

STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

DOCKET NO. DE 17-096
AUDIT OF DIVESTITURE-RELATED COSTS

DIRECT TESTIMONY OF
ROBERT A. BERSAK

Divestiture Process and Divestiture-Related Costs

On behalf of Public Service Company of New Hampshire
d/b/a Eversource Energy

November 27, 2019

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d/b/a EVERSOURCE ENERGY

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MOTION FOR COMMENCEMENT OF AUDIT

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November 27, 2019

1 **I. INTRODUCTION**

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

3 A. My name is Robert A. Bersak. I am the Chief Regulatory Counsel of Eversource Energy
4 Service Company. I provide legal services to the subsidiary companies of Eversource
5 Energy including Public Service Company of New Hampshire d/b/a Eversource Energy
6 (“PSNH” or “Eversource” or the “Company”). My business address is 780 North
7 Commercial Street, Manchester, New Hampshire.

8 **Q. What are your principal responsibilities in this position?**

9 A. As Chief Regulatory Counsel, I am responsible for overseeing Eversource Energy’s legal
10 practice before state and federal utility regulatory authorities, including the New
11 Hampshire Public Utilities Commission (the “Commission”).

1 **Q. Please summarize your professional and educational background.**

2 A. I graduated from the University of Colorado at Boulder in 1974 with a Bachelor of Science
3 degree in Engineering. I received a Juris Doctor degree from the University of Cincinnati
4 in 1977. I am admitted to the bars of New Hampshire, Connecticut, Ohio and New Jersey,
5 as well as the U.S. District Courts for the Southern District of Ohio and the District of New
6 Hampshire, the U.S. Court of Appeals for the Armed Forces, and the U.S. Court of Federal
7 Claims.

8 I was a Judge Advocate for the United States Air Force from 1978 until 2008, when I retired
9 from military service as a Colonel. I began my practice of utility law while stationed at
10 Pease Air Force Base, New Hampshire, beginning in 1981 when I represented the United
11 States before this Commission regarding PSNH and New England Telephone matters. I
12 was chosen as one of three Air Force lawyers to create the Air Force Utility Litigation
13 Team, an office dedicated solely to the representation of the Air Force and other federal
14 executive agencies before utility regulatory agencies nationwide. In that job, I represented
15 the United States before utility regulators in over a dozen states and drafted federal
16 acquisition regulations governing the procurement of public utility services by all federal
17 agencies.

18 I began my employment with Northeast Utilities (now Eversource Energy) in 1986 (when
19 I left active military service and became a member of the U.S. Air Force Reserve). I was
20 part of the Northeast Utilities due-diligence teams during the PSNH bankruptcy. I began

1 my New Hampshire work on behalf of PSNH during the Northeast Utilities management-
2 services period, awaiting culmination of the Company's bankruptcy.

3 **Q. Have you previously testified before the New Hampshire Public Utilities Commission**
4 **or other regulatory bodies?**

5 A. Yes. I have previously provided testimony to this Commission. I have also testified before
6 a subcommittee of the U.S. Senate energy committee regarding hydroelectric project
7 licensing legislation. While in the Air Force, I also provided expert testimony before a
8 number of courts in the United Kingdom regarding the impact of criminal court convictions
9 of U.S. airmen on their military careers.

10 **Q. As the Company's Chief Regulatory Counsel, were you closely involved in the legal**
11 **and regulatory processes that led to the divestiture of the Company's generation**
12 **assets?**

13 A. Yes. I have been the Company's legal counsel in the myriad legal, regulatory, and
14 commercial proceedings that began with New Hampshire's initial steps toward electric
15 restructuring in the mid-1990s and culminated with the divestiture of PSNH's fossil and
16 hydroelectric generation assets in 2018. Mr. Eric Chung (who is no longer employed by
17 Eversource) and I were part of the Company's team that negotiated the 2015 Public Service
18 Company of New Hampshire Restructuring and Rate Stabilization Agreement, filed with
19 the Commission on June 10, 2015 ("2015 Settlement Agreement"). Upon the approval of
20 that settlement, we both led the Company's subsequent generation divestiture project. I
21 was also part of the Company's team leading to the issuance of rate reduction bonds
22 ("RRBs") to securitize certain divestiture-related costs leading to this current filing.

1 **Q. What is the purpose of your testimony?**

2 A. My testimony is provided in support of the Company's Motion for the Commencement of
3 an Audit of Divestiture-Related Costs ("Motion") and to demonstrate that the Company's
4 final costs were a direct outcome of and fully consistent with governing law, the
5 Commission's orders, and approved settlements on generation divestiture. As explained
6 later in my testimony, the Company's Motion initiates this step in the generation divestiture
7 process and specifically requests that the Commission issue its final determination on the
8 prudence of the Company's securitization of divestiture-related costs.

9 My testimony discusses the following topics: (1) the key New Hampshire statutes and
10 Commission decisions that commenced the divestiture process and established the
11 requirements for the auction process; (2) the activities conducted by the Company in
12 coordination with Commission Staff and the Commission's auction advisor to prepare for
13 and facilitate the auction, including the Mercury Boiler Units 1 and 2 Removal Project
14 ("Project"); (3) the activities conducted to implement the auction process, which
15 culminated in the Commission's approval of purchase and sale agreements ("PSAs") for
16 the Company's generation assets, followed by the closings on those transactions in
17 November, 2017, and January and August 2018; and (4) a description of the Company's
18 financial schedules detailing the actual divestiture-related costs incurred as of October 31,
19 2019, and demonstrating that the costs are consistent with the initial estimates provided
20 earlier in this docket in the Company's application for a financing order and with the final

1 estimates developed for the RRBs that were ultimately issued pursuant to that order. My
2 testimony is organized into sections that correspond to these topics.

3 **Q. Are you providing any attachments in support of your testimony?**

4 A. Yes, my testimony includes the following attachments:

Attachment	Description
Attachment RAB-1	Divestiture-Related Costs – Financial Schedules
Attachment RAB-2	Deloitte & Touche LLP Agreed Upon Procedures Report

5

6 **II. DIVESTITURE ORDERS**

7 **Q. Would you briefly describe the actions that led PSNH to divest its generating assets?**

8 A. As I noted earlier, New Hampshire took its initial steps toward electric restructuring in the
9 mid-1990s, with the enactment of the so-called “Pilot Program on Competition” in 1995
10 (1995 N.H. Laws, 272:12), followed by the creation of RSA Chapter 374-F, the “Electric
11 Utility Restructuring” law in 1996 (1996 N.H. Laws, Ch. 129). In RSA 374-F, the
12 legislature contemplated that the state’s regulated electric utilities should no longer be in
13 the electricity generation business. Regulatory and litigation delays involving the
14 restructuring of PSNH ultimately led to the 1999 “Agreement to Settle PSNH
15 Restructuring” (the “1999 Settlement”). The Commission conditionally approved this
16 settlement in its Order No. 23,443 dated April 19, 2000. That settlement, as approved by
17 the Commission, set forth a plan for “Divestiture of PSNH’s generating assets and
18 purchased power obligations, including its entitlement to power generated at the Seabrook

1 Nuclear Plant under its contract with North Atlantic Energy Corporation.” 1999 Settlement
2 at 2.

3 The Company began the divestiture process with the sale of the Seabrook Nuclear Plant.
4 Seabrook was ultimately sold on November 1, 2002 to FPL Energy Seabrook, LLC, an
5 affiliate of Florida Power & Light Co. (now NextEra) pursuant to a purchase and sale
6 agreement dated April 13, 2002.

7 During that same time period, the legislature had second thoughts regarding PSNH’s
8 divestiture of generation. In a series of laws, the legislature delayed the divestiture process.
9 In Commission Docket No. IR 13-020, “Investigation into Market Conditions Affecting
10 PSNH and its Default Service Customers and the Impact of PSNH's Ownership of
11 Generation on the Competitive Electric Market,” I filed a comment letter dated June 28,
12 2013 on behalf of PSNH that set forth the ever-changing statutory background regarding
13 the Company’s generating business.

