

THE STATE OF NEW HAMPSHIRE

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Debra A. Howland



PUBLIC UTILITIES COMMISSION
21 S. Fruit Street, Suite 10
Concord, N.H. 03301-2429

Tel. (603) 271-2431

FAX (603) 271-3878

TDD Access: Relay NH
1-800-735-2964

Website:
www.puc.nh.gov

January 7, 2008

Ms. Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, New Hampshire 03301

Re: Docket No. DE 07-122
Public Service Company of New Hampshire
Petition re Hemphill Power and Light Co.

Dear Ms. Howland:

Please treat this letter as Staff's report of the technical session that followed today's prehearing conference in the above-referenced docket.

In addition to Staff, participating in the technical session were representatives of Public Service Company of New Hampshire (PSNH), Hemphill Power and Light Co. (Hemphill) and the Office of Consumer Advocate (OCA). The focus of the discussion was the potential for seeking a negotiated resolution of the dispute while motions to stay are pending at the Commission and in Superior Court, where parallel civil litigation instituted by Hemphill is pending and where at least some discovery has already been conducted.

The discussion was inconclusive because counsel to PSNH indicated that he would have to confer with officials of his client before stating whether PSNH would be willing to participate in settlement discussions at this time. The PSNH attorney agreed to provide an answer to that query to the other participants by Wednesday. He also agreed to provide Staff and OCA with copies of the discovery materials furnished by Hemphill to PSNH in the civil case. Hemphill did not object to PSNH taking that step.

As noted at the prehearing conference, the Superior Court has scheduled a hearing for Friday, January 11, 2008 in connection with PSNH's motion to stay the civil case and Hemphill's countervailing motion that the Court enjoin PSNH from proceeding before the Commission. As also noted at the prehearing conference, should the proceedings

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here not be stayed, Hemphill intends to file suit in federal court to contest the Commission's jurisdiction on the ground of federal preemption.

In Staff's judgment, such legal jousting, potentially before three different tribunals, seems a poor use of resources for all concerned. It is therefore Staff's hope that we, OCA, PSNH and Hemphill will, prior to Friday, be in a position to ask both the Superior Court and the Commission to hold this dispute in abeyance pending settlement discussions. In Staff's opinion, there is reason to believe settlement can be achieved.

I am available at 603.271.6006 if there are any questions about the foregoing.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Kreis", written in a cursive style.

Donald M. Kreis
General Counsel

Cc: Service List

SETTLEMENT AGREEMENT AND MUTUAL RELEASE OF CLAIMS

This Settlement Agreement and Mutual Release of Claims ("Agreement") is entered into this 23rd day of May, 2008, between Hemphill Power & Light Company ("Hemphill"), a New Hampshire general partnership, and Public Service Company of New Hampshire ("PSNH"), a New Hampshire corporation.

PREAMBLE

A. On April 2, 1985, the New Hampshire Public Utilities Commission ("Commission") entered Order *Nisi* No. 17,524 (the "Rate Order") approving Hemphill's long-term rate filing as amended.

B. The Rate Order entitled Hemphill to sell and required PSNH to buy Hemphill's on-peak and off-peak energy and its capacity for a term of twenty years at rates prescribed for each year.

C. A dispute has arisen between Hemphill and PSNH over whether the Rate Order expired on October 26, 2006, or October 26, 2007.

D. On April 30, 2007, Hemphill instituted an action against PSNH in the Hillsborough Superior Court, Northern District (the "Superior Court"), entitled Hemphill Power & Light Company v. Public Service Company of New Hampshire, Docket No. 07-C-294 (the "Litigation"), seeking damages and declaratory and injunctive relief against PSNH for terminating payments to Hemphill under the Rate Order after nineteen years of generation.

E. On or about June 29, 2007, PSNH filed with the Superior Court an answer to the Hemphill action including a counterclaim in the Litigation asserting a right to an offset against any recovery eventually awarded to Hemphill (the "Counterclaim").

F. On or about November 9, 2007, PSNH filed a petition with the Commission seeking a determination of the rights and obligations of Hemphill and PSNH with respect to Hemphill's claim to a twentieth year of rate order rates for its generation ("Docket DE 07-122").

G. The parties successfully sought a stay of both the Litigation and Docket DE 07-122 so that they could enter into settlement discussions.

H. The parties' settlement discussions have resulted in a resolution of their claims, and they desire to memorialize their agreement.

