

STATE OF NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION

December 6, 2017 - 9:23 a.m.  
Concord, New Hampshire

22 DEC '17 PM 8:43

RE: DE 17-096  
EVERSOURCE ENERGY:  
Petition for Finding of Fact and  
Issuance of Financial Order.

PRESENT: Chairman Martin P. Honigberg, Presiding  
Commissioner Kathryn M. Bailey  
Commissioner Michael S. Giaimo

Sandy Deno, Clerk

APPEARANCES: Reptg. Public Service Company of  
New Hampshire d/b/a Eversource Energy:  
Robert A. Bersak, Esq.

Reptg. Residential Ratepayers:  
D. Maurice Kreis, Esq., Consumer Adv.  
Office of Consumer Advocate

Reptg. PUC Staff:  
Alexander F. Speidel, Esq.  
Thomas C. Frantz, Dir./Electric Div.  
Richard Chagnon, Electric Division

Court Reporter: Steven E. Patnaude, LCR No. 52

CERTIFIED  
ORIGINAL TRANSCRIPT



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**P R O C E E D I N G**

1  
2 CHAIRMAN HONIGBERG: Thank you all  
3 for your patience. We're here this morning in  
4 Docket DE 17-096, which is Eversource's  
5 Petition for Findings of Facts and Issuance of  
6 a Finance Order related to the divestiture of  
7 its generation assets. This is the hearing on  
8 the first phase of this proceeding, which I'm  
9 sure will be explained by the witnesses and the  
10 Parties in more detail.

11 Before we do anything else, let's  
12 take appearances.

13 MR. BERSAK: Good morning,  
14 Commissioners. Robert Bersak, on behalf of  
15 Eversource Energy Service Company, representing  
16 the Public Service Company of New Hampshire  
17 here this morning.

18 MR. KREIS: Good morning,  
19 Commissioners. I'm D. Maurice Kreis, the  
20 Consumer Advocate, here on behalf of  
21 residential utility customers.

22 MR. SPEIDEL: Good morning,  
23 Commissioners. Alexander Speidel, Staff  
24 Attorney, representing the Staff of the

1 Commission. And I have with me the Director of  
2 the Electric Division, Tom Frantz, and also  
3 Rich Chagnon, Utility Analyst of the Electric  
4 Division.

5 CHAIRMAN HONIGBERG: There are no  
6 intervenors in this matter, that's correct,  
7 isn't it, Mr. Bersak?

8 MR. BERSAK: That is correct.

9 CHAIRMAN HONIGBERG: Is there  
10 anything in the way of preliminary matters we  
11 need to deal with before the witnesses are  
12 sworn in?

13 MR. BERSAK: No. I did have all the  
14 exhibits premarked. They're numbered from 1 to  
15 10. The documents that are identified are  
16 contained in two different tabs in the  
17 Commission's virtual file room or docketbook.  
18 They're either in Tab 1 or in Tab 10. The  
19 Updated Petition is in Tab 10, but Annex 1 is  
20 in Tab 1.

21 It's kind of confusing. I can give  
22 you all of these exhibits, if you would like,  
23 to make it easier for you to follow along. But  
24 everything has been filed with the Commission.

1 CHAIRMAN HONIGBERG: Did you just  
2 offer to tell us what 1 through 10 are?

3 MR. BERSAK: I can do that, 1 through  
4 10. "1" is the Updated Petition, which is in  
5 Tab 10 of the Commission's docketbook; Annex 1  
6 is in Tab 1 of the docketbook; Annexes 2, 3,  
7 and 4, which are Exhibits "3", "4", and "5",  
8 respectively, are in Tab 10.

9 CMSR. BAILEY: Excuse me. I don't  
10 know what you mean by "Annex". I don't have  
11 the docketbook in front of me. Can you  
12 describe the documents?

13 MR. BERSAK: Sure.

14 CHAIRMAN HONIGBERG: I have the  
15 documents in paper copy.

16 MR. BERSAK: Yes. When we filed our  
17 original Petition and when we filed the Updated  
18 Petition, attached to that Petition were  
19 various and sundry attachments. There were  
20 four annexes attached to that Petition. So,  
21 Annexes 1, 2, 3, and 4; 1 being the  
22 Administration Agreement, 2 the Issuance Advice  
23 Letter, 3 the Servicing Agreement, and 4 the  
24 Routine Annual True-Up Draft Letter.

1 CHAIRMAN HONIGBERG: I have the  
2 June 15th filing in my hand. On what page  
3 would Annex 1 start?

4 MR. BERSAK: Annex 1 would start, of  
5 the June filing, on Bates Page 057.

6 CHAIRMAN HONIGBERG: And is that the  
7 only document from the June filing that is  
8 still in play?

9 MR. BERSAK: No. There are three of  
10 them from the June filing.

11 CHAIRMAN HONIGBERG: All right.

12 MR. BERSAK: Exhibit No. 6, Katrina  
13 Niehaus's testimony, is also from Tab 1, the  
14 June filing, and that starts on Bates Page 143.  
15 And the initial testimony of Mr. Goulding is  
16 also from that original June filing. That's  
17 "Exhibit No. 9". His testimony began on Bates  
18 Page 198.

19 MR. SPEIDEL: Commissioners, if I may  
20 interject?

21 CHAIRMAN HONIGBERG: Interject away.

22 MR. SPEIDEL: Thank you. I'm usually  
23 loathe to question the ideas of the moving  
24 party regarding their case presentation. But



1           it might not be a bad idea, since this all has  
2           a single Bates Page schematic, and I'm doing  
3           this thinking aloud, perhaps we simply exhibit  
4           the entire package as "Hearing Exhibit 1".

5           That's not acceptable?

6                     MR. BERSAK:  No.  It's not that it's  
7           not acceptable.  It's just that we've got two  
8           different submissions.  They both start with  
9           Bates Page 001 and go to Bates Page last.  So,  
10          if we put them both in -- or, put one in, we're  
11          not going to have the actual filing or the  
12          actual exhibits.

13                    MR. SPEIDEL:  So, the Updated  
14          Petition doesn't incorporate Exhibits 2 through  
15          5 --

16                    MR. BERSAK:  The Updated Petition  
17          does not incorporate what I've marked here as  
18          "Exhibit 2", --

19                    MR. SPEIDEL:  Okay.

20                    MR. BERSAK:  -- which is Annex 1.

21                    MR. SPEIDEL:  I'm sorry.

22                    MR. BERSAK:  It does not incorporate  
23          Ms. Niehaus's testimony.  And it does not  
24          include Mr. Goulding's initial testimony.

1 MR. SPEIDEL: Thank you. Just wanted  
2 to get that sussed out. Thank you.

3 CHAIRMAN HONIGBERG: Yes. And I  
4 thought that was the case. I think --

5 MR. BERSAK: This is confusing. And  
6 we should have done it in a better, more  
7 rational way, but we didn't. I'm sorry.

8 CHAIRMAN HONIGBERG: The inner  
9 wiseguy in me has all kinds of things going  
10 through my head.

11 MR. BERSAK: Yes.

12 CHAIRMAN HONIGBERG: None of which --  
13 none of which I hope are going to come out this  
14 morning.

15 MR. BERSAK: But we can give -- we  
16 have three copies of the complete set of  
17 exhibits, if that would help you? Or, is that  
18 just more paper that you don't need?

19 CHAIRMAN HONIGBERG: Let's see how  
20 we're doing. Let's just make sure we know  
21 where each of the exhibits is. So, --

22 MR. BERSAK: Yes. The Clerk is well  
23 aware. We went over this this morning.

24 CMSR. BAILEY: But we aren't.

1 CHAIRMAN HONIGBERG: But we aren't.

2 MR. BERSAK: Yes. I understand.

3 CHAIRMAN HONIGBERG: She's in many  
4 ways more important than we are. But we're the  
5 ones who are going to have to try to follow  
6 along and ask questions, if we need to.

7 MR. BERSAK: Yes.

8 CHAIRMAN HONIGBERG: So, anyway,  
9 we've established that Mr. Goulding's  
10 testimony, the --

11 MR. BERSAK: Mr. Goulding's initial  
12 testimony.

13 CHAIRMAN HONIGBERG: Right. Right.  
14 The Niehaus testimony, and Annex 1 are from the  
15 June filing.

16 Is there anything else from the June  
17 filing that --

18 MR. BERSAK: No. That's it.

19 CHAIRMAN HONIGBERG: Okay.

20 MR. BERSAK: Everything else is in  
21 the Update.

22 CHAIRMAN HONIGBERG: And those are  
23 Exhibits 2, 6 and 9, respectively, the ones  
24 that are from the June filing?

1 MR. BERSAK: Correct.

2 CHAIRMAN HONIGBERG: Okay.

3 Everything else is in the November filing?

4 MR. BERSAK: Yes, sir.

5 CHAIRMAN HONIGBERG: Is everything in  
6 the November filing an exhibit or are there  
7 things from the November filing that are not  
8 exhibits?

9 MR. BERSAK: There are things in the  
10 November filing which are not exhibits, because  
11 we included in that November filing redline  
12 versions, to show the differences between our  
13 June and November filings. But, for purposes  
14 of this hearing, we only want the non-redlined  
15 ones as exhibits.

16 CHAIRMAN HONIGBERG: Okay. Then,  
17 let's find out what the Bates numbers are for  
18 Exhibits 1, 3, 4, 5, 7, 8, and 10.

19 MR. BERSAK: Okay. Exhibit 1 comes  
20 from the November filing, and that's from Bates  
21 Page 001 to Bates Page 055; 2 is from the June  
22 filing, and it was Bates 057 to Bates 073;  
23 Exhibit No. 3, which is Annex 2, is from the  
24 November filing, and it's Bates Pages 111

1 through 119; Exhibit 4, which is Annex 3 to our  
2 Application, our Updated Application, is from  
3 the November filing, and it's Bates Pages 128  
4 through 184; Exhibit 5, Annex 4, the Annual  
5 Routine True-Up Letter, is from the November  
6 filing, and it's Bates Pages 242 to 245.

7 And we get to the various pieces of  
8 testimony, Exhibit 6 is Ms. Niehaus's  
9 testimony.

10 CMSR. BAILEY: Hold on. Slow down.

11 MR. BERSAK: Ms. Niehaus's testimony  
12 was in the June filing, at Bates 143 to 170.

13 Exhibit 7 is Mr. Chung's testimony from the  
14 November filing, Bates Pages 303 to 316.

15 Exhibit 8 is Ms. O'Neil's testimony, from the  
16 November filing, at Bates Pages 249 to 274.

17 What's been marked as "Exhibit No. 9" is  
18 Mr. Goulding's initial testimony from June, and

19 it's in the June filing at Bates Page 198 to  
20 217. And, finally, Exhibit No. 10 is

21 Mr. Goulding's updated testimony, filed in  
22 November. It appears in that filing at Bates  
23 Pages 317 to 318.

24 CHAIRMAN HONIGBERG: Thank you, Mr.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Bersak.

2 (The documents, as described,  
3 was herewith marked as  
4 **Exhibit 1** through **Exhibit 10**,  
5 respectively, for  
6 identification.)

7 MR. BERSAK: I'm sorry for the  
8 confusion. And in hindsight, we could have  
9 done this much more easily, but we didn't.

10 CHAIRMAN HONIGBERG: Anything else  
11 before the witnesses are sworn in?

12 MR. BERSAK: No, sir.

13 CHAIRMAN HONIGBERG: Mr. Patnaude.

14 (Whereupon **Eric H. Chung**,  
15 **Katrina T. Niehaus**,  
16 **Emilie G. O'Neil**, and  
17 **Christopher J. Goulding** were  
18 duly sworn by the Court  
19 Reporter.)

20 MR. BERSAK: Good morning, witnesses.  
21 I'm going to go through each one of you to get  
22 your name, where you work, and to verify and  
23 authenticate your testimony.

24 **ERIC H. CHUNG, SWORN**

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

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**KATRINA T. NIEHAUS, SWORN**

**EMILIE G. O'NEIL, SWORN**

**CHRISTOPHER J. GOULDING, SWORN**

**DIRECT EXAMINATION**

BY MR. BERSAK:

Q We'll start with Ms. Niehaus. Would you please tell the Commissioners what your name is.

A (Niehaus) Do I need to -- no? All right. Good morning. My name is Katrina Niehaus. I am a Managing Director at Goldman, Sachs. And I am the head of our Corporate Securitization Group.

Q And do you recall filing prefiled testimony in this docket back in June, which we have just marked as "Exhibit No. 6" for the proceeding?

A (Niehaus) I do.

Q Do you have any corrections or updates to that testimony?

A (Niehaus) Not at this time.

Q Okay. Can you give us a brief, very short explanation of what your testimony is about and how it fits into this whole filing?

A (Niehaus) Absolutely. Goldman was retained by PSNH to be the lead underwriter for the proposed securitization transaction. As

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 underwriter, Goldman will assist in the  
2 transaction documentation, rate agency process,  
3 and distribution of the securitization bonds.

4 Since 1995, over 54.4 billion of AAA rated  
5 utility charge securitization bonds have been  
6 successfully issued on behalf of various  
7 electric utilities and the states. And the  
8 proposed transaction will be structured  
9 similarly to other utility securitizations.

10 As I mentioned in my written testimony,  
11 there are a few of the key structural  
12 components that we need to achieve in this  
13 transaction in order to receive the highest  
14 possible rating and lowest possible pricing. A  
15 few of the key transaction components are the  
16 bankruptcy remoteness of the issuer from the  
17 utility; the predictability and  
18 nonbypassability of the true-up and charge; as  
19 well as the creation of additional credit  
20 enhancement in the form of a small reserve  
21 account; additionally, the establishment of  
22 standards governing third party billing, if  
23 that were to ever be brought into the State of  
24 New Hampshire; as well as a review of the State



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Pledge, and other regulatory protections.

2 Q Great. Thank you. Do you adopt what's been  
3 marked as "Exhibit 6" as your testimony here  
4 today?

5 A (Niehaus) I do.

6 Q Thank you very much. We'll turn to Mr. Chung.  
7 Mr. Chung, please identify yourself for the  
8 record.

9 A (Chung) Good morning. My name is Eric Chung.  
10 I am the Director of Revenue Requirements and  
11 Regulatory Projects at Eversource Energy  
12 Service Company.

