

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

DOCKET NO. DE 14-238

**2015 PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
RESTRUCTURING AND RATE STABILIZATION AGREEMENT**

DIRECT TESTIMONY OF WILLIAM J. QUINLAN

July 6, 2015

1 **Q. Please state your name and business address.**

2 A. My name is William J. Quinlan. My business address is 780 North Commercial
3 Street, Manchester, New Hampshire.

4 **Q. Please state your position.**

5 A I am President and Chief Operating Officer of Public Service Company of New
6 Hampshire d/b/a Eversource Energy (“PSNH” or the “Company”). I became
7 PSNH’s President and COO in September, 2013.

8 **Q. Please summarize your professional experience and education.**

9 A. Prior to my current position, I was the Senior Vice President – Emergency
10 Preparedness for The Connecticut Light and Power Company (“CL&P”), where I
11 was responsible for CL&P’s planning for and response to emergencies, including
12 storms, as well as for putting protocols in place to allow CL&P to partner
13 effectively with federal, state and municipal officials during any type of
14 emergency. I also led CL&P’s infrastructure hardening, electric vehicle and
15 distributed generation programs.

16 Prior to that, I served as CL&P’s Vice President – Customer Solutions, overseeing
17 key customer technology functions, including metering, advanced metering
18 infrastructure (AMI), Smart Grid, conservation and load management (C&LM)
19 and energy efficiency programs. In addition, I was responsible for the account
20 executives, economic development and community relations functions.

21 I previously served as Vice President – Field Maintenance for CL&P and Yankee
22 Gas Services Company, overseeing the operations, maintenance, transportation,
23 supply chain and facilities functions for those companies.

1 Previously, I also participated in the divestiture of generating facilities owned by
2 various Northeast Utilities (“NU”) companies. In particular, I was part of the
3 team that oversaw the divestiture of the Millstone Nuclear Power Station in
4 Connecticut and Seabrook Station in New Hampshire.

5 I have extensive operations, legal, regulatory, technology and business experience,
6 first joining NU, now Eversource Energy (“ES”), in 1984 as an assistant engineer
7 in NU’s nuclear program. In 1993, I joined NU’s Legal Department as an attorney
8 and later became Deputy General Counsel. From 2003 to 2007, I served as
9 President and Chief Operating Officer of NU Enterprises, Inc. (NUEI), the
10 holding company for NU’s competitive businesses. Before joining NU, I was
11 employed by the General Electric Company at its Knolls Atomic Power
12 Laboratory in upstate New York.

13 I graduated from Villanova University in 1982 with a Bachelor of Science in
14 Mechanical Engineering. I received a Master of Business Administration from the
15 University of New Haven in 1989 and a Juris Doctorate from the University of
16 Connecticut School of Law in 1992.

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

18 A. I am testifying concerning the “2015 Public Service Company of New Hampshire
19 Restructuring and Rate Stabilization Agreement” (the “Agreement”) dated June
20 10, 2015, entered into by and between New Hampshire District 3 Senator Jeb
21 Bradley, New Hampshire District 15 Senator Dan Feltes, the Office of Energy and
22 Planning, Designated Advocacy Staff of the New Hampshire Public Utilities
23 Commission, the Office of Consumer Advocate, the International Brotherhood of
24 Electrical Workers (“IBEW”) Local 1837, the Retail Energy Supply Association,
25 the New England Power Generators Association, the Conservation Law
26 Foundation, the New Hampshire Sustainable Energy Association, TransCanada

1 Power Marketing, Ltd. and TransCanada Hydro Northeast, Inc., Public Service
2 Company of New Hampshire d/b/a Eversource Energy and Eversource Energy
3 (collectively the “Settling Parties”). In my testimony, I summarize this Agreement
4 and discuss its significant facets. I also summarize the more significant issues that
5 the Commission will need to consider in order to approve this Agreement.
6 Finally, I will introduce the other witnesses who will be providing pre-filed
7 testimony on behalf of PSNH and ES in this proceeding.

8 **Q. Could you provide some of the highlights of the Agreement?**

9 A. The Agreement is a joint effort between the Settling Parties intended to
10 comprehensively resolve many outstanding issues, to create a more cooperative
11 regulatory environment for PSNH, and to change the State’s electric utility
12 paradigm. The Agreement provides for the near-term divestiture of PSNH’s
13 remaining generating plants in a manner consistent with the stated purposes of
14 New Hampshire’s Electric Utility Restructuring to reduce the cost of electricity
15 for all consumers; maintain safe and reliable service; encourage customer choice
16 and the development of competitive choice; unbundle prices and service; and
17 separate the generation function from the transmission/distribution functions.