14 Finally, in 2014, the legislature enacted 2014 N.H. Laws Ch. 310, “An Act relative to the
15 divestiture of PSNH assets and relative to the siting of wind turbines.” This law authorized
16 the Commission “to determine if divestiture of Public Service Company of New
17 Hampshire’s (PSNH) remaining generation assets is in the economic interests of PSNH’s
18 retail customers....” This 2014 law, and the then on-going proceeding regarding the
19 recovery of costs related to the installation of scrubber technology at the Company’s
20 Merrimack Station as required by RSA 125-O:11, *et seq.*, ultimately led to a second

1 settlement calling for divestiture of the Company’s remaining generating assets, which was
2 the 2015 Settlement Agreement.

3 **Q. Did the Commission issue a seminal order in July 2016 that would begin the process**
4 **of divesting PSNH’s generation assets?**

5 A. Yes. On July 1, 2016, the Commission issued Order No. 25,920 in Docket Nos. DE 11-
6 250 and 14-238 (the “Divestiture Order”) approving the 2015 Settlement Agreement, as
7 well as a January 26, 2016 “Amendment to Settlement,” and the “Partial Litigation
8 Settlement” between settling parties and non-advocate Staff, filed with the Commission on
9 January 26, 2016 (“2016 Litigation Settlement”). The settlements resolved all outstanding
10 issues in relation to cost recovery for the Merrimack Station scrubber project, and directed
11 the Company to “begin the process of divesting its generation assets, as contemplated by
12 HB 1602, SB 221, RSA Chapter 374-F, and allied statutes, subject to the conditions
13 delineated in the Settlement Agreements and described in this Order.” Divestiture Order,
14 at 2.

15 As described by the Commission, the 2015 Settlement Agreement presented a
16 comprehensive approach to divestiture of Eversource’s generation assets, including,
17 among other terms, provisions for issuance of securitized RRBs and default service, and
18 “the technical specifics of the process for divestiture . . . including the retention of an
19 auction expert (Auction Advisor), the oversight of the Commission throughout the process
20 . . . , the identity of the assets to be divested, . . . [and] the approvals expected to be

1 required by Eversource in connection with the divestiture transactions.” Divestiture Order
2 at 36 – 40.

3 **Q. Did the Legislature endorse the divestiture process contemplated by the 2015**
4 **Settlement Agreement?**

5 A. Yes. In March 2015, Eversource filed a term sheet that established the terms subsequently
6 encompassed in the 2015 Settlement Agreement, including a draft legislation package
7 outlining the expected terms of a legislative settlement. The draft legislation was
8 introduced during the General Court’s 2015 session as SB 221 and was enacted, with
9 modification, effective on July 9, 2015. 2015 N.H. Laws, Ch. 221. Section 10 of Chapter
10 221 revised RSA 369-B:3-a,I to state, “The general court finds that divestiture of PSNH’s
11 generation plants and securitization of any resulting stranded costs pursuant to RSA 369-
12 B:3, IV(c) is in the public interest,” subject to the Commission’s approval of the 2015
13 Settlement Agreement.

14 In the Divestiture Order, the Commission held that “[t]he ‘applicable standard’ governing
15 the proposed dual settlements in this proceeding relating to the question of divestiture is
16 that of SB 221, i.e., RSA 369-B:3-a, II, which specifies that: ‘[T]he [C]ommission shall
17 review the 2015 settlement proposal and determine whether its terms and conditions are in
18 the public interest” Divestiture Order, at 65. The Commission also stated that in
19 addition to the standard of review applied by SB 221, it was acting pursuant to “the general
20 Restructuring Principles of RSA Chapter 374-F, which indicate the Legislature’s policy

1 direction in favor of the divestiture of Eversource’s generation assets over the last 20
2 years.” Divestiture Order, at 65.

3 **Q. How did the Divestiture Order address the design of the auction process?**

4 A. The General Court had previously enacted RSA Chapter 369-B in which it directed that,
5 “The commission shall administer the liquidation of any electricity generation assets
6 required to be sold The commission shall select the independent, qualified asset sale
7 specialist who will conduct the asset sale process.” RSA 369-B:3,IV(B)(13). Also, as
8 noted, the Commission approved the 2015 Settlement Agreement, which included
9 provisions consistent with these statutory directives, including calling for retention of an
10 Auction Advisor, as well as oversight of the Commission throughout the process.
11 Divestiture Order, at 39-40. The Commission deferred questions related to the auction
12 design to a separate proceeding as informed by the advice to be provided by the Auction
13 Advisor, including questions related to the timing and execution of the Schiller Station
14 mercury boiler removal project (as discussed further, below). In its Divestiture Order, the
15 Commission also found “that the manner of retaining an Auction Advisor contemplated by
16 the 2016 Litigation Settlement will ensure a fair, transparent, and effective process.” Id. at
17 69. The Commission concluded that “[b]y approving the divestiture of Eversource’s
18 remaining generation assets, we implement the Legislature’s long-standing policy goal of
19 restructuring the State’s electric industry to one of full and fair competition.” Id. at 91.

1 **Q. What did the Commission do next?**

2 A. On July 15, 2016, shortly after issuing its Divestiture Order, the Commission issued a
3 request for proposals (“RFP”) to retain the Auction Advisor. The RFP specified that
4 proposals must be submitted by July 29, 2016 and the Commission ultimately received 12
5 proposals. On August 18, 2016, the Commission developed a ranking of the responses and
6 determined that the proposal submitted by J. P. Morgan Securities LLC (“J. P. Morgan”) was the top-ranking proposal. The Commission selected J. P. Morgan as the Auction
7 Advisor, and J. P. Morgan’s contract was subsequently approved on September 7, 2016 by
8 the Governor and the Executive Council.
9

10 **Q. Did the Commission then commence a process to determine the technical details of**
11 **the auction design?**

12 A. Yes. On September 7, 2016, the Commission opened a new docket, Docket No. DE 16-
13 817, called “Auction of Electric Generation Facilities,” to oversee the process of auctioning
14 the PSNH generation facilities. This was the docket in which the Commission determined
15 how it would exercise its oversight role of the divestiture and what the process would be,
16 and ultimately where it directed the Company to proceed with the Mercury Boiler Units 1
17 and 2 Removal Project at Schiller Station. On September 12, 2016, Staff filed J. P.
18 Morgan’s recommendation on auction design and process, including its preliminary
19 recommendation for removal of the mercury boilers at Schiller Station to facilitate the
20 auction. On September 21, 2016, the Commission’s General Counsel notified the
21 Commission that at a Technical Session held on September 19, 2016, the parties to Docket

1 No. DE 16-817 agreed to a number of actions relating to the divestiture process, including
2 “JP Morgan’s recommendation. . .to begin removal of the two mercury boilers and
3 associated equipment located at Schiller Station... .” On October 18, 2016, J. P. Morgan
4 modified the proposal to facilitate municipal participation in the auction process.

5 On October 21, 2016, the Commission issued Order No. 25,956 in Docket No. DE 16-817
6 (“Schiller Order”) determining that the removal of the two mercury boilers from Schiller
7 Station should go forward, as recommended by J. P. Morgan. As Auction Advisor, J. P.
8 Morgan determined “that the form of transaction agreement, particularly those terms that
9 relate to environmental liabilities, can be structured materially more favorably to
10 Eversource and, ultimately, rate payers if the removal is undertaken in conjunction with
11 the auction process as opposed to the mercury boilers remaining at the Schiller facility.”
12 Schiller Order at 3 – 4. The Commission found “that undertaking the proposed removal of
13 the two mercury boilers and related equipment from the Schiller generation station is
14 prudent within the framework of the divestiture auction. We will monitor the manner in
15 which Eversource conducts the removal to ensure that the removal is prudently managed.”