13 Q Did you submit prefiled testimony in this  
14 proceeding in our November Update, which has  
15 been marked as "Exhibit No. 7" today?

16 A (Chung) Yes, I did.

17 Q Do you have any corrections or updates to that  
18 testimony?

19 A (Chung) No, I do not.

20 Q And do you adopt that testimony as your  
21 testimony in this proceeding?

22 A (Chung) Yes.

23 Q Can you give us, as Ms. Niehaus just did, a  
24 very short summary of how you fit into this

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 process?

2 A (Chung) Sure. My testimony, which was filed on  
3 November 13, describes a range of potential  
4 principal securitization amounts, based on a  
5 set of potential scenarios primarily related to  
6 the timing of the close of the two divestiture  
7 transactions that were recently approved by  
8 this Commission.

9 For context, in its original June filing,  
10 the Company had requested that the Commission  
11 approve a formula that would be used to  
12 calculate stranded costs. Since then, the  
13 Parties to this docket have agreed that the  
14 Company would supplement its June filing with a  
15 request for the Commission to approve the  
16 securitization of a balance that would fall  
17 within a calculated range, instead of based on  
18 that formula.

19 My testimony builds on the preliminary  
20 stranded cost estimate presented as part of  
21 Docket 17-124, or the divestiture docket, by  
22 developing that range, using the actual results  
23 of the generation divestiture auction, the  
24 impacts to the sale proceeds calculated by the

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Commission's auction advisor, J.P. Morgan, as a  
2 function of the thermal closing date, the  
3 likely number of employees the buyers intend to  
4 employ, and myriad other costs that have been  
5 approved for securitization as a result of RSA  
6 Chapter 369-B, the 2015 Settlement Agreement,  
7 and this Commission's orders.

8 Q Thank you, Mr. Chung. Ms. O'Neil, can you  
9 please provide your name and where you work?

10 A (O'Neil) Good morning. My name is Emilie  
11 O'Neil.

12 *[Court reporter interruption.]*

13 **BY THE WITNESS:**

14 A (O'Neil) Good morning. My name is Emilie  
15 O'Neil. I am the Assistant Treasurer and  
16 Director of Corporate Finance and Cash  
17 Management for Eversource Energy Service  
18 Company.

19 BY MR. BERSAK:

20 Q And did you submit prefiled testimony in this  
21 proceeding, --

22 A (O'Neil) Yes, I did.

23 Q -- which has been marked as "Exhibit 8"?

24 A (O'Neil) Yes, I did.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Q And do you have any corrections or updates to  
2 that testimony?

3 A (O'Neil) No, I don't.

4 Q And do you adopt that prefiled testimony as  
5 your testimony in this proceeding?

6 A (O'Neil) Yes, I do.

7 Q And could you provide us with a short summary  
8 of how you fit into this securitization process  
9 please.

10 A (O'Neil) Absolutely. My testimony primarily  
11 discusses four different elements of the  
12 securitization financing. The first item is  
13 the RRB transaction structure; the second item  
14 are the mechanics behind billing, collecting  
15 and remitting the RRB charges; the third item  
16 is the methodology for determining the RRB  
17 charge; the fourth item is the true-up  
18 mechanism. And before I proceed to summarize  
19 each of the elements, it's important to note  
20 that each of these elements were included in  
21 the prior two PSNH securitizations.

22 With respect to the RRB transaction  
23 structure, pursuant to the 2015 Settlement  
24 Agreement, PSNH is seeking approval to

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 securitize certain costs via Part 1 of the  
2 SCRC, the RRB charge. We plan to set up a new  
3 special purpose entity called "PSNH Funding  
4 LLC3". Once we receive New Hampshire and Maine  
5 regulatory approval, PSNH will sell its right  
6 to collect the RRB charge to the SPE. The SPE  
7 will pay for this right by issuing rate  
8 reduction bonds in the capital markets. The  
9 debt service on the rate reduction bonds will  
10 be paid solely from the cash flows from the RRB  
11 charge.

12 The SPE will be capitalized by PSNH  
13 shareholders at 0.5 percent of the principal  
14 balance of the RRB issuance amount and  
15 deposited into the SPE's capital sub account  
16 with the Trustee bank. This 0.5 percent will  
17 serve as collateral for the bonds. This is a  
18 requirement by the rating agencies to attain  
19 the AAA rating. Once the bonds are fully paid  
20 off, this money goes back to PSNH shareholders.

21 Mechanism behind billing, collecting, and  
22 remitting the RRB charge. PSNH will be the  
23 servicer of the bonds. PSNH, as servicer, will  
24 remit to the Trustee on a daily basis actual

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1 RRB charges billed less an allowance for  
2 estimated charge-offs on the day that such  
3 amounts are deemed to be collected.

4 The deemed collection date will be the  
5 weighted average number of days, based on our  
6 historical collection experience, that a  
7 monthly bill for services remains outstanding  
8 before payment by a customer. We estimate the  
9 deemed collection date to be approximately 30  
10 days. This number will be reviewed annually.

11 PSNH will deposit remittances into the  
12 SPE's general sub account of the collection  
13 account maintained by the Trustee.

14 Cash held in the general sub account will  
15 be used to pay ongoing transaction costs,  
16 principal and interest on the bonds, and, if  
17 necessary, replenishment of the capital sub  
18 account.

19 With respect to the methodology for  
20 determining the RRB charge, both the initial  
21 charge, as well as the future charge, will be  
22 set at a level to cover the periodic RRB  
23 payment requirements. The RRB payment  
24 requirements include principal, interest,

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 ongoing transaction costs, and capital sub  
2 account replenishments. The size of the charge  
3 will also depend upon forecasted kWh,  
4 write-offs, and days revenue outstanding. Once  
5 the bonds are priced and the initial charge is  
6 calculated, we will file an issuance advice  
7 letter with the NHPUC prior to closing. The  
8 issuance advice letter will include the charge  
9 and all the assumptions that went into the  
10 calculation of the charge.

11 Finally, with respect to the True-Up  
12 Mechanism, on February 1st of each year, the  
13 RRB charge will be trued-up to ensure that  
14 there will be sufficient money to make the next  
15 two RRB payment requirements. It will be  
16 calculated the same way as the initial charge  
17 was calculated using updated inputs.

18 No later than January 15th of each year  
19 PSNH will file with the Commission an annual  
20 routine true-up letter which will state the new  
21 RRB charge and the inputs that went into the  
22 calculation. Thank you.

23 Q Thank you, Ms. O'Neil. And, Mr. Goulding,  
24 please give us your name and where you work.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Goulding) My name is Christopher Goulding.  
2 I'm employed by Eversource Energy Service  
3 Company as the Manager of New Hampshire Revenue  
4 Requirements.

5 Q And you have two exhibits in front of you,  
6 Mr. Goulding. One is marked as "Exhibit 9" and  
7 one is "10". Exhibits No. 9 is initial  
8 testimony filed by you back in June of this  
9 year. And Exhibit 10 is updated testimony  
10 filed in November of this year.

11 Do you have any updates or corrections to  
12 either piece of testimony?

13 A (Goulding) No, I do not.

14 Q And do you adopt those two pieces of testimony  
15 as your testimony here today?

16 A (Goulding) Yes, I do.

17 Q And can you briefly tell the Commissioners how  
18 you fit into this and what your testimony  
19 provides?

20 A (Goulding) Sure. So, the primary purpose of my  
21 testimony is to support PSNH's request for a  
22 Finance Order, particularly related to how the  
23 recovery of the rate reduction bond -- rate  
24 reduction bond charges will be included in and



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 interact with PSNH's Stranded Cost Recovery  
2 Charge; how RRB charges will be allocated  
3 amongst PSNH's rate classes; and the changes  
4 necessary to PSNH's tariff to reflect and  
5 implement the securitization financing.

6 Q Thank you, Mr. Goulding. I have one final  
7 question for Mr. Chung. Mr. Chung, your  
8 testimony involves the setting of a principal  
9 amount of securitization. Do you recall that,  
10 in the Settlement docket, DE 14-238, you  
11 provided an initial estimate of what  
12 securitization might be. That you updated that  
13 in Docket No. DE 17-124, the docket to review  
14 the purchase and sales agreements from  
15 divestiture, and you most recently updated the  
16 principal amount estimates in this docket back  
17 in November.

18 Can you explain how all those three pieces  
19 fit together and why they vary?

20 A (Chung) Sure. I'd be happy to do that. And  
21 it's worth spending a few minutes up front,  
22 just for the purposes of moving to a shared  
23 understanding of how those estimates fit  
24 together.

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1           So, there are three dockets. I'll refer  
2           to them as the "Settlement docket" or 14-238,  
3           the "Divestiture docket" or 17-124, and then  
4           this current docket, the "Securitization  
5           docket", which is 17-096.

6           So, the original placeholder estimate for  
7           stranded costs in the Settlement docket was  
8           developed for illustrative purposes using a  
9           sales proceeds estimate provided by the  
10          Commission's valuation expert, as well as  
11          estimates of other transaction-related costs  
12          that assumed a closing of the transaction by  
13          the end of 2016. That placeholder estimate was  
14          approximately 507 million.

15          Turning to the Divestiture docket, I  
16          submitted a preliminary estimate of stranded  
17          costs totaling approximately 589 million,  
18          assuming a transaction close at the end of  
19          2017.

20          The single biggest driver of the increase  
21          between the two estimates was the use of the  
22          headline price from the results of the  
23          divestiture auction, which excluding potential  
24          closing adjustments yielded proceeds for

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 assets, fuel and nonfuel inventory, nearly  
2 100 million less than what was used for that  
3 original stranded cost estimate in the  
4 Settlement docket. So, this driver, in  
5 combination with other updates, including the  
6 amortization of net plant, the inclusion of the  
7 cost approved by the Commission to remove the  
8 retired mercury boilers at Schiller Station,  
9 and other various cost estimates -- cost  
10 updates led to an increase of approximately  
11 82 million from the original placeholder  
12 stranded cost estimate.

13 Now, turning to the Securitization docket,  
14 the primary driver of the differences among the  
15 three scenarios I presented is again the timing  
16 of the close of the transaction. As discussed  
17 in the Divestiture docket itself, J.P. Morgan  
18 calculated the estimated adjustments to the  
19 sales proceeds for working capital and the  
20 timing of the close. Though, there are other  
21 cost adjustments by scenario to reflect  
22 uncertainty relative to current estimates, the  
23 assumed closing date was, in fact, the primary  
24 driver for each scenario.

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1           There are three cases: The Low Case, the  
2           Medium Case, and the High Case. For the Low  
3           Case, I assumed the thermal transaction closes  
4           by January 1, 2018. For the Medium Case, I  
5           assumed the thermal transaction closes on  
6           February 1, 2018. And, finally, for the High  
7           Case, I assumed two major changes: One is that  
8           the thermal transaction closes on March 1st,  
9           2018. And also that the hydro transaction is  
10          delayed such that the net proceeds from the  
11          sale are not available to be applied as a  
12          credit to the securitization balance.

13           One other comment about how these  
14          estimates fit together. I would say the  
15          estimate from the Divestiture docket is most  
16          closely tied to the Low Case in the  
17          Securitization docket, with two primary changes  
18          for the updated estimate. The first is, is  
19          that I incorporated a working capital  
20          adjustment provided by J.P. Morgan. And the  
21          second is, I added an estimate for the  
22          non-Scrubber deferral, which may be included  
23          here, pending the resolution of the  
24          Commission's docket regarding the setup of the

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 default service paradigm. And I discuss that  
2 in my testimony.

3 But, in short, the Low Case, of  
4 approximately 617 million, reflects close to  
5 what I'd call a "best case" scenario of sorts,  
6 while the High Case, of approximately  
7 690 million, reflects contingencies that may  
8 result from a potential "worst case" scenario,  
9 where delays in both transactions occur. And I  
10 think it's reasonable to suggest that the final  
11 securitization amount will fall within this  
12 range. However, we will not know the final  
13 amount until we know the actual closing dates  
14 of both transactions, and until all  
15 transaction-related costs have occurred.

16 I'll pause there. And I'd be happy to  
17 answer any additional questions about the range  
18 estimates at this time.

19 MR. BERSAK: I'm all set. Thank you,  
20 witnesses. And the witnesses are available for  
21 questions from Staff, the Consumer Advocate,  
22 and the Commissioners.

23 CHAIRMAN HONIGBERG: Mr. Kreis.

24 MR. KREIS: Thank you, Mr. Chairman.

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 The OCA is generally supportive of the proposal  
2 that is pending before the Commission. And,  
3 so, for the most part, I'm just going to try to  
4 ask very few questions and get out of the way.  
5 In fact, I think all of the very few questions  
6 I have are for Mr. Chung, and relate to the  
7 testimony that he just gave.

8 And since I'm a baseball fan, just to  
9 prove that I'm really good at keeping score, I  
10 want to say that I'm talking about Mr. Chung's  
11 prefiled testimony, which is Exhibit 7, which  
12 appears in Tab 1 at Bates Pages 303 to 316, if  
13 I'm remembering correctly, which I believe I  
14 am.

15 MR. BERSAK: No. It's Tab 10.

16 CHAIRMAN HONIGBERG: Tab 10.

17 MR. KREIS: Tab 10. Excuse me. I'm  
18 good at keeping score, but I'm not flawless.

19 **CROSS-EXAMINATION**

20 BY MR. KREIS:

21 Q Mr. Chung, could you characterize at this point  
22 the relative likelihood of your "best case"  
23 scenario unfolding, such that the actual amount  
24 of securitized stranded costs would look a lot

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 like your Low Case scenario?

2 A (Chung) Yes. I don't think I could put a fine  
3 point on the probability. But I would  
4 characterize the Low Case as "more likely than  
5 not". I think the main driver, as I mentioned,  
6 is, in fact, the closing date of the thermal  
7 transaction. I can represent that both the  
8 buyer and the seller are working feverishly to  
9 ensure that we close by the end of this year,  
10 which would be the primary driver towards that  
11 Low scenario.