18 Significantly, the Agreement will result in customer savings created by a
19 combination of PSNH foregoing recovery of certain costs, asset sales, and
20 securitization. In particular, the Agreement requires PSNH to forego recovery of
21 \$25 million related to the Merrimack scrubber project, commits PSNH to also
22 forego a distribution base rate case until July, 2017; requires the expeditious
23 divestiture of PSNH’s generating assets; and, provides for securitization of
24 stranded costs to lock-in historically low interest rates in lieu of PSNH’s cost-of-
25 capital. Notably, Senate Bill 221 which authorizes the use of securitization
26 financing has passed the Legislature and is awaiting final signature by the
27 Governor.

1 Importantly, the Agreement ensures that PSNH can continue in its infrastructure
2 programs designed to improve customer service reliability via continuation of the
3 Reliability Enhancement Program. Another benefit of the Agreement is the
4 creation and funding by Eversource shareholders of a clean energy fund in the
5 amount of \$5 million.

6 This “2015 Public Service Company of New Hampshire Restructuring and Rate
7 Stabilization Agreement” is the key to completion of a process to restructure the
8 New Hampshire electric industry begun nearly 20 years ago. If approved, and
9 upon the consent of the Governor and Attorney General, this new Agreement will
10 supersede and replace the prior 1999 Settlement Agreement.

11 **Q. Why did PSNH and the State of New Hampshire enter into the Agreement?**

12 A. In my view, and as I explain more fully later in my testimony, there are several
13 compelling reasons for PSNH and the State of New Hampshire to enter into the
14 Agreement at this time. First, the long standing public policy of the state has been
15 to promote the separation of electric generation and transmission/distribution, so
16 this Agreement will complete the implementation of that state policy. Next, and
17 in a similar regard, the Agreement will resolve contentious and potentially long-
18 lasting litigation relating to PSNH’s generating facilities. Third, there is at present
19 a relatively attractive market for the sale of assets such as those owned by PSNH
20 given the historically high capacity market prices and the need in New England
21 for generation run on a diversity of fuels. Additionally, interest rates are at
22 historic lows making this an appealing time to seek securitization. Further, as
23 PSNH’s prior rate agreement expired on June 30, 2015 the terms of the
24 Agreement provide an opportunity to deliver rate stability and continuity for
25 customers over the coming few years. Lastly, there is now a recognized need in
26 New England for viable infrastructure improvements, as well as tangible

1 initiatives and project to ensure the adequacy of energy supply that should result
2 in lower and less volatile electric prices for customers.

3 **Q. Could you explain the public policy reason in more detail?**

4 A. Certainly. I will address that reason, as well as the one relating to closing out the
5 pending litigation together as I see them to be related. As a result of the series of
6 events I will describe below, the time was ripe to complete the matters that the
7 Company had earlier agreed to in the “Agreement to Settle PSNH Restructuring”
8 (the “1999 Settlement”) dated August 2, 1999, entered into by and between the
9 Governor of New Hampshire, her Office of Energy and Community Services
10 (now the Office of Energy and Planning), the Office of the Attorney General, Staff
11 of the New Hampshire Public Utilities Commission, PSNH, and NU.

12 When the New Hampshire Legislature determined that restructuring of the electric
13 industry should occur in the 1990s, it required the Commission to develop a plan
14 for restructuring the state’s incumbent utilities, including PSNH, as well as the
15 existing regulatory framework. *See* RSA chapter 374-F (Supp. 1997). Pursuant to
16 the law and the Commission’s plan, the state’s electric utilities were to exit the
17 business of owning and operating electric generating facilities and would leave
18 electric generation services to be provided by unregulated entities. Following
19 extensive litigation relating to the Commission’s plan, substantial issues
20 surrounding the restructuring of the electric industry in New Hampshire generally,
21 and PSNH’s restructuring specifically, were resolved through the 1999
22 Settlement. After extensive discovery, hearings, and briefing, the Commission
23 approved that 1999 Settlement subject to certain conditions in Order No. 23,443
24 issued on April 19, 2000.

