

**STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION**

DE 16-817

EVERSOURCE ENERGY AUCTION OF GENERATION FACILITIES

Order Approving Removal of Mercury Boilers from Schiller Generation Station

ORDER NO. 25,956

October 21, 2016

In this order the Commission approves Eversource's removal of two mercury boilers and associated equipment located at Schiller generation station as recommended by the Commission's auction advisor, J.P. Morgan.

I. PROCEDURAL HISTORY

This docket was established to conduct the sale of the fossil and hydro electric generation facilities (Generation Facilities) owned by Eversource Energy (Public Service Company of New Hampshire) d/b/a Eversource Energy (Eversource) as ordered in Order No. 25,920 (July 1, 2016) (Auction Order). The Auction Order approved the 2015 Public Service Company of New Hampshire Restructuring and Rate Stabilization Agreement filed with the Commission on June 10, 2015, (2015 Settlement) as amended by the Partial Litigation Settlement filed on January 26, 2016 (Litigation Settlement). The Auction Order and the settlements approved in that Order require the sale of the Generation Facilities to be conducted by an auction advisor selected by the Commission.

Following a competitive request for proposals, the Commission selected J.P. Morgan as its auction advisor (JPM). The contract with JPM to conduct the sale of the Generation Assets was approved by the Governor and the Executive Council on September 7, 2016. On

September 12, 2016, JPM filed a description of the proposed auction process with the Commission. On October 18, 2016, JPM filed a modification to the proposed auction process to facilitate municipal participation in the auction. The proposed auction process, together with all other filings in this docket, except for any information for which confidential treatment has been requested of or granted by the Commission, are posted to the Commission's website at <http://www.puc.nh.gov/Regulatory/Docketbk/2016/16-817.html>.

The Commission issued an order of notice on September 7, 2016, and held a prehearing conference on September 19, as scheduled. The Office of Consumer Advocate (OCA) filed its notice of participation on September 13, 2016, and the following parties sought intervention: the Towns of Gorham, Bristol and New Hampton, the Cities of Berlin and Concord, the Sierra Club, the Conservation Law Foundation (CLF), the Office of Energy and Planning (OEP), and the International Brotherhood of Electrical Workers Local 1837 (IBEW).

All parties present at the prehearing conference questioned JPM about the proposed auction process. Following the hearing, during a technical session, parties had further opportunity for questions and discussions with JPM. Commission Staff (Staff) filed a letter on September 21 summarizing the parties' discussions at the technical session. The Commission granted all intervention requests by Secretarial Letter on September 22, 2016, and required JPM to respond to follow-up questions from parties. The Town of New Hampton submitted a question to JPM on September 21, and JPM responded on September 29. The parties filed written comments on September 30, 2016.

II. POSITIONS OF THE PARTIES

A. J.P. Morgan

In the report filed by Staff on September 12, 2016, JPM expressed its preliminary recommendation for removal of the mercury boiler at Schiller. Rather than paraphrase, we quote in full from the recommendation:

J.P. Morgan understands that there are two retired mercury boilers located at the Schiller facility that are no longer in operation, but that may contain residual amounts of mercury. The Commission has asked J.P. Morgan to provide its view on whether it is in the best interest of the auction process to undertake a removal of the mercury boilers and all associated equipment in advance of or in conjunction with the auction process. Based on the information it has available to it to date, J.P. Morgan's preliminary recommendation is to undertake removal of the mercury boilers and all associated equipment in conjunction with the process such that the removal can be either complete or substantially complete at the expected time of closing any transaction(s) at the conclusion of the auction process.

The basis for J.P. Morgan's preliminary recommendation is as follows:

Based on its experience, J.P. Morgan believes that potential bidders, many of whom will not be familiar with this legacy technology, will view the presence of the mercury boilers very negatively and believes that the impact of this negative view would likely impact the auction process in one of two ways: (1) potential bidders will refrain from bidding on the Schiller facility, or (2) potential bidders will heavily discount the value they ascribe to the Schiller facility.

- Under (1), this could mean that at least part of the Portfolio would not be sold.
- With respect to (2), based on J.P. Morgan's experience, J.P. Morgan views it as highly likely that the value discount potential bidders would apply to the Schiller facility if no removal is undertaken is materially higher than the cost associated with removing the mercury boilers at this time. J.P. Morgan understands that Eversource's preliminary estimate of the cost to be in the range of \$20 million to \$30 million, based on information collected as part of a competitive Request for Proposals (RFP) process to select a qualified vendor to potentially perform the work.