12 It's hard to say whether -- when the hydro  
13 transaction will occur. I do not see it  
14 closing close to the end of the year or the  
15 beginning of next year, but sometime in the  
16 first quarter. So, whether the approximately  
17 30 million of credit is applied as a credit  
18 against the securitization balance is not clear  
19 to me. Again, I think most likely that will  
20 close before the issuance of the RRBs.

21 Q Is it fair to say that you have the approvals  
22 that you need from this Commission to close the  
23 thermal transaction by the end of year, if the  
24 other preconditions fall into place?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Chung) Yes. To my knowledge, we've received  
2 all of the approvals from the New Hampshire  
3 Public Utilities Commission to have a runway to  
4 closing at the end of year on the thermals.

5 Q Are you awaiting any other approvals at this  
6 point?

7 A (Chung) Well, let's see. The thermal  
8 transaction requires a number of approvals.  
9 There are -- the primary approvals are from  
10 FERC. There's a FERC 203 filing that is  
11 pending before the Commission, and that is the  
12 primary one. There are also, in other states,  
13 a requirement to have approval for exempt  
14 wholesale generator status, and those are, I  
15 believe, pending in both states.

16 And I'll look at my lawyer and see if  
17 there are any other major ones I'm missing.  
18 But I'd say those are the primary ones that  
19 come to mind.

20 Q I can't interpret the face that your lawyer is  
21 making. But he hasn't said anything, and so I  
22 assume --

23 MR. BERSAK: If you would like me, we  
24 are also awaiting approval of antitrust



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 concerns under Hart-Scott-Rodino.

2 **BY THE WITNESS:**

3 A (Chung) Yes. No, thanks for the reminder.

4 There was a filing on the HSR, or

5 Hart-Scott-Rodino filing as well. And I

6 believe we're awaiting on approvals for that.

7 And I think those are the major ones.

8 BY MR. KREIS:

9 Q The attachment to your testimony, which appears  
10 at Bates 316, has a line item for "Stranded  
11 administrative and general expenses". And in  
12 each of the three scenarios, those expenses  
13 amount to, if I'm reading this chart correctly,  
14 \$10.5 million, correct?

15 A (Chung) That's correct.

16 Q Is there any provision in the Settlement  
17 Agreement in 14-238 for recovery of stranded  
18 administrative and general expenses?

19 A (Chung) So, stranded overhead expenses, as I  
20 recall, are listed among the various types of  
21 prudently incurred expenses that could arise as  
22 part of the transaction. And, so, when we came  
23 to looking at all of the impacts of the  
24 transaction, we chose to include this one. I

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 believe there is a reference to it in the 2015  
2 Settlement Agreement.

3 Q Because I looked, and I could not find any such  
4 reference.

5 A (Chung) So, we could take as an information  
6 request to point to that reference, if that  
7 would help?

8 CHAIRMAN HONIGBERG: Mr. Kreis?

9 MR. KREIS: I think that would be  
10 useful, Mr. Chairman.

11 CHAIRMAN HONIGBERG: Mr. Bersak, you  
12 understand the request?

13 MR. BERSAK: Yes, I do.

14 CHAIRMAN HONIGBERG: So, we will  
15 reserve number 11 for that.

16 ***(Exhibit 11 reserved)***

17 **BY THE WITNESS:**

18 A (Chung) But just to comment on this line item.  
19 You know, so, it's probably helpful to talk  
20 about what happens, you know, as a result of  
21 the transaction. So, in addition to the  
22 separation of the employees who directly serve  
23 generation, we need to look, as an  
24 organization, at the corporate services part of

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Eversource Energy, who has been providing  
2 support, accounting, HR, and other for years to  
3 generation. And those aren't -- those  
4 functions or employees are not going with the  
5 transaction.

6 So, what we intend to do, and we are  
7 currently engaging in this exercise of  
8 reevaluating the organization, looking at how  
9 we can right size the organization without the  
10 need to support generation. This is a  
11 transition that simply can't happen overnight.  
12 And, so, as part of this request, the Company  
13 found it reasonable to ask for one year of  
14 support, to then wind down those functions that  
15 will no longer be needed.

16 BY MR. KREIS:

17 Q And what you just said, Mr. Chung, is  
18 consistent with what you stated in your  
19 prefiled testimony at Bates Page 311, correct?

20 A (Chung) Yes.

21 Q And at Line 11 through 14 of that page, you say  
22 "Therefore, the Company is requesting the  
23 Commission approve the inclusion of one year of  
24 stranded administrative and general expenses in

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 the securitization principal so that the  
2 Company can have a short period of time to  
3 successfully accomplish the transition."

4 The split infinitive aside, would the  
5 Commission have the opportunity to review the  
6 prudence of those securitized costs at any  
7 point?

8 A (Chung) I think, broadly speaking, I believe  
9 that this Commission has the opportunity to  
10 review and reconcile the prudent costs of this  
11 transaction in a subsequent proceeding, either  
12 an extension of this one or perhaps a new  
13 docket related to the review of stranded costs  
14 in general.

15 MR. KREIS: Mr. Chairman, I think  
16 those are all the questions I have.

17 CHAIRMAN HONIGBERG: Mr. Speidel.

18 MR. SPEIDEL: Thank you, Mr.  
19 Chairman. I think that was a pretty good segue  
20 from Mr. Kreis regarding some of the Line 12  
21 expenses. And I think it would be helpful to  
22 give the Commissioners a page reference to the  
23 summary table that I'm referring to in  
24 Mr. Chung's testimony. That's at Bates Page

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 316, in Hearing Exhibit 7. So, we'll be moving  
2 around that over the next series of questions.

3 BY MR. SPEIDEL:

4 Q But, Mr. Chung, regarding those expenses that  
5 are listed under Line 12, on Bates Page 316, as  
6 "Stranded administrative and general expenses",  
7 I'll allow you to provide that record request,  
8 of course, to Mr. Kreis, and I won't further  
9 ask about what those are or why the Settlement  
10 Agreement justifies their recovery through this  
11 mechanism.

12 But, in terms of the types of employee  
13 expenses that are being placed in this bucket,  
14 could you at least give us a feel for what they  
15 are?

16 A (Chung) Attorney Speidel, generally, I do list  
17 them on Bates Page 311 of my testimony.

18 *[Court reporter interruption.]*

19 **BY THE WITNESS:**

20 A (Chung) I generally list those types of  
21 expenses on Bates Page 311, Lines 17 through  
22 18. And I know the Parties and the Commission  
23 have read this. But the types of things I list  
24 are labor, outside services, corporate

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 insurance, corporate information technology,  
2 employee costs, and there are other payments.  
3 And the way we run a multistate,  
4 multijurisdiction business is to achieve  
5 efficiencies by centralizing a lot of these  
6 costs. And what we do annually or close to  
7 annually is come up with an allocation  
8 methodology by which we attribute those costs  
9 to various jurisdictions.

10 You know, some -- there are different  
11 allocators that we associate, and we directly  
12 assign those costs where they're directly  
13 attributable to those jurisdictions. So, it's  
14 difficult to point to precise expenses. So, I  
15 mentioned the centralization of these types of  
16 expenses, just to remind the Parties and the  
17 Commission that we, you know, we seek to  
18 achieve efficiencies for all jurisdictions  
19 through the centralization. And, so, you know,  
20 we have our jurisdictions pay their fair share.  
21 We have to do something with this fair share  
22 and wind down to a different size organization.

23 BY MR. SPEIDEL:

24 Q Okay. So, that's a pretty general answer, and

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 you have general information within the Line 12  
2 discussion on Bates 311. Let's drill down a  
3 little bit.

4 So, what I'm hearing -- I have some  
5 familiarity with ratemaking. So, what you seem  
6 to be saying is that there are certain  
7 recurring expense items that, under ordinary  
8 circumstances, would be recovered through the  
9 Company's general rates as part of their  
10 generation requirements. Is that fair to say?

11 A (Chung) Yes.

12 Q And, so, there's a transitional period where,  
13 post sale, there are certain elements of those  
14 recurring expense items that need to be  
15 recovered as stranded costs, because they are  
16 no longer being recovered from the general  
17 default service income stream or rate stream,  
18 such as recurring charges to your corporate  
19 affiliates for computer services?

20 A (Chung) Yes. I think that's a fair -- yes. I  
21 think that's a fair characterization. I mean,  
22 if ratemaking were instantaneous and we could  
23 reset rates in all of our jurisdictions based  
24 on this new cost structure that, you know, I

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 don't think we'd need this transition time, but  
2 that's not how the ratemaking paradigm works.

3 Q So, what is the bounding of time for the Line  
4 12 expenses that we're looking at? Is it three  
5 months? One quarter? Two quarters? A full  
6 year?

7 A (Chung) To be honest, I don't know, and I think  
8 it could as many as several years. You know,  
9 when we look at previous transactions in the  
10 Eversource history, let's take the merger of NU  
11 and NSTAR. You know, one way to right size the  
12 organization is through attrition. And  
13 attrition occurs over several years. So, in  
14 reality, this right sizing could occur over  
15 several years. When thinking about this  
16 request, we did not think a several year  
17 request was reasonable. So, we decided we  
18 would make the request for one year.

19 Q So, the --

20 A (Chung) In reality, it could be longer. The  
21 reality of the transition could be much longer.  
22 But we don't know that, so I think we picked a  
23 reason endpoint.

24 Q So, the bounding that the Company is requesting



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 as part of its Petition is a one-year bounding  
2 for calendar year '18, is that fair to say?

3 A (Chung) For the purposes of the stranded costs,  
4 the recovery of what we call "stranded O&M",  
5 that's correct.

6 Q Under the terms of the Settlement Agreement and  
7 under the terms of what is qualified for RRB  
8 recovery?

9 A (Chung) Yes. And I'm just drawing a  
10 distinction between what I think will happen in  
11 reality, versus what the request is. I think  
12 they are two different things.

13 Q I understand. On the one hand, you're  
14 referring to what's happening in your corporate  
15 environment, and on the other we're talking  
16 about what the ratepayers are responsible for  
17 in the SCRC?

18 A (Chung) Yes.

19 Q So, you've made that distinction?

20 A (Witness Chung nodding in the affirmative).

21 Q Okay. So, that's good. Thank you. I guess we  
22 can move along to another element on Bates Page  
23 311, the narrative discussion of "Line 13", the  
24 "Schiller mercury boiler removal Project". And

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 the companion schedule does show a range of  
2 values for that removal under Line 13, on Bates  
3 Page 316, that ranges from 30 million to  
4 36 million, from the low to the high. Could  
5 you explain that variation for us please?

6 A (Chung) Yes. I would say I simply took the  
7 upper end of the estimate that was described in  
8 I think it was Docket 16-817, where this  
9 project's cost was approved, and came up with  
10 just a range of uncertainty on the final costs  
11 increasing by 10 and 20 percent, respectively,  
12 for Mid and High. I did not apply anything  
13 more scientific than that.

14 And, you know, when we're looking and just  
15 taking a step back from this particular line  
16 item, when we're looking at a low, mid, and  
17 high case, and we have a -- what I view is a  
18 single opportunity to demonstrate what could  
19 the range of costs be, I think we look at  
20 contingencies on all items, including this one.

21 I don't know where the costs will wind up  
22 for this project, but I think it's reasonable  
23 to say they're uncertain at this point.

24 Q Thank you. You know, I don't want to

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 necessarily segue into sensitive matters, but  
2 there has been a report of certain delays in  
3 the Schiller effort due to worker protection  
4 concerns. Are those delays fueling some of the  
5 expected increase in costs for the Schiller  
6 effort?

7 A (Chung) No, I wouldn't say so. It's more a  
8 contingency for things, you know, the project  
9 is not aware of.

10 Q I see.

11 A So, the current reports with the Commission on  
12 this project has the project completed sometime  
13 in mid 2018. And as of right now, I don't see  
14 that changing.

15 Q Thank you, Mr. Chung. I think I will direct  
16 the next series of questions not only to you,  
17 but also to your colleagues and your  
18 representative from Goldman.

19 I would say that we're interested in  
20 hearing a little bit more about the timing of  
21 securitization. And the proposed sales have  
22 been approved by the Commission. And, so,  
23 we're in a T+ X number of days schedule. Could  
24 one of you or all of you provide a sense of

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 what the next timing steps are for the issuance  
2 of the RRBs?

3 A (Niehaus) Absolutely. So, there's a number of  
4 practical items that need to occur in advance  
5 of an issuance of these types of bonds. (1) is  
6 the completion of the legal documentation; (2)  
7 is a process with the rating agencies, in order  
8 to achieve the rating; (3) is the creation of  
9 the offering document and marketing materials,  
10 and the filing of the offering document with  
11 the SEC, which includes a period of time where  
12 the SEC reviews and comments on that offering  
13 document before the statement becomes  
14 effective; and then (4) is the marketing and  
15 sale of the bonds.

16 Many of those processes are already  
17 underway, and will be happening on a joint  
18 track process. The expectation is that we  
19 should be able to market, sell, and close the  
20 transaction by the end of March.

21 Q And when you say "the transaction", that would  
22 be the first tranche of RRBs, correct?

23 A (Niehaus) Correct. So, there will be a single  
24 issuance, or the expectation is that there will

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 be a single issuance. We talk about multiple  
2 classes or tranches in the testimony, but they  
3 will all be issued simultaneously.

4 Q So, this may be more --

5 A (Niehaus) Is that the --

6 A (O'Neil) Okay. Just so that we all understand  
7 what the word "tranche" means, because  
8 "tranche" may mean something different.

9 A (Niehaus) Oh, yes. Sorry.

10 A (O'Neil) There will be only one issuance, but  
11 different tranches within the issuance or a  
12 different series within the issuance, if that's  
13 what you're asking?

14 Q No. I'm referring to the potential, because  
15 there are potential stranded costs that may  
16 come in relatively late to the table, in terms  
17 of they're being qualified for inclusion in the  
18 SCRC. And we're going to have a couple of  
19 questions about auditing those costs and those  
20 sorts of things.

21 But what I'm asking is, will you have all  
22 the costs that will qualify for inclusion in  
23 the SCRC and will be qualified for issuance as  
24 rate reduction bonds issued in a single

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 issuance. And that seems to -- the answer to  
2 that seems to be "yes"?