25 Following the Commission’s approval, the Legislature passed SB 472 (Laws
26 2000, Chapter 249, and later codified as RSA chapter 369-B) which became
27 effective on June 12, 2000. That law ratified the Commission’s April 19 order

1 and certain required amendments to the terms of the order and the underlying
2 1999 Settlement. PSNH and the other settling parties to that 1999 Settlement
3 agreed to the amendments as provided in the law, and, following additional
4 process, on September 8, 2000, the Commission issued Order Nos. 23,549 and
5 23,550 approving the amended 1999 Settlement Agreement and the terms for
6 PSNH's securitization of certain stranded costs. That 1999 Restructuring
7 Settlement Agreement was eventually upheld by the New Hampshire Supreme
8 Court in *Appeal of Campaign for Ratepayers Rights*, 145 N.H. 671 (2001).
9 Notably, the 1999 Restructuring Settlement Agreement contained an agreement by
10 PSNH to divest its generating assets.

11 In 2001, while PSNH was in the process of divesting its fossil and hydro
12 generating facilities, and in response to substantial volatility and price spikes in
13 other restructured electric markets, the Legislature passed HB 489 (Laws 2001,
14 Ch. 29, which amended various laws including portions of RSA chapter 369-B).
15 This new law expressly prohibited PSNH from divesting its fossil and hydro
16 generating assets prior to "33 months after competition day as defined in RSA
17 369-B:2, III." Laws 2001, 29:13. Competition day, as defined, occurred on May
18 1, 2001 and, therefore, PSNH was barred from divesting its fossil and hydro
19 generating assets prior to February, 2004. Before that February, 2004 date, in
20 2003, the Legislature passed SB 170 (Laws 2003, Ch. 21) which extended the
21 time during which PSNH was prohibited from divesting its fossil and hydro
22 generating facilities until after April 30, 2006. Laws 2003, 21:4. After that date,
23 PSNH was permitted, but not required, to divest its generating facilities, but could
24 only do so after the Commission had first determined that divestiture would be in
25 the economic interest of PSNH's retail customers.

26 In 2002, the Legislature enacted HB 284, "AN ACT relative to additional
27 emissions reductions from existing fossil fuel burning steam electric power
28 plants" (Laws 2002, Ch. 130) that created the "Multiple Pollutant Reduction

1 Program” codified in the original form of RSA Chapter 125-O. This Legislation
2 was specifically directed at PSNH’s generating assets - - the very same assets that
3 as a matter of law PSNH could not then divest. In that law, the Legislature found
4 that implementation of an integrated, multi-pollutant emission reduction strategy
5 “will maximize recovery from the divested power plant assets, correspondingly
6 reduce the stranded costs that must be paid over time by ratepayers, and thus
7 allow electric rates to decline further or faster than they would otherwise.” (Laws
8 2002, 130:1).

9 In 2006, the Legislature amended the Multiple Pollution Reduction Program when
10 it passed HB 1673 that was later codified as RSA 125-O:11, *et seq.*, which found
11 installation of “scrubber” technology to be “in the public interest of the citizens of
12 New Hampshire and the customers of the affected sources” (RSA 125-O:11, VI)
13 and required the installation of the Scrubber at PSNH’s Merrimack Station no
14 later than July 1, 2013 to control total mercury emissions from the identified
15 affected sources by no less than 80 percent. PSNH installed the Scrubber at an
16 eventual cost of \$422 million and it became operational in September 2011. RSA
17 125-O:18 mandates that as the “owner,” PSNH “shall be allowed to recover all
18 prudent costs of complying with the requirements of this subdivision in a manner
19 approved by the public utilities commission.” Both the costs of the Scrubber and
20 the manner of cost recovery remain under review in Docket No. DE 11-250.
21 Absent the Agreement, that case could remain open for a substantial time and
22 might never reach a truly satisfactory conclusion.

23 Last year, during its 2014 session, the New Hampshire Legislature passed HB
24 1602 (Laws 2014, Chapter 310) which amended various laws, including RSA
25 chapter 369-B and RSA chapter 374-F, with the express purpose of requiring “the
26 public utilities commission to determine if divestiture of Public Service Company
27 of New Hampshire’s (PSNH) remaining generation assets is in the economic
28 interests of PSNH’s retail customers . . .” Laws 2014, 310:1. The Legislature

1 concluded that in making the required determination the Commission should look
2 to:

3 maximize economic value for PSNH's retail customers,
4 minimize risk to PSNH's retail customers, reduce stranded costs
5 for PSNH's retail customers, promote the settlement of
6 outstanding issues involving stranded costs, and, if appropriate,
7 provide for continued operation or possible repowering of
8 PSNH's generation assets.

