

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No.DE 14-238

Public Service Company of New Hampshire
Determination Regarding PSNH's Generation Assets

SUPPLEMENTAL TESTIMONY

OF

LESZEK STACHOW

January 26, 2016

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A. INTRODUCTION

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

A. My name is Leszek Stachow, and I am employed by the New Hampshire Public Utilities Commission (Commission) as Assistant Director in the Electric Division. My business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire.

Q. Please summarize your educational and professional background.

A. My educational and professional background is summarized in Exhibit 1 attached hereto.

B. SUMMARY OF THIS TESTIMONY

Q. What is the purpose of your testimony?

A. The purpose of this testimony is to explain Non-Advocate Staff's (hereafter "Staff" or "Non-Advocate Staff") support for the partial litigation settlement (hereafter the "Litigation Settlement") submitted collectively by Staff and the Settling Parties, and to express Staff's support for near term divestiture of PSNH's generation assets. Staff's support for divestiture arises out of Staff's further analysis of the cost implications of the Divestiture of PSNH's generation assets.

Staff's further investigation and analysis during the course of the current proceeding gave Staff the opportunity to enhance its preliminary findings in this case through a collaborative process with a core group of the Settling Parties. Through that process, Staff has developed its own economic model, which has provided the basis for Staff's updated recommendation that near-term divestiture of PSNH's generation assets meets the public interest standard established by the Legislature in 2015 SB 221 as stated in the Litigation Settlement. The basis for Staff's present recommendation is further developed in the testimony of Mr. Dean Murphy of the Brattle Group.

Q. Describe Staff's original recommendations as set out in your direct testimony.

A. Based on the state of the record at that time, my direct testimony provided the following three recommendations:

(1) Approval of the Settlement Agreement with the condition that the Commission postpone the sale of PSNH's generation assets for five years due to Staff's belief that the initial customer savings analyses presented in this docket by PSNH was flawed.

(2) A recommendation that if the Commission determined to move forward with the sale of the PSNH generation assets at this time, that in the interest of fairness and equity the Commission consider the rate allocation recommendations provided by Staff; and

(3) A recommended alternative auction design based on simultaneous ascending clock auction model.

Concurrently, at the request of Staff, and as agreed to by PSNH and various Settling Parties in a Stipulation filed with the Commission on July 9, 2015, PSNH performed Phase

I Environmental Assessments of all of its generation assets. Staff sought to identify any possible need for remedial action, to fully inform potential auction bidders, to maximize the total transaction value of the auction and to limit the potential of a failed auction.

Based on further analysis and through the settlement process, Staff's recommendations now include the immediate divestiture of PSNH's generation assets and deferral of specific auction design decisions to a separate proceeding.

C. IMPACT OF FURTHER INVESTIGATION AND CONCLUSIONS

Q. Describe and explain the rationale and process behind the development of Staff's additional analysis of customer savings.

Rationale

A. Based on Staff's concerns with the initial customer savings analysis presented by PSNH in this docket, and recognizing that the data and forecasts used were from the 2012-2014 timeframe Staff believed that additional analysis was necessary to provide a consistent comparison of Divestiture and No Divestiture scenarios. Staff further believed that it was important to provide the Commission with updated data that more accurately reflected the status quo in 2015 and that would assist the Commission in reviewing the Settlement Agreement.

Process

Consequently with a goal to provide the Commission with as complete a record as possible from which to make a Divestiture determination, Staff began to construct its own high level analysis of the costs of Divestiture versus Non Divestiture scenarios supported by technical staff from the Brattle Group. Recognizing that such an analysis would be more compelling if supported by the most current data available, Staff invited the Settling Parties to work cooperatively to agree on inputs, forecasts, and estimates necessary for Staff's new, independent analysis of the near-term impacts of divestiture to be performed by technical staff from Staff's consultant, the Brattle Group.

Q. What was the outcome from the Brattle Group's analysis?

A. Following a collaborative effort that incorporated information from PSNH and, through a series of settlement work sessions to further clarify and seek agreement to the conceptual methodology, data sources and assumptions used, the results of the Brattle analysis indicates that over the period from 2017-2021, divestiture would result in estimated customer savings of approximately \$165 million.

In view of those findings, and as part of the settlement process, Staff now supports immediate divestiture of PSNH's generation assets.

This recommendation is based on the Brattle analysis finding of estimated average nominal savings of \$33.0 million per year over the five year period following divestiture (2017-2021). This analysis considered the sale of all the assets at one time and did not examine the impact of any division of the assets into separate tranches for sale.

Further details of the Brattle analysis, its assumptions, and findings can be found in separate testimony prepared by Staff's technical analyst, Mr. Dean Murphy.

Q. What is Staff's position with respect to the auction process?

A. A primary goal of Staff is to maximize total transaction value, while achieving the important secondary goals of fairness, transparency, simplicity, and efficiency. Staff also was keen to ensure that the municipalities that host generation assets should have the ability to bid on the assets as part of the bidding process. Based on Staff's concerns about the deterministic nature of the auction language in the original Settlement Agreement, Staff had proposed an alternative auction process.

