THE STATE OF NEW HAMPSHIRE

BEFORE THE

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Docket No. DE 14-238
Determination Regarding PSNH's Generation Assets

TESTIMONY OF JOHN ANTONUK AND JIM LETZELTER

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Q. Please state your name, company and business address.

A. My name is John Antonuk of Liberty Consulting Group, Inc. My business address is 279 North Zinns Mill Road, Suite H, Lebanon, PA 17042. My curriculum vitae is attached at Attachment A.

A. My name is Jim Letzelter of Liberty Consulting Group, Inc. My business address is 279 North Zinns Mill Road, Suite H, Lebanon, PA 17042. My curriculum vitae is attached at Attachment B.

1. <u>Qualifications</u>

Q. Mr. Antonuk, please state your position at Liberty and briefly describe your business.

A. I am the President of the Liberty Consulting Group, which has been serving regulators and the utility industry for over 27 years. Liberty has conducted for utility regulators more than 200 examinations of energy utility management, operations, and supply. Liberty has performed a variety of engagements for 40 energy utilities as well. Liberty has broad experience in the electricity, natural gas, and telecommunications businesses. The firm's work ranges from comprehensive reviews of utility management and operations to focused examinations that have addressed governance, organization, corporate planning, staffing, operations, finance, supply planning, technical, regulatory, and other subjects.

Q. Mr. Letzelter, please state your position at Liberty and briefly describe your role at Liberty.

A. I am an Executive Consultant at the Liberty Consulting Group. I have 25 years of experience in the energy and utilities industry, having served as a management consultant, project manager and executive. My expertise includes power generation, market analysis, power plant valuation, ISO/RTO market strategy, production cost modeling and financial analysis. For Liberty I provide analyses and regulatory support on issues related to power generation and power markets.

Q. Mr. Antonuk, please describe your educational background.

A. I have a J.D. with academic honors from the Dickinson School of Law, and a B.A., cum laude, from Dickinson College.

Q. Please describe your professional experience.

A. I am a founder of Liberty, and have served as its president for most of the firm's history. I have managed several hundred Liberty projects, and have served as the lead consultant in a wide variety of areas on those engagements. Prior to Liberty's founding, I served a large Northeast electric utility as Regulatory Affairs Manager. Prior to that, I served in a variety of policy-forming and investigative roles as a member of the staff of the General Counsel of the Pennsylvania Public Utility Commission. I began my career as an investigator for the Pennsylvania Department of Justice, where I also served on the personal staff of the State's Attorney General.

Q. Mr. Letzelter, please describe your educational background.

A. I have a B.S. degree in Electrical Engineering with a concentration in power systems from Clarkson University and an MBA from the University at Albany.

Q. Please describe your professional experience.

A. I have been engaged as a consultant and manager in the electric utility industry since 1990. Before joining Liberty in 2011, I served with companies now part of Navigant Consulting (Research Management International and Metzler Associates) and PA Consulting (Theodore Barry & Associates and Hagler Bailly), Entergy Corporation, Platts Research and Consulting, and GenMetrix. I have assisted energy industry clients throughout the United States and Europe, and have worked on behalf of many utility regulatory authorities.

My background includes power market assessment, risk analysis and generating asset valuation. Over the course of my career, I have performed asset valuations on over ten billion dollars worth of electric power generating facilities. Clients have used that work for negotiation, project development, mergers, acquisitions, due diligence, regulatory proceedings, and litigation.

I worked with Mr. Antonuk to perform a valuation of PSNH's generating fleet as part of Liberty's June 7, 2013 joint report with Commission Staff in Docket No. IR 13-020 on PSNH's generating assets (Report on Investigation into Market Conditions, Default Service Rate, Generation Ownership and Impacts on the Competitive Electricity Market).

Q. Mr. Letzelter, have you previously testified before the Commission?

A. No, I have not previously testified in New Hampshire. However, I played a key role in developing the June 7, 2013 report referenced above. Specifically, I performed the preliminary asset valuation and stranded cost estimates of the PSNH generating assets. I have testified on other generation-related matters in other jurisdictions, most recently as an expert in generating asset valuations on behalf of the Arizona Corporation Commission in Docket No. E-01345A-11-0224.

