

ATTACHMENT 2

Testimony of Peter A. Kelly

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

**APPLICATION OF PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
d/b/a EVERSOURCE ENERGY
FOR APPROVAL OF THE SALE OF ITS INTEREST IN
W.F. WYMAN STATION – UNIT 4**

Docket No. DE 17-_____

**DIRECT TESTIMONY OF PETER A. KELLY
ON BEHALF OF J.P. MORGAN SECURITIES LLC**

June 21, 2017

- 1 **Q.** **Please state your name and business address.**
- 2 **A.** My name is Peter A. Kelly. My business address is J.P. Morgan Securities LLC (“J. P. Morgan”), 383 Madison Avenue, 42nd floor, New York, NY 10172.

- 4 **Q.** **What is your position with J.P. Morgan?**
- 5 **A.** I am an Executive Director in the Global Mergers & Acquisitions Group. I am a specialist in mergers and acquisitions with a focus in the energy industry. I joined J.P. Morgan in July 2008.

- 8 **Q.** **Please describe your educational background.**
- 9 **A.** I graduated from Princeton University with a B.A. in Politics. I also graduated from Emory University’s School of Law and Goizueta Business School, where I earned my J.D. and M.B.A., respectively.

- 12 **Q.** **Please describe your professional experience.**
- 13 **A.** As an Executive Director in the Global Mergers & Acquisitions Group at J.P. Morgan, the investment banking division of JPMorgan Chase & Co., I have led or participated

1 from an advisory perspective in a number of different M&A transactions on behalf of J.P.
2 Morgan, including corporate mergers, subsidiary sales and purchases, joint ventures,
3 corporate restructurings, private equity transactions, and unsolicited corporate
4 transactions for companies in the energy and other industries.

5 I have advised on several large corporate transactions, including the sale of Terraform
6 Power and Terraform Global to Brookfield (pending), the sale of Progressive Waste
7 Solutions to Waste Connections (2016), the acquisition of Canadian Oil Sands by Suncor
8 Energy (2016), the sale of Cytec to Solvay (2015), the sale of Regency Energy Partners
9 to Energy Transfer Partners (2015), the acquisition of Talisman Energy by Repsol (2015)
10 and the acquisition of Kodiak Oil & Gas by Whiting Petroleum (2014). I have advised on
11 a number of power generation transactions, including TransCanada's sale of its hydro
12 assets to ArcLight Capital Partners (2017), TransCanada's sale of certain generation
13 assets to LS Power (2017), and Dynegy's sale of its 50% interest in the Elwood facility to
14 J-Power (2016). I have also advised on a number of other transactions, including Emerge
15 Energy Services' sale of its Fuels Business to Sunoco (2016), Kraton Performance
16 Polymers' acquisition of Arizona Chemical (2015), Hess's sale of its retail business to
17 Speedway (2014), Kinder Morgan's dropdown of certain assets to El Paso Pipeline
18 Partners (2014), and Cytec's sale of its Coating Resins business to Advent (2012).

19 **Q. Have you previously testified before the Commission?**

20 A. No, I have not.

21 **Q. What is the purpose of your testimony in this proceeding?**

22 A. I am filing testimony on behalf of J.P. Morgan, Auction Advisor to the Commission, in
23 support of Public Service of New Hampshire's ("PSNH") request that the Commission
24 approve the sale of PSHN's minority ownership interest in the jointly owned W.F.
25 Wyman Station – Unit 4 ("Wyman 4") to FPL Energy Wyman IV LLC ("FPLE")
26 pursuant to the Purchase and Sale Agreement ("PSA") attached to PSHN's Application. I
27 will provide testimony that the sales price is reasonable and consistent with the goal of

1 maximizing the Total Transaction Value from the divestiture of PSNH's generating
2 assets.

3 **Q. Please briefly describe Wyman 4 and the terms of the proposed sale.**

4 A. Wyman 4 is a 620-megawatt ("MW") No. 2 oil-fired generating plant located in
5 Yarmouth, Maine, which began operation in 1978. The principal owner and operator of
6 Wyman Station is FPLE, a subsidiary of Florida-based FPL Group, Inc. FPLE owns
7 approximately 84.3% of Wyman Unit No. 4. The remaining 15.7% of the unit is owned
8 by six other utilities, including PSNH, which owns 3.1433%, or approximately 19 MW.
9 PSNH is one of the original joint owners of Wyman 4, and was a signatory to the original
10 "Agreement for Joint Ownership, Construction and Operation" of that unit dated
11 November 1, 1974.

12 Under the PSA, FPLE will pay PSNH \$1,000,000, with adjustments for Inventory Value,
13 Estimated Closing and Proration Amounts, Maine Withholding Amount, and 50% of
14 Transaction Taxes, as those items are described in the PSA. As of May, 2017, PSNH's
15 book value for Wyman 4 was \$373,160.85. The net proceeds will be used to mitigate the
16 amount of stranded costs to be recovered from customers.