16 Id. at 8.

17 **Q. Did the Commission issue a subsequent order on the auction design?**

18 A. Yes. On November 10, 2016, the Commission issued Order No. 25,967 in Docket No. DE
19 16-817 (“Auction Design Order”) approving the auction design and process recommended
20 by J. P. Morgan, thus allowing the auction process to commence.

1 **Q. Did the Commission defer to its Auction Advisor on the auction process design?**

2 A. Yes. The Commission deferred to J. P. Morgan’s expertise regarding the “optimal design
3 and process” for sale of the generation assets, noting that the approved settlements “clearly
4 anticipated that the Auction Advisor would control the process and that the Commission
5 would oversee it to the extent it deems necessary.” Auction Design Order at 19.

6 **Q. What were the principal elements of the auction process as approved by the**
7 **Commission?**

8 A. As described in the Auction Design Order, J. P. Morgan structured the auction process in
9 two rounds, with Round 1 designed to reach a broad group of potential bidders and Round
10 2 involving a smaller number of selected bidders who appeared to be the best prospects
11 after Round 1. The plan called for J. P. Morgan to reach out to a wide universe of potential
12 buyers in advance of Round 1 to alert them to the process and allow them to submit their
13 qualifications to participate in the process. Auction Design Order at 21. The request for
14 qualifications for Round 1 bidders was scheduled to begin in mid- to late-November 2016.
15 The criteria for selection into Round 1 included ownership and operation of similar
16 facilities, expected sources of financing to purchase the facilities, ownership, governance
17 structure, and operations of the bidder. Id.

18 The Commission also approved the general timing of the process, in which confidentiality
19 agreements would be circulated to qualified Round 1 bidders and finalized in mid-
20 December 2016 to early January 2017. Auction Design Order at 21. A confidential
21 information memorandum (“CIM”) would be circulated to Round 1 bidders in early

1 January 2017. Preliminary non-binding offers for the facilities would be due in mid- to
2 late February 2017. Id. at 21-22. Round 2 bidders would then be selected in early to mid-
3 March 2017, would be allowed access to detailed due diligence material on the facilities
4 through an electronic (virtual) data room, and would be given facility tours and meetings
5 with Eversource management. Id. at 22. J. P. Morgan’s selection criteria for Round 2
6 bidders included the bid price, the assets bid on, demonstrated commitment to the
7 transaction, ability to get financing, past market behavior or reputation, and their
8 experience owning and operating similar facilities. Id. Round 2 was expected to last
9 approximately eight weeks to allow the bidders time to complete due diligence and to mark
10 up the draft purchase agreement prior to submitting their final binding bids. Id.

11 **Q. Did the Commission decide how the winning bids were going to be selected?**

12 A. Yes. As described in the Auction Design Order, the Commission decided that “unlike
13 conventional auction sales, the Commission and Auction Advisor will evaluate final bids
14 to ensure highest total transaction value.” Auction Design Order at 6, fn. 2. J. P. Morgan
15 would prepare a presentation summarizing the bid proposals and review the results of the
16 auction with the Commission, prior to beginning final negotiations. Id. at 22. Depending
17 on the nature of the final proposals received, J. P. Morgan was likely to recommend that
18 the Commission select more than one party for final negotiations of the transaction
19 contract, which the Commission found is typical in competitive auction processes as it
20 fosters competition among the final parties and can potentially lead one of them to improve
21 their bid (in terms of price or terms) above what they included in their final proposal. Id.

1 The Commission also found this process helps to ensure that agreement is reached with
2 one party in the event the other party withdraws or ceases to participate in final
3 negotiations. Id.

4 **Q. Did the Auction Design Order apply through a specific milestone in the divestiture**
5 **process?**

6 A. Yes. The auction design approval covered the time period and process through the
7 conclusion of the Round 2 bids. The Commission directed Staff to “stay involved with the
8 process and to let us know of any problems that may emerge and need our attention.”
9 Auction Design Order at 33. The Commission also asked the parties and Staff to begin
10 discussions with J. P. Morgan about the process needed for its review and approval of final
11 bids at the end of the process in May 2017, stating that the final review should be designed
12 to allow expedited consideration and approval of bids with participation of intervenors, and
13 with minimal disturbance to the final acceptance of bids and closing on the purchases. Id.

14 **III. PREPARING FOR THE AUCTION PROCESS**

15 **Q. In parallel with the dockets leading to the Schiller Order and Auction Design Order,**
16 **was the Company doing advance work to prepare for the sale of its generation assets?**

17 A. Yes. Beginning in July 2015, the Company started preparing for the auction process,
18 although the Company did not know for certain when the Commission would act on the
19 2015 Settlement Agreement. The Company took these actions in order to facilitate an
20 efficient and expeditious process when the time came to commence the auction. The
21 Company set up a large number of work streams, ranging from environmental assessment
22 studies, preparations for the virtual data room, and other pre-auction activities. The

1 Company began work to go through all the plants to make sure they were in top shape for
2 site visits, took aerial photographs for the CIM and data room, and performed exhaustive
3 real estate analysis to determine what properties would be included in the plant sales and
4 where easements would need to be granted or retained. This work was largely done in
5 early 2016, so that by the fall of 2016 when the auction was expected to commence, the
6 Company's assets and information would be ready to go. As authorized by the 2015
7 Settlement Agreement, PSNH engaged Concentric Energy Advisors to assist in preparing
8 for the auction process.

9 **Q. After the Auction Design Order was issued in November 2016, did the auction process**
10 **commence as planned?**

11 A. No. Legal action by the City of Berlin, Town of Gorham and Town of New Hampton,
12 which were intervenors in the auction design proceeding, delayed the start of the auction
13 process. These parties initially filed a motion for reconsideration of the Auction Design
14 Order at the Commission and eventually filed an appeal to the New Hampshire Supreme
15 Court. The Commission issued its order denying reconsideration, Order No. 25,973, on
16 December 23, 2016. The municipalities filed an appeal to the Supreme Court on January
17 11, 2017. The Company filed a Motion for Summary Disposition with the Court on
18 January 23, 2017. The Court issued a prompt ruling on February 14, 2017, granting the
19 Company's motion and summarily dismissing the appeal and affirming the Commission's
20 order. Once this occurred, J. P. Morgan was able to commence the auction process.

1 **Q. During the reconsideration and appeal process, was there additional work taking**
2 **place at the Company to prepare for the auction?**

3 A. Yes. The Company was undertaking some major activities during this time frame,
4 including continued work with J. P. Morgan on the CIM and likewise cooperating with
5 J. P. Morgan's engineering and economic consultants on the preparation of the confidential
6 "Independent Engineer Report" and the "Market Consultant Report." The CIM was an
7 approximately 150-page document that contained an overview of the fleets, plus details on
8 each generating asset including financials, labor information, key agreements and related
9 material. Similarly, the Independent Engineer Report was a 100+ page document and the
10 Market Consultant Report was a 95-page document.

11 Another major deliverable in this time period was completion of the virtual data room,
12 which would house the information to be used by bidders for due diligence in Round 2.
13 The virtual data room would provide the bidders with access to all relevant data on the
14 generation assets and enable them to ask questions prior to submission of final bids. The
15 Company began this effort back in 2015 and was working to finalize the virtual data room
16 in time for Round 2.

17 During this time period, the Company was also performing final walk-throughs of the
18 plants and stations to make sure everything was ready for the site visits. The Company
19 also began working on its management presentation that would eventually be given to
20 bidders in Round 2; was performing additional work to define the specific real estate assets
21 included in the sale; and was conducting environmental assessments with assistance from

1 the engineering firm, Haley and Aldrich, and review by the New Hampshire Department
2 of Environmental Services.

3 **Q. Was the Company also proceeding with the Mercury Boiler Units 1 and 2 Removal**
4 **Project at the Schiller Station around this time?**

5 A. Yes. The Company commenced work on the Schiller Station project shortly after the
6 Commission issued the Schiller Order approving the Company's request to undertake the
7 project, as recommended by J. P. Morgan.