Q. Mr. Antonuk, have you previously testified before the Commission?

A. Yes, I testified before the Commission in Docket No. DE 99-099, Public Service Company of New Hampshire – Proposed Restructuring Settlement, and in Docket No. DT 07-011, Verizon New England – Verizon Transfer of Assets to FairPoint Communications, Inc., which addressed FairPoint's acquisition of Verizon's land lines in the northern New England states.

2. Testimony Background and Purpose

Q. What is the purpose of your testimony?

A. The purpose of our testimony is to provide our opinion that divestiture of PSNH's generating assets as proposed by the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement (the "Settlement Agreement") is in the public interest.

Q. How did you become involved in this case?

A. The Office of Energy and Planning ("OEP") retained Liberty to provide expert services in Docket DE 14-238. We have been involved with settlement negotiations, advised OEP on the development of the Settlement Agreement and on issues related to SB221, and testified on the bill before the Legislature.

3. Testimony Summary

Q. Please summarize your testimony.

A. Liberty has been involved with restructuring in New Hampshire since the late 1990s. Liberty assisted in resolving major litigation involving power supply assets, designing plant divestiture, securitization, and competitive service initiatives, and overseeing the sale of the Seabrook Nuclear Station. We have worked on similar issues in a number of other jurisdictions as well.

The proposed Settlement Agreement provides a necessary and appropriate means of resolving current disputes, which if allowed to continue, pose a significant cost threat for PSNH electricity customers. Between a write-off and a contribution to clean energy funding, company shareowners will contribute $30 million to the resolution of issues now stymying the sale of PSNH's remaining generation assets and the completion of the full transition to competitive markets. The sale of those assets, even though expected to produce significantly less than their collective remaining book value (largely due to the scrubber), will begin the process required to bring rates down for customers. Securitization, which will follow divestiture, will make a major reduction in the costs customers pay for plants under PSNH ownership. That reduction is currently on the order of 7% (approximately 3% versus PSNH's approximately 10% weighted average cost of capital), which makes each $100 million in stranded costs securitized initially worth $7 million on an annualized basis. Accordingly, if stranded costs end up in the range of $400 to $500 million, this reduction equates to an initial annualized customer savings in the range of $30 million.

Absent a settlement, litigation over the scrubber and divestiture is likely to continue for a significant additional period of time. For every year that litigation continues the amount contributed by PSNH would have to double from what the Settlement Agreement achieves, just to produce the same value that the Settlement Agreement produces. The reason is that the savings lost due to delay in securitization can never be recovered; they can only be matched by a litigation-produced disallowance that increases by an amount in the range of $30 million for every year of delay.

Should the Commission find the Settlement Agreement in the public interest, the need for proceeding with all deliberate speed remains because securitization delayed means customer savings lost as discussed below. Proceeding expeditiously through divestiture also has other benefits. It will mitigate operational and investment risk to customers – risks that would remain under continued PSNH operation and ownership. It will complete the transition, started fifteen years ago, to full retail competition. And importantly, it will reduce the risk of losing significant savings that would result from the end of historically low rates of interest. Issuing securitization bonds before the Federal Reserve finally moves to increase interest rates is the best way to maximize customer savings. Increases in the benchmark rates before that issuance threatens customer savings. Taking the time necessary to analyze and assess the Settlement Agreement is important. But adding to that time by considering tangential matters that can wait until the second phase of this case, when the Commission will oversee an auction process, risks considerable loss of ratepayer benefits from divestiture.

Finally, among the matters that can and should be addressed in a later phase of this proceeding, or in a separate proceeding, are the mechanics of the divestiture auction process. As the Commission is aware, the process used to divest the Company's interest in the Seabrook Station proved extraordinarily successful. The Commission wisely addressed sale issues then by: (a) establishing a separate docket to address sale mechanics, (b) engaging under its authority a sale manager independent of the company, (c) leaving to the sale manager, as the expert in the field, wide discretion in designing sale process steps and milestones, (d) assigning a small team to oversee the sale manager and keep the Commission abreast of key sale process developments as they occurred, and (e) allowing the expert sale manager to design the sale process, acting under the direction of the small Commission team, and allowing the expert to work with that team to analyze bids, conduct negotiations, address detailed terms and conditions, and make final sale recommendations. We recommend a similar approach in this case.

