

## STATE OF NEW HAMPSHIRE

## PUBLIC UTILITIES COMMISSION

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February 4, 2016 - 9:02 a.m.  
Concord, New Hampshire

DAY 3  
MORNING SESSION ONLY

RE: DE 14-238 PUBLIC SERVICE COMPANY OF  
NEW HAMPSHIRE: Determination regarding  
PSNH's Generation Assets.

DE 11-250 PUBLIC SERVICE COMPANY OF  
NEW HAMPSHIRE: Investigation of  
Scrubber Costs and Cost Recovery.

**PRESENT:** Commissioner Martin P. Honigberg, Presiding  
Commissioner Kathryn M. Bailey  
Special Commissioner Michael J. Iacopino  
Jody Carmody, Clerk

**APPEARANCES:** Reptg. Public Service Co. of New Hampshire:  
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Reptg. the City of Berlin and the Town of  
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Reptg. the Sierra Club:  
Zachary M. Fabish, Esq.

Reptg. Granite State Hydropower Assn.:  
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ORIGINAL

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                                      EMILIE G. O'NEIL**

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**P R O C E E D I N G**

CHAIRMAN HONIGBERG: Good morning, everyone. We're here to finish up the hearings in Docket DE 11-250 and DE 14-238. I know we have a few witnesses to hear from this morning, and I know we have some preliminary matters to deal with.

I'll start with the data request, which I think has been marked as "WW", which was a response to Commissioner Bailey's question the other day. We've reviewed that, and we're satisfied with that submission. So, unless somebody has anything to say about that, we're good.

I understand there's some confusion about closings. Some people said they wanted to do a written closing, rather than an oral closing. If you want to do that, that's fine, but you don't get to do both.

The legal memos that are going to come from Attorney Geiger and Attorney Bersak and Attorney Fossum, those are separate. Those aren't their closing. Those are legal memos on a very specific issue that is legal in nature.

Are there any questions about that? Is that unclear in some way?

*[No verbal response]*

1 CHAIRMAN HONIGBERG: Okay. Is there any  
2 other preliminaries, Attorney Amidon? Matthew -- I'm  
3 sorry, Mr. Fossum?

4 MR. FOSSUM: I do. Yes. Just one  
5 question about the written closings, if they're to be  
6 provided by when?

7 CHAIRMAN HONIGBERG: They're closings.

8 MR. FOSSUM: So, by the end of today  
9 then? Or, I just want to be sure.

10 CHAIRMAN HONIGBERG: If you want to  
11 submit it by the end -- if someone wants to submit one by  
12 the end of the day, that would be fine. We're not talking  
13 about treatises on the law of securitization or stranded  
14 costs or the history of any of these projects. We're  
15 talking about a closing, the way you would do a closing in  
16 a proceeding. Summarizing what the evidence showed, and  
17 making the requests that you feel would be appropriate for  
18 relief. Think "brief", as in "short", because there are a  
19 lot of you. And, we have a lot of record. And,  
20 obviously, if you need to sort through some references  
21 within the record, you can do that.

22 Any other questions about that?

23 *[No verbal response]*

24 CHAIRMAN HONIGBERG: All right. So, are

[WITNESS: Reed]

1 we ready to begin with Mr. Reed?

2 MS. AMIDON: Yes.

3 CHAIRMAN HONIGBERG: All right. I see  
4 he's already taken his place and can be sworn in.

5 (Whereupon **John J. Reed** was duly sworn  
6 by the Court Reporter.)

7 MR. BERSAK: Good morning, Mr. Reed.

8 WITNESS REED: Good morning.

9 **JOHN J. REED, SWORN**

10 **DIRECT EXAMINATION**

11 BY MR. BERSAK:

12 Q. Could you please tell everybody your name.

13 A. Good morning. My name is John J. Reed. I'm the  
14 Chairman and CEO of Concentric Energy Advisors.

15 Q. And, you have prefiled testimony in this proceeding,  
16 which has been marked as "Exhibit H". Do you have any  
17 corrections or updates to that testimony?

18 A. No corrections, no.

19 Q. Do you have any updates?

20 A. No. Not specifically.

21 Q. As part of your duties as an advisor to Public Service  
22 Company of New Hampshire, have you been helping the  
23 Company prepare its generation assets for the potential  
24 for an upcoming sale process?

[WITNESS: Reed]

1 A. Yes, I have.

2 Q. There have been some questions earlier in these  
3 hearings regarding what's going on at Schiller Station.  
4 Are you familiar with the Company's Schiller Station?

5 A. Yes, I am.

6 Q. Is there a situation at Schiller that you provided some  
7 advice to the Company about?

8 A. Yes, there is.

9 Q. Can you describe that?

10 A. Sure. The technology that was in place for Schiller  
11 Units 1 and 2 were a variety of boilers that are very,  
12 very unusual. In fact, there was only four in North  
13 America. And, they use mercury as the heat transfer  
14 fluid as opposed to water. These units were in  
15 operation from 1950 to 1968. They have been  
16 decommissioned and inactive since 1968. Although,  
17 components of the system remain on the site.