8 **Q. Is the Company providing additional information on the Schiller Station project in**
9 **support of its motion in this docket?**

10 A. Yes. The testimony of Company witness Catherine A. Finneran presents the Company's
11 comprehensive report on the removal of Mercury Boilers Units 1 and 2 at Schiller Station.
12 As Ms. Finneran describes, the report provides a comprehensive review and documentation
13 of the removal project, including project schedule and costs.

14 **Q. Did the Schiller Station project meet the objectives of the Auction Advisor, as**
15 **anticipated in the Schiller Order?**

16 A. Yes. As noted earlier, J. P. Morgan determined that the PSA, and in particular the terms
17 that relate to environmental liabilities, could be structured materially more favorably to
18 Eversource and, ultimately, customers if the mercury boiler removal was undertaken in
19 conjunction with the auction process as opposed to the mercury boilers remaining at the
20 Schiller facility. In successfully completing this project, Eversource mitigated the potential
21 environmental liability and ultimately benefited the auction process.

1 **IV. IMPLEMENTATION OF THE AUCTION PROCESS**

2 **Q. When did the auction process begin?**

3 A. J. P. Morgan initiated the auction process shortly after the Supreme Court issued its ruling
4 on February 14, 2017 dismissing the municipalities' appeal of the Auction Design Order.
5 Consistent with that decision, the auction was conducted in two stages, in which Round 1
6 was for preliminary indications of value and Round 2 was for final bids. The auction began
7 with an initial outreach by J. P. Morgan to a broad array of public and private companies
8 in the energy industry, including existing fossil and hydroelectric plant operators and
9 generating companies and host municipalities. On April 12, 2017, J. P. Morgan issued a
10 confidential bid letter in the nature of an RFP, describing to potentially interested parties
11 the process by which they could submit indicative bids. J. P. Morgan contacted 182
12 potential buyers as part of its initial outreach process.

13 **Q. What happened next?**

14 A. To participate in the auction process and to receive access to confidential materials,
15 potential bidders were required to submit qualifications that would demonstrate their ability
16 to purchase and operate the generating facilities, and then to sign a confidentiality
17 agreement to obtain access to the CIM. From the 182 potential bidders that were contacted
18 by J. P. Morgan, 40 submitted qualifications and 38 executed confidentiality agreements.
19 In those agreements, potential bidders agreed to direct all communications concerning the
20 portfolio or the auction to J. P. Morgan. J. P. Morgan provided the CIM and market and
21 engineering analyses to potential qualified bidders and interested municipalities that

1 executed the nondisclosure agreement. J. P. Morgan also distributed indicative bid
2 instructions to qualified potential bidders. The bid instructions allowed bidders to submit
3 non-binding bids on single facilities or groups of facilities.

4 **Q. What were the results of the Round 1 bids?**

5 A. In early May 2017, J. P. Morgan received 25 Round 1 bids, including 11 bids for the total
6 portfolio and 14 bids for one or more assets. J. P. Morgan conducted an analysis of the
7 indicative bids and consulted with Commission Staff and Eversource to determine which
8 Round 1 bidders should advance to Round 2. Ultimately, 16 potential bidders were
9 included in Round 2 of the auction process.

10 **Q. Did Round 2 proceed in conformance with the Auction Design Order?**

11 A. Yes. The 16 bidders selected for Round 2 received access to the electronic data room
12 containing documents compiled for the auction process, including detailed operational,
13 financial, and due diligence information for each of the generation facilities. Round 2
14 bidders were invited to visit each of the facilities in person, accompanied by Eversource
15 and J. P. Morgan representatives, as well as members of Commission Staff. Round 2
16 bidders also received a comprehensive business, operational and financial presentation
17 from Eversource management, which was facilitated by J. P. Morgan and attended by
18 Commission Staff. Round 2 bidders were also invited to submit written questions to be
19 answered in writing by Eversource or J. P. Morgan as appropriate. Round 2 bidders
20 submitted more than 2,000 due diligence questions, each of which was logged and
21 answered by Eversource or J. P. Morgan, with J. P. Morgan managing and documenting

1 the process. Round 2 bidders also received a draft PSA, which they could mark-up and
2 submit with final bids. At the end of Round 2, J. P. Morgan distributed final instructions
3 to all the bidders.

4 **Q. What were the final bid results?**

5 A. In late August 2017, J.P. Morgan received seven final bids, including three for the entire
6 portfolio and four for one or more assets. J. P. Morgan managed the process to assess the
7 bid terms and PSA mark-ups. J. P. Morgan reviewed and evaluated the bids according to
8 the criteria approved by the Commission. J. P. Morgan identified the combination of
9 leading bids that would maximize total transaction value and then commenced post-bid
10 negotiations with five of the bidders.

11 Following post-bid negotiations and based on the approved criteria, J. P. Morgan
12 recommended moving forward with two bidders: one for the sale of the thermal generating
13 assets and the other for the hydroelectric assets. J. P. Morgan determined that this course
14 provided overall value that exceeded any other combination of individual thermal and
15 hydroelectric bids, as well as any final bid received for the full portfolio.

16 **Q. Please describe the process that took place after the auction to finalize the PSAs for**
17 **the thermal assets and hydroelectric assets.**

18 A. The Commission Staff deferred to J. P. Morgan to evaluate the bids and come up with
19 recommendations on the bid or combination of bids that would maximize the portfolio
20 value. However, J. P. Morgan also made sure that Staff and Eversource saw the bids and
21 had a chance to look at the proposals and any mark-ups to the PSA to determine their

1 acceptability. A prime example of an unacceptable term was where the Company would
2 retain all environmental liabilities for the life of the plant.

3 An important item of note is, because of the Commission's role in having oversight over
4 the entire auction process, and the Commission's role in engaging J. P. Morgan as the
5 Auction Advisor, the final decisions regarding which bidders to negotiate with and which
6 bids should be selected to provide the most value to customers, were ultimately made by
7 the Commission and J. P. Morgan, and not Eversource. However, once the winning bids
8 were selected by J. P. Morgan and the Commission, Eversource commenced negotiations
9 with the buyers to finalize the PSAs. The PSA negotiations covered issues such as
10 environmental liabilities, employee protections, transitional services, transaction
11 documentation, applications for necessary regulatory approvals, and the like. The bidders'
12 mark-ups were factored into the dollar amounts of their bids and largely established the
13 parameters for final negotiations.

14 **Q. How was the form of PSA developed?**

15 A. The PSA was developed by the Company's attorneys based upon the PSA approved by the
16 Commission for the sale of the Seabrook Nuclear Plant in 2002 and then provided to J. P.
17 Morgan and its attorneys, and to the Commission staff and its attorneys, for review prior
18 to issuing the draft PSA to the Round 2 bidders.

1 **Q. Following execution, were the final PSAs submitted to the Commission for approval?**

2 A. Yes. The final negotiation process resulted in one PSA with Granite Shore Power LLC for
3 the fossil portfolio (the “Thermal PSA”) and one PSA with HSE Hydro NH AC, LLC
4 (“Hull Street Energy”) for the hydroelectric assets (the “Hydro PSA”). On October 12,
5 2017, the Company filed an application for approval of the PSAs in Docket No. DE 17-
6 124. On that same date, J.P. Morgan filed its auction report and testimony describing the
7 auction process and recommending approval of the sales to the two winning bidders. The
8 auction process was further described and summarized by the Commission in Order No.
9 26,078, “Order Approving Sale of Thermal Generation Facilities,” issued on November
10 28, 2017 in Docket No. 17-124 (“Thermal PSA Order”); and in Order No. 26,080, “Order
11 Approving Sale of Hydroelectric Generation Facilities,” issued on November 29, 2017 in
12 the same docket (“Hydro PSA Order”). The Commission found in both cases that the
13 auction process leading to the sale of the generation assets “was commercially reasonable,
14 competitive, and consistent in all respects with our prior Auction Design Order.” Thermal
15 PSA Order at 27; Hydro PSA Order at 28.

