THE STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE D/B/A
EVERSOURCE ENERGY

Docket No. DE 16-___

PETITION FOR APPROVAL OF GAS INFRASTRUCTURE CONTRACT BETWEEN PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE D/B/A EVERSOURCE ENERGY AND ALGONQUIN GAS TRANSMISSION, LLC

Public Service Company of New Hampshire d/b/a Eversource Energy ("Eversource" or "Company"), pursuant to Puc 202.01(a), and Puc 203.06, hereby petitions the New Hampshire Public Utilities Commission ("Commission") for approval of a Precedent Agreement for firm gas transportation and storage services between Eversource and Algonquin Gas Transmission, LLC ("Algonquin" or "AGT") relative to the proposed Access Northeast ("Access Northeast" or "ANE") pipeline project (the "ANE Contract"). Eversource requests that the Commission determine that the ANE Contract is in the public interest and otherwise consistent with New Hampshire law. In support of this petition, Eversource states as follows:

1. In April 2015, the Commission commenced a proceeding, docketed as Docket No. IR 15-124, wherein it recognized that in recent years there has been a sizeable increase in the use of natural gas as a fuel for electric generation while, at the same time, significant constraints exist in relation to the natural gas supply to the New England region. As stated in the order of notice in that proceeding, the natural gas pipeline constraints have led to extreme price volatility in the New England gas markets in the winter months that, in turn, have resulted in sharply higher wholesale electricity prices. Those higher wholesale electricity prices convert directly into high retail electricity prices for New Hampshire customers, particularly in the winter period.

Accordingly, the Commission required that there be a targeted investigation to examine "the gas-resource constraint problem that is affecting New Hampshire's EDCs and electricity consumers." April 17, 2015 Order of Notice in Docket No. IR 15-124 at 3. Further, the Commission directed the Staff to inquire with the New Hampshire electric distribution companies ("EDCs") regarding potential means of addressing these market problems under existing New Hampshire law.

2. On July 10, 2015, the Staff of the Commission issued a legal memorandum in Docket No. IR 15-124. In that memorandum, and while acknowledging that its analysis might adapt to a specific proposal, the Staff concluded, in relevant part, that the EDCs, including Eversource, are authorized under existing New Hampshire law to enter into contracts for natural gas transmission capacity, and to recover the costs of such contracts from electric customers. Written comments on the legal memorandum were submitted on August 10, 2015. In its comments, Eversource stated that its reasoning differed from that of Staff; however, it did agree that EDCs are authorized under existing New Hampshire law to enter into natural gas capacity contracts and to recover the costs of such contracts from electric customers.

3. On September 15, 2015, the Staff issued a report in Docket No. IR 15-124 wherein it noted, among other things, that there is a near universal opinion that "the root cause of the high and volatile winter period wholesale and/or retail electricity prices . . . can be attributed to a wholesale market imbalance of supply and demand for natural gas." September 15, 2015 Staff Report in Docket No. IR 15-124 at 14. On January 19, 2016, the Commission issued Order

No. 25,860 in Docket No. IR 15-124, accepting Staff's report.[1] Although the Commission refrained from making definitive rulings on the legal authority of EDCs to contract for gas capacity, the Commission set out clear guidelines and recommendations for any potential petition for a gas capacity acquisition by a New Hampshire EDC.

4. In recognition of the significant natural gas capacity constraints in New England – constraints that were identified in the Commission's order of notice and confirmed through the Staff's investigation in Docket No. IR 15-124 – and the detrimental impact these constraints have on electricity prices and reliability, Eversource has undertaken deliberate and reasoned steps to improve the reliability and cost of electric supply for its electric retail customers in New Hampshire and herein seeks the Commission's approval of a contract for natural gas storage and transportation that will directly and effectively address those issues.