4. Restructuring and Supply Planning Experience

Q. Mr. Antonuk, Please describe your experience with restructuring and supply planning.

A. I have been engaged for many years in issues involving utility restructuring and supply planning. My work for Liberty includes service to the Commissioners of the District of Columbia Public Service Commission and to the administrative law judge of the Delaware Public Service Commission, as each addressed the merits of comprehensive restructuring of their electric industries to introduce retail competition and to provide for the divestiture of supply facilities by their incumbent utilities. I was part of the joint team formed by Governor Shaheen and the Public Utilities Commission to seek a resolution to federal litigation then blocking the implementation of electric restructuring and PSNH's divestiture in New Hampshire. I assisted in negotiating the 1999 settlement agreement (addressed in Docket No. DE 99-099), which produced a major write-off of Seabrook's stranded costs, led to the highly successful sale of Seabrook Station, called for the divestiture of PSNH's other generation plants (later deferred by the Legislature), provided for the introduction of retail competition, and led to securitization of stranded costs at interest rates that resulted in significant savings for the company's customers. I also assisted the Commission's General Counsel in overseeing the Seabrook Station auction process.

I have also participated in a significant number of reviews of power plant economics. I have twice examined supply planning generally and plans for the construction of coal fired generation by a major generation and transmission cooperative ("G&T"). The results of the second of these reviews proved instrumental in the cancellation of plans to construct that station. I led a review of the supply planning activities of a major Arizona G&T, which faced the need for consideration of the continuing economic viability of an aging coal generating station in the face of significantly lowered natural gas prices and major environmental risks and uncertainties.

I led Liberty's project to examine the acquisition of an interest in one of the country's largest coal-fired generating stations (Four Corners in Arizona) made available by a California decision effectively requiring Southern California Edison to divest its share in the station. That review included an examination of short-and long-term planning issues, including environmental risk, fuel economics, transmission system capability, and demand and usage growth. I have also, for several years now, been managing a Liberty engagement for the Public Utility Commission of Texas. Entergy's Texas operating company (ETI) has, like its five companion companies in Arkansas, Louisiana, and Mississippi, operated under a common supply resource planning, sharing, and operation approach. Changing market conditions and the entry of the Texas operating company into MISO led to decisions to exit the agreement under which those Entergy operating companies have arranged for supply for many decades. Liberty has been working with the Texas Commission's staff to assess the economics of exiting the agreement, to consider the individual supply planning needs and circumstances that the Texas operating company (and the commission) will have to address after exit, and to ensure a well planned and executed transition path to independent operation.

I have also been working for an extended period of time on Northeastern North American supply issues associated with the expansion of natural gas use as a fuel for electricity generation. I have managed a variety of projects for Nova Scotia utility regulators involving the economics of coal versus natural gas use, fuel supply availability, and the effectiveness of operations at aging coal stations. Approximately two years ago, I led Liberty's work to assist the staff of the New Hampshire Commission in assessing the economics of PSNH's remaining generation portfolio as part of Docket No. IR 13-020, Public Service Company of New Hampshire – Investigation into Market Conditions Affecting PSNH and its Default Service Customers and the Impact of PSNH's Ownership of Generation on the Competitive Electric Market.