AGREEMENT

The parties therefore agree as follows:

1. Upon its execution, the parties will submit this Agreement to the Commission in Docket DE 07-122 for approval of both the Agreement and PSNH's recovery of the payment made to Hemphill pursuant to this Agreement without conditions that materially affect the parties' economic and regulatory expectations under this Agreement (the "Approvals").

2. Upon the Commission's issuance of the Approvals in a final order (a) PSNH will pay to Hemphill Three Million, Five Hundred Thousand Dollars (\$3,500,000.00) and (b) PSNH and Hemphill will take all necessary steps to dismiss the Litigation, including the Counterclaims, and Docket DE 07-122 with prejudice; provided, however, that the parties' obligations under this paragraph shall be suspended during the Commission's consideration of any motion for rehearing or the New Hampshire Supreme Court's consideration of any appeal of any such order, and such obligations shall be reinstated only upon a decision by the Commission or the New Hampshire Supreme Court affirming the issuance of the Approvals, which decision has become unappealable and no longer subject to reconsideration or rehearing by action of law.

3. Conditioned only upon PSNH's payment to Hemphill pursuant to paragraph 2 of this Agreement, Hemphill, for itself and its successors, assigns, partners, limited partners, creditors, affiliates, parents, trustees, agents, officers, directors, employees, and representatives, releases, forever discharges, indemnifies and agrees to defend PSNH and its successors, assigns, partners, limited partners, affiliates, parents, trustees, agents, officers, directors, employees, and representatives (the "PSNH Released Parties") from and against any and all action or actions, cause or causes of action, suits, petitions, motions, damages, claims, demands, judgments, or executions, whether asserted or unasserted, whether known or unknown, whether in contract, tort, or otherwise, whether under statute or rule, and whether at law or equity, which it ever had, now has, or in the future may have against the PSNH Released Parties, by reason of or arising from the Rate Order, the subject matter of the Litigation, the subject matter of Docket DE 07-122, the Litigation itself, or Docket DE 07-122 itself.

4. Conditioned only upon the Commission's issuance of the Approvals in a final, unappealable order, PSNH, for itself and its successors, assigns, partners, limited partners, affiliates, parents, trustees, agents, officers, directors, employees, and representatives, releases, forever discharges, indemnifies and agrees to defend Hemphill and its successors, assigns, partners, limited partners, affiliates, parents, trustees, agents, officers, directors, employees, and representatives (the "Hemphill Released Parties") from and against any and all action or actions, cause or causes of action, suits, petitions, motions, damages, claims, demands, judgments, or executions, whether asserted or unasserted, whether known or unknown, whether in contract, tort, or otherwise, whether under statute or rule, and whether at law or equity, which it ever had, now has, or in the future may have against the Hemphill Released Parties, by reason of or arising from the Rate Order, the subject matter of the Litigation, the subject matter of the Counterclaim, the subject matter of Docket DE 07-122, the Litigation itself, the Counterclaim itself, or Docket DE 07-122 itself.

5. This Agreement reflects the compromise of disputed claims and defenses and is not intended and should not be construed as an admission of the validity of any such claim or defense.

6. The provisions of this Agreement are not severable. If any part of this Agreement is not approved by the Commission in its entirety and without conditions that materially affect the parties' economic and regulatory expectations under this Agreement, it shall become void.

7. This Agreement shall be construed and enforced in accordance with New Hampshire law.

HEMPHILL POWER & LIGHT COMPANY
By: [Signature]
Its: Resident Representative

Dated:

COMMONWEALTH OF MASSACHUSETTS
COUNTY OF Norfolk

This instrument was acknowledged before me on May th 10, 2008 by Larry Fishman as Resident Representative of Hemphill Power & Light Company.

Claire Lee
Justice of the Peace/Notary Public
My Commission Expires February 13, 2015
(Notarial seal) COMMONWEALTH OF MASSACHUSETTS
My Commission Expires February 13, 2015

PUBLIC SERVICE COMPANY
OF NEW HAMPSHIRE

Dated: 05/23/08

By: [Signature]
Its: President

STATE OF NEW HAMPSHIRE
COUNTY OF HILLSBOROUGH

This instrument was acknowledged before me on May 23rd, 2008 by [Signature] as President of Public Service Company of New Hampshire.

[Signature]
Justice of the Peace/Notary Public
My Commission Expires: August 31, 2010
(Notarial seal)