3 A (O'Neil) Our plan is to do one single issuance  
4 of RRB bonds, and not to do two.

5 Q Okay. Just clarifying that.

6 A (O'Neil) Yes.

7 Q And, so, you are committed as a company to  
8 having those bonds issued in an expeditious  
9 manner, correct?

10 A (O'Neil) Absolutely.

11 Q And that offers savings for ratepayers, is that  
12 correct?

13 A (O'Neil) Yes, it does.

14 Q And could you explain how, in a generic sense,  
15 of why that offers savings for ratepayers?

16 A (Goulding) Sure. So, currently, we have the  
17 generation assets, they're earning the weighted  
18 average cost of capital, which has an ROE of  
19 9.81 percent.

20 Once we issue the RRBs, the assets are  
21 stranded. They will have a much lower interest  
22 rate on them, I believe somewhere in the  
23 3 percent range. So, there's significant  
24 savings to pay the assets off over the current

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 interest rate.

2 Q Very good. And, so, Mr. Goulding, regarding  
3 some of Mr. Chung's line items on his Bates  
4 Page 316 in Exhibit 7, you mentioned the rate  
5 of return for certain elements of the Company's  
6 accounting. And the net book value of  
7 generation assets in inventory, or, in other  
8 words, rate base, that's earning the rate of  
9 return that you specified, correct?

10 A (Goulding) Yes. It's earning the rate of  
11 return, including a 9.81 ROE, with our  
12 capital -- current capital structure.

13 Q Now, Mr. Chung, I'm getting back to you, on  
14 Bates Page 306 of your testimony, you have a  
15 general statement, on Lines 13 and 14, where  
16 you say "Unless and until the RRBs are issued,  
17 stranded costs will remain on PSNH's books and  
18 will continue to accrue the authorized return  
19 on those costs."

20 So, Mr. Goulding clarified that the net  
21 book value element returns -- is the rate of  
22 return, but there are certain expense items  
23 here in your schedule. Do any of these  
24 one-time expenses generate that rate of return?

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Do all of them or do none of them? And I'm  
2 looking at things such as environmental  
3 liability insurance premiums, the Schiller  
4 project, the transaction-related costs, in  
5 terms of the J.P. Morgan auction advisor fees,  
6 employee separation costs. Those are one-time  
7 cost items, aren't they?

8 A (Chung) Yes. And I can speak to some of those  
9 one-time items, and Mr. Goulding may speak to  
10 the remainder.

11 But anything where there's an instant, I  
12 say "instant", expense, and example of an  
13 insurance premium, I wouldn't expect an accrual  
14 of a return. We're not fronting any cash.  
15 We're just going to pay that. Some transaction  
16 expense behave that way, and some of these  
17 items do not. I'll defer to Chris --  
18 Mr. Goulding on how those are handled.

19 A (Goulding) There are some items in there, like  
20 the regulatory assets and liabilities that are  
21 currently included in our rate base, so those  
22 would be stranded as part of the sale itself.  
23 So, those would earn a return.

24 Q And could you describe what some of those are?



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Goulding) Sure. Let's see. So, some of -- a  
2 couple of items. We have ARO, regulatory  
3 assets and liabilities. That one actually has  
4 a negative balance. So, it's a liability for  
5 the Company. That would be included in there.  
6 And then there's some pension -- accrued  
7 pension costs and OPEB, and there are lots of  
8 basically FAS accounting pronouncements that we  
9 have to follow. So, if those were included in  
10 rate base, those would continue to earn the  
11 return. If they weren't, then they would not.

12 Q Okay. Thank you for that clarification. Now,  
13 in terms of the capital structure that is at  
14 play here, there has been a shift in the  
15 Company's capital structure since the beginning  
16 of the divestiture process, isn't that correct?

17 A (Goulding) Yes.

18 Q Could you clarify as to what capital structure  
19 is being used for the elements of the  
20 securitized costs that do earn the rate of  
21 return of the Company?

22 A (Goulding) Sure. So, I'm going to make an  
23 assumption that we're talking about, all right,  
24 the assets close at the end of the year. We've

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 now transferred the assets off, our ownership  
2 of the assets, we've got the cash in. So,  
3 there's a stranded costs that are left on our  
4 books. It would be earning the stipulated rate  
5 of return, which is based on a 60/40  
6 debt/equity split, with an 8 percent ROE, and  
7 our current cost of capital -- our current cost  
8 of debt, excuse me.

9 Q And that's a defined term in the '15 Settlement  
10 Agreement, correct?

11 A (Goulding) That's correct.

12 Q Okay. Thank you. All righty. This is a  
13 general question for the panel. What stumbling  
14 blocks may there be to the issuance of RRBs  
15 during the short timeframe we're dealing with?  
16 Perhaps Ms. Niehaus could shed some light on  
17 that?

18 A (Niehaus) Sure. Absolutely. There are a  
19 number of third parties that are involved in  
20 the successful completion of the transaction,  
21 first and foremost being the rating agencies.  
22 I spend much of my day endeavoring to keep the  
23 rating agencies on a specific timeline with  
24 regards to transactions. But it can, from time

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 to time, be difficult to keep everyone on the  
2 same pace that you would like.

3 Secondly, we do have to file our offering  
4 document with the SEC and allow for their  
5 review and comment. To the extent there was an  
6 extension of that, it could delay our  
7 transaction.

8 And then the third is the capital markets  
9 more broadly. Today, we believe that we could  
10 bring a successful transaction to market. But,  
11 to the extent there were some sort of  
12 geopolitical event that impacted the markets  
13 broadly, it could impact the issuance of these  
14 bonds as well.

15 Q And thank you. And, Ms. Niehaus, what do you  
16 consider the risks to the bonds receiving a AAA  
17 rating?

18 A (Niehaus) The rating agencies have relatively  
19 clearly published criteria, and we have created  
20 a transaction or are attempting to create a  
21 transaction here that adheres to all of those  
22 published criteria items. The agencies do,  
23 from time to time, review their criteria and  
24 may come out with additional criteria based on

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 the environment. We can't necessarily foresee  
2 those, those items, and so that could be a  
3 potential risk.

4 Q So, one of those environmental issues that you  
5 may consider is, for example, do distributed  
6 energy resources, the so-called "off-the-grid"  
7 movement, do they pose a threat to the  
8 viability of the bonds?

9 A (Niehaus) The rating agencies have been  
10 reviewing that as part of their criteria, as  
11 you see more distributed generation throughout  
12 the U.S. We have successfully issued AAA rated  
13 securities recently for other utilities, and  
14 for utilities in service territories that have  
15 substantially more distributed generation. The  
16 bonds here are relatively shorter than other  
17 transactions that have been issued. And so we  
18 believe we are operating within the confines of  
19 their current criteria.

20 Q Thank you. Mr. O'Neil, so, PSNH will be the  
21 servicer of the RRBs, correct?

22 A (O'Neil) That's correct.

23 Q And -- I'm sorry, Ms. O'Neil.

24 A (O'Neil) That's okay.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Q And what exactly does that entail, in terms of  
2 responsibilities for the Company?

3 A (O'Neil) Actually, many things. We will bill  
4 the RRB charge. We will collect the charge.  
5 We will remit the charge. We will be  
6 responsible for performing the annual true-up  
7 of the charge.

8 Q And does the Company receive any compensation  
9 as servicer of the bonds?

10 A (O'Neil) Yes, we will.

11 Q And how is that collected and calculated, do  
12 you know?

13 A (O'Neil) Yes. So, the market notion is an  
14 annual servicing fee would be 0.05 percent of  
15 the principal amount of the bonds issued. And  
16 that would be considered a ongoing cost. And  
17 it would be collected in the RRB charge, along  
18 with the principal and the interest. So, when  
19 we go to size -- when we do the true-up and we  
20 go to size the charges, the ongoing fees would  
21 be included in that as well.

22 Q Is that calculation determined through  
23 reference to an industry standard or is it  
24 through an estimate of costs that the Company

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 has done internally?

2 A (O'Neil) It's an industry standard, and the  
3 cost needs to be such that there is sort of --  
4 we have to be looked at almost like as a  
5 hands-off relationship, because there has to  
6 be, between the SPE and -- it has to be arms  
7 length between the SPE and PSNH in order for it  
8 to be bankruptcy remote. So, the 0.05 is an  
9 industry standard. The amount would be  
10 significantly higher if we were not currently  
11 billing other charges or remitting other  
12 charges. And in the last --

13 Q "In the last", are you all set?

14 A (O'Neil) I'm all set, yes.

15 Q Okay. Thank you. Mr. Chung, one last question  
16 related to your testimony, then I'll ask a  
17 general question of the panel.

18 You make reference on Bates Page 313 of  
19 your testimony to the "Net present value of tax  
20 benefits". And there's a pretty technical  
21 discussion of the tax benefits and payments  
22 calculations. That's Exhibit 7, Chung.

23 And there's a reference to the fact that  
24 "This results in customers receiving the

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 upfront benefit of a reduction in the total  
2 amount to securitize", on Lines 11 and 12.

3           Could this net present value fluctuate due  
4 to a delta in the federal tax bill forthcoming,  
5 and would that ever be dealt with in the  
6 true-up?

7 A       (Goulding) So, based on the two bills that just  
8 passed, I just started to ask questions on it,  
9 and I haven't really gotten a lot of  
10 information back on it yet. I was hoping to  
11 get a phone call before the hearing this  
12 morning. So, I'm not sure what the impact  
13 would be or how it will be handled.

14 Q       But do you expect that, if there is a  
15 differential, and the single issuance has gone  
16 out in March, would there be some sort of  
17 true-up charged to the SCRC that would result?  
18 Would that be handled that way, if it's a  
19 positive delta?

20 A       (Goulding) If, based on the analysis, that was  
21 determined, I think that would be the  
22 appropriate way. But, just on my general  
23 understanding, we have the tax benefit now.  
24 And if the tax law changes, it would result in

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 another, basically, a regulatory liability set  
2 up on the books for customers. So, I think it  
3 would act similarly as the ADIT, but I'm not  
4 positive.

5 Q Okay.

6 A (Goulding) And just to add on, it wouldn't go  
7 through the true-up of the RRB charge. If it  
8 was going to be anywhere, it would be included  
9 as a true-up in the Part 2 cost.

10 Q "Part 2 cost" meaning?

11 A (Goulding) The non-securitized cost, the  
12 ongoing stranded cost.

13 Q Okay. All right. This does not refer to one  
14 of the testimonial presentation, but it's one  
15 of the findings that has been delineated. And  
16 I'm referring to the November version. It's at  
17 Bates Page 085 of the November submission  
18 package. And it has the legend at the bottom,  
19 "A-24" as well, under Attachment A. So, I'll  
20 give everybody a moment to find that.

21 So, there's two bullet points towards the  
22 end of this redline version on Bates Page 085.  
23 All set? And one reads, and this is a new  
24 addition in redline, "To redeem outstanding



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 PSNH debt", as one of the uses of the proceeds  
2 for the RRB. What debtor is this referring to?

3 A (O'Neil) It's referring to PSNH's debt. So,  
4 depending upon the timing, as you know, we have  
5 long-term debt outstanding and we have  
6 short-term debt outstanding. So, we have been  
7 increasing our short-term debt balances to pay  
8 off long-term debt, because it didn't make  
9 sense to come into the Commission to ask for  
10 long-term debt authorization, when we're  
11 issuing \$600 million of rate reduction bonds.

12 So, over time, we've had to use short-term  
13 debt to pay off long-term debt, and we have a  
14 long-term debt maturity of next May as well.  
15 So, you know, as you know, all cash is  
16 fungible. So, it's really a combination of  
17 long-term debt and short-term debt.

18 Q Very good. Thank you, Ms. O'Neil. And there's  
19 one more follow-up question. The second bullet  
20 point there that I've referred to, reads "To  
21 pay a return of capital to Eversource Energy,  
22 the parent of PSNH, to maintain a consistent  
23 capital structure at PSNH." What capital  
24 structure does this refer to?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (O'Neil) When you say "what capital  
2 structure", --

3 Q Uh-huh.

4 A (O'Neil) -- it's the capital structure of PSNH.

5 Q The subsidiary?

6 A (O'Neil) PSNH.

7 Q Right. I know. But what is that capital  
8 structure then?

9 A (O'Neil) Well, right now I think -- I'm sorry,  
10 can you please repeat the question?

11 Q Well, there's a reference in this bullet point  
12 that one of the uses of the proceeds is "to pay  
13 a return of capital to Eversource Energy, the  
14 parent of PSNH, --

15 A (O'Neil) Uh-huh.

16 Q -- to maintain a consistent capital structure  
17 at PSNH." It's just -- it's a little bit of an  
18 ambiguous statement.

19 A (O'Neil) And I agree, it is.

20 MR. BERSAK: If I can just interject  
21 for a second, just so we all know where we're  
22 talking. Exhibit 1, Bates Page 030, is what  
23 Attorney Speidel is referring to.

24 MR. SPEIDEL: No.

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1 WITNESS O'NEIL: No.

2 MR. SPEIDEL: I'm actually referring  
3 to 085. It's not one of the exhibits.

4 MR. BERSAK: No, you're referring to  
5 the redline. So, I'm explaining, in the  
6 exhibit that's been marked, those bullets that  
7 you're talking about appear in --

8 CHAIRMAN HONIGBERG: In the  
9 non-redlined version.

10 MR. BERSAK: Correct.

11 WITNESS O'NEIL: Okay.

12 **BY THE WITNESS:**

13 A (O'Neil) Yes. So, obviously, it's very  
14 important to the Company that we maintain an  
15 appropriate regulatory capital structure. So,  
16 if we're going to be redeeming debt, in order  
17 not to have the equity ratio go very high, you  
18 also have to reduce equity. And the way you  
19 reduce equity is by sending a dividend up. So,  
20 that's what I'm getting at.

21 If we only redeem debt with the money that  
22 we're getting in, our equity ratio would be  
23 extraordinarily high, and inappropriately high.  
24 So, we need to bring that down by dividending

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 money up.

2 Q So, what is your -- through this dividend  
3 mechanism, what is your target capital  
4 structure?

5 A (O'Neil) Well, I think our approved capital  
6 structure is 52.4 percent equity, on a  
7 five-quarter average, including short-term debt  
8 in the calculation.