Q. Please describe Liberty's prior work in New Hampshire.

A. As noted above, Liberty worked with Commission Staff, Governor Shaheen's Office and the Governor's Office of Energy and Community Services (OEP's predecessor agency) to negotiate and produce the 1999 settlement agreement that led to restructuring, the sale of Seabrook Station, and, at that time, the planned divestiture of PSNH's remaining generation resources. Our more recent 2013 work was on behalf of the Commission Staff. Our review of PSNH's generating fleet and default service rates came following the Commission's initiation of an investigation to review market conditions affecting PSNH's default service rates (Docket No. IR 13-020). Our review, performed jointly with Staff, explored the impact of PSNH's continued ownership and operation of its generation facilities. Liberty's role included obtaining information from PSNH, and meeting with various stakeholder groups to elicit their viewpoints on the status of PSNH's default service rate and generation ownership. As part of that effort, Liberty performed a basic valuation of PSNH's generating assets as a preliminary indication of likely sale prices and stranded cost. A copy of the Joint Liberty-

Staff Report in Docket No. IR 13-020 is attached hereto as Attachment C, and incorporated as part of our testimony.

Q. Mr. Letzelter, please describe your experience with other utility restructuring and supply planning efforts.

A. I played a lead role in the Liberty Four Corners (Arizona) and Entergy Texas work described above. I did the same in Liberty's work in Docket No. IR 13-020. Earlier, in the 1998-1999 timeframe, on behalf of Public Service Electric & Gas (PSE&G) of Newark, NJ, I played a key role in restructuring the company according to the New Jersey Energy Master Plan. I assisted PSE&G in reorganizing the entire corporation to create a separate generation company, and to securitize stranded costs for the generating fleet that was transferred to the new organization.

5. ***<u>The Benefits of Divestiture</u>***

Q. Do you have an opinion as to whether the proposed settlement is in the public interest?

A. Yes, we believe that the Settlement Agreement is in the public interest and is in the interest of all of PSNH's customers. Divesting PSNH's generation assets comprises a key first step in getting control of PSNH's rates, reducing risk for customers, and completing the transition to a fully competitive retail electric market. Divestiture, when accompanied by securitization, will substantially reduce the average costs that customers pay. Quite simply, securitization will replace high cost financing of capital costs through the normal rate process with the far lower costs of highly rated debt. The difference between carrying the stranded cost at 100%

low-interest debt and a weighted average cost of capital (WACC) that includes a return on equity and lower-rated utility debt will produce savings in the hundreds of millions of dollars. In our opinion, the Settlement Agreement provides the best path to capture these important benefits for customers, and is therefore in the public interest.

Q. Do you anticipate that other benefits will result from divestiture?

A. Yes. Divestiture will also place the generation assets in the hands of operators who specialize in and have a long term interest in the generation of electricity. These owners/operators will apply that expertise in forming judgments about such approaches as continuing to run the assets in their current condition, making improvements, making major investments (such as re-powering coal plants to use natural gas), and eventually retiring them. New owners will make such decisions without requiring customers to bear those costs in rates.

PSNH, as a regulated utility, is not in the same position when it comes to making these kinds of judgments. Its fleet was small relative to the total operations of its holding company before the Eversource acquisition. That acquisition makes it even smaller as a share of total parent operations. One cannot conclude that Eversource considers generation a core part of its future. Like Northeast Utilities before it, it has no substantial generation apart from what PSNH operates. There are no plans for expanding generation at PSNH (and in fact current law would prohibit expansion beyond small, distributed generation). As a result the Company finds itself operating a generation fleet with aging fossil plants as its central component. Those plants face the same market and environmental pressures that have already caused similar plants (some of them more efficient) to close.

Following divestiture, the PSNH plants will be owned by experts whose success in controlling operations and capital investment costs will benefit their bottom line, while market forces keep their prices in line with market conditions. PSNH does not make money that way. It does not have the same incentive to keep operating costs under control, because lowering them does not provide shareowner benefit. PSNH shareowners make money by investing capital dollars in facilities like these plants. Considering their age and the many threats they face, continued ownership by PSNH could produce investments that do not pay off for customers. Thus, divestiture also mitigates operating and investment risk for customers, while at the same time promising to make the fleet a more economical contributor to the regional markets in which it will continue to operate following divestiture.