Based on its experience, J.P. Morgan believes that the form of transaction agreement, particularly those terms that relate to environmental liabilities, can be structured materially more favorably to Eversource and, ultimately, rate payers if

the removal is undertaken in conjunction with the auction process as opposed to the mercury boilers remaining at the Schiller facility.

Based on the information that has been provided to J.P. Morgan by the Commission and Eversource to date, J.P. Morgan understands that undertaking the removal in conjunction with undertaking the auction process will not impede the execution of the auction process. In particular, J.P. Morgan understands, based on conversations with the Commission and Eversource:

- Eversource has conducted a competitive RFP process for the removal project and received at least two responses from reputable parties that it views as viable alternatives for the removal
- Removal project will not interfere materially with the operations of the Schiller facility and that the Schiller facility will be able to operate in normal course during the removal project
- Eversource estimates the removal project would take approximately nine to twelve months, meaning it would likely conclude on a similar time frame to the conclusion of the auction process if undertaken in the near term.
- Removal project unlikely to interfere with parties ability to conduct due diligence on the Schiller facility and its operations

Exhibit 1 (JPM Recommendation) at 6. Mr. Neil Davids of JPM reiterated and elaborated on these conclusions regarding the Schiller boiler removal recommendation at the September 19, 2016, prehearing conference. *See* Tr. at 28-29; 36-42.

B. Staff

Staff sponsored the filing of the JPM Recommendation; furthermore, Staff joined in the following stipulation presented in a September 21, 2016, letter (Stipulation):

In accordance with [JPM]'s recommendation, Eversource is authorized to begin removal of the two mercury boilers and associated equipment located at Schiller Station pursuant to a contract with the contractor selected by Eversource following their bidding process, with Staff to oversee the contract process. Removal is estimated to cost \$20-\$30 Million and is projected to take 9-12 months to complete. Eversource shall provide monthly reports to Staff and shall notify Staff of any proposed increase in the contract costs prior to authorizing the contractor to incur additional costs. Staff will bring any substantial changed circumstances concerning the cost or progress of this removal to the Commission's and other parties' attention. All prudently incurred costs of the contract shall be considered stranded costs following the closing of the divestiture

auction, and recovered by Eversource as part of the Stranded Cost Recovery Charge.

C. Office of Energy and Planning

In its comments filed on September 30, 2016, OEP stated that although it was generally supportive of expending \$20 million up front to remove the Schiller mercury boilers, it was concerned that the costs might escalate above the \$20 million contract estimate.

Nevertheless, OEP supports the proposal set forth in Commission Staff's September 21, 2016 letter ... to authorize the remediation contract, as OEP believes that the proposal adequately protects ratepayers from these risks by requiring Eversource to provide monthly reports and to seek Commission review and approval prior to authorizing the contractor to incur additional costs above the contracted estimate. In this way, if unexpected issues arise the Commission will be timely informed and will be in a position to make an appropriate prudence determination.

OEP Comments at 2.

D. Bristol, New Hampton, Gorham, and Berlin

The Towns of Bristol, New Hampton, and Gorham as well as the City of Berlin took no position on the question of Schiller mercury boiler removal matters.

E. Conservation Law Foundation

CLF joined in support of the Schiller mercury boiler removal proposal.

F. Sierra Club

The Sierra Club opposed the Schiller mercury boiler removal in its comments filed on September 30, 2016 ("Sierra Club Comments"). Sierra Club argued that, in light of certain estimates of the market value of Schiller Station being far below the expected \$20-\$30 million cost of mercury boiler removal, it would not make economic sense to expend this level of monies for the removal effort. Sierra Club Comments at 4-7. Sierra Club also stated that "... it would be better to allow potential buyers of Schiller Station to carry that burden ..." and recommended

that Eversource disclose, to potential Phase I bidders, the bid prices received by Eversource in its investigation of Schiller mercury removal costs. *Id.*

G. Eversource

Eversource joined in the recommendation agreed to by Staff in the Stipulation for Schiller mercury removal matters, and also provided, through the testimony of Ms. Lynn Tillotson, some background information regarding the preparatory work for the Schiller removal site work. *See* Tr. at 51-56.

H. Office of Consumer Advocate

The OCA, did not file any written comments concerning the Schiller mercury boiler removal.

III. COMMISSION ANALYSIS

In the proceeding that led to this docket, the Commission deferred questions related to auction design to this proceeding, also finding it “prudent to defer questions related to the Schiller plant issues to the considered judgment of the Auction Advisor.” Order No. 25,920 at 69. Our Auction Advisor, JPM, as informed by their business expertise in the field of power plant sales and their knowledge of market conditions and practices, has recommended that the removal of these two mercury boilers and associated equipment begin immediately. This approach has also been endorsed by Staff, Eversource, CLF, and, conditionally, OEP.