18 It is our belief, and PSNH's belief,  
19 that there is -- there are residual amounts of mercury  
20 within the pipe ends and other components that are  
21 still on site. There are also other issues at the site  
22 with regard to small amounts of asbestos, and  
23 potentially small amounts of other materials, like PCBs  
24 or even lead with the paint, that are all issues that a



[WITNESS: Reed]

1 bidder, in my opinion, would ask be taken care of  
2 before they take over the keys to the plant.

3 So, one of the issues that we've been  
4 asked to evaluate is whether it makes sense to  
5 basically begin with a remediation program at that site  
6 to take care of those issues before the auction. And,  
7 that involves the abatement, demolition, and disposal  
8 of those conditions and the related equipment.

9 Given the very unusual nature of this  
10 technology, and the very serious issue of mercury  
11 disposal, it is our recommendation that the site be  
12 addressed from that perspective of, again, abatement  
13 demolition, and disposal, before the auction moves too  
14 far down the path.

15 It would be my objective that, if I were  
16 running the process, to have these activities completed  
17 before the closure on the sale stemming from the  
18 divestiture auction. In fact, I believe most bidders,  
19 if not all, would insist on these issues being closed  
20 out and fully addressed and a clean environmental site  
21 assessment be issued before a closure were to occur, at  
22 least for the Schiller asset.

23 In terms of the wisdom of doing it now,  
24 I think of it in terms of "what happens if you don't do

[WITNESS: Reed]

1       that?" And, the opinion I've offered to the Company is  
2       either one of two things would happen, in my opinion,  
3       if you don't act now.

4               The first is, if a bidder is willing to  
5       put in a bid, it's going to incorporate a very  
6       substantial risk premium into its bid for the asset.  
7       That is a deduct. Even though we may think it's only a  
8       \$10 million or a \$20 million cleanup issue, they are  
9       going to build a very large cushion on top of that, if  
10      they have to take the liability away.

11             The second issue is, it may be viewed as  
12      serious enough that it's going to drive some, or  
13      perhaps even all, of the bidders to just not bid on  
14      Schiller. And, to the extent we offer the assets on an  
15      unbundled basis, then that could mean you don't have  
16      bids for Schiller. However, because of the degree of  
17      relationship or interrelationship between Schiller and  
18      Newington, and even Schiller and, to a lesser extent,  
19      Merrimack, you can't really operate effectively  
20      Newington without Schiller as well. There are ties  
21      there with regard to fuel supply, the use of the docks,  
22      and other elements, black start capability, where the  
23      two units really have to operate in tandem. So, if  
24      with risk a failed auction for Schiller, you risk a

[WITNESS: Reed]

1 failed auction for Newington, and, realistically, for  
2 all of the fossil assets.

3 So, my objective in providing the advice  
4 to the Company that it should be addressed now was,  
5 first, maximize Total Transaction Value. Don't put  
6 yourself in a position where you have to take a very  
7 large deduct because of the risk premium. Second, deal  
8 with it now while it's under your control. There's no  
9 issue of the new owner having made the condition worse.  
10 And, third, by dealing with it now, you eliminate the  
11 chance for it to come back to you under CERCLA  
12 liability. If you believe you have taken a deduct for  
13 a value, you transfer it, and it comes back to you, you  
14 effectively pay twice.

15 So, for all of those reasons, my  
16 recommendation has been to deal with this issue now, as  
17 quickly as possible. It's about a one-year process,  
18 from commencement to completion, and "completion" being  
19 defined as a "clean Environmental Site Assessment" that  
20 would be necessary to effectuate closure.

21 MR. BERSAK: Thank you, Mr. Reed. Mr.  
22 Chairman, Mr. Reed is willing and available to take  
23 questions from the Parties and the Commissioners.

24 CHAIRMAN HONIGBERG: Thank you, Mr.

[WITNESS: Reed]

1 Bersak. Who of the Parties has questions for Mr. Reed?

2 *[Show of hands.]*

3 MR. BERSAK: I see Mr. Aslin, I see Mr.  
4 Cunningham, I see Ms. Chamberlin, and Mr. Fabish. Anybody  
5 else?

6 *[No verbal response]*

7 CHAIRMAN HONIGBERG: All right. Mr.  
8 Aslin, you may proceed.

9 MR. ASLIN: Thank you, Mr. Chairman.  
10 Before I begin cross, I just want to make a clarifying  
11 statement, in terms of procedure, to the Commission. That  
12 the issue of remediation at the Schiller Station and  
13 auction design and all these questions about when to do  
14 things, is something that the Settling Parties agreed  
15 would be part of a separate docket subsequent to this one.  
16 It's part of what's listed in the Litigation Settlement.