9 Q And the return on equity for that is again?

10 A (Goulding) Yes. The one that Emilie -- Ms.  
11 O'Neil is referring to per the 09-035  
12 settlement for the distribution rate case. So,  
13 it was -- the ROE for distribution is 9.67  
14 percent.

15 MR. SPEIDEL: Thank you. Staff has  
16 no further questions for these witnesses.

17 CHAIRMAN HONIGBERG: Commissioner  
18 Bailey.

19 CMSR. BAILEY: Thank you. I have a  
20 follow-up on that point.

21 BY CMSR. BAILEY:

22 Q So, we're going to securitize money to pay  
23 dividends to keep the capital structure?

24 A (O'Neil) No. We're securitizing stranded

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 costs.

2 Q Okay. And the RRBs are going to be used for  
3 the three bullet points on Bates Page 030,  
4 which includes what you just talked about as  
5 dividends?

6 A (O'Neil) To keep the capital structure at a  
7 normal, appropriate regulatory capital  
8 structure. If we did not use some of this  
9 money to pay dividends, what would happen would  
10 be is our capital structure would be  
11 out-of-whack, and our equity ratio would be  
12 inappropriately high.

13 So, PSNH is selling the right to a special  
14 purpose entity to collect the charge. And when  
15 the SPE issues the debt, they give the proceeds  
16 to PSNH. So, what PSNH does is, we have to  
17 maintain an appropriate capital structure. So,  
18 we'll use some of the money to pay down debt  
19 and some of the money to return to the parent.  
20 This is consistent with what has been done in  
21 the past.

22 A (Goulding) So, maybe I can add to it. So, when  
23 all of these assets that are on our books now  
24 are basically paid for, they're paid for with a

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 certain set of capital structure, you issue  
2 long-term debt and you issue equity. So, now  
3 that we strand these assets, we get the cash  
4 back, and to pay off all the assets, we have to  
5 proportionally, basically, pay back the money  
6 that we're essentially borrowing for those  
7 assets that we had purchased on behalf of  
8 customers.

9 CMSR. GIAIMO: Can I?

10 CHAIRMAN HONIGBERG: Go ahead.

11 BY CMSR. GIAIMO:

12 Q Can we crystal ball the magnitude of the  
13 dividends?

14 A (O'Neil) Our approach would be to come to close  
15 to this 52.4 percent equity ratio. So, it  
16 really depends on how much money we're getting  
17 in from the securitization.

18 BY CMSR. BAILEY:

19 Q Assume 600 million, just for rounding purposes.

20 A (Goulding) For purposes of this, is it possible  
21 to take a record request, and then we  
22 provide -- because we need to know our current  
23 capital structure, what's out there, and then  
24 we would have to kind of do an estimate.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Q Okay.

2 CHAIRMAN HONIGBERG: All right. So,  
3 we're going to reserve number 12 for that.

4 **(Exhibit 12 reserved)**

5 CHAIRMAN HONIGBERG: Mr. Bersak, do  
6 you understand the request?

7 MR. BERSAK: Yes, I do.

8 CHAIRMAN HONIGBERG: Why don't you  
9 articulate it, so that it's on the record.

10 MR. BERSAK: As I understand the  
11 request, it is to detail how the Company is  
12 going to use the proceeds from the RRBs that  
13 are received for taking the stranded costs off  
14 our books. And if we use a hypothetical  
15 principal amount of \$600 million, what is  
16 Eversource going to do with that \$600 million,  
17 in order to keep its capital structure at the  
18 approved levels that were set in the last rate  
19 case?

20 CHAIRMAN HONIGBERG: Thank you.

21 BY CMSR. BAILEY:

22 Q I think, Mr. Chung, you said, when you were  
23 talking about your Low Case and best case --  
24 or, your Low Case scenario, that there would be

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 a working capital adjustment. Can you explain  
2 that to me?

3 A (Chung) Yes. So, as part of the closing of the  
4 thermal transaction, and this is true of the  
5 hydro transaction, except I'm not sure what the  
6 mechanism is, on the thermal side, the thermal  
7 buyer is purchasing fuel and nonfuel inventory.  
8 The substance of the inventory is fuel, and  
9 what is agreed to in the contract is to true-up  
10 the actual amount of fuel that will be on the  
11 plants' sites at closing, versus the estimate  
12 that was contemplated and known at the time of  
13 signing. That amount of fuel will depend on  
14 how much fuel is used, that is how much, you  
15 know, the plants run this year between October  
16 and December. The estimate that was determined  
17 by J.P. Morgan was \$9 million. So, --

18 Q Nine (9) million dollars for what?

19 A (Chung) For the working capital adjustment.  
20 And that is primarily related to an estimate of  
21 the amount of fuel that would be burned in  
22 December. So, that amount could also be close  
23 to zero, if the plants -- the coal plants don't  
24 run in December. So, there could be a very



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 small working capital adjustment. However, we  
2 won't know until closing.

3 Q What I don't understand is the nexus between  
4 the fuel inventory and working capital  
5 adjustment?

6 A (Chung) Well, J.P. Morgan is calling all  
7 inventory fuel and nonfuel as "working  
8 capital", that's just the term they're using  
9 for it. So, what this really is is a closing  
10 adjustment related to the amount of inventory  
11 left in the station.

12 Q Oh, that makes much more sense. Okay. And  
13 what are "non-Scrubber deferral costs"?

14 A (Chung) So, "non-Scrubber deferrals costs" are  
15 a routine amount of over/under recoveries that  
16 we include as part of the standard Energy  
17 Service ratemaking. In prior years, it has  
18 been in the 15 to 20 million range, and that  
19 has been a part of the Energy Service rate.  
20 You know, my colleague, Mr. Goulding, may be  
21 able to comment on what it is expected to be  
22 for the 2018 rate. But it's in this order of  
23 magnitude.

24 Q I want to know what it is, not how much it is?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Goulding) Okay. So, normally, when we set our  
2 Energy Service rate, we assume a certain level  
3 of costs, certain level of energy prices, and  
4 then a certain level of sales we're going to  
5 have. There's always a mismatch between our  
6 sales and the revenues -- or, the expenses.  
7 So, it's just the differential between the  
8 revenues and expenses that occur in our energy  
9 service filing.

10 Q And that's going to somehow go into the  
11 securitization?

12 A (Goulding) It has to go somewhere. It can  
13 either transfer it to the new default service  
14 paradigm, once we change over, or it can be  
15 securitized, or it can be included as a Part 2  
16 stranded cost and recovered through the  
17 Stranded Cost Recovery Charge. But there has  
18 to be some home for it.

19 Q Okay. And the home that you're proposing is  
20 securitization, the RRBs?

21 A (Goulding) Well, in the -- there was a timing  
22 difference between when we made this filing and  
23 then we made our transition to default service  
24 filing. So that, basically, in the Settlement

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 in DE 17-113, it called for it to be recovered  
2 through the Stranded Cost Recovery Charge.

3 And I think Eric's -- Mr. Chung's  
4 testimony made a reference to unless it's  
5 determined to be appropriate in the DE 17-113.

6 Q So, these are charges -- this is a true-up that  
7 results from the mismatch in revenue that you  
8 collected from default service customers and  
9 the price of energy that you paid?

10 A (Goulding) Yes.

11 Q Why wouldn't that just happen in a  
12 reconciliation of the default service rates? I  
13 mean, if you securitize it, it goes on  
14 everybody?

15 A (Goulding) Right. So, if we move it -- if we  
16 leave it in the default -- the current default  
17 service, once you transition, let's assume  
18 where we transition to the new default service  
19 paradigm on April 1st, if we -- actually, yes,  
20 April 1st, you would kind of -- you would be  
21 moving some of the old process, old procurement  
22 of energy from PSNH's resources into this new  
23 market-based paradigm. So, it could cause a  
24 skew or a misrepresentation of the actual price

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 that we're procuring power for.

2 Q And remind me again what the difference between  
3 Part 1 and Part 2 is? I know Part 1 is paid  
4 for by RRBs.

5 A (Goulding) Yes. Part 1 is the securitized  
6 costs.

7 Q Right.

8 A (Goulding) That would be paid for by RRBs. And  
9 Part 2 are the ongoing stranded costs, such as  
10 Burgess Biopower contract, Lempster, there's  
11 some IPPs. And then there's just the return on  
12 the deferral calculation associated with the  
13 Stranded Cost Recovery Charge.

14 Q Would it make more sense to put it there?

15 A (Goulding) It could. And that's where I  
16 believe the 17 -- the DE 17-113 landed as a  
17 possible home for it.

18 A (Chung) I'll add that we don't have a  
19 preference as to where the home is. Whether  
20 it's in securitization, Part 1, or if it's Part  
21 2, I would say we'll see what the resolution is  
22 in Docket 17-113. And, you know, if it's  
23 deemed that the better home is Part 2, then we  
24 won't include it here. But that wasn't

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1           revolved at the time of this filing, as  
2           Mr. Goulding was saying.

3   Q       But you're asking us to put specific language  
4           in an order that includes that, right?

5   A       (Chung) Well, I think you can put language in  
6           an order that says "contingent" -- "this line  
7           item will be included or not included depending  
8           on the outcome of the default service  
9           transition docket." And, you know, when it  
10          comes time to calculate the principal, if it's  
11          deemed to not be included in the RRBs, we won't  
12          include it in our principal.

13   Q       Well, if we just left it out of the order, I  
14           mean, you know you're entitled to recover it,  
15           do we need to have it in the order? Or we  
16           could say "may"?

17   A       (Chung) I think, you know, we're comfortable  
18           with how the Commission rules on this. Like I  
19           said, we have flexibility, and, you know, it's  
20           wherever the Commission thinks the right home  
21           is.

22   Q       Where else do you have flexibility in the  
23           language that's provided in these documents?

24   A       (Chung) In terms of whether it's Part 1 or Part

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 2?

2 Q No. Just, I mean, my understanding was that it  
3 was really important, and maybe Ms. Niehaus can  
4 help us out with that, the language -- the  
5 language in the order was really important.  
6 And I just want to know where we have some  
7 wiggle room?

8 A (Niehaus) We have drafted the language to the  
9 best of our abilities to meet the rating agency  
10 criteria. The rating agencies are focused on  
11 the irrevocability of the order, as well as the  
12 formulation of the true-up and other items  
13 within the order. And we have drafted it as we  
14 believe it's appropriate.

15 Q And did Goldman, Sachs draft it or did the  
16 Company draft it?

17 A (Niehaus) The Company drafted it.

18 Q Okay. And you made sure that the magic  
19 language that you need is included?

20 A (Niehaus) That is correct.

21 Q I wish I could ask you to tell me what the  
22 language you need is, so that that way we would  
23 know what else was flexible. Can you point  
24 that out?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Niehaus) It is -- It's a holistic package.

2 Q Okay.

3 A (Niehaus) Are there particular items that you  
4 are concerned about that can be addressed?

5 Q Well, let's go to Bates Page 033, and this is  
6 just a point of clarification. But, in  
7 Paragraph 9, there's a sentence that says "This  
8 ultimate finding is based upon the totality of  
9 evidence presented on the record of this  
10 proceeding." Is this proceeding Docket 17-096?  
11 Or is it the Settlement proceeding, plus the  
12 Divestiture, plus the asset sale? What does  
13 "this proceeding" mean?

14 A (O'Neil) I'm sorry. I don't know what page  
15 you're on.

16 Q Oh, I'm sorry.

17 MR. BERSAK: It's on -- if we go to  
18 Exhibit 1, which is our Updated Petition. Look  
19 on Attachment B --

20 CMSR. BAILEY: Page 33.

21 MR. BERSAK: -- Page B-3, which is  
22 Bates Page 33 of our November filing. You see  
23 that?

24 WITNESS O'NEIL: So, it's Bates 033?

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 MR. BERSAK: Yes, of our November  
2 Updated Petition.

3 CMSR. BAILEY: It's in Paragraph 9,  
4 and it's the fourth line down.

5 WITNESS O'NEIL: I'm trying to see  
6 what transaction description is defined.

7 BY CMSR. BAILEY:

8 Q I think it's all of Part A, isn't it?  
9 Attachment A?

10 A (O'Neil) The important thing is that the order  
11 be irrevocable, once it's given.

12 Q Okay. I understand that.

13 A (O'Neil) Okay.

14 A (Niehaus) Yes. Absolutely. So, obviously,  
15 there are many ways to construct words that  
16 mean the same thing. The goal here was to  
17 create a construct whereby the amount, once it  
18 is securitized, is final and that this order is  
19 irrevocable in the future.

20 Q So, what's really important is -- well,  
21 obviously, that it's irrevocable, and the  
22 amount, say that again?

23 A (Niehaus) So, I believe the intent of that  
24 language is to create a construct whereby



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 people cannot question the issuance of the  
2 transaction in the future. So, once we have  
3 determined the principal amount of the  
4 securitization bonds and issued those bonds,  
5 there cannot be any reduction to that amount  
6 going forward, because there is a question as  
7 to the validity of any of the costs that went  
8 into the analysis.

9 Q Okay. And in this proceeding, in this phase of  
10 this proceeding, we are not determining the  
11 amount?

12 A (Niehaus) Correct.

13 Q Okay. So, all of the -- Ms. O'Neil, you look  
14 worried?

15 A (O'Neil) I guess I'm confused. I was -- when  
16 you say that "we're not determining the  
17 amount", I thought that our approach was going  
18 to be that we would get approval between the  
19 band, between -- what we were hoping for is  
20 that we would get approval between the two end  
21 points.

22 Q Well, then my question is, like what if we  
23 decide that -- I'm looking at the table  
24 attached to Mr. Chung's testimony.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (O'Neil) Uh-huh.

2 Q What if we decide that administrative and  
3 general expenses should be put somewhere else?

4 A (O'Neil) Then, the amount goes down.

5 Q Right.

6 A (O'Neil) Absolutely.

7 Q So, do we have the right to have the amount go  
8 down?

9 A (Chung) Well, I don't think you have the right,  
10 and we can't alter it in the future, but I  
11 think at this time, what we would encourage is  
12 that, to the extent amounts are known and  
13 they're significant, that customers are better  
14 off if we refinance them over a long period of  
15 time at a low interest rate.