We have reviewed the Sierra Club comments in which it recommends submitting Schiller station to bidders without first removing the two legacy mercury boilers. Sierra Club has not provided anything from an auction expert to support its position. We have no reason to believe that Sierra Club’s approach would be more likely to maximize the net proceeds of the auction than would the approach recommended by our Auction Advisor. We selected JPM to conduct

this sale of the Eversource generation assets based on JPM's response to a competitive request for proposals. Our selection was based in part on JPM's experience in successfully selling these types of electric generating assets over a period of many years. Accordingly, we rely on JPM's opinion that the Schiller facility will be more likely to sell at auction and that the Schiller facility value will be enhanced at auction by beginning the removal of the two legacy mercury boilers as soon as possible. We approve Eversource's commencement of the removal process, subject to the conditions and features delineated in the JPM Recommendation and in the Stipulation.

The 2015 Settlement listed, among its objectives, “[p]rotecting the economic interests of PSNH’s [Eversource’s] electricity customers, with a focus on customer savings across all customer classes and long-term rate stabilization,” and “[t]aking advantage of an historically low-cost financing environment ...” Hearing Exhibit A, Docket Nos. DE 11-250 and DE 14-238, at 2. In keeping with these objectives, the 2015 Settlement, as endorsed by the Legislature and approved by the Commission, defines recoverable Stranded Costs resulting from divestiture, and establishes a pathway for securitization of Stranded Costs through the issuance of Rate Reduction Bonds. The Rate Reduction Bonds are to be paid for through a Stranded Cost Recovery Charge assessed on all Eversource retail customers. Securitization of quantified Stranded Costs is expected to enable customer savings, through the mechanism of low-interest financing over time of the Stranded Cost balance. *See* Order No. 25,920 at 37-38, 42, and 67-69; 2015 Settlement at Section III.A and Section IX. The Parties to the Litigation Settlement also stipulated that securitization of Stranded Costs would result in savings for Eversource retail customers and is in the public interest, a finding adopted by the Legislature as well. *See* Order No. 25,920 at 45 and 65.

The immediate launching of the Schiller abatement effort offers several advantages within this framework. Eversource has intimate, operationally-developed knowledge of Schiller Station conditions that would enhance the efficiency of the remediation effort. Prompt remediation of the conditions at Schiller Station will tend to make the asset a more attractive acquisition target, and protect potential operational synergies among the Schiller, Newington, and Merrimack Station facilities. Furthermore, in all likelihood, based on the definition of Stranded Costs in the approved 2015 Settlement, the costs of the known mercury boiler condition at Schiller will be recoverable from Eversource ratepayers in some form, given Eversource's long-term ownership and operation of the plant.

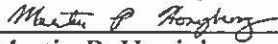
It is better to launch the Schiller remediation effort now, in advance of the auction process, rather than at some unknown future date due to a failed auction of the facility. The costs of removal will be quantified during the course of this docket, and will be timely included in the Rate Reduction Bonds, offering cost savings for Eversource customers through low-interest financing. Further savings could accrue from a more successful Total Transaction Value arising from successful sales of Schiller and the other plants with which it shares synergies.

We are also satisfied that the cost-review checks called for by the terms of the Stipulation will enable the Commission, Staff, and the other parties to monitor the effort for cost overruns and other potential issues. We will require that Eversource provide monthly updates on the cost and progress of the removal to Staff and we will require Staff to bring any substantial variances to our attention. We therefore find that undertaking the proposed removal of the two mercury boilers and related equipment from the Schiller generation station is prudent within the framework of the divestiture auction. We will monitor the manner in which Eversource conducts the removal to ensure that the removal is prudently managed.

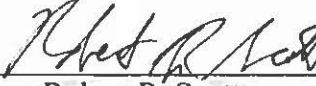
Based upon the foregoing, it is hereby

ORDERED, that Eversource begin the Schiller Station mercury boiler removal effort and conduct the removal in the manner delineated in the JPM Recommendation and the Stipulation.

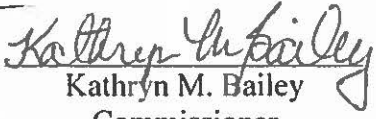
By order of the Public Utilities Commission of New Hampshire this this twenty-first day of October, 2016.



Martin P. Honigberg
Chairman

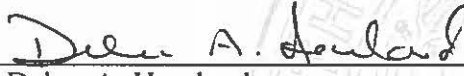


Robert R. Scott
Commissioner



Kathryn M. Bailey
Commissioner

Attested by:



Debra A. Howland
Executive Director

