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October 17, 2016

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

Re: Public Service Company of New Hampshire d/b/a Eversource Energy
Auction of Electric Generation Facilities
Docket No. DE 16-817

Dear Director Howland:

Enclosed for filing in the above noted docket, pursuant to Puc 203.02, is an original and six copies of the recommendation of J.P. Morgan (JPM), the auction advisor to the Commission, concerning modifications to the auction design and process for the sale of the Eversource generation facilities. This document is intended to modify in certain respects the auction design and process outlined in JPM's filing in this docket on September 12, 2016. The modifications have been made to accommodate the participation of municipalities in the auction process.

These documents will also be transmitted electronically to you and to the service list in the above noted docket, pursuant to Puc 203.03 and 203.11. If you have any questions please do not hesitate to contact me at 271-6005.

Very truly yours,

A handwritten signature in black ink, appearing to read "F. Anne Ross".

F. Anne Ross, Esq.
General Counsel

Enclosure
cc: Service List

OCTOBER 17, 2016

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

NEW HAMPSHIRE PUBLIC UTILITIES COMMISSION

Amendment to the auction design & process filed September 12, 2016



J.P.Morgan

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1. Amendments to auction approach and design

A. Background

J.P. Morgan, along with Commission Staff, has reviewed in depth the comments filed on September 30 by the Town of Bristol, by the Town of New Hampton, and jointly by the City of Berlin and the Town of Gorham (collectively, the "Municipalities"). Additionally, J.P. Morgan and Commission Staff held telephonic meetings with representatives of the Municipalities on Thursday, October 6, 2016 and Thursday, October 13, 2016 to discuss the Municipalities' comments and answer any further questions that the Municipalities may have.

Based on the comments received (and aided by the follow-up conversations with the Municipalities), J.P. Morgan and Commission Staff have been able to get a clearer understanding of the specific concerns raised by the Municipalities with respect to the process, in particular, the Municipalities' ability to participate in the process as described in J.P. Morgan's filing dated September 12, 2016.

B. Modifications to the auction process

The 2015 PSNH Settlement Agreement approved by the Commission includes a secondary objective of "accommodat[ing] the participation of municipalities that host generation assets and to fairly allocate among individual assets the sale price of any assets that are sold as a group" to the extent that it is consistent with the primary objective of maximizing the realized value. J.P. Morgan recommends that the following modifications be made to the auction process in an effort to accommodate the Municipalities' requests. To be clear, the overall structure and design of the process is not being modified, but certain accommodations will be made consistent with the Settlement Agreement to permit the Municipalities to potentially participate more effectively in the auction. The next section of this document contains the modified timeline for the process.

(1) Timing of certain key process milestones

- J.P. Morgan plans to delay the start of the auction by approximately two months, which involves the following changes to the auction design:
 - RFQ process will begin in mid-to-late November
 - Confidentiality agreements will be distributed (mid-December) and negotiated (mid-December through early January) to parties that meet our selection criteria
 - Confidential Information Memorandum ("CIM") will be distributed in early-January
 - Preliminary, non-binding offers will be due in mid-to-late February
 - Final, binding bids will be due in early-to-mid May
- Other aspects of the process will be adjusted accordingly to comply with the timing of these key milestones

(2) Participation by the Municipalities

- J.P. Morgan will make changes to the auction process and timeline in order to facilitate participation by the Municipalities and accommodate needs that differ from the other potential bidders
 - Municipalities will be provided access to the portions of the virtual data room for their hosted generation assets in November 2016
 - This will provide Municipalities a substantial amount of time and information to evaluate the opportunity and obtain approvals as required
 - Municipalities will not be required to submit a preliminary, non-binding indication of interest to participate in the second round of the process and will be provided access to detailed due diligence information

- Municipalities may at their option submit a "Request for Information" to J.P. Morgan outlining the expected value of their respective hydroelectric generation station(s) ("Hydro(s)")
- J.P. Morgan can then provide feedback to the Municipalities as to whether such valuation is competitive with other bidders
- This would occur at the time other parties are submitting their preliminary, non-binding indications of interest
- Municipalities will be required to execute standard confidentiality agreements prior to receiving access to any confidential due diligence materials
- Municipalities that choose to participate will be required to submit a final proposal (with as little conditionality as practical) at the time other parties submit final, binding proposals
- Reports from market consultants and independent engineers will be made available upon completion (estimated November 2016)

(3) Allocation of purchase price

- J.P. Morgan will require participants in the process that choose to submit proposals for the acquisition of the Hydro(s) to allocate value to each of the Hydro(s) in the Portfolio
 - J.P. Morgan will make this a condition to moving forward in the process

J.P. Morgan will require that parties do so as part of their preliminary non-binding indications of interest as well as part of their final, binding proposals

C. Other comments from the Municipalities

The Municipalities included several other questions and / or proposals in their comments submitted to the Commission. Below are J.P. Morgan's responses / answers to such questions / comments:

- J.P. Morgan has not provided an indication of how winning proposals are picked among competing groupings of assets (Berlin / Gorham p.5)
 - J.P. Morgan's goal is to maximize transaction value while also ensuring that any party selected will be able to consummate a transaction. Parties will be selected on this basis.
- Bids on groups of assets must have allocation to specific assets (Berlin / Gorham / Bristol / New Hampton)
 - J.P. Morgan will require that parties allocate value to each Hydro to the extent they propose to acquire them
- Allow Municipalities to give an indication of value in the first round and learn whether their value is in the range of indicative bids (New Hampton / Bristol)
 - As discussed above, J.P. Morgan is proposing to modify the auction design to allow for this
- Need Confidentiality Agreement (Berlin / Gorham / Bristol / New Hampton)
 - All parties will be required to execute standard confidentiality agreements with Eversource prior to receiving any non-public, confidential information
- Need access to fully populated virtual data room and CIM by November 1, 2016 (Berlin / Gorham / Bristol / New Hampton)
 - As discussed previously, J.P. Morgan is proposing to modify the auction design to allow for access to the virtual data room for the three Hydros hosted in the four towns that have expressed their desire to bid on generating assets during November 2016
 - J.P. Morgan views the CIM as a fleet-wide document, and therefore will make it available to all qualified bidders in early-January, as described above
- Ascending clock auction is a fairer and more transparent process that will yield higher prices for assets (Berlin / Gorham)