17 So, I think it's premature for these  
18 issues to be developed right now before the Commission.  
19 It's not something that the Commission needs to decide in  
20 order to approve the Settlement Agreement. That's beyond  
21 the scope.

22 That said, I do have a couple of  
23 questions for Mr. Reed.

24 CHAIRMAN HONIGBERG: Okay. I guess,

[WITNESS: Reed]

1       then, if someone else is going to ask a bunch of questions  
2       that you think are off limits, you'll let me know?

3                       MR. ASLIN: I will.

4                       CHAIRMAN HONIGBERG: Okay.

5                       **CROSS-EXAMINATION**

6 BY MR. ASLIN:

7 Q.   Mr. Reed, I understand that you've been retained by the  
8       Company to provide advice to them on the potential  
9       auction process?

10 A.   That's correct.

11 Q.   But you have not been retained by Commission to give --  
12                       *[Court reporter interruption.]*

13 BY MR. ASLIN:

14 Q.   But you have not been retained by the Commission to  
15       provide advice as an auction advisor?

16 A.   That's also correct.

17 Q.   In your opinion as an experienced auction participant  
18       and advisor, is this the kind of design of an auction  
19       issue that would be appropriately decided by the  
20       Commission with advice of their own auction advisor  
21       expert?

22 A.   Yes. I think that's what the Stipulation calls for,  
23       and I think that's a reasonable resolution.

24 Q.   And, would it also be useful for the Commission to have

[WITNESS: Reed]

1 the advice of environmental experts or at least further  
2 environmental development of an environmental record?

3 A. I don't know that that's necessary. Obviously, that  
4 will be left to the Commission. There have been  
5 environmental experts brought in to look at the  
6 remediation and the cost of doing it here. In fact,  
7 it's gone out to several companies for a bid, and bids  
8 have been received and evaluated. So, I think there  
9 has been a lot of environmental expertise already  
10 entered into the process. I would leave it to the  
11 Commission as to whether they think they need more.

12 Q. And, are you aware of whether any of that environmental  
13 information is part of the record in this case  
14 currently?

15 A. I don't know everything that's in the record. Some of  
16 that is in the Environmental Site Assessment. But, my  
17 understanding, at least the bids that have been  
18 received and the processes for the remediation,  
19 dismantlement, and the disposal are not in the record.

20 MR. ASLIN: Thank you. I have no  
21 further questions.

22 CHAIRMAN HONIGBERG: Ms. Chamberlin, I  
23 think I'm going to have you go next, since you're also a  
24 Settling Party.

[WITNESS: Reed]

1 MS. CHAMBERLIN: Thank you. Good  
2 morning, Mr. Reed.

3 WITNESS REED: Good morning.

4 BY MS. CHAMBERLIN:

5 Q. You are aware that there are currently no remedial  
6 requirements of these plants to meet legal standards at  
7 this time, correct?

8 A. Yes. It's my understanding that there is no legal  
9 obligation to remediate these conditions at this time.

10 Q. And, is it your experience that it's difficult to know  
11 to what extent remediation exists, until you actually  
12 put a shovel in the ground and see what's in there?

13 A. Yes, I won't buy into "putting a shovel in the ground".  
14 But it's difficult to know the extent, quantity, and  
15 cost of these activities until they're actually  
16 undertaken. That's why I think it's best for the  
17 Company to do it.

18 Q. And, are you familiar with the La Capra PSNH Generation  
19 Asset and PPA Valuation Report? I expect it's an  
20 exhibit, but I don't know which one. It was issued  
21 March 31st, 2014?

22 A. I am generally familiar with that, yes.

23 CHAIRMAN HONIGBERG: I think that's  
24 "Exhibit V".

[WITNESS: Reed]

1 MS. CHAMBERLIN: Thank you.

2 BY MS. CHAMBERLIN:

3 Q. I'd like you to read just one sentence, or the heading  
4 and then one sentence on Page 91 of Exhibit V.

5 A. I'm sorry. You'd like me to read this out loud into  
6 the record?

7 Q. Yes.

8 A. Which sentence?

9 Q. The heading and the first sentence.

10 A. Okay. The heading of Section 14.2 is "Schiller Station  
11 Reconciled Value". And, the first sentence reads "We  
12 build conclude that the fair market value as of  
13 December 31st, 2014 for Schiller Station is  
14 \$5 million."

15 Q. Thank you. I believe the testimony from yesterday was  
16 that the -- from Mr. Chung, was that the remediation  
17 estimates are between 20 and \$30 million. Were you  
18 hear for that testimony or do you accept that subject  
19 to check?

20 A. My recollection, from looking at it in writing, is,  
21 yes, the range was 20 to \$30 million, with the  
22 expectation that it would be at the lower end of that  
23 range.

24 Q. At this point, can you give a quantification of the



[WITNESS: Reed]

1 impact on the bid, in terms of, if we spend X amount of  
2 dollars on remediation, we can expect an increase in  
3 the bid price of X?