9 *Id.* To that end, the Legislature required that the Commission open a docket to
10 "commence and expedite" a proceeding to begin making the necessary
11 determinations regarding PSNH's continued ownership and operation of its
12 generating assets and, in response, the Commission commenced Docket No. DE
13 14-238. Pursuant to the newly enacted legislation, the Commission was, for the
14 first time, provided explicit authority to order that PSNH's generating assets, or
15 some of them, be divested if the Commission ultimately concluded that the
16 "economic interest of retail customers of PSNH," would be served by such
17 divestiture. *Id.*

18 While there have been changes in the law over the years, it has remained the
19 policy of the state to eventually complete restructuring under the right
20 circumstances. The above combination of events, starting with PSNH's 1999
21 agreement to divest its generating plants, the statutes delaying that process,
22 ensuing environmental mandates culminating with the Scrubber and that facility's
23 long standing cost recovery dispute, and finally the enactment of HB 1602,
24 created the dynamics whereby a consensual settlement achieved via negotiation
25 rather than litigation made sense.

26 In late December, I discussed the situation outlined above with Senator Jeb
27 Bradley. He agreed that negotiation in lieu of litigation made sense and on
28 December 26, 2014, PSNH submitted a motion to stay in various proceedings,

1 noting that there was the potential to settle many, if not all, issues relating to
2 PSNH's generating facilities generally, and the Scrubber proceeding specifically.
3 The Commission granted that motion as to Docket No. DE 11-250, allowing
4 numerous parties to engage in an extensive negotiation resulting in the
5 Agreement. I wish to give special thanks to Senator Bradley who was
6 instrumental in initiating the settlement process, along with Senator Feltes who
7 partnered in leading the settlement effort, along with the entirety of the State
8 Settlement Team for their diligence throughout the process. And, I also wish to
9 thank the Commission for having the patience and foresight to grant the motion
10 for a stay that allowed this settlement process to be successful.

11 The Agreement helps complete a process begun nearly 20 years ago in a manner
12 that is consistent with state policy and helps to chart a productive path forward for
13 the state and PSNH.

14 **Q. Could you explain the generation market issue in more detail?**

15 A. Currently in New England there is a strong reliance on natural gas for electric
16 generation, which can result in tightness of supply, as well as high and volatile
17 electric prices, particularly during the winter months when there is high gas
18 customer demand. This is an issue the Commission is currently investigating in
19 Docket No. IR 15-124. PSNH's generating fleet provides a balance to that
20 reliance on natural gas and thus presents relatively attractive prospects for
21 potential buyers. Additionally, PSNH's facilities are qualified in the ISO-New
22 England Forward Capacity Market, at relatively high capacity values, through
23 2019 meaning that they can expect a stream of revenue for years into the future.
24 Moreover, PSNH's facilities have been well maintained and operated by highly
25 skilled people over the years ensuring that they can operate effectively into the
26 future. In total, the facilities that PSNH is to divest are well positioned in the
27 market for such assets.

1 **Q. Please explain the interest rate reason you discussed.**

2 A. Ultimately, the sale of PSNH's generating assets will likely result in some amount
3 of stranded costs. The precise level of stranded costs cannot be accurately
4 calculated at this time and any calculation would have to rely upon educated
5 guesses regarding the fair market value of PSNH's generating assets, future
6 energy deliveries and load growth, and the competitive market price of energy.
7 To avoid having to rely upon such forecasts and conjecture, the Agreement
8 adopts, among other things, on-going reconciling mechanisms that call for
9 maximizing the use of securitization financing to minimize the impact of any
10 stranded costs to customers. With respect to the costs to be securitized, the
11 available interest rates are at historic lows meaning that the when the
12 securitization occurs the cost of doing so will be very low as compared to PSNH's
13 present cost of capital. The difference in those rates will result in substantial
14 savings for customers over time.

15 **Q. Could you offer additional detail on the rate stability and continuity?**

16 A. PSNH has been in a long term rate agreement that began in 2010 and was due to
17 expire on July 1 of this year. That agreement had kept PSNH's distribution rates
18 relatively stable for a number of years. The Agreement calls for PSNH to refrain
19 from filing a new distribution rate case until at least the middle of 2017 in
20 exchange for a modest adjustment to provide targeted funding to support PSNH's
21 Reliability Enhancement Program ("REP"). The REP is an important program to
22 PSNH, and to customers, and to the Commission as it recently noted in its Order
23 No. 25,793 (June 25, 2015). Under the Agreement, customers will benefit from
24 the continuation of PSNH's successful REP but will otherwise have stable and
25 consistent distribution rates for the next few years.