Finally, divestiture will complete the process that the 1999 settlement agreement set in motion. Retaining the non-nuclear fleet has in the past produced economic benefit for customers. It did so, however, at the expense of leaving New Hampshire in an odd position when compared to other states that have restructured and encouraged or required divestiture of supply resources by incumbent utilities. That oddity is a market in which the regulated utility remains a major retail energy producer and supplier while at the same time other market participants are competing to serve the state's residents and businesses. That concession to short-lived benefits has since been rendered inapt by the fact that the fleet (considering all its elements together) has become, and will remain, more expensive than other sources available from the market.

Q. How would divestiture as proposed by the Settlement Agreement affect the risk profile of PSNH's customers?

A. Divestiture will mitigate several areas of risk for PSNH customers. First, the existing PSNH generating fleet is faced with a number of future environmental issues, which threaten to produce substantial added capital and operating costs. Divestiture will transfer the risk of these costs, discussed more fully later in this testimony, from PSNH customers to the potential buyer(s). Second, as just discussed, operating and investment risk will both be mitigated by divestiture. Finally, eliminating PSNH's role in retail markets will tend to make competition more robust, all else equal, thereby fulfilling the State's policy goal of a restructured electric utility industry as set forth in RSA 374-F.

6. The Importance of Timely Action

Q. What factors support divestiture of PSNH's generation assets at this time?

A. Following divestiture, the difference between the remaining book value of PSNH's generation assets and the sale price for those assets will constitute "stranded costs" that PSNH customers are obligated to repay. It is critical for PSNH to maximize the purchase price of its generating facilities in order to minimize stranded costs. Likewise it is critical to minimize the cost of securitizing those stranded costs. Time is of the essence for both issues.

Q. Please describe why an expeditious divestiture is critical to producing benefits for PSNH customers.

A. The sale of PSNH's assets will occur through a competitive solicitation, with sale to the highest bidder(s) to maximize total realized sale proceeds. Bidders evaluate plants by calculating the present value of future projected cash flows from those assets. There are two primary drivers, each with many moving parts: the projection of free cash flow from the plants and the discount rates used to produce a present value of those cash flows.

Free cash flow is the cash that a corporation has available for distribution, generated by its operations, and its use in valuation of assets is standard practice. It is driven by gross margins, or the difference between revenues and operating costs, less taxes and capital expenditures. It is impacted by the tax implications of depreciation, but not by the depreciation itself, since depreciation is a non-cash item.

Key revenue sources are energy sales and capacity sales. At this time, favorable capacity market conditions would lead to higher capacity revenue projections with no increased costs, and therefore higher cash flows and present value. Prospective buyers will factor this current high revenue producing opportunity into their value calculations, thus promoting higher bids than would be the case should markets change. We consider it to be in the interest of PSNH customers to sell in these comparatively favorable market conditions.

We are also in a favorable debt market. The low interest rates will reduce the cost of securitizing PSNH's stranded costs. Therefore, it becomes very important that the processes of initiating and completing divestiture proceed quickly, as proposed in the Settlement Agreement and procedural schedule.

Q. Please describe securitization in more detail and explain the importance of its timing?

A. As the testimony of PSNH witnesses Lembo and O'Neil explains in greater detail, securitization produces from PSNH customers a stream of expected revenue sufficiently secure to induce investors to purchase rate reduction bonds (RRBs) at the most favorable interest rates. Proceeds that PSNH receives from the sale of the RRBs will offset customers' obligation to repay PSNH's capital investment in the generation assets. The RRBs purchasers will then be repaid from the stream of revenue collected from all PSNH ratepayers via a non-by-passable stranded costs recovery charge assessed on the distribution portion of PSNH's bills.

PSNH currently charges customers rates that include a weighted cost of capital in the range of 10 percent on its generation (and other investments). Divestiture without securitization would produce stranded cost recovery that includes this same capital cost. Securitization would produce a much better deal for customers. They would pay costs based on market interest rates (at the time of securitization). That rate currently is in the range of 3% for highly secure bonds, such as RRBs. The current interest rate differential is significant; keeping it as large as possible is important for customers. If we assume bonds in the amount of $500 million, as an example, the interest rate differential at the outset is worth more than $30 million on an annualized basis. The actual bond amounts will be determined after the proceeds of the sale of the generation fleet become known. Securitization must therefore await sale completion. In order to take advantage of today's extraordinarily low interest rates, which are likely to rise, it is critical to reach a final sale of the assets as expeditiously as possible.