5. By this submission, Eversource is requesting the Commission's approval of: (1) the ANE Contract, which is a 20-year interstate pipeline transportation and storage contract providing natural gas capacity for use by electric generation facilities in the ISO-NE region; (2) an Electric Reliability Service Program ("ERSP") to set parameters for the release of capacity and the sale of liquefied natural gas ("LNG") supply available by virtue of the ANE Contract; and (3) a Long-Term Gas Transportation and Storage Contract ("LGTSC") tariff, which allows

[1] A substantially similar review was undertaken in Massachusetts coincident with the review in New Hampshire and was docketed by the Massachusetts Department of Public Utilities ("MDPU") as D.P.U. 15-37. On October 2, 2015, the MDPU issued an order similar to that by the Commission here, concluding in relevant part that EDCs in Massachusetts have the requisite authority to enter into gas capacity contracts and the ability to recover the costs of such contracts from electric customers, subject to meeting various filing requirements as well as MDPU review and approval. Investigation by the Department of Public Utilities on its own Motion into the means by which new natural gas delivery capacity may be added to the New England Market, including actions to be taken by the electric distribution companies, D.P.U. 15-37, at 26-29, 44-47 (2015).

for recovery of costs associated with the ANE Contract.[2] If approved by the Commission, Eversource would release the natural gas capacity to the electric market in accordance with an Algonquin Electric Reliability Service ("ERS") tariff carrying out the terms of the state-approved ERSP. The Algonquin ERS tariff is subject to approval by the Federal Energy Regulatory Commission ("FERC").

6. Algonquin is a wholly owned subsidiary of Spectra Energy Corporation. Spectra Energy Corporation is primarily involved in the transmission of natural gas throughout the United States and Canada. Algonquin operates approximately 1,120 miles of natural gas transmission pipeline in New England with a pipeline capacity of 2.44 Bcf per day. Algonquin's transmission system connects to the Texas Eastern Transmission Company in New Jersey and the Maritimes & Northeast Pipeline ("M&NP") system in the northern region of New England. Algonquin is regulated by FERC under the Natural Gas Act.

7. The ANE project is designed to provide increased natural gas deliverability to the New England region to support electric generation, including most directly, the gas-fired electric generating plants on the Algonquin and M&NP systems. More specifically, the project is designed to provide delivery-point flexibility to serve generators in four separate sub-regions of the market, referred to as Power Plant Aggregation Areas, which include: (1) Connecticut; (2) southeastern Massachusetts and Rhode Island; (3) central and eastern Massachusetts; (4) and Northern New England (including New Hampshire and Maine).

[2] On December 18, 2015, the Eversource Energy operating affiliates in Massachusetts, NSTAR Electric Company and Western Massachusetts Electric Company, submitted a similar petition in docket D.P.U. 15-181. In January 2016, National Grid submitted a substantially similar petition for contract approval on behalf of its Massachusetts-based operating companies, Massachusetts Electric Company and the Nantucket Electric Company, in a proceeding docketed as D.P.U. 16-05.

8. The ANE project is designed to provide: (1) 500,000 MMBtu/day of indirect access to the gas supplies in the Marcellus Shale region in Northeastern Pennsylvania through Algonquin's existing direct connections to the Millennium Pipeline at Ramapo, NY; the interconnection with Tennessee Gas Pipeline ("Tennessee" or "TGP") at Mahwah, NJ; and the interconnection with Iroquois at Brookfield, CT; and (2) 400,000 MMBtu/day of access to a proposed market-area domestic liquefied natural gas ("LNG") storage facility. The new LNG storage facility in Acushnet, MA will provide storage withdrawal capacity of 400,000 MMBtu/day, liquefaction capability up to 54,000 MMBtu/day, and 6,400,000 MMBtu of LNG storage capacity.[3] In the aggregate, the ANE transportation and storage facilities will provide a total of 900,000 MMBtu/day of firm, incremental, integrated transportation and LNG deliverability to multiple generators; thereby enabling net benefits to electric customers.