- In J.P. Morgan's experience and judgment, an ascending clock auction is neither advisable nor standard as it will discourage participation by potential bidders and is unlikely to maximize value
- J.P. Morgan has never conducted an auction for assets like the Portfolio in this manner
- J.P. Morgan is not aware of any auction process involving assets like the Portfolio where the process was conducted in this manner
- Delay the auction process until close of TransCanada sale because that sale will lower interest in this sale (Berlin/Gorham)
 - J.P. Morgan declines to accommodate this suggestion based on its experience and judgment that neither process will interfere with the other, in particular, given the difference in size and scale of the respective asset portfolios being offered for sale
- Wait to start the first round until May 1, 2017 (Berlin / Gorham)
 - As discussed previously, J.P. Morgan recommends adjusting the timing of the auction to accommodate the Municipalities. Based on J.P. Morgan's experience and judgment postponing the auction start until May 2017 is unlikely to enhance the transaction value for the assets and introduces material risk to the auction process related to the potential market appetite for the assets
- Bifurcate sale so fossil assets sell on current schedule and Hydros are delayed (Berlin / Gorham)
 - J.P. Morgan declines to accommodate this suggestion based on its experience and judgment that this is unlikely to enhance the transaction value for the Portfolio
- Wait to start the second round until May 1, 2017 and allow the Municipalities to bid even without any action in the first round (Berlin / Gorham)
 - J.P. Morgan declines to accommodate a delay in the process in this manner based on its experience and judgment that it is unlikely to enhance the transaction value for the assets and introduces material risk to the auction process related to the potential market appetite for the assets
 - As discussed above, J.P. Morgan is proposing to modify the auction design to accommodate participation by Municipalities without providing a preliminary, non-binding indication of interest
- Set a reserve price for Hydro(s) at 2016 Municipalities' tax assessments (Berlin / Gorham)
 - The Settlement Agreement does not require setting a minimum price
 - J.P. Morgan would not recommend setting a reserve price as in its experience and judgment it could have a negative impact on maximizing value for the assets
- Allow Municipalities to participate in final negotiations (so-called "third round") (Berlin / Gorham)
 - J.P. Morgan will allow only those parties that have submitted the most compelling final, binding offers (judged based on value, financing package, certainty and contract terms)
 - Doing otherwise would have a negative impact on the process by creating uncertainty and confusion for the bidders, which is not conducive to maximizing transaction value
- If the Municipalities elect not to bid on their respective Hydro(s), allow the Municipalities to see the winning and losing bids so that they can participate in negotiation of allocation with winning bidders (New Hampton)
 - The Commission, Commission Staff and J.P. Morgan are aware of and take seriously the Municipalities' concerns regarding their tax bases, and will make every effort to ensure these concerns are addressed appropriately as part of the process
 - Confidentiality is of utmost importance in a process such as the one being conducted by J.P. Morgan and it is equally important to both the seller (Eversource) and potential bidders.

It would therefore be neither standard nor appropriate to allow the Municipalities access to the proposals nor to participate in negotiations with winning bidders

- Allow Municipalities to submit bids after the second round, based on other bidders' final, binding bids (proposed "third round" for Municipalities)
 - The process as structured provides the best opportunity to identify the potential bidder(s) willing to pay the highest price for the assets by narrowing the field of potential bidders, in the first round, to those ascribing the most value to the asset(s), and then, in the second round, to those who are willing to submit binding, fully financed offers for the asset(s). From this group of potential bidders that submit final proposals, the "winning" bidder will be selected based on offering the best value and other key terms for the asset(s)
 - To be clear, every party will have equal opportunity to win the asset(s) and no party will be given an advantage over others in their ability to do so
 - Throughout the process, particularly the amended process described herein, the Municipalities will have ample opportunity to evaluate the assets, participate in the process and ultimately submit final, binding proposals for their respective Hydro(s). Like all the other potential bidders, the Municipalities will be required to submit final, binding proposals that clearly demonstrate an ability to close any transaction and that are accompanied by the requisite level of financing. To the extent any potential bidder, including the Municipalities, is not able to demonstrate an ability to consummate a transaction (including financing any transaction proposed), it is unlikely that the potential bidder will be selected as the winning bidder, regardless of the value indicated in their proposal

J.P. MORGAN SECURITIES

Date: October 17, 2016

By:



Name: Paul Dabbar

Title: Managing Director

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Docket #: 16-817-1 Printed: October 17, 2016

FILING INSTRUCTIONS:

- a) Pursuant to N.H. Admin Rule Puc 203.02 (a), with the exception of Discovery, file 7 copies, as well as an electronic copy, of all documents including cover letter with:**
- DEBRA A HOWLAND
EXEC DIRECTOR
NHPUC
21 S. FRUIT ST, SUITE 10
CONCORD NH 03301-2429
- b) Serve an electronic copy with each person identified on the Commission's service list and with the Office of Consumer Advocate.**
- c) Serve a written copy on each person on the service list not able to receive electronic mail.**