16 **Q. Did the Commission approve the final PSAs?**

17 A. Yes. In the Thermal PSA Order issued on November 28, 2017, the Commission approved
18 the Thermal PSA for the sale of fossil plants, characterizing its decision as the “third step
19 in a regulatory process that was set in motion by the 2015 Settlement and the related

1 legislation SB 221 (2015).” Thermal PSA Order at 21.¹ The Commission found that the
2 auction process was conducted in a manner consistent with its prior orders; that the auction
3 maximized the total transaction value of the Eversource generation portfolio; and that the
4 auction results for the Thermal Assets reflect a market-based determination of the value of
5 those assets for stranded costs. Thermal PSA Order at 22 – 23. The Commission
6 determined that the sale was consistent with the objectives of the New Hampshire
7 restructuring statute and the legislature’s finding in RSA 369-B:3 that the divestiture of the
8 Company’s generation assets is in the public interest.

9 **Q. Did the Commission issue a similar decision on the Hydro PSA?**

10 A. Yes. In the Hydro PSA Order issued on November 29, 2017, the Commission approved
11 the Hydro PSA, including similar findings on the auction process, transaction value and
12 market-based determination of the value of the assets.

13 **Q. Did the Commission make certain findings related to environmental liabilities under**
14 **the PSAs?**

15 A. Yes. The Thermal PSA required Eversource to remain liable for most pre-closing
16 environmental liabilities for seven years from the closing date, subject to a \$25 million
17 aggregate cap. Thermal PSA Order at 26. Eversource retained liability for completion of
18 the Mercury Boiler Units 1 and 2 Removal Project at Schiller Station, off-site disposal of

¹ The first step was the Divestiture Order (Order No. 25,920), in which the Commission approved the 2015 Settlement Agreement as in the public interest and ordered the sale of Eversource’s generating facilities by auction. The second step of the process was the selection of an Auction Advisor and the approval of the Auction Design Order (Order No. 25,967).

1 hazardous wastes, and for fines and penalties. Similarly, the Hydro PSA required
2 Eversource to retain liability for most pre-closing environmental liability for five years
3 from the closing date subject to an aggregate \$8.3 million cap. Hydro PSA Order at 27. In
4 both cases, the Commission found the “balance of risks reasonable, and [relied] on J. P.
5 Morgan’s testimony that the environmental liability risk allocation represents a
6 commercially reasonable contractual term.” Thermal PSA Order at 26; Hydro PSA Order
7 at 27. In those orders, the Commission approved the Company’s plan to purchase
8 insurance coverage for its retained environmental liabilities, at an estimated cost of
9 \$700,000 for the thermal assets and \$160,000 for the hydroelectric assets, finding these to
10 be prudently incurred costs of the PSAs. Id.

11 **Q. Did the Commission reach any conclusions regarding the recovery of stranded costs**
12 **in those decisions?**

13 A. The Commission noted that Eversource had estimated the sale proceeds of the Thermal
14 PSA and the Hydro PSA, as well as various transactional costs, to arrive at an approximate
15 cost-recovery amount following the closing date. Thermal PSA Order at 25. The
16 Commission stated that the purpose of the docket was “not to establish a final stranded cost
17 amount or to approve recovery of such costs.” Id. The Commission noted the uncertainty
18 of predicting future stranded costs or exact sales results and that it would consider the
19 amount and recovery of any resulting stranded costs “in the pending docket on
20 securitization, Docket No. DE 17-096, following the closings of the two sales.” Id.

1 **Q. How soon after receiving the Commission’s orders approving the PSAs did the**
2 **closings occur?**

3 A. The closing on the Thermal PSA occurred on January 10, 2018. The closing on the Hydro
4 PSA occurred on August 24, 2018.

5 **Q. How many transactions were required to accomplish the divestiture of all the**
6 **generation assets?**

7 A. There were four separate sales transactions as a result of the divestiture effort: (1) the
8 Thermal PSA, which was the sale to Granite Shore Power of the Company’s fossil and
9 thermal plants (Merrimack Station, Schiller Station, Newington Station, White Lake and
10 Lost Nation) for \$175 million, subject to certain adjustments pursuant to the terms of the
11 Thermal PSA; (2) the Hydro PSA, which was the sale to Hull Street Energy of the
12 Company’s hydroelectric generating facilities for \$83.3 million, subject to certain
13 adjustments pursuant to the terms of the Hydro PSA; (3) the sale of PSNH’s minority
14 ownership interest in the Wyman IV generating station in Maine, which, based upon the
15 advice of J. P. Morgan and concurrence with the Commission and Staff, was sold to the
16 majority owner, NextEra, outside of the bid process;² and (4) sale of the Company’s
17 ownership of shares in the Androscoggin Reservoir Company (“ARCO”), which owns
18 headwaters projects in northern New Hampshire and Maine.

² Separately, in Docket No. DE 17-105, the Commission approved Eversource’s sale of its 3.1433 percent interest in the W.F. Wyman Station – Unit 4 located in Yarmouth, Maine, to FPL Energy Wyman IV LLC. The sale was conducted outside the auction process as provided by the 2015 Settlement Agreement. The sale proceeds of approximately \$1.6 million were applied first to reimburse Eversource for the book value of the facility and expenses of sale. The balance was applied to reduce stranded costs. *See* Order No. 26,060 (September 27, 2017). The closing on the sale of Wyman IV occurred on November 1, 2017.

1 Under the terms of the Bylaws of ARCO, if any owner is going to sell its shares, the other
2 owners have a right of first refusal. Once the bids were received in the auction process,
3 the Company was required to offer its shares to the other existing ARCO owners, and all
4 of them exercised their first refusal rights to purchase the Company's shares. On a net
5 basis, this made no difference in the sale proceeds, because the owners paid the same value
6 for the Company's ARCO shares (\$500,000) as Hull Street Energy would have paid under
7 the Hydro PSA. This amount became a closing adjustment under the Hydro PSA.

8 **Q. Were there additional regulatory approvals and transition issues that affected timing**
9 **on the closing of the fossil plants?**

10 A. Yes. The sale of the fossil plants under the Thermal PSA was subject to approval by the
11 Federal Energy Regulatory Commission ("FERC") under Section 203 of the Federal Power
12 Act. The Company filed its FERC application on October 27, 2017 and the process ran in
13 parallel with the Commission's Docket No. DE 17-124. The FERC approval was issued
14 in its Docket No. EC 18-12 on December 27, 2017.

15 In addition, to accommodate the buyer's transition and mitigate the impact of the sale on
16 affected employees, the closing was timed to coincide with the end of an employee pay
17 period, so that the transition from PSNH to the new owner would be a clean break point
18 between pay periods. Lastly, the buyer was preparing to take on the significant operational
19 responsibilities for the plants. The Company assisted this process by entering into a
20 Transition Services Agreement with the buyer as contemplated by the PSA, which was
21 negotiated and finalized in the time period leading up to closing. The Company maintained

1 frequent contact with the Commission Staff to keep them informed on all events prior to
2 closing. Following these events, the closing occurred promptly on January 10, 2018.

3 **Q. Did the Thermal PSA include a closing adjustment mechanism based on the timing**
4 **of the closing?**

5 A. Yes. The Thermal PSA included a formula to adjust the sale price if the closing occurred
6 after December 31, 2017. Section 2.6(a)(iv) contained the detailed closing adjustment
7 calculation that was part of the approved final agreement. This adjustment is reflected in
8 the Company's final cost schedules.