9. In accordance with the standards described in both the July 10, 2015 Staff Memorandum at 7-8, and the September 15, 2015 Staff report in Docket No. IR 15-124 at 45-47, as well as in Order No. 25,860 at 4-5, Eversource has undertaken an open and transparent competitive evaluation and selection process to identify the infrastructure alternative with the highest value for New Hampshire electricity customers. This filing for contract approval demonstrates that the proposed ANE Contract will provide the significant value to New Hampshire electricity customers because the agreement: (1) results in net benefits for Eversource customers at a reasonable cost; and (2) compares favorably to the range of alternative options reasonably available to Eversource as a result of the competitive solicitation. If approved, Eversource customers will be the direct beneficiaries of the release of incremental gas-transportation capacity to the market, with price relief and improved reliability expected to result

[3] This is based on total storage capacity of 6,373,592 Mcf, after adjusting for the heel and an assumed BTU content of 1,030 BTU/cubic foot.

from the procurement. Specifically, energy cost savings are projected to exceed the contract costs on a 3/1 ratio, excluding any consideration of capacity-release revenues that will be credited to Eversource customers. The benefits of the capacity made possible through the proposed ANE Contract are significant, sustaining and necessary.

10. In this initial filing, Eversource is providing quantitative and qualitative analyses demonstrating that the price associated with the ANE Contract is competitive and that the proposed ANE Contract satisfies other non-price factors, such as reliability, diversity of supply and the ability to directly serve electric generation facilities having a material impact on electricity prices. These attributes are consistent with the energy policy of the state "to meet the energy needs of the citizens and businesses of the state at the lowest reasonable cost while providing for the reliability and diversity of energy sources." RSA 378:37.

11. To support of the Commission's approval of the ANE Contract proposal, Eversource is submitting the following testimony and related attachments:

- Mr. James G. Daly, Vice President, Energy Supply for Eversource Energy Service Company, providing an overview of the filing and addressing several aspects of the Eversource proposal including the energy-market conditions that are giving rise to the need for incremental interstate gas pipeline transportation and storage services; the net-benefits analysis prepared in relation to the proposed ANE Contract; the process conducted by the Eversource EDCs[4] to identify resource alternatives for addressing pipeline capacity constraints, including the request for proposals ("RFP") process; possible alternatives to the Access Northeast project and the economic and non-economic factors used by the Company to evaluate the Access Northeast project; how Eversource will manage contract quantities and maximize the release revenues received by customers; and the proposed ratemaking mechanism for the costs and revenues attributable to customers.

- Mr. James M. Stephens, of Sussex Economic Advisors, LLC ("Sussex Advisors"), addressing the market and policy factors that influenced the Company's decision to acquire firm natural gas transportation and storage capacity; the process that Eversource followed to confirm that the proposed contracts would provide an appropriate solution to market dynamics that have produced reliability concerns and high electric retail prices;

[4] The "Eversource EDCs" include the Company and the Eversource Massachusetts EDCs.

the terms and operation of the contractual arrangements executed by the Company; and the Company’s evaluation and analysis of potential resource alternatives.

- Mr. Kevin R. Petak, of ICF International (“ICF”), sponsoring the report titled, “Access Northeast Project - Reliability Benefits and Energy Cost Savings to New England Consumers,” which was prepared in relation to the ANE Contract (the “ICF Report”). The ICF Report focuses on the impact that new infrastructure is expected to have on regional gas and electricity prices, and the associated economic impacts for consumers. The assessment includes an independent evaluation of the electric consumer benefits expected to arise from the lower gas prices available as a result of the proposed ANE project.

- Mr. Tilak Subrahmanian, Energy Efficiency for Eversource Energy Service Company, describing the role that the Company’s energy efficiency programs played in the evaluation of alternatives.

- Mr. Christopher J. Goulding, Manager of Revenue Requirements – New Hampshire and Ms. Lois B. Jones, Team Leader – Rates, for Eversource Energy Service Company, explaining the mechanism by which the Company will recover contract-related costs and flow back to customers the net revenues associated with the release of capacity and any associated sale of storage made by the EDC or its Capacity Administrator/Manager. The testimony and attachments also present potential bill impacts for customers relating to the contract costs.