1 **Q. Could you also explain the infrastructure improvements that you had**
2 **referenced above?**

3 A. As noted previously in my testimony, New Hampshire and New England rely
4 heavily on natural gas for electric generation and this reliance has led to
5 sometimes high and volatile electricity prices. There are currently numerous
6 proposals for means to address this issue to provide rate stability for customers
7 and enhanced reliability to the electric system. Many of those have been
8 discussed in the comments filed in Docket No. IR 15-124. There are also other
9 initiatives underway in the state and region to enhance and improve the gas and
10 electric infrastructure. Over the long term, those proposals and initiatives will
11 help provide more cost effective and reliable electric supplies to New Hampshire
12 customers. In particular, I am referring to initiatives such as the New England
13 Clean Energy RFP, an undertaking by Connecticut, Massachusetts and Rhode
14 Island to seeking proposals for clean energy and transmission projects to help to
15 meet clean energy goals in a cost-effective manner and in a way that brings
16 regional benefits.

17 In sum, divesting now makes sense in light of all the circumstances and doing so
18 through the Agreement provides clarity and certainty to PSNH, the Commission,
19 the State and, most importantly, to PSNH's customers.

20 **Q. Earlier, you stated that you had previous experience with generation**
21 **divestiture processes in New England. Are you familiar with the divestiture**
22 **proposal and schedule filed by Non-Settling Staff on June 17?**

23 A. Yes.

1 **Q. Based upon your experience in past New England generation divestiture**
2 **processes, do you have any comments on Non-Settling Staff's proposal?**

3 A. Yes I do. The divestiture process and schedule proposed by Non-Settling Staff in
4 its June 17 filing is unprecedented and problematic. Its variance from established
5 generation divestiture procedures is troublesome and could potentially result in
6 negative impacts to the overall value PSNH could obtain from the divestiture
7 process. I concur with the comments and observations contained in the testimony
8 of Mr. John Reed, and recommend that the Commission adopt the proposed
9 procedural schedule contained in the Settling Parties' Joint Motion dated June 10.

10 **Q. In addition to your testimony, what other prefiled testimony regarding the**
11 **Settlement Agreement is PSNH and ES sponsoring in this case?**

12 A. In order to allow the Commission and other intervening parties to fully understand
13 the Agreement and to inquire about areas of concern, we are providing the
14 testimony of the following witnesses.

15 William H. Smagula, PSNH's Vice President-Generation, is providing testimony
16 describing the generation plants that will be divested by the company. He also
17 discusses the protections required by RSA 369-B:3-b that employees affected by
18 the divestiture process will be entitled to receive.

19 Philip J. Lembo, Vice President and Treasurer for Eversource Energy and its
20 subsidiary companies, including PSNH, and Emilie O'Neil, Director of Corporate
21 Finance and Cash Management for Eversource Energy, provide testimony
22 regarding the use of securitization to achieve significant cost savings. They
23 describe the key requirements for securitization, outline the securitization process,
24 and detail the requirements for a future financing order necessary to achieve the
25 Triple-A Rating that the investment community requires for a successful
26 securitization financing.

1 Eric Chung, Director-Revenue Requirements and Regulatory Projects for
2 Eversource Energy provides testimony quantifying the estimated customer savings
3 and rate impact estimates (including key financial assumptions) of the Agreement.
4 He also provides the bases for PSNH's rate adjustments anticipated by the
5 Agreement including: updated costs of the Scrubber project; the composition of
6 the Stranded Cost Recovery Charge ("SCRC") contemplated under the SCRC rate
7 design proposal included in the Agreement; continuation of the REP; and other
8 rate-making topics such as storm funding, exogeneous event adjustments, and
9 future provision of default service.

10 John Reed, President of Concentric Energy Advisors has been retained by PSNH
11 pursuant to Section IV, A of the Agreement that requires PSNH to engage an
12 expert consultant regarding the typical divestiture processes and submit testimony
13 from that expert as part of the Commission's proceeding to review this
14 Agreement. In his testimony, Mr. Reed provides his expert perspective on the
15 divestiture process, outlines best practices to ensure a successful divestiture
16 process that maximizes asset values, key preparation elements, and discusses a
17 typical divestiture schedule.

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

19 **A.** Yes, it does.