7. Any Regional Needs for the Plants Can Be Met through Existing Mechanisms

Q. Does the recent winter price volatility in New England electric markets change your opinion that divestiture is in the public interest?

A. It does not, even if such volatility were to continue. Price spikes in the markets, driven in major part by natural gas availability in extreme weather, have certainly produced periods where PSNH's fossil units have become more valuable, but for very short periods of time. There have been and will likely be periods in the short term when the plants fetch market prices above the costs of owning and operating them. On those days, PSNH customers have benefitted and will benefit from the margins produced. However, what the plants cost (relative to what they bring in) over the full year provides the proper measure of their value. On that basis, despite short periods of profitability, the fossil plants still cost more than they produce in revenue or in terms of avoided costs of alternative sources. This was shown in Liberty's June 7, 2013 joint report with Commission Staff as well as La Capra's valuation report, both filed in Docket No. IR 13-020.

There is not a sound basis for concluding that this economic balance will turn to favor customers, even given the structure of the natural gas and energy supply markets today. In addition, to the extent that the region addresses gas supply constraints, the circumstances will actually worsen.

Q. Do regional reliability concerns related to New England's dependence on natural gas affect your opinion?

A. No, they do not. In terms of providing capacity during extreme weather, it is correct that the region faces a growing dependence on natural gas. Coal units do provide an alternative when gas supply is constrained. However, divestiture does not equate to mandatory retirement of PSNH's coal units. Buyers of those units will make the business decision of how or whether to operate following the 18-month in-service requirement included in the Settlement Agreement. In addition, as the testimony of PSNH witness Smagula observes, PSNH has already obligated the units to be available as a source of capacity through 2019.

Thus, both the settlement agreement and the commitments of PSNH provide a reasonable transition period for addressing questions of capacity shortage, which are regional issues. Ensuring adequate capacity and addressing questions about the role of coal as a form of "insurance" against gas supply constraints are issues that the New England ISO has responsibility to address.

Moreover, there are more effective ways to address the use of the PSNH fossil units as a source of regional reliability insurance. Potential buyers of the fossil units have sufficient market expertise to identify the value that the units have for both regular operational and back up purposes. Second, the ISO has tools to ensure that the region has adequate capacity to address supply shortages. Thus, the value that the units have as capacity resources will be considered by buyers in the divestiture process, as well as by the ISO in adjusting capacity pricing as needed to ensure continued reliability. PSNH customers should not have to do what the regional power market, guided by ISO-NE, exists to accomplish. New Hampshire customers should not bear the cost of providing this added reliability to the entire region by continuing to pay PSNH to own and operate an expensive and aging generating fleet.

8. Universality of Customer Benefits under the Settlement Agreement

Q. Do all customers derive the same benefit should the settlement be approved?

A. In the short run, no. However, in the long run, the interests of all PSNH customers are similar, not different. In the short run, customers who have moved to competitive suppliers will bear a portion of stranded costs that now fall entirely on default service customers.

However, PSNH's increasingly unsustainable situation makes it unrealistic for even those customers who have switched from PSNH supply to reasonably expect to avoid the problem that now affects default customers. That problem lies in the unsustainability of rates for default service, the increasing risks related to the fossil plants, and the significant scrubber investment costs that now must be paid. Increasing migration away from default service increases the rates for those who remain, which encourages more migration, generating a cycle that has clearly unacceptable public consequences. The increasing diseconomy of the PSNH fossil fleet will accelerate that cycle.

Absent the Settlement Agreement, scrubber costs, including the currently growing deferral, will be recovered exclusively through default services rates, exacerbating the problem. Likely expansion of natural gas supply to the region in the next few years will, in the absence of divestiture, end even the very brief periods of relief that have come during gas price spikes by returning capacity prices to historically normal levels.