4 A. You're asking me to fill in the Xs in that?

5 Q. I am. Is it possible for you, today, to give that sort  
6 of numerical quantification of the benefit of entering  
7 into remediation prior to divestiture?

8 A. Yes. There's two or three elements of benefit. First  
9 is the economic gain, in terms of net proceeds or Total  
10 Transaction Value. And, the second is risk. With  
11 regard to economics, what you do, by spending the  
12 money, is eliminate the risk premium. And, if the  
13 information is out there in the bidding process that  
14 the expected range of cost to undertaken the  
15 remediation is 20 to \$30 million, I would expect  
16 bidders, if they are required to accept that liability  
17 unremediated, to put a substantial risk premium on it,  
18 at least \$10 million. Therefore, by undertaking it  
19 now, controlling the cost, managing the cost, you  
20 eliminate, from the Total Transaction Value, a  
21 deduction of that risk premium of about \$10 million.

22 Some bidders may be willing to take it  
23 on with less, some may take it on with much more. But  
24 it is clearly something where the bid premium is put on

[WITNESS: Reed]

1       their valuation of that liability that they're required  
2       to accept, and, by doing it, you take it away. So, in  
3       terms of net economic impact on the Total Transaction  
4       Value, my guess would be it improves TTV by about  
5       \$10 million.

6                   In addition, as I said, it eliminates  
7       the risk of that coming back to you, and it eliminates  
8       the risk of it actually being worse, if, in fact, a new  
9       owner of the plant operates the plant in a way that  
10      makes that type of issue more expensive to remediate in  
11      the future.

12   Q.   And, how much is the Company willing to contribute to  
13       the cost of remediation?

14   A.   You should ask the Company that. But my understanding  
15       is, this is a cost that's proposed to be netted out  
16       against the proceeds and dealt with through  
17       securitization.

18   Q.   You are here on behalf of the Company, representing the  
19       Company, correct?

20   A.   I'm here as an independent expert. I can't speak for  
21       the Company as to what they're willing to do.

22   Q.   Has anyone given you a number that the Company, like,  
23       "we'll contribute \$10 million to the remediation", has  
24       that been discussed with you?

[WITNESS: Reed]

1 A. No.

2 MS. CHAMBERLIN: Thank you. That's all  
3 I have.

4 CHAIRMAN HONIGBERG: Mr. Fabish.

5 MR. SPEIDEL: Mr. Chairman, I do have  
6 one quick follow-up question, if that's all right? It  
7 just popped into my mind.

8 CHAIRMAN HONIGBERG: I mean, normally,  
9 we would circle back to you after Mr. Cunningham. Do you  
10 want to --

11 MR. SPEIDEL: That's fine. Go ahead.

12 CHAIRMAN HONIGBERG: Okay.

13 MR. SPEIDEL: Thank you.

14 CHAIRMAN HONIGBERG: All right. Mr.  
15 Fabish.

16 MR. FABISH: So, thank you. I just want  
17 to clarify a couple of things that you just said.

18 BY MR. FABISH:

19 Q. So, the cost of the remediation for the mercury, the  
20 PCBs, and asbestos, a bunch of numbers were quoted. Is  
21 it -- what again was the range?

22 A. Twenty (20) to \$30 million is the expected range.

23 Q. Expected range. Is \$30 million a hard cap?

24 A. No, there isn't a hard cap. And, the bidders were not

[WITNESS: Reed]

1 willing to put a hard cap on their bids, because there  
2 is no hard cap on the quantities of material that will  
3 have to be remediated. We can't say specifically "Here  
4 is the number of kilograms of mercury that will need to  
5 be remediated", because we haven't opened up the pipes,  
6 we don't know what's there.

7 So, their bids are fixed from a  
8 quantity -- or, I'm sorry, a unit cost perspective, X  
9 dollars per kilogram of disposal, but not fixed from a  
10 total dollar perspective.

11 MR. FABISH: Okay. Thank you.

12 CHAIRMAN HONIGBERG: Mr. Cunningham.

13 MR. CUNNINGHAM: Thank you, Mr.

14 Chairman.

15 BY MR. CUNNINGHAM:

16 Q. Mr. Reed, are you familiar with the Settlement deal in  
17 this case?

18 A. Yes.

19 Q. And, you've read that, have you not?

20 A. I have.

21 Q. In fact, I think you referred to it frequently in your  
22 testimony?

23 A. In the prefiled, yes.

24 Q. And, are you aware, from the language of that

[WITNESS: Reed]

1 Settlement Agreement, that all these unknown costs for  
2 remediation and environmental cleanup, decommissioning,  
3 retirement, all those costs are going to be assigned to  
4 the ratepayers?

5 A. It's my understanding that they are costs that are  
6 recoverable. So, yes, from ratepayers.

7 Q. And, so, if the ratepayers have to pay all those costs,  
8 whatever those costs may ultimately be, it poses no  
9 risk to PSNH, is that correct?