As set forth in the Litigation Settlement, the Settling Parties agreed to modify the Settlement Agreement to clarify that the final decision concerning the auction process is in the hands of the Commission with input from an auction advisor/manager. Staff agrees that the auction design should rest first and foremost with the Auction advisor selected by the Commission, after being familiarized first with any particular conditions that the Commission believes might govern this auction process.

Q. What is the status of the rate design for recovery of the Stranded Costs?

A. The issue of how recovery of stranded costs should be divided among rate classes remains unsettled and is not part of the partial Litigation Settlement. The prefiled testimony of Staff witness Mr. Richard Chagnon provides Staff's recommendations on this issue, and testimony from a number of the Settling Parties provides their recommendations on this issue. The Settling Parties proposed allocation of the stranded cost recovery charge anticipated that over 48.75% of the recovery would come from the residential rate class(R), while 25% and 20% would be recovered from the small commercial/industrial

class (G) and medium commercial/industrial (GV) respectively, and only 5.75% from the large commercial/industrial class.

In this proceeding, in keeping with traditional ratemaking practice and pursuant to the statutory goal of fair cost allocation as set out in RSA 363-8:3-all Staff has proposed in the testimony of witness Mr. Richard Chagnon, a distribution that seeks to equalize the average increase to customer's bills in each of the LG, GV, and G customer rate classes. This issue remains to be litigated before the Commission within the instant docket.

Environmental remediation

Q. What is Staff's position with respect to environmental remediation?

A. As outlined in its opening Brief of December 5, 2014, in this proceeding¹, Staff sought to ensure, through environmental studies of PSNH's generation sites, that potential environmental issues at any of the generation sites be investigated and recorded to ensure full disclosure for potential bidders.

On the basis of its subsequent Stipulation with designated Advocate Staff and other Settling Parties filed on July 9, 2015, PSNH hired Haley and Aldrich, Inc. to perform a Phase I Environmental Assessment Report for each of its generation assets. The results of this analysis revealed that there was legacy mercury residue in certain facilities at Schiller Station in Portsmouth.² In the event that the Commission orders divestiture, Staff expects that the auction manager selected by the Commission for the next phase of this proceeding, will provide expert information regarding the potential advisability of a pre-auction remediation of Schiller Station. Staff will provide the Commission with its considered opinion regarding possible approaches to such potential remediation at that time.

¹ The Staff Brief is available at <http://www.puc.nh.gov/Regulatory/Docketbk/2014/14-238/BRIEFS/14-238%202014-12-05%20STAFF%20BRIEF.PDF>; see Page 4 of Staff Brief.

² <http://www2.des.state.nh.us/IISProxy/IISProxy.dll?ContentId=4583060>

D. RECOMMENDATIONS

Q. Please summarize your recommendations

A. The analysis performed by Staff witness Mr. Dean Murphy, with the input of PSNH and representatives of the Settling Parties, demonstrates that there would be savings to ratepayers arising from near-term divestiture. Staff therefore supports immediate divestiture of PSNH's generation assets.

Following adjustment to the original auction language contained in the Settlement Agreement, Staff believes that there are now better safeguards in place to preserve the interests of municipalities while confirming that action on the divestiture auction process should await the engagement of an auction expert by the Commission.

Unresolved issues of interest to Staff include the following:

- (a) Proposed stranded cost rate design.
- (b) Environmental remediation action at Schiller Station.

Q. Does this complete your supplemental testimony?

A. Yes, it does.

1 EXHIBIT 1

2 Educational and Professional Background

3 Leszek Stachow

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5 I am employed by the New Hampshire Public Utilities Commission (Commission) as Assistant Director of the
6 Electric Division. My business address is 21 S. Fruit Street, Suite 10, Concord, New Hampshire, 03301.

7 I am a graduate of the following institutions of higher learning: University of Keele, Keele, Staffordshire,
8 United Kingdom, from which I received a BA Triple Honors in Economics, Politics and History, and
9 subsequently from the University of Sussex, Brighton, United Kingdom, from which I received a Masters in
10 Political Economy.

11 While pursuing a PhD at the Massachusetts Institute of Technology in Cambridge, Mass, I concurrently served
12 as a faculty member at St. Anselm College, NH and adjunct faculty at the Whittemore School of Business and
13 Economics of the University of New Hampshire, where I taught regulatory economics. In 1987 I joined the
14 Economics department of the New Hampshire Public Utilities Commission where I primarily supported rate
15 cases in the telecommunications and energy sectors.

16 In 1988, I completed the NARUC Annual Regulatory Studies Program at Michigan State University, sponsored
17 by the National Association of Regulatory Utility Commissioners as well as sundry other targeted regulatory
18 courses.

19 In 1992, I was appointed regional manager for Central Europe on behalf of management consulting firm, Booz
20 Allen & Hamilton. In that capacity I advised numerous government agencies in Central and Eastern Europe,
21 the Middle East, Africa, and Latin America on optimizing the functioning of energy, telecommunications,
22 water/waste water, and gas sector regulatory bodies and markets.

23 In 2004, I was employed by Camp Dresser McKee to develop their Central European engineering consulting
24 business. Beyond a primary focus on mergers and acquisitions, I was appointed President and manager of
25 CDM Poland, as well as director of CDM AG in Germany

- 1 After retiring from my business activities, I returned to the Commission in 2010, where I initially supported the
- 2 telecommunications division and latterly the gas and electric divisions.