With a broad sharing of the burden of decisions like the investment in the Merrimack mercury scrubber and the Berlin Biomass plant power purchase agreement ("PPA") eventually unavoidable, it makes sense for all customers to find a way to reduce costs now, when circumstances are favorable. Very importantly, there is a strong alignment of public interests behind the settlement's basic provisions. A litigated solution threatens extended delay, during which the economic burden will increase under current circumstances. The loss of low interest rates, when the Federal Reserve finally moves on long stayed plans to increase rates, will eat into the advantage that securitization now will bring.

Q. Please expand on why taking action now to securitize stranded costs is so important.

The gap existing now between interest rates for top rated debt (such as securitization will produce) and the return on the generating assets built into PSNH energy service rates means that the $30 million direct payment by PSNH as part of the settlement ($25 million in deferred scrubber equity and $5 capitalization of a clean energy fund) would probably have to more than double after just a one-year delay to bring the same benefit from litigation that the settlement offers. A scrubber write-off that survives legal challenges will likely take even longer, requiring it to become much larger to match the benefits that the settlement's $30 million contribution from PSNH produces now, as the time to final judgment lengthens.

All the while, uncertainty about the direction, magnitude, and responsibility for the costs of PSNH's generation fleet will remain. Rather than a predictable solution with moderate consequences that fall over a defined period, New Hampshire residents and businesses will have to operate under a cloud of uncertainty about what breaking the current, unsustainable rate spiral will require. Certainly, large customers, such as the businesses that have left default service, would prefer to pay less. However, the same can be said of the small restaurant owner or the elderly couple living on a fixed income. But all types of customers benefit under the Settlement Agreement.

Even without the rate design provisions included to mitigate the impact on large customers, the settlement would benefit all PSNH customers when one considers the sacrifice that the rate spiral will eventually require of all customers if the opportunity presented by the settlement passes. The contribution required of large businesses brings them a benefit that we have heard expressed since the 1999 settlement and through the present one. Namely, the benefit is pricing predictability, which businesses value highly in planning for entry into, expansion of, or continuation of business in New Hampshire. Measured, short term increases in electricity costs for businesses are compensated for by eliminating the uncertainty that they would otherwise face regarding the timing, cost, and duration of the contribution that will be asked of them if we abandon a clear, reasonable, and moderate solution in favor of continuing under present circumstances.

Finally, by divesting the generation fleet, PSNH and its customers will avoid the risks of future environmental compliance issues, particularly those related to water and air emissions. There is a risk that the EPA will require a cooling system at Merrimack Station to reduce the impacts on the Merrimack River from thermal discharge. This would require a substantial capital outlay, potentially in excess of $100 million. Additionally, substantial risk of expenditures related to other environmental initiatives will remain. Finally, EPA rules for carbon dioxide emissions will be an increased burden on fossil units, particularly coal-fired assets like Merrimack and Schiller. Without divestiture, customers face the bill for all of those costs.

Q. In your opinion will PSNH ratepayers be better off if the Commission approves the Settlement Agreement and orders divestiture of PSNH's generation assets?

A. Yes. Even without the incorporation of different stranded cost rate elements for different rate classes, all customers would benefit if one takes a realistic view of where default rates are headed under current circumstances.

Q. Please summarize your opinions regarding divestiture and the Settlement Agreement.

A. We consider the Settlement Agreement a fair resolution of all open issues in both Docket Nos. DE 14-238 and DE 11-250. It will result in substantial long-term benefits for all PSNH customers, far in excess of any potential benefits that might result from an uncertain litigated outcome. We urge the Commission to approve the Settlement Agreement and facilitate an expeditious sale of the assets.

Key to successfully reducing PSNH's rates is capitalizing on the current low interest rates and relatively high capacity market prices. The divestiture and securitization processes should commence as soon as reasonably possible, and be managed to produce completion on the shortest reasonable schedule, as discussed further below.

9. __Providing for an Effective Divestiture Process__

Q. In the event that the Commission approves the Settlement Agreement, what steps could the Commission take to expedite the divestiture process in order to capitalize on favorable current market conditions?

