laidlaw Berlin Biopower PPA Price Forecast						
		Total Payment ($/MWH)	Energy ($/MWH)	Capacity ($/kw-mo)	Capacity ($/MWH)	REC ($/MWH)
Year 1	2014	$144.08	$83.00	$4.25	$7.28	$53.80
Year 2	2015	$146.96	$84.53	$4.25	$7.28	$55.15
Year 3	2016	$149.90	$86.10	$4.25	$7.28	$56.53
Year 4	2017	$152.92	$87.71	$4.25	$7.28	$57.94
Year 5	2018	$156.02	$89.35	$4.25	$7.28	$59.39
Year 6	2019	$155.65	$91.04	$4.40	$7.53	$57.07
Year 7	2020	$159.06	$92.77	$4.55	$7.79	$58.50
Year 8	2021	$162.55	$94.55	$4.70	$8.05	$59.96
Year 9	2022	$166.13	$96.37	$4.85	$8.30	$61.46
Year 10	2023	$169.79	$98.23	$5.00	$8.56	$62.99
Year 11	2024	$169.22	$100.14	$5.15	$8.82	$60.26
Year 12	2025	$172.95	$102.10	$5.30	$9.08	$61.77
Year 13	2026	$176.76	$104.11	$5.45	$9.33	$63.32
Year 14	2027	$180.65	$106.16	$5.60	$9.59	$64.90
Year 15	2028	$184.64	$108.27	$5.75	$9.85	$66.52
Year 16	2029	$169.24	$110.44	$5.90	$10.10	$48.70
Year 17	2030	$172.93	$112.65	$6.05	$10.36	$49.92
Year 18	2031	$176.71	$114.92	$6.20	$10.62	$51.17
Year 19	2032	$180.57	$117.25	$6.35	$10.87	$52.45
Year 20	2033	$184.53	$119.64	$6.50	$11.13	$53.76
Notes:	1) Assumes biomass fuel price of $34/ton in 2014, escalating at 2.5% annually					
	2) Capacity payment ($/MWH) assumes a facility capacity factor of 80%					
	3) REC prices assume the 2010 ACP price escalates at 2.5% annually					
	4) Energy price is exclusive of the PPA "Cumulative Reduction" provision					

Attachment RCL-2 Summary of Long-Term Contracts with Renewable Energy Resources in New England							
Seller / Facility	**Buyer**	**State**	**Size (MW)**	**Resource Type**	**Pricing ($/MWH)**	**Source(s)**	**Note(s)**
Plainfield Renewable Energy	CL&P / UI	CT	30	Biomass	$130 - $150	1	
Clearview Renewable Energy	CL&P / UI	CT	31	Biomass	$123	1, 2	1
Watertown Renewable Power	CL&P / UI	CT	15	Biomass	ISO-NE Spot Energy price plus $45 - $55	3, 4	2, 3
Clearview East Canaan	CL&P / UI	CT	3	Anaerobic Digestor	$125	1	1
Various Fuel Cell facilities	CL&P / UI	CT		Fuel Cell	$180 - $200	1	
Rhode Island LFG Genco	NGRID	RI	20	Landfill Gas	$120	5	4
Deepwater Wind Block Island, LLC	NGRID	RI	30	Offshore Wind	$236	6	5
Evergreen Wind Power III, LLC (Rollins Wind)	CMP & BHE	ME	60	Wind	See notes	7	6
New England Wind, LLC (Hoosac)	NSTAR	MA	30	Wind	Not disclosed	8	
Pioneer Valley Wind, LLC	NSTAR	MA	22.5	Wind	Not disclosed	8	
American Pro Wind, LLC	NSTAR	MA	Not Avail	Wind	Not disclosed	8	
Cape Wind Associates, LLC	NGRID	MA	468	Offshore Wind	$207	9	7
First Wind Holdings (Sheffield)	Various	VT	40	Wind	Not disclosed	10	

Sources

1/ Docket No. 07-04-27 - DPUC Review of Long-Term Renewable Energy Contracts - Round 2 Results - August 21, 2007
2/ Docket No. 03-07-17RE05 Pre-filed Testimony of James S. Potter - revised April 2, 2010
3/ Docket No. 03-07-17RE03 - DPUC Review of Long-Term Renewable Energy Contracts - Round 1 Results - January 31, 2007
4/ Docket No. 03-07-17RE05 Pre-filed Testimony of William C. Sheehan - revised April 5, 2010
5/ Docket No. D-10-36 Purchase Power Agreement between National Grid and Rhosel Island LFG Genco, LLC - June 7, 2010
6/ Docket No. 4185 - Review of Amended PPA Between NGRID and Deepwater Wind Block Island, LLC - June 30, 2010
7/ Docket No. 2008-104 Order Directing Utilities to Enter Into Long-Term Contract - October 8, 2009
8/ NSTAR Electric Co. DPU 10-71, 10-72, and 10-73 - July 7, 2010
9/ DPU 10-54 Petition of NGRID for Approval of the DPU of Two Long-Term Contracts - June 4, 2010
10/ SNL Interactive Article - "Vermont approves power contracts for 40 MW First Wind Project" - August 14, 2009

Notes

1/ Clearview has filed a request to modify the fixed-pricing terms of the previously executed contract to include certain pricing adjustment mechanisms.
2/ Watertown pricing based on the ISO-NE spot market energy price plus a renewable premium of $45 - $55/MWH
3/ Watertown has filed a request to modify the fixed-pricing terms of the previously executed contract to include certain pricing adjustment mechanisms.
4/ Price escalates at 2.5% annually
5/ Price escalates at 3.5% annually. Contract price may be reduced if final facility installation cost is less than budget.
6/ PPA is for energy and capacity only (no renewable attributes included). Price is indexed to ISO-NE spot market with a floor and ceiling.
7/ Price escalates at 3.5% annually.