12. The Eversource EDCs jointly issued an RFP with National Grid on October 23, 2015 to six interstate pipeline companies serving the New England region and two LNG providers.[5] The purpose of the RFP was to confirm the range of resource alternatives that would be operationally feasible, commercially reasonable, cost-effective and sufficiently sized to have a significant impact on generation-related reliability and cost concerns. The bid guidelines encompassed threshold criteria, as well as contractual parameters, that would need to be met to be considered a viable solution, including but not limited to criteria related to regional scale, delivery and receipt points, flexible service offerings, price, contract terms and renewal rights, contract/precedent agreements, service agreements/tariffs, experience and expertise, necessary approvals, financial statements/business reports and legal matters/conflicts.

[5] Prior to and during the RFP process and subsequent contract negotiations, Eversource utilized a rigorous process to ensure that contract negotiations were conducted on a transparent, arms-length basis consistent with N.H. Code Admin. Rules Puc 2100.

13. The Eversource EDCs received seven bids on November 13, 2015 encompassing four interstate pipeline companies and three LNG suppliers. The pipelines included Tennessee, Algonquin, Portland Natural Gas Transmission System ("PNGTS") (jointly with TransCanada Corporation ("TransCanada") and Iroquois Gas Transmission ("Iroquois"), and Iroquois separately from TransCanada and PNGTS. The LNG suppliers included Repsol Energy North America ("Repsol"), GDF Suez Energy North America ("GDF SUEZ") and Stolt LNGaz of Canada. Some bidders identified multiple options within their bids resulting in the evaluation of approximately 20 resource alternatives.

14. As described in the testimony, the Eversource EDCs evaluated the bids with the assistance of an unaffiliated third-party, Sussex Advisors, in a three-step process. In the first step, a screening analysis was undertaken to determine whether the respective bid conformed with the requirements and objectives of the RFP. Several bids were eliminated from consideration at this stage due to the fact that the bids were "non-conforming" in terms of satisfying the threshold bid criteria. The projects remaining after the preliminary screening included the Tennessee Northeast Energy Direct ("NED") project; the 600,000 MMBtu/day PNGTS proposal from Wright, NY; several GDF Suez alternatives; the Repsol supply alternative; and the Access Northeast project.

15. The second step of the process involved organizing the bids by the Pipeline Delivery Area served (*i.e.*, Algonquin or Tennessee) and then by category of project (*i.e.*, Pipeline Only, Pipeline with LNG Storage (Hybrid), and Imported LNG). The quantitative analysis performed in this second step of the process by Sussex Advisors was based on a "landed-cost" analysis, as presented by Mr. Stephens in Attachment EVER-JMS-4 (Sussex Landed Cost Analysis).

16. The landed cost analysis was developed as a threshold component of the Company's decision-making process, but is not the sole factor for differentiating the relative benefits of the project proposals or determining resource selection. The overriding objective of the resource procurement is to enter into a contract that will lead to the development of gas transportation and/or storage capacity that will have the greatest potential to improve reliability and reduce prices in the wholesale electric market, *i.e.*, producing the highest value to electricity customers. The qualitative analysis was based on the assessment of certain risk categories including: generation capacity served; peak day deliverability; flexibility; receipt point liquidity; construction risks; sponsor financial consideration; and potential capacity mitigation opportunities. The projects remaining after the second-step analysis included the Tennessee NED project and the Access Northeast project.

17. The third step of the bid evaluation process was a comparative assessment of the Access Northeast project and the Tennessee NED project. The Access Northeast and Tennessee NED projects were each evaluated in relation to their respective capabilities to improve reliability and to have a meaningful impact on wholesale market prices.

18. Sussex Advisors identified the Access Northeast project as the option with the highest capability to impact the reliability and pricing issues affecting the New England region. The Access Northeast project is connected to nearly 70 percent of New England's electric generation capacity that is directly connected to an interstate pipeline. Therefore, the key capabilities of the Access Northeast project that position it to have a major impact on regional reliability and wholesale market prices are that the project: (1) reaches the largest number of directly connected power plants; (2) provides access to liquid supplies of scale and is designed to minimize the need to reach back further to more liquid points with larger demand charges; and

(3) is designed to provide operational flexibility through a market area domestic LNG facility that will support no-notice and fast-start services for electric generators. In addition, Algonquin, as a sponsor of the Access Northeast project, has considerable experience constructing, operating, and expanding natural gas transportation in New England. That experience includes the currently underway Algonquin Incremental Market project and the Atlantic Bridge project, which similarly expand the capacity of the Algonquin system.