10 A. That may be going too far. I think it always has an  
11 obligation to act prudently and to prudently manage the  
12 process. So, I still see there as being an opportunity  
13 for the Commission to look at the final costs and the  
14 activities that led to those costs, and determine  
15 whether they were all prudently incurred. But, apart  
16 from that, I think the costs are appropriately  
17 recoverable from customers.

18 Q. And, help us understand how this process works, in  
19 terms of due diligence. You would expect, would you  
20 not, that any potential buyers would conduct due  
21 diligence?

22 A. Yes.

23 Q. And, tell us, explain to us what they would be looking  
24 for.

[WITNESS: Reed]

1 A. Sure. It begins by them either hiring or having on  
2 their staff environmental experts, and reviewing the  
3 documentation that's provided in the document room and  
4 through the Q&A process. That would include all of the  
5 ASTM --

6 *[Court reporter interruption.]*

7 **CONTINUED BY THE WITNESS:**

8 A. All of the ASTM Phase I Environmental Site Assessments,  
9 those would be posted in the document room. Those list  
10 certain environmental conditions that are enumerated at  
11 each site. They would then undertake -- the bidders  
12 would then undertake their own review of those  
13 conditions. They would want to talk to the site  
14 auditors. And, they may want to seek some further  
15 discovery or some further due diligence with regard to  
16 what are called "Phase II" audits at the site. I've  
17 seen some bidders actually ask for permission to go out  
18 and bore holes. Hopefully, that won't happen here.  
19 It's especially the case that you don't need to go into  
20 detailed Phase II assessments, if the seller is  
21 retaining or addressing environmental liabilities  
22 pre-transfer, pre-closing.

23 But that's true on all issues, whether  
24 it's site issues, whether it's toxins, whether it's air

[WITNESS: Reed]

1 permits, water permits, PCBs, everything that goes on  
2 with the power plant are issues that the bidders are  
3 going to want to review.

4 And, as I've said, to the extent they  
5 don't understand the risk or to the extent they are  
6 concerned that they could be taking on something  
7 greater than a known quantity, then they build a risk  
8 premium on top of that.

9 BY MR. CUNNINGHAM:

10 Q. So, it's entirely expected that sophisticated buyers  
11 would want to do their own environmental assessments?

12 A. Typically, they don't do their own assessments. They  
13 may ask the Company's contractors to take on a  
14 supplemental task. But, typically, they do not. If,  
15 by "site assessments", if you mean "ASTM", you know,  
16 "fully defined scope site assessments"? Typically,  
17 not.

18 Q. And, it happens, though, does it not?

19 A. It does.

20 Q. If they look at the Phase I Environmental Assessments  
21 and they see clues, they're going to want to pursue  
22 that, for example?

23 A. To the extent it hasn't already been pursued by the  
24 company, yes.

[WITNESS: Reed]

1 Q. And, for example, aside from the issues with respect to  
2 Schiller, there are some suggestions, are there not, in  
3 the Phase I Environmental Assessment that Merrimack  
4 Station has some difficulties?

5 A. Can you be more specific? I don't recall difficulties  
6 being in there.

7 Q. Well, the effluent that comes from the plant, for  
8 example, are they going to want to look at that?

9 A. They will need to understand the permits for the  
10 effluent discharge, yes.

11 Q. And, you mentioned, for example, with respect to  
12 Schiller, you mentioned "PCBs". Are you aware of the  
13 fact that the Piscataqua River is impaired from PCBs?

14 A. No, I'm not specifically.

15 Q. So, due diligence would likely uncover, would it not,  
16 for this buyer to have experts take a look at DES  
17 records on what impairments may exist in the river  
18 there?

19 A. To the extent they consider them to be relevant to the  
20 plant, yes.

21 Q. Well, where are PCBs found?

22 A. In many pieces of equipment. Certainly, some -- a lot  
23 of electrical equipment, the transformers and  
24 generators.



[WITNESS: Reed]

1 Q. I think you and I can agree that transformers are a  
2 great source of PCBs?

3 A. They are a common source, yes.

4 Q. A common source of PCBs. And, once this due  
5 diligence -- once a buyer conducts its due diligence,  
6 they're going to want to be -- they're going to be  
7 interested in PCB contamination, are they not?

8 A. It's always an issue that they look at.

9 Q. Yes. Particularly, if those PCBs are in the Piscataqua  
10 River?

11 A. Yes. I expect they will look at this issue.

12 Q. And, what kind of a -- what kind of a bid premium would  
13 you suspect that the buyer may want to impose because  
14 of the PCB issue?

15 A. Did you mean "risk premium" in that, when you said "bid  
16 premium"? I just want to make sure.

17 Q. Yes. I think -- I'm trying to use your terminology.  
18 "Risk premium"?

19 A. Yes. That depends largely on how well the  
20 environmental issue is understood and documented, and,  
21 as well, how the terms of sale allocate environmental  
22 liabilities pre-closing and post-closing is an issue.  
23 They will look at it. They will want to understand it.  
24 And, to the extent that there's a risk there, they will

[WITNESS: Reed]

1 have to quantify that risk and put some type of value  
2 on it.