16 A (O'Neil) No. That's --

17 CHAIRMAN HONIGBERG: Well, there's  
18 two different nows here.

19 WITNESS O'NEIL: Yes.

20 CHAIRMAN HONIGBERG: There's now,  
21 today, in Phase I of this proceeding, when my  
22 understanding, and I think Commissioner  
23 Bailey's and Commissioner Giaimo's  
24 understanding, was that we're approving the

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 form of the order and the necessary language  
2 for Ms. Niehaus. But the specific amounts are  
3 not part of the Phase I of the proceeding that  
4 is Docket DE 17-096. There's going to be  
5 another order issued in this docket.

6 Mr. Bersak, help me out here.

7 MR. BERSAK: We don't believe so, Mr.  
8 Chairman. What we were asking for in -- what  
9 we are asking for in this docket is for the  
10 Commission to approve the securitization  
11 process, as well as a range of principal  
12 amounts based upon Mr. Chung's testimony. So  
13 that we would be authorized to issue rate  
14 reduction bonds within the band range of  
15 Mr. Chung's low to high scenarios.

16 CHAIRMAN HONIGBERG: If, at the end  
17 of the process, the number turned out to be --

18 CMSR. BAILEY: 550.

19 CHAIRMAN HONIGBERG: I was going to  
20 say "600", which was the number used before,  
21 and not 616, would that be a problem?

22 MR. BERSAK: If it was below his Low  
23 Case scenario?

24 CHAIRMAN HONIGBERG: Correct.

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 MR. BERSAK: I don't believe that  
2 would be a problem. I would defer to Ms.  
3 Niehaus or Ms. O'Neil. If we have authority to  
4 issue a principal amount of rate reduction  
5 bonds up to the high end of Mr. Chung's range,  
6 say, 690, let's say, and it turns out that, for  
7 whatever reason, the amount that we need to  
8 securitize is only 600, would that be  
9 problematic for the ratings agency or the SEC  
10 process?

11 A (Niehaus) No.

12 A (O'Neil) No. But is that -- I just want to  
13 make sure that that's what I'm hearing now.  
14 So, what you're speculating is that we would  
15 get a number, approval to issue up to X, that  
16 would be -- that would be actually fine. If  
17 the number ends up being significantly lower  
18 than that, then we would just issue whatever it  
19 needs to be.

20 MR. BERSAK: So, let me finish this  
21 response to your question, Mr. Chairman. We  
22 don't expect to get a second order in this  
23 proceeding necessarily. But there will be, as  
24 asked of Mr. Chung by Mr. Speidel, when this is

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 all over with, we expect that the Commission  
2 will have an audit of what we did, that we will  
3 have to show that the expenses that were part  
4 of the securitization were reasonable, were  
5 part of what are deemed to be proper stranded  
6 costs, that they were prudent. And to the  
7 extent that there were any deviations from  
8 that, that adjustment will be made through the  
9 normal ratemaking process. But that the bonds  
10 themselves will have been issued and will  
11 remain, you know, legal and will be collected  
12 in due course.

13 CHAIRMAN HONIGBERG: Mr. Speidel, is  
14 that also your understanding of what the next  
15 phases of this would be? Is this the last time  
16 the Commissioners get to ask questions about  
17 the line items in Mr. Chung's chart or the  
18 numbers that will end up being the components  
19 of whatever number is ultimately included in  
20 the rate reduction bonds?

21 MR. SPEIDEL: Under the ordinary  
22 course, yes. But the Staff has a failsafe,  
23 wherein, if there are audit issues, or suddenly  
24 the Company makes representation that they're

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 adding in new line items for cost recovery  
2 through the RRBs, we would expeditiously issue  
3 a Staff recommendation to the Commission to  
4 essentially reopen the matter to a certain  
5 extent before the actual issuance goes forth.

6 And I'm looking at -- it would be in  
7 January, the audit would be in January. And I  
8 think that adjustments could be made on a micro  
9 level without further Commission intervention.  
10 The idea is to enable the securitization to go  
11 forward in a smooth manner. Because I believe  
12 that there is a figure, something along the  
13 line, in terms of the carrying costs of the  
14 rate base elements, there's something like  
15 \$4 million, 3 and a half, \$4 million a month  
16 being charged to customers during the pendency  
17 of this issuance.

18 CHAIRMAN HONIGBERG: We're all in  
19 favor of this going smoothly and quickly. We  
20 just may not have had a clear understanding of  
21 the stages of this process. I mean, if there  
22 are questions about inclusion in this or some  
23 other docket of a particular element, the one  
24 that Commissioner Bailey was just talking about

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 with Mr. Chung, if we need to resolve that now,  
2 in the context of the hearing we're doing now,  
3 we need to understand that. If we don't need  
4 to resolve that now, great. That's an easier  
5 matter.

6 So, help me out here. Do we need  
7 to -- if there are particular elements that are  
8 in Mr. Chung's chart that we have concerns  
9 about, do we need to run those to ground  
10 completely today or be -- or forever be barred  
11 from questioning them? That's an unfair way to  
12 put that.

13 In the construct that Mr. Bersak and  
14 you were talking about, your expectation is  
15 that we're going to run to ground whatever  
16 issues and concerns we have, even if the  
17 numbers aren't known, is that right?

18 MR. SPEIDEL: The paradigm is that  
19 there's a range of potential figures. And that  
20 the Commissioners should get a good feel for  
21 what those specific line items are within those  
22 ranges.

23 Now, if the paradigm is not of a  
24 sufficient level of comfort for the

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Commissioners, either in terms of specific  
2 answers to specific questions, we've already  
3 had a couple record requests, maybe we need  
4 some more.

5 But the Commission has the authority  
6 to say "Hold the phone. We're not quite ready  
7 to move ahead."

8 CHAIRMAN HONIGBERG: Yes, we don't  
9 want to hold the phone. We want to get this  
10 done quickly, because we know that time is  
11 money in this context, almost literally. So,  
12 let's understand what it is we need to finish  
13 with this matter and what it is that can be  
14 left for later. And if it's nothing for us to  
15 leave for later, what Staff will have for  
16 later.

17 Whether the particular component of  
18 charges goes into the SCRC separately from  
19 securitization, that seems to be a fairly  
20 significant one. There's many figures before  
21 the decimal point in that element. Do we need  
22 to decide now where that goes? Or is that  
23 going to be decided by Staff and the Company,  
24 in part, informed by the approval of the new



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 default procurement process? I think I heard  
2 Mr. Chung say the latter, but I want to make  
3 sure I understand whether Mr. Bersak and Mr.  
4 Speidel and Mr. Kreis agree with that.

5 MR. BERSAK: It is the latter. And  
6 what we're trying to get today is an order with  
7 a approved range of principal amounts, so we  
8 can just go through the ratings agency process,  
9 as well as the SEC process.

10 If we were to have to come back to  
11 this Commission to get a second order with some  
12 number on it, that starts another 30-day  
13 rehearing period. So that delays ultimate  
14 issuance and delays our ability to go to market  
15 by at least another 30 days tacked on to that.  
16 And, I would have to defer to my experts as to  
17 whether the ratings agencies process and or the  
18 SEC process can go forward while we're still  
19 waiting to know what the number is.

20 So, our anticipation was that we  
21 would have authority to implement the  
22 Settlement and securitize those costs that are  
23 allowed under the Settlement and under law,  
24 that to the extent that there are things

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1           happening in parallel, such as the Energy  
2           Service docket, DE 17-113, where we're moving  
3           from a energy service rate that is based upon  
4           our owning generation, to one that's based upon  
5           a competitive market-based solicitation, if the  
6           costs in that transition, from one energy  
7           service paradigm to the other are not going to  
8           be included in securitization, then they won't  
9           be securitized.

10                        If they're going to be put into  
11           securitization, because that turns out that  
12           that's a better deal for customers, then they  
13           will be put inside there.

14                        But, ultimately, there will be an  
15           audit. That we had audits, as I recall, after  
16           the other two securitizations that we did back  
17           in the 2001-2002 time frame. To the extent  
18           that there are questions about the inclusion of  
19           costs, or whether the costs that were included  
20           are okay, but we're not at a prudent level,  
21           those will be adjusted through the normal  
22           ratemaking process.

23                        So, there's always a failsafe for the  
24           Commission to say "We don't think that that

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 should have been included there, and we are  
2 going to make an adjustment in rates to make  
3 sure that customers are protected."

4 WITNESS O'NEIL: Bob, and if I can  
5 just add one thing to that as well. We would  
6 be totally fine, well, with an up-to amount.  
7 So, if the amount that you -- that we end up  
8 securitizing, you know, is lower than the lower  
9 range, I understand the concern. So, with an  
10 up-to amount, I think that would alleviate that  
11 concern.

12 But, until we have a number and a  
13 final order, we can't move forward with the  
14 rating agency process, we can't move forward  
15 with the SEC process.

16 CHAIRMAN HONIGBERG: Thank you,  
17 Ms. O'Neil. I think it makes sense to take a  
18 10-minute break for a number of people's  
19 benefits, not the least of which Mr. Patnaude.  
20 So, that's what we're going to do.

21 *(Recess taken 10:54 a.m. and the*  
22 *hearing resumed at 11:18 a.m.)*

23 CHAIRMAN HONIGBERG: Other things are  
24 intruding on our schedules today, some of which

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 are on the other side of the hill. Let's go  
2 off the record.

3 *[Brief off-the-record discussion*  
4 *ensued.]*

5 CHAIRMAN HONIGBERG: So, what we're  
6 going to do is resume the hearing now. We're  
7 going to stop at noon. We have other things  
8 that are going to be happening for the next --  
9 for the hours that follow noon, and we'll plan  
10 on resuming this hearing at three, if we're not  
11 done by noon.

12 So, with that, Commissioner Bailey I  
13 think probably has more questions for the  
14 panel.

15 CMSR. BAILEY: Thank you.

16 BY CMSR. BAILEY:

17 Q The discussion that we had about the dividends  
18 to keep the capital structure appropriate, in  
19 my experience in telecom, sometimes we had  
20 small telephone companies that had 100 percent  
21 equity, and we imputed a capital structure on  
22 them. And we said, for ratemaking purposes,  
23 we're going to assume that your equity is 50  
24 percent and your debt is 50 percent. And when

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 they didn't have any debt, which is unlike you,  
2 we came up with a market price of debt, and  
3 that's how we determined their rate of return.

4 Why wouldn't that be a better way to  
5 handle this?

6 A (Goulding) I'm not sure what you're referring  
7 to "handling" here? Are you saying --

8 Q Well, you, in the --

9 A (O'Neil) Are you basically saying "why not just  
10 keep an extremely high equity ratio, and then  
11 you would impute more debt?" Is that -- or,  
12 more equity -- I'm sorry, more debt, is that  
13 what you're saying?

14 Q We would impute -- yes. We would impute more  
15 debt, so that, for ratemaking purposes, your  
16 rate of return would be based on --

17 A (Goulding) I mean, I've definitely seen it done  
18 for ratemaking proposes. I mean, I think  
19 recently there was a settlement where they came  
20 up with an agreed upon capital structure, when  
21 it was 55 percent equity/45 percent debt. So,  
22 I have seen it there.

23 But, in terms of the overall corporation,  
24 we would have all this cash. So, we do have to

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 adjust our capital structure and pay off  
2 equity -- or, dividend up money to reduce  
3 equity, while also reducing debt, to get a kind  
4 of more appropriate industry average capital  
5 structure.

6 I don't think we would want to do  
7 100 percent equity at the Company, because  
8 then, when we went in for a rate case, there  
9 would be such a disconnect between the  
10 regulated capital structure and the actual  
11 Company's capital structure. And capital --  
12 or, equity has a much higher return than debt  
13 does.

14 Q Yes. I get that.

15 A (O'Neil) And if I can just elaborate on that.  
16 When you think about how PSNH has paid for  
17 assets, essentially 50/50. They raise debt and  
18 then they got -- and then they raised equity,  
19 right, with capital contributions coming down  
20 from Eversource. So, these assets are being  
21 sold. So, we're just reversing that. We're  
22 going to pay back the debtholders and we're  
23 paying back the entity who initially gave us  
24 the equity. It's just reversing what initially

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 happened with the transaction.

2 Q Okay. On the Service Agreement that PSNH is  
3 going to get 0.05 percent of the annual -- I  
4 mean. Of the securitized amount. So, assume  
5 the securitized amount is 600 million. So,  
6 does that mean they get 300,000 a year?

7 A (O'Neil) That's correct.

8 Q Okay. And if you multiply that by 15, that's  
9 four and a half million dollars over the life  
10 of the payback?

11 A (O'Neil) That sounds right.

12 Q Okay. And, so, is that how much you would  
13 securitize or would you securitize the present  
14 value amount of that?

15 A (O'Neil) Okay. So, we're actually not really  
16 securitizing any of that, because that's not  
17 going into the principal amount. Okay? What's  
18 happening, however, is -- what's happening is,  
19 we would, in terms of figuring out what the  
20 charge is to customers, this number would go  
21 into that charge. So, what would go into the  
22 initial charge would be \$300,000.

23 A (Niehaus) So, the charge is set on a semiannual  
24 basis based on the expenses of the transaction.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 So that includes interest and principal that  
2 are due on the bonds in that period, as well as  
3 transaction expenses, which include, but aren't  
4 limited to, the servicing fees, payments to the  
5 Trustee who is maintaining the accounts.

6 Q Can you tell me about that? "Payment to the  
7 Trustee", what is that about?

8 A (Niehaus) Sure. So, there's a Trustee that is  
9 required, I think Ms. O'Neil covered it in her  
10 testimony, and they, in order to maintain the  
11 accounts and maintain the securitization  
12 structure, receive a payment on an annual  
13 basis.

14 Q That's the SPE?

15 A (Niehaus) The SPE, that's correct.

16 Q SPE. Okay.

17 CMSR. BAILEY: Do you have a follow  
18 up, Commissioner Giaimo?

19 CMSR. GIAIMO: Yes.

20 BY CMSR. GIAIMO:

21 Q Who is that? Would that be a third party or  
22 will that be a sub?

23 A (O'Neil) It is a third party, and we just went  
24 out to bid on that. This is for the Trustee



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1           you're asking?