17 **Q. Please explain why the sale price for PSNH's stake in Wyman is reasonable.**

18 A. J. P. Morgan believes that the sale price is reasonable for the following reasons:

19 1) FPLE is the only current owner of Wyman interested in purchasing PSNH's share. In
20 J.P. Morgan's experience, existing owners of an asset are often the most likely buyers
21 for that asset. As such, other existing owners of Wyman 4 were contacted to
22 determine if they had an interest in buying PSNH's share. None of the other owners
23 expressed interest, with the exception of FPLE;

24 2) In J.P. Morgan's view, it is unlikely another bidder would emerge for PSNH's
25 Wyman 4 share at comparable value if it were included in the ongoing broader
26 auction. The other assets included in the auction process (with the exception of

1 PSNH's interest in the Androscoggin River Company) are controlling interests where
2 the future owner will have the right to control operations of the facilities. PSNH's
3 interest in Wyman 4 is a fundamentally different type of investment opportunity. It
4 represents a small share in a facility controlled by a third party and carries no ability
5 to influence operations. In J.P. Morgan's view, participants in the broader auction
6 would therefore be likely to place a heavily discounted value on PSNH's Wyman 4
7 share relative to the other assets, which they would control;

- 8 3) In J.P. Morgan's view, it is unlikely another bidder would emerge at comparable
9 value if the Wyman 4 share were sold in a separate auction process. The 2015 PSHN
10 Settlement Agreement approved by the Commission provides that the sale of PSHN's
11 interest in Wyman 4 may take place outside of the formal auction process. Given the
12 size of PSHN's share and given Wyman is a peaking oil-fired generation facility
13 located in a potentially transmission constrained area of ISO-NE, J.P. Morgan's view
14 is that there are few, if any, potential market participants that would find PSHN's
15 Wyman stake as an attractive standalone investment opportunity at a value
16 comparable to FPLE. This view is only reinforced by the fact that the other owners of
17 Wyman 4, with the exception of FPLE, were not interested in potentially acquiring
18 PSHN's share;
- 19 4) To the extent an auction process were run for PSHN's stake in Wyman 4, J.P. Morgan
20 views it as likely that FPLE would emerge as the only interested party. This means
21 that PSHN would have run an auction process, expending time and resources, but
22 identify no other party willing to purchase this stake in Wyman 4;
- 23 5) With respect to items 1-4 above, J.P. Morgan's view is it is also possible that FPLE
24 could have chosen not to participate in any such auction process nor submit a
25 proposal for PSHN's share at all as part of an auction process. In that situation, it is
26 J.P. Morgan's understanding that PSHN would be in a position not only of having no
27 buyer for its share, but also with no ability to unilaterally end its generation
28 ownership in Wyman 4 via retirement of the facility;

1 6) In J.P. Morgan's view, \$1,000,000 was the maximum amount FPLE was willing to
2 offer. As part of negotiations with FPLE, J.P. Morgan pushed FPLE to increase its
3 offer above its initial offer of \$1,000,000. FPLE declined to do so. Moreover, FPLE
4 indicated that FPLE viewed the upcoming capacity auction as carrying significant
5 risk to the value of Wyman 4 and indicated it might lower its offer depending on the
6 results of that next capacity auction, which were expected shortly at the time the
7 negotiations were taking place. Given those facts, J.P. Morgan's view is that it was
8 advisable for PSNH to reach an agreement at FPLE's offer price of \$1,000,000;

9 7) In J.P. Morgan's view, the value offered by FPLE is reasonable given PSNH's share
10 represents a small, non-controlling share in Wyman 4. Non-controlling minority
11 interests in companies are typically discounted relative to their full value because the
12 holder of the minority interest typically has little ability to manage or control
13 operations. Additionally, smaller shares typically are associated with more
14 meaningful discounts. Here, PSNH owns only 3.1433%, which is a small percentage,
15 particularly relative to FPLE's share of 84.3%. Moreover, under the Wyman Joint
16 Owners Agreement, J.P. Morgan's understanding is that plant operational decisions
17 are controlled by the majority owners, in this case, FPLE. Therefore, PSNH not only
18 holds a small stake but also has no ability to influence the operations of Wyman 4.
19 This means PSNH can expect a material discount to be applied to its share in Wyman
20 4 relative to if it owned a larger portion of the facility;

21 8) In J.P. Morgan's view, the value of FPLE's offer is also reasonable given our
22 understanding that a sale of the interest would limit the risk for PSNH of any future
23 liability associated with Wyman 4. Given Wyman's age and the uncertainty around
24 its remaining useful life, there may be risks associated with remaining an equity
25 holder. J.P. Morgan's understanding is that, as an equity holder, PSNH would be
26 responsible for its share of any potential unforeseen or not-planned-for capital
27 requirements or expenses. Or in the event of a retirement of the asset, J.P. Morgan's
28 understanding is that, as an equity holder, PSNH would be responsible for its pro rata
29 share of retirement costs and any remaining environmental liabilities. In J.P.

1 Morgan's view, PSNH limiting this potential liability through a sale of its interest in
2 Wyman 4 supports its transaction with FPLE.

3 **Q. Is the proposed sale of Wyman consistent with the goal of maximizing the Total
4 Transaction Value from the divestiture of PSNH's generating assets?**

5 A. Yes, it is. The sale price of Wyman 4 is reasonable and the proposed sale minimizes risk
6 to PSNH. Additionally, J.P. Morgan's understanding is that the net proceeds will be used
7 to mitigate the amount of stranded costs to be recovered from customers.

8 **Q. Does this complete your testimony?**

9 A. Yes it does.