3 Q. Are they going to use the PSNH or Eversource  
4 quantification for this risk evaluation or are they  
5 going to want to do their own quantification of these  
6 potential issues?

7 A. In my experience, bidders begin with the documentation  
8 produced by the seller, by the Company, and then  
9 determine, in some cases, whether they need to go  
10 further.

11 Q. And, when -- when will all these numbers be determined  
12 during the due diligence process? What is the timing  
13 of that?

14 A. They continue to evolve over the course of the bid  
15 process. If the bid process is five months, six  
16 months, in that range, then they all come to closure  
17 when the final indicative -- I'm sorry, final binding  
18 bids are submitted to the Commission or to the Company.

19 Q. And, as this process continues, you talked about the  
20 document room that contains a number of things. Beyond  
21 the environmental assessments, what would this  
22 so-called "document room" contain?

23 A. The short answer is "thousands of things."

24 Q. Like what?

[WITNESS: Reed]

1 A. I can give you a list of what's in there right now,  
2 actually, if you would like?

3 Q. I very much would like to know what's in there.

4 A. We have been spending time populating the document room  
5 with technical documents, human resource documents.  
6 So, for example, ALTA surveys and real estate  
7 assessments, in terms of the metes and bounds on  
8 property taxes.

9 Q. That's just title questions, is it not?

10 A. Those are all title questions, but they also have to do  
11 with the subdivision of the property, because there are  
12 subdivisions that need to occur. There is a list of  
13 all of the contracts, permits, and licenses held by the  
14 plant. There are hundreds of photographs, both aerial  
15 and ground photographs, and equipment photographs.  
16 There are environmental ASTM Phase I Assessments.  
17 There are all of the different chapters of the Offering  
18 Memorandum. There are documents with regard to  
19 workforce issues, commitments, resumés of people,  
20 employment history, pension and OPEB issues, vacation  
21 and sick time quantification. There are lists of  
22 equipment and mobile assets that will be included in  
23 the transaction. There are the draft transaction  
24 documents. We have site tour protocols, summary of the

[WITNESS: Reed]

1 terms of sale, outlook for the market, in terms of  
2 capacity and energy. We have financials for the  
3 assets.

4 CHAIRMAN HONIGBERG: Mr. Reed, hang on.  
5 Mr. Cunningham, do you want him to continue?

6 MR. CUNNINGHAM: I've got some specific  
7 questions about some of those items, Mr. Chairman.

8 BY MR. CUNNINGHAM:

9 Q. Let's talk about the financials. Have you looked at  
10 the financials yourself?

11 A. Yes.

12 Q. And, are the financials, in your judgment, done in  
13 accordance with the Generally Accepted Accounting  
14 Principles?

15 A. I'm not an auditor. So, I can't provide a GAAP  
16 certification for them. But they are reasonable and  
17 typical of the type of plant-level asset -- plant-level  
18 financials that we see in divestiture processes.

19 Q. And, would you expect a buyer to analyze and take a  
20 look at those financials?

21 A. Yes.

22 Q. And, they would do that independently as well, would  
23 they not?

24 A. Yes.

[WITNESS: Reed]

1 Q. And, what risk may be uncovered as independent auditors  
2 examine the books and records of these generation  
3 facilities?

4 A. I don't think there's much risk from an audit, an  
5 accounting audit. There are, obviously, risks of  
6 owning the assets. But I don't think that one of the  
7 principal risks that we see coming out of auction  
8 processes is an accounting audit risk.

9 Q. And, is there a list of the -- I think you said there  
10 was a list of the permits?

11 A. Yes.

12 Q. And, would a potential buyer examine those permits for  
13 adequacy, completeness, and timeliness?

14 A. Yes.

15 Q. And, what risks would lie with respect to the existing  
16 permits?

17 A. To the extent that there are renewal requirements or to  
18 the extent that there are risks attendant to change of  
19 laws. Certainly, for example, Clean Power Plan or  
20 water discharge regulations that are changing represent  
21 a risk that will be ongoing after the sale occurs.

22 Q. And, what about the cooling tower, environmental risk  
23 with respect to the cooling tower?

24 A. With regard to -- is your question with regard to the

[WITNESS: Reed]

1 need to build the cooling towers?

2 Q. Yes.

3 A. That is conceivably a risk. I haven't done a specific  
4 risk assessment for these plants as to whether that is  
5 likely to occur. But it's conceivable.

6 Q. And, is there information about that risk in this  
7 buyers due diligence room?

8 A. Yes. There is a discussion, in fact, we were just  
9 drafting it a short while ago, of once-through cooling  
10 requirements, and the potential for changes to  
11 once-through cooling at the plants. That's in the  
12 Offering Memorandum, and additional details will be in  
13 the document room.