2   Q       Yes.

3   A       (O'Neil) It is a third party and we just went  
4           out to bid on that, and we just gave it to Bank  
5           of New York Mellon. And the Trustee will hold  
6           three or four different accounts for the SPE.  
7           And PSNH, as servicer, will remit daily into  
8           the SPE's account at the Trustee.

9   Q       And who is the SPE? Is that Bank of New York?

10  A       (O'Neil) No. The SPE will be PSNH Funding  
11           LLC3. It will be a direct subsidiary of PSNH.

12  Q       And they get compensation for that role?

13  A       (O'Neil) The SPE doesn't; PSNH does.

14  Q       For the servicing fee or for something else?

15  A       (O'Neil) For the servicing fee. So, we're  
16           servicing -- we're servicing the charges and  
17           the remittances on behalf of the SPE.

18  Q       Okay. And why is it important to get paid for  
19           that? I mean that seems like a function that  
20           PSNH does every day, and that activity is  
21           compensated in rates.

22  A       (O'Neil) There has to be an arm's length  
23           transaction between the SPE and PSNH, in order  
24           to get the AAA rating, because the SPE is a

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 total separate entity from PSNH. And,  
2 therefore, in order to get the AAA rating, they  
3 want to make sure that the SPE is totally  
4 bankruptcy remote from PSNH.

5 Q I understand that. I guess what I'm -- I think  
6 I'm coming to understand is, is in order to  
7 prove that it's an arm's length transaction,  
8 PSNH has to charge the SPE for the activities  
9 that it performs on behalf of the SPE?

10 A (O'Neil) You're exactly right.

11 Q And how do we know if 0.05 percent is a  
12 reasonable amount?

13 A (Niehaus) So, we -- I don't know if it's  
14 appropriate to submit a follow up exhibit, but  
15 when you look at transactions that are  
16 comparable to this, the charge for the  
17 servicing fee generally ranges between 5 and 10  
18 basis points, which is paid back to the utility  
19 for their role. Those amounts are disclosed  
20 publicly in the offering documents for those  
21 transactions. And this would be paid in  
22 accordance with other transactions that have  
23 been consummated recently.

24 A (O'Neil) And we decided to take the low end of

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 that range.

2 CMSR. BAILEY: Do you have a  
3 follow-up?

4 BY CHAIRMAN HONIGBERG:

5 Q I just want to make sure that I understand the  
6 basis for the statement that you just made that  
7 this is normal. This is based on experience  
8 Goldman, Sachs has in comparable transactions,  
9 things that are publicly available? What's  
10 your source of knowledge for that?

11 A (Niehaus) We can prepare -- we can work with  
12 Eversource to prepare a list of the  
13 transactions that have been issued for  
14 utilities of rate reduction bonds that lists  
15 the servicing fee for each of them.

16 CHAIRMAN HONIGBERG: That sounds like  
17 a good idea. Mr. Bersak.

18 MR. BERSAK: Yes, sir.

19 CHAIRMAN HONIGBERG: That will be  
20 number "13".

21 **(Exhibit 13 reserved)**

22 BY CMSR. BAILEY:

23 Q Okay. You listed three things that the  
24 transaction will pay for, and the third thing

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 was capital subaccount replenishments. Can you  
2 tell me what that is?

3 A (O'Neil) Sure. I'd be happy to. If the  
4 collection account does not have enough money  
5 to pay the bonds -- so, there are four  
6 different accounts with the Trustee. Okay?  
7 There's the capital subaccount, which really  
8 serves as collateral on the bonds.

9 Q And that's money that the shareholders are  
10 going to put into the account in the beginning?

11 A (O'Neil) Correct. That comes directly from the  
12 shareholders, not from the customers.

13 Q And how much is that?

14 A (O'Neil) That is actually 0.5 percent of the  
15 bonds that's being issued.

16 Q So, that would be 3 million, if it's  
17 \$600 million?

18 A (O'Neil) Yes. Approximately 3 million. And I  
19 do want to point out that there have been  
20 transactions where the customers actually put  
21 that money in, and we specifically are not  
22 doing that. This money is coming from the  
23 shareholders.

24 And, so, when the money gets remitted to

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 the Trustee, it really goes to the -- it goes  
2 to a collection account. And within that  
3 account, once the bonds are being paid, if  
4 there's insufficient funds to pay the bonds,  
5 the Trustee will draw upon the capital  
6 subaccount. So, what will happen is, and it  
7 should be rare, I'm not going to say it won't  
8 happen, but, if it does happen, it would be  
9 rare. And then the next true-up, in addition  
10 to truing up and having to have enough funds to  
11 pay interest and principal and ongoing fees,  
12 that delta between what needs to be in there,  
13 which is the 0.5 percent, which is the  
14 3 million, and what is in there, will also need  
15 to be included in the charge, in order to bring  
16 that amount back up to 0.5 percent.

17 Q Okay. If the Commission Staff audits all the  
18 expenses and charges that are going to be  
19 securitized, and determines that there was a  
20 \$10 million amount that was securitized that  
21 shouldn't have been securitized, how does that  
22 get paid after this, you know, after  
23 securitization happens, how does that get paid  
24 back to ratepayers?

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Goulding) Sure. That's a good question. So,  
2 the Part 1 costs, once they're securitized and  
3 the bonds are issued, those -- the RRBs don't  
4 get touched, but we have the Part 2 costs. So,  
5 any kind of reconciliation, like the one you're  
6 referring to, would flow through the Part 2  
7 costs in a Stranded Cost Recovery Charge.

8 CMSR. BAILEY: Okay. I think that's  
9 all I have. Thank you.

10 CHAIRMAN HONIGBERG: Commissioner  
11 Giaimo.

12 CMSR. GIAIMO: Thank you. And good  
13 morning.

14 BY CMSR. GIAIMO:

15 Q I just want to make sure I understood what I  
16 heard, and maybe someone can answer the  
17 question. What, if any, money in the capital  
18 subaccount comes from the ratepayer?

19 A (O'Neil) It won't.

20 Q Okay. So, on Bates --

21 A (O'Neil) Well, wait a second. Let me say, I  
22 mean, what will happen is the shareholders will  
23 initially put in the amount.

24 Q Right.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (O'Neil) Any replenishment to bring it back up  
2 to that amount will come from the ratepayers.

3 Q Okay. And, so, I'm --

4 A (O'Neil) Because it means that not enough was  
5 paid.

6 Q Okay. All right. So, in the November filing,  
7 on Bates 039, Paragraph 28 says "When the RRBs  
8 are paid in full and the Total RRB Payment  
9 Requirements have been discharged, any balance  
10 in the Capital Subaccount (including investment  
11 earnings) shall belong and be returned to PSNH  
12 in its capacity as shareholder", and then, in  
13 the parenthetical "and for the avoidance of  
14 doubt shall not be credited to PSNH's  
15 customers".

16 A (O'Neil) That's correct.

17 Q And that's consistent with the fact that all  
18 the money in there is initially put in by or  
19 floated by the shareholders?

20 A (O'Neil) That's correct.

21 Q Okay. Thanks for the clarification.

22 A (O'Neil) You're welcome.

23 Q So, I have a bunch of questions. I'll just  
24 maybe throw them out to the panel and the panel

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 can decide who's best to answer.

2 So, when do you foresee as a target date  
3 us receiving an Issuance Advice Letter?

4 A (O'Neil) Once we issue the debt, and before we  
5 close on the transaction, it would -- an  
6 Issuance Advice Letter would be filed.

7 Q So, February? Much earlier than that?

8 A (O'Neil) No, later than that.

9 Q Much later than that.

10 A (O'Neil) Later than that. With the schedule  
11 that we have right now, which is actually an  
12 aggressive schedule, but certainly my goal to  
13 meet it, is that we will be done and close on  
14 the transaction by the end of March. So, I  
15 would expect -- which means that we'd probably  
16 be pricing it sometime the middle of March.  
17 So, I would expect that between the middle and  
18 the end of March an Issuance Advice Letter  
19 would be issued.

20 Q Okay. Bates 19, again I'm referring to the  
21 November filing. So, up towards the top, you  
22 talk about the addition of -- or, the 15-year  
23 period, and the potential for two additional  
24 years. So, it sounds like the two additional



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 years provide the assurance to the financial  
2 community that you're getting the money paid  
3 back?

4 A (Niehaus) Sure. So, the expectation is that  
5 the charge will be set so that collections are  
6 received in time to make the payments as due.

7 Q Uh-huh.

8 A (Niehaus) In order to achieve the AAA rating,  
9 the rating agencies run a number of very  
10 onerous stresses. AAA is a aspirational  
11 rating, as you would know. So, in order to  
12 meet their stresses, and assure the financial  
13 community that there is time for a full  
14 recovery of the funds, --

15 Q Right.

16 A (Niehaus) -- we're given an extra two-year  
17 period. I would not expect that you would need  
18 that.

19 Q Okay. And then the line says "This additional  
20 period of up to two years is a form of credit  
21 enhancement that helps achieve AAA ratings on  
22 the RRBs and which is expected to have no cost  
23 to retail customers."

24 So, can you explain how the additional two

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 years, if it were to happen, would have no cost  
2 to the customers?

3 A (Niehaus) So, the expectation -- the charge  
4 will be set so that the amounts are paid within  
5 the 15-year period as due.

6 Q Uh-huh.

7 A (Niehaus) If there is an extension, it is only  
8 because there have been shortfalls in  
9 collections. So, for example, customer  
10 charge-offs have been higher than were  
11 anticipated when the charge was set in the last  
12 payment period, and as such you would need to  
13 recover amounts that were not previously  
14 recovered from customers during that period.

15 Q Okay.

16 A (Niehaus) So, you wouldn't be recovering  
17 additional amounts, it's just amounts that were  
18 not recovered during the originally scheduled  
19 period.

20 Q You would be -- the service fee is 0.05 percent  
21 annually, correct? So, the carrying of another  
22 two years of service fees and administrative  
23 fees would come to a cost of the consumer. Am  
24 I missing something there?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 A (Niehaus) So, yes. The administrative fees  
2 would need to be paid, but you are not billing  
3 customers extra amounts of principal or  
4 interest that would have otherwise needed to be  
5 paid.

6 Q So, one of the exhibits, I think it's  
7 Exhibit 2, has a number of about \$650,000 a  
8 year of carrying costs each year. So, those  
9 costs would not be avoided, and, in fact, would  
10 be incurred for two additional years, if it  
11 were needed, if there was under collections in  
12 the first 15?

13 A (Niehaus) Correct. Now, the goal would be that  
14 it would not be the full two-year period. It  
15 may just be an additional six months.

16 Q Thank you. There was a suggestion that the  
17 SPE, which is PSNH 3, that that would be the  
18 SPE. But one of the things I think was written  
19 said that there was not an expectation that  
20 there would be a need for multiple SPEs?

21 A (O'Neil) Correct.

22 Q But that could happen?

23 A (O'Neil) It's extremely unlikely that that's  
24 going to happen.

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Q Now, what market conditions would exist or what  
2 would have had to have happened for there to be  
3 a second SPE, and would there be additional  
4 costs associated with an additional SPE?

5 A (O'Neil) I would think that the only market  
6 condition that I can think of, but I'll hand it  
7 over to Katrina in a couple seconds, is that if  
8 for some reason the amount that we're issuing  
9 is so much that it just can't be done in one  
10 SPE. But that's extraordinarily unlikely.

11 A (Niehaus) I would not expect there to be an  
12 additional SPE.

13 Q Thank you. Bates 265, I read it, and I may be  
14 misreading it, so maybe someone can help  
15 clarify that.

16 MR. BERSAK: Could you tell us which  
17 document it is, Commissioner Giaimo?

18 CMSR. GIAIMO: I'm sorry. I'm  
19 talking from the November exhibit, the  
20 November --

21 MR. BERSAK: And which part of --  
22 okay.

23 CMSR. GIAIMO: 265 of the November.

24 BY CMSR. GIAIMO:

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Q So, just maybe, again, someone can help  
2 explain -- explain to me what the expectation  
3 would be.

4 It says "PSNH seeks Commission  
5 authorization that whenever it is determined  
6 that the methodology used to calculate RRB  
7 Charge adjustments requires modifications to  
8 more accurately project and generate adequate  
9 RRB charge collections, a non-routine true-up  
10 may be filed, with the resulting RRB Charge  
11 adjustments...to be effective upon review and  
12 approval by the Commission within 30 days of  
13 such filing."

14 I'm looking at what the expectation would  
15 be of the Commission. And if there's a  
16 suggestion that there's presumptive approval if  
17 we do not review and approve something within  
18 30 days?

19 A (Niehaus) So, just as a point of reference,  
20 this type of event would be in order to avoid  
21 flowing into the two-year period you mentioned  
22 and incurring additional costs. And a few  
23 times that these types of events -- true-ups  
24 have been used in other transactions has been

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 because of natural disasters, so, for example,  
2 Hurricane Katrina, in Louisiana.

3 And, so, I think -- I believe the idea is  
4 that it would be approved automatically, if no  
5 response was given.

6 Q Okay. Helpful. Thank you. Mr. Chung, you  
7 stated that you -- you have a certain amount of  
8 confidence that the -- I think the term you  
9 used was that you'd land within the bandwidth  
10 of the 616 and the 690 numbers. What are we  
11 looking at here? A 90 percent confidence?

12 A (Chung) As a confidence interval, I would say  
13 that's at least an 80 percent confidence level,  
14 if not higher. I think, you know, the exercise  
15 I found myself presented with when I was  
16 developing this testimony was to come up --  
17 come up with a range where I felt comfortable  
18 we were going to be below, in terms of the high  
19 end. In other words, conceptually treat it as  
20 a not-to-exceed number. And there are a lot of  
21 contingent costs in that 690 figure that are  
22 related to delays that I -- you know, that the  
23 Company, as well as the buyer, are working hard  
24 to avoid. So, I feel very comfortable we'll be

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 below that 690 and then some. But, you know,  
2 the exercise was to come up with a  
3 not-to-exceed.

4 Q And my last question will be, given those  
5 estimates, has a back-of-the-envelope per  
6 kilowatt-hour or average residential ratepayer  
7 impact been done?