9 **Q. What was the factor that affected the timing of the closing under the Hydro PSA?**

10 A. The closing on the sale of the hydroelectric assets did not occur until August 2018 because
11 the transaction was awaiting FERC approval for the transfer of the various project
12 hydroelectric licenses required by Section 8 of the Federal Power Act, as well as Section
13 203 approval. The FERC proceeding extended into 2018 because of the actions of the City
14 of Berlin, which intervened in the FERC hydro license transfer process and thus caused the
15 docket to become a contested proceeding. The process related to FERC Project Numbers
16 1893, 2456, 7528, 2457, 2288 and 2287, which were the project numbers for the six
17 different licenses held by PSNH for eight jurisdictional hydro projects. FERC issued its
18 Section 203 approval in its Docket No. EC 18-42 on February 28, 2018 and its order
19 approving the license transfers on July 16, 2018. The FERC license transfer approval was
20 also subject to a 30-day rehearing period per Section 313(a) of the Federal Power Act, and
21 in light of the contested nature of the proceeding, the closing could not go forward until

1 the conclusion of that period. The parties subsequently selected the August 24, 2018
2 closing date to correspond with the end of an employee pay period, similar to the closing
3 on the Thermal PSA.

4 **Q. Were there other issues to resolve prior to closing under the Hydro PSA?**

5 A. Yes. Approval of the sale of one of the assets, Canaan Hydro, was required from the
6 Vermont Public Utility Commission, as that facility is located in Vermont. PSNH filed for
7 Vermont commission approval on October 24, 2017; and the Vermont commission issued
8 its “Order Consenting to Sale of Assets” in Case No. 17-4692-PET on December 14, 2017.

9 Also, in parallel with the FERC process, the Company was working to resolve several
10 closing issues with the buyer, the most significant of which was whether the plants would
11 be treated as “intermittent” or “non-intermittent” resources by ISO-New England. The
12 significance of this distinction was that a non-intermittent resource would qualify for
13 certain capacity revenues that were not available to intermittent resources. The ISO rules
14 for this determination were unclear and an adjudication of this issue would have created
15 significant delay in the closing along with financial risks for both parties. To resolve this
16 issue and proceed to closing, the Company, in consultation with Commission Staff and
17 J. P. Morgan, ultimately negotiated a \$5.6 million adjustment to the purchase price based
18 on Section 5.15 of the Hydro PSA as a liquidated settlement of this issue. The adjustment
19 was memorialized in a closing side letter.

1 There was also an adjustment to the \$83.3 million purchase price to account for the
2 Company's transfer of its interest in ARCO, as described earlier. The Company received
3 the \$500,000 value for its ownership share from the other ARCO owners, and therefore
4 this amount was an offset to the purchase price under the Hydro PSA.

5 **Q. Did the Company enter into a Transition Services Agreement with the buyer of the**
6 **hydroelectric facilities?**

7 A. Yes. Similar to the sale of the fossil plants, the Company entered into a Transition Services
8 Agreement with the buyer on the day of closing to facilitate a smooth transfer of the
9 hydroelectric facilities.

10 **V. SUMMARY OF SECURITIZABLE COSTS**

11 **Q. Earlier in your testimony, you noted that in approving the Thermal PSA and Hydro**
12 **PSA, the Commission stated that it would consider the amount and recovery of**
13 **stranded costs in Docket No. DE 17-096. How did the Commission subsequently**
14 **address stranded costs in this docket?**

15 A. On January 30, 2018, the Commission issued Order No. 26,099 (the "Finance Order")
16 approving securitization of a principal amount up to \$690 million for recovery of
17 generation divestiture related costs, including resulting stranded costs, from PSNH's
18 customers as part of the Company's divestiture of its generation assets pursuant to the 2015
19 Settlement Agreement and consistent with RSA Chapter 369-B. In its application for a
20 finance order, the Company estimated a target principal amount of the RRBs of \$638.6
21 million, with an estimated range between \$616.6 million and \$690.0 million (*see*
22 Attachment EHC-1, previously filed in Docket No. DE 17-096 (and marked as hearing
23 exhibit 7)). The estimated range accounted for the closing conditions under the PSAs and

1 the potential timing of the closings. The Company also addressed factors such as the final
2 cost of the Schiller Station mercury boiler removal, final determination of other divestiture
3 costs, and other potential cost changes. In the Finance Order, the Commission directed
4 Commission Audit Staff, after issuance of the RRBs pursuant to the Finance Order, to
5 “engage in an Audit of the RRB Transaction process, and the various amounts included in
6 the determination of the principal amount financed,” and also “that in the event the
7 Commission approves any adjustment to the costs to be recovered by PSNH following a
8 Commission Audit and adjudication, those adjustments shall be made through Part 2 of the
9 Stranded Cost Recovery Charge” Finance Order at 56.

10 **Q. Did the Commission’s decisions prior to the Finance Order recognize that the sale**
11 **price of the Company’s generation assets was subject to certain closing adjustments**
12 **pursuant to the terms of the approved PSAs?**

13 A. Yes. In both the Thermal PSA Order and Hydro PSA Order, the Commission stated that
14 the “sale price for the Eversource portfolio of generating facilities resulting from the
15 Thermal and Hydro PSAs combined is \$258.3 million subject to certain adjustments
16 pursuant to the terms of the two PSAs.” Thermal PSA Order at 7; Hydro PSA Order at 7.
17 This concept was also integral to the Finance Order, which examined the range of
18 securitization required to issue the RRBs and approved a not-to-exceed securitization
19 amount based on estimated closing proceeds. Finance Order at 42-44.

1 **Q. Did the Company subsequently file its Issuance Advice Letter in this docket pursuant**
2 **to the Finance Order, establishing the RRB issuance amount?**

3 A. Yes. On May 4, 2018, the Company filed its Issuance Advice Letter in Docket No. DE 17-
4 096 stating that the aggregate principal amount of the RRBs was \$635,663,200. The
5 Issuance Advice Letter provided the detailed calculation of this principal amount of the
6 RRBs, including the Company's stranded costs, unrecovered deferrals, transaction costs,
7 tax stabilization payments, employee protections and other costs as contemplated in the
8 2015 Settlement Agreement and authorized by RSA 369-B:3,IV(c) to be securitized.

9 **Q. Did the 2015 Settlement Agreement and RSA 369-B:3, IV(c) specify the types of costs**
10 **that are recoverable as divestiture-related costs?**

11 A. Yes. Both the 2015 Settlement Agreement and RSA 369-B:3, IV(c) list the costs that are
12 eligible for recovery as divestiture-related costs. The 2015 Settlement Agreement (at page
13 10) states that "RRBs shall be authorized in an amount sufficient to fund reasonably
14 expected stranded costs, cost and revenue deferrals, transaction costs, transaction advisor
15 fees, tax liabilities, employee protections, tax stabilization payments, decommissioning
16 costs, retirement costs, environmental costs, and other costs, liabilities, and expenditures
17 set forth in this Agreement, but adjusted per the requirements of the draft legislation
18 attached at Appendix A." Similarly, the General Court recognized that recoverable costs
19 would be more than just "stranded costs." RSA 369-B:3,IV(c) states, "The commission
20 shall only issue finance orders that: . . . Authorize the issuance of rate reduction bonds in
21 an amount sufficient to fund stranded costs, deferrals, transaction costs, tax liabilities,

1 employee protections, payments in lieu of taxes, and other expenditures as contemplated
2 in the 2015 settlement.”

3 **Q. Has the Company prepared an exhibit showing its final actual balance of costs eligible**
4 **for securitization, and comparing those costs to the RRB issuance amount?**

5 A. Yes. Attachment RAB-1 to my testimony shows the actual balance of securitization-
6 eligible costs as of October 31, 2019. The attachment includes a calculation of the actual
7 balance and provides a comparison to the estimated costs previously calculated for the
8 RRB issuance.