A. In order to facilitate a well-planned and timely sale process to capture for customers the benefits discussed earlier in our testimony, the Commission should retain a sale manager as soon as possible so that firm will be completely up to speed upon the issuance of the Order on the Settlement. It is critical that the sale manager be engaged to balance the needs for both a timely divestiture, and maximizing asset values for customers. Retaining a sale manager need not wait for conclusion of this docket. Moving to retain a sale manager now on a conditional basis, in order to facilitate a prompt initiation of an auction in the event that the Commission approves the Settlement Agreement, should occur.

Q. Do you have a recommendation on how the Commission should oversee the auction process?

A. Yes. We recommend a process similar to that used to divest Seabrook Station:

- A sale manager retained by the Commission through a competitive solicitation process and managed by the Commission to conduct the sale process
- A separately docketed proceeding from the one considering the Settlement Agreement to oversee divestiture; this separate docket would consider the process for conducting the sale, with input from interested parties and the selected asset sale manager
- Assignment of the Commission's General Counsel to administer the process of selecting (and then managing the work of) the sale manager
- Retention of an independent consultant to work under the General Counsel's direction in both the selection and sale management processes
- Oversight of the sale manager by a small team headed by the General Counsel and keeping the Commission informed real time, while leaving significant discretion with the sale manager on the design of the sale process
- Treating the sale process, once begun, in a transaction context, rather than in a formal proceeding context.

Based on Mr. Antonuk's participation in the Seabrook Station sale process we conclude that the process worked very efficiently and successfully, producing proceeds well in excess of expectations. Key to this success was creation of a predictable and unbiased sale process that gave bidders confidence that their work would lead to a completed transaction in an expeditious timeframe. Similarly, use of a sale manager independent of the owner was important. The Commission should place the process in the hands of a sale manager overseen by a small Commission team under the Commission General Counsel, in order to ensure sufficient transparency and commitment to customer interests in the outcome.

Care should also be taken in tying the sale manager's hands too much in design of the sale process. The marketing, financial, transaction, and sale conduct experience of the firm selected for the Seabrook sale (J.P. Morgan Securities) was crucial to designing the details of the sale process and tailoring them to circumstances as they developed, producing the confidence needed to secure robust bidder participation, ensuring full availability of and access to critical information about the station, maintaining confidentiality and impartiality, assessing bid financial and other terms and conditions, assessing the offerings received, and reaching final agreement. Trying to design the sale process now risks foreclosing approaches and options about which we can expect the sale manager to have important insights. The issue of pre-sale environmental assessments provides an example. We understand the desire of non-settling staff to make recommendations on environmental assessment. The sale manager, as we propose, would act under the direction of a small team responsible to the Commission. That construct will best serve the need to execute a sale process that bidders consider efficient, timely, transparent, and likely to lead to an executable transaction. Promoting robust bidder engagement comprises a central element in maximizing sale proceeds that will reduce stranded costs.

Q. Please summarize the steps that you recommend the Commission take to structure, oversee, and approve divestiture.

A. With respect to sale structure, we recommend that the Commission open a separate docket to address the process in the very near future. That would leave the instant docket to the questions of whether to approve the Settlement Agreement. The separate docket should proceed expeditiously to consider sale structure with the input of interested parties, so as to have a sale process established in time to commence an auction promptly after conclusion of the instant docket, if the Settlement Agreement is approved. We also recommend that the Commission begin the process of selecting a sale manager. Selection early would permit the sale manager to provide input into any material sale process design issues that may arise.

During the course of a sale process, the very small team designated by the Commission to manage the work of the sale manger should keep the Commission informed real time of progress and any problems. The Commission would have the ability to respond formally to any issues or concerns that may arise, if necessary.

Finally, at the conclusion of the sale process, when the sale manager is prepared to make a substantive recommendation about sale after review of bids and negotiations with finalists, and when the assigned Commission team is comfortable with that recommendation, then an expedited process in the sale docket proceeding should commence to allow for the Commission to rule on that recommendation, following whatever stakeholder participation it deems appropriate.

CONCLUSION

Q. Does this conclude your testimony?

A. Yes, it does.