8 A (Chung) We haven't developed that. But I think  
9 we could take it back and do that calculation.  
10 As I understand it, would the request be  
11 calculate the average revenue requirement for  
12 each of the three scenarios I presented, and  
13 then translate it to an average bill impact?

14 CMSR. GIAIMO: That would be fine by  
15 me.

16 CHAIRMAN HONIGBERG: That sounds  
17 plausible. Mr. Bersak, that will be 14.

18 **(Exhibit 14 reserved)**

19 MR. BERSAK: Yes, sir.

20 WITNESS GOULDING: And just to  
21 clarify, this will calculate --

22 *[Court reporter interruption.]*

23 WITNESS GOULDING: Just to clarify,  
24 that will calculate the change to the Stranded

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 Cost Recovery Charge rate only.

2 CMSR. GIAIMO: Sure.

3 WITNESS GOULDING: Because there's  
4 also, when we transition, there's also the  
5 change in the Energy Service rate. So, it's  
6 going to look like, for residential customers,  
7 a bill increase, but you also have the  
8 reduction in the Energy Service rate, which we  
9 don't know at this time.

10 CHAIRMAN HONIGBERG: Right. I think  
11 the question is about the SCRC.

12 WITNESS GOULDING: Okay.

13 CMSR. GIAIMO: Right.

14 MR. BERSAK: So, the way I've got  
15 that question written is, basically, "What do  
16 we estimate the RRB charge to be, based upon  
17 each of the three scenarios set forth in  
18 Mr. Chung's testimony?"

19 CHAIRMAN HONIGBERG: Sounds good.

20 CMSR. GIAIMO: That's it. Thank you.

21 BY CHAIRMAN HONIGBERG:

22 Q Mr. Chung, in the conversation you had with Mr.  
23 Kreis, you indicated that you felt that you  
24 were more likely on the low end than the high



[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 end of your range, correct?

2 A (Chung) That's right.

3 Q If the thermal units are sold in early January,  
4 you know, soon after the first of the year, but  
5 the hydro assets don't close for some time,  
6 what numbers change? What numbers are we  
7 closer to in that scenario?

8 A (Chung) So, in that scenario, if you assume  
9 that the credit from the sale of the hydros is  
10 not applied to the balance, then I think you're  
11 adding about 30 million to the Low Case. So,  
12 you're looking in the 630-640 range.

13 Q Then, where would the hydro sale proceeds, the  
14 credit, where would that then appear?

15 A (Chung) When the credits was available, in  
16 other words, at the time of the close of the  
17 hydro sale, we would flow that back in Part 2  
18 of the SCRC. So, in other words, Part 1 with  
19 the RRBs would not be touched, but we would  
20 flow that credit back in Part 2.

21 CHAIRMAN HONIGBERG: Thank you.

22 That's helpful.

23 Commissioner Bailey, I think you had  
24 another question?

[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 CMSR. BAILEY: That what I was going  
2 ask.

3 CHAIRMAN HONIGBERG: That's what you  
4 were going to ask? All right.

5 BY CHAIRMAN HONIGBERG:

6 Q Commissioner Giaimo asked about the provision,  
7 and I don't remember, I think it was some  
8 combination of Ms. O'Neil and Ms. Niehaus  
9 answered the question, having to do with the  
10 unexpected true-up requirement. I didn't read  
11 that language to be self-executing, at least in  
12 the testimony, which I think was Ms. O'Neil's  
13 testimony. It talked about "review and  
14 approval within 30 days".

15 Do you agree with what Ms. Niehaus said,  
16 that you expect that to be self-executing if  
17 there's no approval within 30 days?

18 A (O'Neil) I do.

19 CHAIRMAN HONIGBERG: Okay. Is  
20 there -- Mr. Bersak, do you know if there's a  
21 provision in the order that includes that  
22 language? It's a long order and I don't  
23 remember.

24 MR. BERSAK: I'll have to go look at

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[WITNESSES: Chung|Niehaus|O'Neil|Goulding]

1 the requested findings, and I will get back to  
2 you. We can do that, if we come back at three,  
3 we'll have the answer by then.

4 CHAIRMAN HONIGBERG: As I'm sitting  
5 here, that may not be necessary. And I don't  
6 have any other questions for the panel, and I  
7 don't think the Commissioners do.

8 Do you have redirect?

9 MR. BERSAK: If you give me 30  
10 seconds, I have one question, let me just  
11 confirm the answer.

12 (Atty. Bersak conferring with  
13 the witnesses.)

14 MR. BERSAK: No questions, Mr.  
15 Chairman.

16 CHAIRMAN HONIGBERG: Well, I think  
17 you had offered, when we were off the record, a  
18 possible additional record request. And I  
19 think I want to take you up on that offer.

20 MR. BERSAK: We will do that.

21 CHAIRMAN HONIGBERG: It will be "15".  
22 And why don't you put on the record essentially  
23 what you said when we were off.

24 MR. BERSAK: Sure. What we will do

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1 for record request 15 is to describe how the  
2 Commission will be able to review the nature  
3 and prudence of costs that are securitized, and  
4 how customers will be made whole if there are  
5 any adjustments to those figures.

6 **(Exhibit 15 reserved)**

7 CHAIRMAN HONIGBERG: All right. Is  
8 there anything else then for the witnesses?

9 *[No indication given.]*

10 CHAIRMAN HONIGBERG: I think the  
11 answer is "no". I think you're free to stay  
12 where you are or return to your seats.

13 Without objection, we'll strike ID on  
14 Exhibits 1 through 10. We're holding 11  
15 through 15 for various record requests that are  
16 in the record. Mr. Bersak has a good handle on  
17 those, I think.

18 Anything else we need to do before  
19 the parties sum up?

20 *[No verbal response.]*

21 CHAIRMAN HONIGBERG: Seeing no hands  
22 or grabs at microphones, Mr. Kreis, why don't  
23 you start us off.

24 MR. KREIS: Thank you, Mr. Chairman.

1 We here at counsels' tables, and I know you up  
2 on the Bench are having a wild and crazy fourth  
3 quarter, and though there are a lot of things  
4 that need to happen in order to move the public  
5 interest forward as the year closes and as  
6 these transactions that are transforming  
7 Eversource are moving through the approval and  
8 execution processes, on behalf of the OCA, I  
9 would say the best thing that you can do for  
10 the residential utility customers that we  
11 represent is approve the request that is  
12 pending before you today. And it is our  
13 intention to defer to the judgment that you  
14 have to make in order to make that happen.

15 The answer that we just heard about  
16 the effect of a delayed hydro sale on the  
17 various cases that Mr. Chung's testimony  
18 recites is an illustrative example of why that  
19 is. It is, given the benefits of  
20 securitization, the sooner those securitization  
21 mechanics move forward, the better off  
22 ratepayers are. And if there are credits to  
23 stranded costs to which customers are entitled  
24 that become apparent later in the process,

1 those flow back through Part 2 of the Stranded  
2 Cost Recovery Mechanism that is part and parcel  
3 of this proposal, and that provides more  
4 benefit to consumers than if the amount to be  
5 securitized were actually reduced by, say, that  
6 \$30 million that will be credited through the  
7 hydro sale.

8 Earlier I raised the issue of the  
9 stranded administrative cost and whether  
10 they're appropriate for inclusion in  
11 securitized stranded costs. I think there's a  
12 colorable argument to be made that the  
13 Settlement Agreement doesn't cover them, and by  
14 "Settlement Agreement" I mean the Settlement in  
15 14-238, and that the Company should simply eat  
16 those costs, to the extent they're stranded.  
17 But, again, I'm going to leave that  
18 determination to your reasoned judgment, based  
19 on the Company's answer to the record request  
20 that relates to that subject, and essentially  
21 all of the other subjects here.

22 And, so, I hope that the Commission  
23 will move forward and issue an order promptly  
24 and approve the securitization, because it is

1 in the interests of PSNH's residential  
2 customers.

3 CHAIRMAN HONIGBERG: Thank you, Mr.  
4 Kreis. Mr. Speidel.

5 MR. SPEIDEL: As indicated in the  
6 letter of concurrence that was sent in earlier  
7 this month, the Staff also approves the  
8 expeditious approval of the Company's Petition.

9 Certainly, we do expect that the  
10 Staff will be engaging in audits of the  
11 different expense items and rate base items  
12 that are going to be tendered into the RRB  
13 balance. And in particular, we will take a  
14 very close look at the categories of costs that  
15 are being included in the general and  
16 administrative costs category that Mr. Kreis  
17 mentioned.

18 But we were very pleased with the  
19 comprehensiveness of the Updated filing sent in  
20 November. We appreciate the Company's and the  
21 OCA's cooperation in the review process, and  
22 the collective willingness to listen to our  
23 ideas and answer our questions, and also be  
24 very well prepared for today's hearing and

1 answer all the questions that the Commissioners  
2 and parties had to today regarding this matter.

3 And with that, we would recommend  
4 that, subject to favorable review of responses  
5 to the record requests, and also favorable  
6 audit review, that this process move forward so  
7 that securitization can be launched at the  
8 beginning of the second quarter of 2018.

9 Thank you.

10 CHAIRMAN HONIGBERG: Thank you,  
11 Mr. Speidel. Mr. Bersak.

12 MR. BERSAK: Thank you,  
13 Commissioners. What we're embarking on here is  
14 something which is, in fact, somewhat complex,  
15 but it's not something we have not done before.  
16 We have issued two prior securitized  
17 financings, one in 2001 and one in 2002. Those  
18 were very successful. Those were paid off  
19 within the expected payout date. We did not  
20 have to go into the overtime, a couple of years  
21 that were included as credit enhancement. It  
22 worked just the way they were supposed to work,  
23 and they provided benefits to customers in the  
24 form of lower rates.



1           The issuance we are asking the  
2           Commission to approve today is substantially  
3           identical to those last two finance orders that  
4           approved securitization for the Company. This  
5           issuance is done under the law that the  
6           Legislature amended, in amended RSA 369-B, in  
7           2015. The Legislature absolutely contemplated  
8           the securitization, the Settlement absolutely  
9           contemplated the securitization. And, frankly,  
10          it is this securitization process that provides  
11          the bulk of savings to customers as a result of  
12          the sale of our plants, and what some people  
13          refer to as the "final restructuring" of Public  
14          Service Company of New Hampshire.

15                 We've asked today for the Commission  
16                 to approve a range or a not-to-exceed number  
17                 for the principal amount of the securitized  
18                 offering. And only those amounts that are  
19                 allowed by law, and which were set forth in the  
20                 Settlement, would be included in our  
21                 compilation of what those costs are and the  
22                 principal amount to be offered is.

23                 And we anticipate an audit by the  
24                 Commission, after the bonds are issued, to take

1 a look at the appropriateness of the charges  
2 that were included inside there, as well as the  
3 prudence of the amounts that are included  
4 inside there.

5 To the extent that this audit reveals  
6 that there were imprudent costs or  
7 inappropriate costs, there will be adjustments  
8 that we anticipate would be done in Part 2 of  
9 the Stranded Cost Recovery Charge to make  
10 customers whole. So, this Commission will have  
11 an opportunity to review what was done.  
12 Customers will be protected, and the sanctity  
13 of the bonds will remain intact so we can  
14 maintain the AAA rating.

15 The amounts that are going to be  
16 securitized, whether they're the stranded costs  
17 of investment or whether their costs of mercury  
18 removal or paying off J.P. Morgan, those are  
19 real costs, those are real dollars that either  
20 shareholders have paid or that shareholders are  
21 responsible for. We will recover those  
22 dollars. And if we use a hypothetical amount  
23 of \$600 million, there are \$600 million worth  
24 of costs that are paid for and taken off of our

1 books.

2 Now, the Company has \$600 million of  
3 cash. It can't just sit on the Company's  
4 books, because, as we heard Ms. O'Neil testify  
5 to, that would put our capitalization  
6 structure, our capital structure, way  
7 out-of-whack. We would have way too much  
8 equity, and equity costs more than debt. That  
9 would have bad impacts on customers when we  
10 tried to set rates. So, we would rationalize  
11 our capital structure by redeeming debt and by  
12 dividending up money, so that we maintain the  
13 50/50 capital structure that the Commission has  
14 ordered us to maintain, somewhere in that  
15 ratio.

16 So, when you look at the \$600 million  
17 in my hypothetical, you arrive at that in two  
18 ways. One is, there is \$600 million worth of  
19 stuff we need to pay for, and then we get \$600  
20 million in, and we have to do something with  
21 that money. And what we do with it is debt  
22 equity, to make sure that we maintain the  
23 capital Structure that's appropriate for this  
24 Company. We need to do that, not only to stay

1 within the requirements of the orders that this  
2 Commission has set forth, but we need it to  
3 maintain our financial wherewithal within the  
4 financial community. Just yesterday, Standard  
5 & Poor's upgraded PSNH and the other entities  
6 in the Eversource system, we're carrying an A+  
7 rating now. That will accrue to the benefit of  
8 customers. To the extent we need to do  
9 financings in the future, we don't want to put  
10 that in peril.

11 The next stop in our journey is to go  
12 to the ratings agencies. We need a approved  
13 amount of principal for the RRBs in order to  
14 start that process. So, that's why we're  
15 asking for the approval of an up to  
16 not-to-exceed amount for the principal today.  
17 If we had to come back for that later on,  
18 number one, it would delay the RRB process,  
19 and, number two, we would have to wait another  
20 30 days after that order to have a final order  
21 from this Commission that we could act on.

22 So, we ask the Commission to approve  
23 our Application to issue a third round of  
24 securitization, consistent with the Settlement

1 and consistent with RSA 369-B, and to allow us  
2 to securitize up to the amount set forth in  
3 Mr. Chung's testimony, with all the actions  
4 that we take subject to a audit subsequent to  
5 the issuance of the bonds.

6 Thank you.

7 CHAIRMAN HONIGBERG: Thank you, Mr.  
8 Bersak. I thank all the counsel, all the Staff  
9 who were involved in this. Thank the witnesses  
10 for their preparation and their answers to  
11 questions today.

12 We're going to close the record,  
13 except for the outstanding record requests,  
14 take the matter under advisement, and issue an  
15 order as quickly as we can. We are adjourned.

16 ***(Whereupon the hearing was***  
17 ***adjourned at 12:00 p.m.)***