19. In accordance with the determination that the Access Northeast project provided the option with the highest capability to impact the reliability and pricing issues affecting the New England region, Eversource negotiated and executed the ANE Contract. The ANE Contract sets forth the rights and obligations of Algonquin and the Company to seek to obtain the necessary corporate and regulatory approvals, and requires the Company and Algonquin to execute a Service Agreement following receipt of those approvals. Copies of the executed precedent agreements and the related service agreement are provided in Attachment EVER-JGD-2 (CONFIDENTIAL).

20. The ANE Contract provides a Maximum Daily Receipt Quantity ("MDRQ") of 37,000 MMBtu/day of capacity and a Maximum Daily Withdrawal Quantity ("MDWQ") of 29,600 MMBtu/day from the LNG storage service, which provides an opportunity to deliver up to a maximum of 66,600 MMBtu/day of gas to New England generators. The contract quantities were determined through a computation of New England load share and represent the load share served by the Company within the load served by investor-owned EDCs in New England.

21. The proposed ANE Contract provides a 20-year term beginning on the in-service date of the first of four planned phases of the Access Northeast project. The project is scheduled to go into service beginning with the first phase starting on November 1, 2018; the second Phase

starting on November 1 2019, the third phase commencing on November 1, 2020; and the fourth and final phase commencing on May 1, 2021. Eversource and the other EDC customers for the Access Northeast project have negotiated a levelized cost for the 20-year duration of the contract. The rate paid by the EDCs will be based on the actual cost of construction subject to a cap. The ANE Contract also contains provisions related to costs and cost caps, regulatory approvals, right of first refusal and discounts for contract extensions and most-favored-nation status.

22. To maximize the value of the ANE Contract for customers, the Eversource EDCs collaborated with National Grid to develop the ERSP. The ERSP will utilize a Capacity Manager, to be selected following a competitive bidding process, to administer the release of the contracted gas capacity to the market. The Capacity Manager's responsibilities would include releasing the capacity in a manner consistent with the EDC guidelines, and reporting on results, with compensation paid to the Capacity Manager in the form of a fixed fee. The Capacity Manager will not be allowed to have any conflicts of interest that could distract or conflict with its requirement to provide value for the EDC retail electric customers, which include effectively releasing capacity to the generators to ensure reliability and maximizing the credits received from the releases of capacity to help offset the cost of the EDC capacity.

23. The ICF Report developed for the Eversource EDCs and included with this filing demonstrates that Access Northeast would generate significant cost savings to New England electric consumers by reducing the price of natural gas delivered to New England power generators, and subsequently, wholesale energy prices in all New England states. ICF estimates wholesale power price reductions of up to $12/MWh, with the total cost of the Access Northeast project equating to $4/MWh and net savings for customers of approximately $8/MWh. Taking

into account the cost of the pipeline, the net benefits to New England electric consumers could range from $0.9 to $1.3 billion per year on average, under normal weather conditions with capacity-release and LNG sales revenues only increasing that count.

24. In addition to the analyses supporting the ANE Contract, Eversource has included a mechanism for cost recovery and crediting of net release revenues. The mechanism is designed to net costs against expected revenues so that customers are charged a net cost that is recovered from all customers through a uniform per kWh rate. The cost elements of the ANE Contract include: (1) fixed and variable transportation charges; (2) storage inventory costs and injection and withdrawal charges; and (3) administration charges, which would encompass fixed fees paid to the Capacity Manager and consulting fees or other similar costs incurred by participating EDCs to effectuate and manage the contracts. Revenues offsetting those costs would be obtained from capacity releases and sales from LNG inventory.