14 Q. And, certainly, the buyers will assess those risks as  
15 well, those permitting risks, will they not?

16 A. Yes. Yes.

17 Q. For example, as I recall, Mr. Irwin offered into  
18 evidence two days ago a pending lawsuit in Federal  
19 Court here that has to do with air permitting. Are you  
20 familiar with that?

21 A. I'm sorry, I wasn't here.

22 Q. The lawsuit?

23 A. No. I'm not familiar with the lawsuit.

24 Q. And, would the pendency of that lawsuit be in the

[WITNESS: Reed]

1 buyers due diligence file?

2 A. If it's something they considered to be material, they  
3 would look at it.

4 Q. And, that's a public record, is it not? So, that's  
5 going to be discovered, if a buyer is confident,  
6 sophisticated, and does proper due diligence, that's  
7 going to be uncovered, is it not?

8 A. In fact, are you talking about the Sierra Club  
9 litigation? Is that the case?

10 Q. No. I'm talking about the Conservation Law Foundation.

11 A. The Conservation Law Foundation. I believe, in fact,  
12 that's disclosed in our document room.

13 Q. It is disclosed?

14 A. I believe so.

15 Q. Is an assessment of the risk of that lawsuit in the  
16 document file?

17 A. No. We'll let bidders do their own evaluation of it.

18 Q. You mentioned a federal Clean -- you mentioned the  
19 federal act known as "CERCLA"?

20 A. Yes.

21 Q. And, could you briefly explain what "CERCLA" is, and  
22 what potential risk that federal enactment entails  
23 here?

24 A. Again, I'm not a lawyer. But my businessman's

[WITNESS: Reed]

1 understanding of it is it deals with environmental  
2 liabilities and the comprehensive nature of them with  
3 regard to how those liabilities can come back to prior  
4 owners of the property.

5 Q. And, it entails risk, does it not?

6 A. Yes.

7 Q. Are you familiar with the environmental program known  
8 as "RCRA"?

9 A. I may have been at one time. But, no, I can't speak to  
10 that.

11 Q. And, if I told you that RCRA allows for citizen suits  
12 to challenge the adequacy of permits and whether or not  
13 waters are impaired, would you disagree with me?

14 A. I have no basis for answering that I agree or disagree.

15 Q. So, with respect to CERCLA, is there a CERCLA  
16 disclosure in the due diligence file?

17 A. No. Typically, there isn't a CERCLA disclosure. There  
18 is a CERCLA risk to the seller. But there is no  
19 disclosure here.

20 Q. And, is there a RCRA disclosure, in terms of potential  
21 contamination of the Piscataqua River, in the due  
22 diligence file?

23 A. I'd have to check the 2,000 documents, sir, in the  
24 document room. I can't answer that from memory.



[WITNESS: Reed]

1 Q. One of the other mentioned -- documents you mentioned  
2 in your inventory of documents in the room was the  
3 "contract". Is that the purchase and sale contract?

4 A. There are many contracts. But the proposed asset sale  
5 agreement or purchase and sale agreement will be in  
6 there, yes.

7 Q. And, have you looked at that?

8 A. It's still under development. We're developing term  
9 sheets currently for it. So, there isn't a draft yet  
10 to be reviewed.

11 Q. I think you mentioned in your testimony that there will  
12 be representations, affirmative representations in the  
13 purchase and sale agreement?

14 A. I don't think I said that, but that is correct.

15 Q. And, could you explain what those are and what that  
16 would entail in this transaction?

17 A. Again, without offering a legal opinion, there is a  
18 "Representations and Warranties" section in the typical  
19 asset sale agreement, that includes representations by  
20 the seller, also by the buyer, with regard to  
21 everything from the fact that they're duly constituted  
22 as a corporation doing business in the State of New  
23 Hampshire, to other representations with regard to  
24 books and records of the company, and whatever else the

[WITNESS: Reed]

1 two parties negotiate.

2 Q. What specific affirmative representations would you  
3 expect Eversource to make in this transaction?

4 A. It's a long list, and it hasn't been decided yet. It  
5 hasn't even been really discussed yet. So, I can't  
6 answer that at this time.

7 Q. Well, that will certainly become important as the deal  
8 -- if an interested buyer shows up, will it not?

9 A. Yes. Certainly. The negotiation of the reps and  
10 warranties is a part of the process that sometimes  
11 takes a long time.

12 Q. And, it not only takes a long -- it takes a long time,  
13 because, to make a positive or affirmative  
14 representation in a purchase and sale agreement, the  
15 seller has to understand its risk and the potential for  
16 exposure, does it not?

17 A. Yes, it should.

18 Q. And, to your knowledge, that hasn't been done?

19 A. Since the reps and warranties have not been decided  
20 upon, certainly, there is no internal due diligence or  
21 bring-down process that's been attempted. You can't do  
22 that until you decide first what the reps and  
23 warranties are going to be.