9 **Q. Please describe the line items on the summary page of Attachment RAB-1.**

10 A. The following is a description of each line item on the summary page (page 2) of
11 Attachment RAB-1. These line items are numbered to correspond to Attachment EHC-1
12 (on Bates page 316) that was previously filed in this docket:

13 Line 1: Net book value of generating assets and inventory.

14 This line item is calculated as the net book value of generating assets and inventory for all
15 of the Company’s generation assets, as of October 31, 2019. This line item shows a
16 variance of \$4.3 million higher than the estimated amount included in the RRB issuance,
17 largely due to utility plant being higher than included in the original estimate.

18 Line 2: Sale proceeds.

19 This line item shows net sales proceeds from the generation divestiture in the amount of
20 \$196.3 million, which represents the total sale price of \$258.3 million less closing

1 adjustments required under the PSAs. The RRBs were issued based on estimated sales
2 proceeds of \$215.9 million, with the difference largely attributed to the timing of the actual
3 closings, actual fuel inventory amounts and other closing adjustments.³ The specific
4 closing adjustments are described later in my testimony.

5 Line 3: Plant-related stranded costs.

6 This line item is calculated as the difference between the net book value of the generating
7 assets and inventory and the sales proceeds.

8 Line 4: Scrubber deferrals.

9 This line item reflects the balance of the deferred costs associated with the Merrimack
10 Scrubber project of \$98.2 million as of May 2018, which was approved as prudent for
11 recovery in Docket No. DE 11-250 and Docket No. DE 14-238, but has not been recovered
12 from customers.

13 Line 5: Non-scrubber deferral.

14 This item was originally included in Attachment EHC-1 to reflect the estimated
15 over/under-recovery that would potentially have existed at the time the Company
16 transitioned from providing Default Energy Service with PSNH-owned generation to a
17 competitively procured Default Energy Service. On December 29, 2017 in Docket No. DE

³ The final sales proceeds amount is in line with the estimated range previously shown in Attachment EHC-1, which included a “low” end RRB principal amount based on sales proceeds of \$249.3 million, a “high” end principal amount based on sales proceeds of \$133.9 million, and a “mid” range principal amount based on \$231.7 million. These amounts were similarly calculated based on the total sale price of \$258.3 million less adjustments calculated by J. P. Morgan to reflect various assumed closing dates.

1 17-113, the Commission issued Order No. 26,092 approving a settlement agreement filed
2 on November 27, 2017, which determined that the non-scrubber costs will be recovered in
3 another manner and excluded from the amount to be securitized. Specifically, on page 4
4 of the order, “Any non-scrubber over or under recoveries resulting prior to and during the
5 period of self-management through the Effective Date will be reconciled and recovered as
6 a Part 2 stranded cost via the Stranded Cost Recovery Charge (“SCRC”) to ensure that
7 there is a clean transition to the new competitively procured energy service.”

8 Line 6: Reduction for deferred equity return per settlement agreement.

9 This line item implements PSNH’s agreement in Section 2.D of the 2015 Settlement
10 Agreement to forego recovery of \$25 million of previously deferred equity return related
11 to the Merrimack Station scrubber.

12 Line 7: Net deferral.

13 This line item is calculated as the subtotal of Lines 4, 5 and 6.

14 Line 8: Regulatory assets and liabilities.

15 This line item reflects the final calculation of several assets and liabilities that were
16 accumulated at the time of the closings and were on the Company’s books as of October
17 31, 2019, including the Asset Retirement Obligations, unamortized debt expense, and other
18 tax and pension assets and liabilities. The actual balance of this line item is approximately
19 \$3.2 million less than the estimate developed for the RRB issuance.

1 Line 9: J. P. Morgan auction advisor fees.

2 This line item reflects the fee paid to J. P. Morgan per the terms of its contract with the
3 State. The non-expense portion of this fee was calculated based on a percentage of net sale
4 proceeds. The actual amount of this line item is approximately \$238,000 less than the
5 estimate developed for the RRB issuance.

6 Line 10: Employee separation costs.

7 This line provides the cost of employee protections pursuant to New Hampshire law (RSA
8 369-B:3-b, “Employee Protections”), the 2015 Settlement Agreement, and associated
9 documents based on the number of employees who were terminated as a result of the sale.
10 The actual amount of this line item is approximately \$682,000 less than the estimate
11 developed for the RRB issuance.

12 Line 11: Environmental liability insurance premiums.

13 This line item reflects the final costs of the premiums for liability insurance related to
14 environmental liabilities, as approved in Docket No. DE 17-124. The actual amount of this
15 line item is essentially equal to the estimate developed for the RRB issuance.

16 Line 12: Stranded administrative and general expenses.

17 This item reflects the annual corporate operating expense that was previously allocated to
18 the Generation business and subsequently allocated to the rest of the Eversource
19 organization following the sale. In its earlier testimony in this docket, the Company
20 explained its plan to address stranded administrative and general expenses through a

1 combination of reductions in staff and an equitable reallocation of expenses across the
2 Company, but that such a transition cannot be accomplished immediately and takes time
3 to implement. Therefore, the Company requested the Commission to approve the inclusion
4 of one year of stranded administrative and general expenses in the securitization principal
5 so the Company can have a short period of time to successfully accomplish the transition.
6 The Company provided an estimate at the time of \$10.5 million, which was shown in
7 Attachment EHC-1. The actual balance of this line item is approximately \$5.0 million less
8 than the estimate developed for the RRB issuance.

9 Line 13: Mercury Boiler Units 1 and 2 Removal Project at Schiller Station.

10 This line item is the cost of the Commission-approved project to remove the two retired
11 mercury boilers at Schiller Station. Recovery of the costs of this project was previously
12 approved by the Commission in the Schiller Order in Docket No. DE 16-817. The actual
13 amount of this line item is approximately \$4.4 million above the estimate developed for
14 the RRB issuance. The project report provided as Attachment CAF-1 to Ms. Finneran's
15 testimony provides full details and documentation of the project costs.

16 Line 14: Other divestiture costs.

17 This line item reflects a range of costs that would not have been incurred but for the
18 divestiture transactions, and therefore are appropriate to be included for recovery as part of
19 the securitization balance. Such costs include the following expense categories: (1) auction
20 expenses, which include the costs of the consultants to prepare the Independent Engineer

1 Report and the Market Consultant Report as directed by J. P. Morgan as part of the Round
2 1 bidding materials, plus the costs of hosting the data room for Round 2 due diligence; (2)
3 legal expenses, which include fees for Eversource's transaction counsel, Commission
4 transaction counsel, and other legal services necessary to execute the transaction; (3)
5 regulatory and environmental expenses, which include Eversource pre-auction preparation
6 and outside witness testimony, the 2015 Phase 1 environmental site assessments and related
7 support pursuant to Commission directive, and the economic analyses required to litigate
8 the approval of the 2015 Settlement Agreement in Docket No. DE 14-238; and (4)
9 miscellaneous divestiture-related expenses, none of which would have been incurred in the
10 absence of the divestiture, such as real estate service costs, post-divestiture transaction
11 support activities, third-party costs to support benefits-related divestiture activities, filing
12 fees, transfer taxes, and other various expenses to enable the completion of the transaction.
13 The actual amount of this line item is approximately \$277,000 above the estimate
14 developed for the RRB issuance.

15 Line 15: Transaction-related costs.

16 This item is a subtotal of Lines 8 through 14. It shows that the actual transaction-related
17 costs were approximately \$5.5 million less than the estimate developed for the RRB
18 issuance.

1 Line 16: Subtotal of costs eligible to be securitized.

2 This item is a subtotal of lines 3, 7 and 15. It shows that the subtotal of costs eligible to be
3 securitized was approximately \$19.4 million higher than the estimate developed for the
4 RRB issuance.

5 Line 17: Net present value of tax benefits.

6 This item is a deduction to the securitization principal. Upon completion of the sale of the
7 assets, there were deferred taxes. The deferred income tax will unwind over the
8 securitization period of 15 years. Consistent with the securitization legislation in Senate
9 Bill 221 (codified at RSA 369-B:3, IV(c)), the Company is calculating the net present value
10 (“NPV”) of these tax benefits and payments over the 15-year securitization period using a
11 discount rate equal to the weighted average yield rate on the rate reduction bonds. The
12 amount of the rate reduction bonds that would otherwise be issued will be reduced by the
13 NPV of the related tax cash flows. This results in customers receiving the upfront benefit
14 of a reduction in the total amount to securitize. The actual amount of this line item is a
15 higher credit of \$1.1 million than the initial estimate developed for the RRB issuance.