25. The Company's initial filing discusses the additional regulatory approvals that are necessary for the Access Northeast project to move forward. Specifically companies engaged in the interstate transportation and storage of natural gas in interstate commerce must receive a "Certificate of Need and Public Necessity" from FERC to construct a major project. FERC is directly involved in evaluation the costs of the projects; the rates to be charged by the sponsor; and compliance with FERC regulations. The U.S. Department of Transportation is involved in safety issues. A specific FERC concern is that the project must be supported by long-term contracts and not involve subsidies from other pipeline customers. Therefore, like other interstate pipeline projects, Access Northeast will require state-approved, long-term contracts as a prerequisite for its FERC approvals.

26. For this reason, New England states other than New Hampshire must also approve contracts relating to the Access Northeast project. At this point, all New England states except Vermont have laws or regulations in place, or proposed, that allow for the development of natural gas infrastructure to serve power generation. Consistent with the established regulatory structures, efforts are underway in each of the six states to consider participation and support for infrastructure contracts that will alleviate reliability and cost concerns for New England's retail electric customers. As noted, Eversource operating affiliates are currently seeking state regulatory approval in Massachusetts for ANE contracts equal to the load share served by NSTAR Electric Company and Western Massachusetts Electric Company. In Connecticut, the Department of Energy and Environmental Protection is expected to conduct an RFP and direct the EDCs, including the Connecticut Light and Power Company, to enter into precedent agreements for gas transportation capacity.

27. The Access Northeast project is sized as a regional solution and will require other New England states to take responsibility for a proportional share of the costs of the project, which are necessary to achieve the benefits of lower electricity rates and increased reliability across the New England region. Even with the Commission's approval of the proposed ANE Contract, Access Northeast will require sufficient subscription (*i.e.*, a total of 900,000 MMBtu/day), evidenced through the execution of long-term contracts by EDCs operating throughout New England. If other approvals do not follow in one or more New England states, AGT will need to make a determination whether to proceed with fewer precedent agreements; to reconfigure the project and renegotiate the existing precedent agreements; or terminate the project. Given the significant benefits available to New Hampshire customers as a result of

project implementation, it will be important for New Hampshire to monitor developments and allow for adaptations and adjustments to achieve project implementation.

28. The proposed contract may be approved by the Commission and within its legal authority because, as discussed in the legal memoranda filed in Docket No. IR 15-124, as well as the Staff report: (1) the Company's participation in the ANE Contract does not violate the Restructuring Principles of RSA Chapter 374-F; (2) the corporate powers granted to Eversource by RSA Chapter 374-A appear to encompass and authorize such contract execution; (3) the exercise of Commission authority is in the public interest under RSA 374:57; (4) participating in a contract designed to improve regional and state electric reliability is consistent with the planning principles set out RSA 378:37 and :38 as well as the New Hampshire 10-Year State Energy Strategy; and (5) cost recovery through rates charged to customers is allowed by and consistent with New Hampshire law, including RSA 374:57 and the provisions of RSA Chapter 374-A, as well as the Commission's plenary authority with respect to utility rates.

29. To achieve the public-interest objectives served by the ANE Contract, it is necessary to facilitate the timely construction of the Access Northeast project. Therefore, Eversource respectfully requests a decision from the Commission approving the proposed ANE Contract and related mechanisms by October 1, 2016.

WHEREFORE, Eversource respectfully requests that the Commission:

A. Find that the 20-year transportation and storage contract between the Company and AGT on the proposed "Access Northeast" project is in the public interest and will provide net benefits at a reasonable cost to Eversource customers in the form of lower electric retail prices;

B. Find that the proposed Electric Reliability Service Program set forth in Attachment EVER-JGD-5 is reasonably structured to govern the release capacity and sale of LNG supply furthering the program objectives;

C. Find that the Long-Term Gas Transportation and Storage Contract tariff would properly allow for recovery of costs associated with agreements executed by PSNH for the provision of interstate pipeline transportation and gas storage services to electric generation facilities in the ISO-NE region; and

D. Order such further relief as may be just and reasonable and necessary to approve the contract proposed herein.

Respectfully submitted this 18th day of February, 2016.

PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE d/b/a EVERSOURCE ENERGY

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