16 Line 18: Issuance costs.

17 The components of this line item are set forth on Page 13 of Attachment RAB-1. These
18 items are the RRB issuance transaction costs, as described in the direct testimony of
19 Eversource Energy’s Assistant Treasurer, Emilie G. O’Neil (at page 11), submitted in this

1 docket on June 15, 2017 (and marked as hearing exhibit 8). The actual amount of this line
2 item is essentially the same as the estimate developed for the RRB issuance

3 Line 19: Total Costs Eligible for Securitization.

4 This line item is the sum of Lines 16, 17 and 18. Line 19 shows the actual balance of
5 securitization-eligible costs of \$654,046,809, as compared to the RRB issuance amount of
6 \$635,663,200, leaving an unrecovered balance of \$18,383,609.

7 **Q. Please describe pages 3 through 13 of Attachment RAB-1.**

8 A. Pages 3 through 13 provide the detailed calculations for each of the line items on the
9 summary page (page 2) of Attachment RAB-1.

10 **Q. Exhibit RAB-1 indicates on page 2 of 13, Line 19, that there is an approximate \$18.4**
11 **million variance between the actual balance of securitization-eligible costs and the**
12 **RRB issuance principal amount. Does the Company have a proposal for recovery of**
13 **this balance?**

14 A. Yes, the Company proposes to recover this balance over one year through Part 2 (“Other
15 Non-Securitized Stranded Costs”) of the Stranded Cost Recovery Charge (“SCRC”). The
16 Company anticipates including this amount in its August 2020 update of the SCRC.

17 **Q. In reference to line 2 on page 2 of Attachment RAB-1 (sale proceeds), would you**
18 **provide a further explanation of the closing adjustments under the Thermal PSA and**
19 **the Hydro PSA?**

20 A. Yes, as I noted earlier in my testimony, the total sale price of \$258.3 million was adjusted
21 for certain closing and post-closing adjustments required under the PSAs, largely attributed

1 to the timing of the actual closings, fuel inventory amounts and other closing items. The
2 closing adjustments are shown in detail on page 3A of Attachment RAB-1.

3 **Q. Please describe the closing adjustments shown in Attachment RAB-1.**

4 A. Attachment RAB-1, page 3A, shows the closing and post-closing adjustments for working
5 capital, timing adjustments (related to the sale of the fossil plants), prorated items such as
6 property taxes and transfer taxes, contract liabilities, and related items. Specifically, the
7 closing adjustments for the fossil plants included the following:

- 8 • Working Capital. In accordance with Section 2.6(a)(i) of the Thermal PSA, the
9 closing proceeds were adjusted for working capital in the amount of \$38.146
10 million. This adjustment accounted for actual fuel inventory on-site as of the
11 date of closing, and the value of emission allowance credits (NO_x, sulfur
12 dioxide and carbon dioxide) based on their market prices as of the closing date.
- 13 • Closing Date Adjustment. In accordance with Section 2.6(a)(iv) of the Thermal
14 PSA, the closing proceeds were adjusted to reflect the closing occurring after
15 December 31, 2017. This resulted in a closing adjustment of \$18.7 million. It
16 must be noted that on a net basis, customers were not impacted by this
17 adjustment, as this amount reflects net revenues produced by the thermal
18 facilities from January 1, 2018 until closing, which are revenues that would
19 have accrued to the buyer had the sale closed on or before December 31, 2017
20 and were included in the Buyer's overall purchase price.

- 1 • Proration. Under Section 2.7 of the Thermal PSA, the closing price was
2 adjusted for property taxes and transfer taxes, as well as an adjustment related
3 to sewer rents and utility charges, including a gypsum disposal contract liability,
4 in the amount of \$1.3 million.

5 The total closing and post-closing adjustments under the Thermal PSA were \$58.188
6 million, resulting in a net sale price of \$116.811 million.

7 For the hydroelectric assets, the principal adjustments were the PSA Section 5.15
8 adjustment of \$5.6 million described in the closing side letter, and the \$500,000 ARCO
9 adjustment as discussed earlier in my testimony. The total closing and post-closing
10 adjustments under the Hydro PSA were \$5.768 million (\$5.268 million, plus the \$500,000
11 of ARCO-related costs), resulting in a net sale price of \$77.232 million.

12 **Q. Lastly, in preparation for this filing, did the Company engage Deloitte & Touche LLP**
13 **to perform attestation procedures related to the Company’s “Costs Eligible for**
14 **Securitization” report?**

15 A. Yes. In anticipation of the Commission’s review of the Company’s final securitization and
16 divestiture-related cost calculation, the Company engaged Deloitte & Touche LLP
17 (“D&T”) to perform agreed-upon procedures related to the “Costs Eligible for
18 Securitization” report presented by the Company in Attachment RAB-1, in relation to the
19 Company’s divestiture-related costs. The agreed upon procedures were performed in
20 accordance with the American Institute of Certified Public Accountant attestation
21 standards and were performed on specific costs included in the aforementioned report.

1 **Q. Did D&T issue a report with its findings?**

2 A. Yes. D&T issued an agreed-upon procedures attestation report with its findings on
3 November 26, 2019. The specific procedures performed are detailed in the report, which
4 is included as Attachment RAB-2. This report details the findings related to the agreed-
5 upon procedures performed on the Costs Eligible for Securitization report.

6 **Q. Are the costs reflected in this filing the final costs that the Company will incur relating**
7 **to its generating assets?**

8 A. No. Although the vast majority of generation-related costs have been booked and dealt
9 with as I have testified herein, costs related to the Company's generating assets continue
10 to occur. For example, over a year after the sale of Merrimack Station as part of the
11 Thermal PSA, on March 4, 2019 the Sierra Club and Conservation Law Foundation filed
12 a "citizen suit" under the Clean Water Act in the U.S. District Court for the District of New
13 Hampshire naming PSNH and Granite Shore Power as defendants. The complaint alleges
14 that PSNH violated the National Pollutant Discharge Elimination System ("NPDES")
15 permit issued by the EPA for Merrimack Station prior to the divestiture date. PSNH has
16 denied the allegations made in the complaint and is incurring litigation costs in that
17 generation-related proceeding. There are also a handful of other generation-related matters
18 that remain pending, and there may be future costs that are unknown at this time.

19 **Q. How would such additional costs be recovered by the Company?**

20 A. Any such costs would be included for recovery in Part 2 of the Stranded Cost Recovery
21 Charge and will be part of the Company's future SCRC filing requests.

1 **VI. CONCLUSION**

2 **Q. Do you have any summary comments regarding the Company's filing in this**
3 **proceeding?**

4 A. Eversource's divestiture of its generating facilities was a very complex transaction
5 involving over a dozen stations located in three states. The commercial, environmental,
6 real estate, regulatory, employee, operational, financial, legal and myriad other issues that
7 had to be dealt with required the input and teamwork of several dozen Eversource subject
8 matter experts. This Eversource team, combined with the knowledge of and assistance
9 from Commission Staff, J. P. Morgan, Goldman Sachs, and our legal team from Balch &
10 Bingham worked tirelessly to make the divestiture successful and to market the RRBs in a
11 manner that mitigates to the greatest extent possible the remaining costs of PSNH's
12 generating business. Today's filing demonstrates Eversource's compliance with its
13 obligations under the 2015 Settlement Agreement, as well as the various orders issued by
14 the Commission and legislative enactments from 1995 through 2015 involving the sale of
15 the generating business.

16 **Q. Does this conclude your testimony?**

17 A. Yes.