24 Q. Yes. So, we can't, as a matter of this docket, know

[WITNESS: Reed]

1       what the potential costs of those affirmative  
2       representations would be, can we?

3   A.   No.  I think all you can do is say for certain the  
4       objective is to maximize Total Transaction Value.  That  
5       includes the costs associated with any reps and  
6       warranties.

7   Q.   And, typical purchase and sale agreements of a major  
8       business like this also have disclaimers, do they not?

9               MR. ASLIN:  Mr. Chairman, if I could  
10       interpose an objection.  I think we've kind of gone far  
11       afield from the question that's before the Commission  
12       about the Settlement Agreement and divestiture, and have  
13       moved into questions about an auction process and actual  
14       sale of, you know, the legal documents that are going to  
15       be used in the sale of the assets, if this Commission so  
16       orders.

17              And, I would suggest that we've gone  
18       beyond the scope of what's before the Commission.  And, we  
19       could perhaps be more efficiently using our time.

20              CHAIRMAN HONIGBERG:  Mr. Cunningham.

21              MR. CUNNINGHAM:  I totally disagree, Mr.  
22       Chairman.  Because the purchase -- the Settlement  
23       Agreement here lays the burden for all these potential  
24       costs and risks on the ratepayers.  So, that is very

[WITNESS: Reed]

1 clearly and very critically a part of the Commission's  
2 responsibility to decide whether this document is in the  
3 public interest.

4 CHAIRMAN HONIGBERG: You may proceed,  
5 Mr. Cunningham.

6 MR. CUNNINGHAM: Thank you.

7 BY MR. CUNNINGHAM:

8 Q. So, Mr. Reed, explain to us what a "disclaimer" in a  
9 purchase and sale agreement is?

10 A. It's, essentially, an act to limit the liability of the  
11 buyer or the seller, and to say "there is a lack of  
12 legal responsibility for some aspect of an enumerated  
13 term."

14 Q. And, has that been discussed, in terms of the  
15 development of the purchase and sale agreement?

16 A. Only in the very vaguest terms. We start with asset  
17 sale agreements or purchase and sale agreements from  
18 other transactions. We have a library of those. Those  
19 are made available to counsel. We then basically say  
20 "what are the best provisions that we think come out of  
21 those deals that we want to incorporate into it?" At  
22 this point, all we've done is basically tee up the  
23 language from many other transactions and what those  
24 terms look like.

[WITNESS: Reed]

1 Q. In other words, Eversource, if it chose, could disclaim  
2 any responsibility for environmental difficulties at  
3 Merrimack Station?

4 A. Yes. Technically, that's not a disclaimer under the  
5 terms of the agreement. But it could seek to transfer  
6 all of the pre-closing environmental liabilities at the  
7 site to the buyer.

8 Q. And, would they likely to be doing that in this  
9 situation?

10 A. To be determined. I think the answer is, again, you're  
11 going to depend at least partially on what happens with  
12 regard to remediation pre-sale.

13 MR. CUNNINGHAM: And, I just have a few  
14 more questions, Mr. Chairman.

15 BY MR. CUNNINGHAM:

16 Q. Back to the document room, this is a more mundane  
17 question, but these generating plants, particularly the  
18 fossil plants, have huge amounts of very expensive  
19 equipment. They have boilers. They have equipment to  
20 feed the fuel. They have turbines. They have  
21 environmental controls, SCRs, baghouses. They have all  
22 this kind of equipment. What is in the document room,  
23 the due diligence document room, with regard to all the  
24 complicated and very expensive equipment in the

[WITNESS: Reed]

1 Eversource fossil units?

2 A. It ranges from equipment lists, which are essentially  
3 an asset manifest, down to operating manuals, literally  
4 owner's manuals, operating manuals, for the boilers,  
5 for the precipitators, for the different types of  
6 technical equipment.

7 Q. And, they have precipitators, they have scrubbers. In  
8 the document room, is there a detailed list of those  
9 items?

10 A. Yes.

11 Q. And, is there an affirmative -- will the Company be  
12 making an affirmative representation to the buyer that  
13 all these -- all this equipment is in good working  
14 order?

15 A. Again, that's to be determined under the reps and  
16 warranties. Typically, the deals do include a  
17 representation by the seller that the assets have been  
18 maintained in accordance with good utility practice.  
19 And, then, what that means is subject to  
20 interpretation.

21 Q. And, would that require a risk assessment or a risk  
22 premium from any potential buyers?

23 A. It requires an assessment. But, again, by virtue of  
24 the fact that it's a representation, it is something

[WITNESS: Reed]

1       you can rely on, at least for the limited term of that  
2       representation or warranty.

3   Q.   Well, suppose a representation is false. Who bears the  
4       burden?

5   A.   The party offering the representation bears the  
6       consequences of a representation being false, either in  
7       terms of pre-closing or post-closing, for the duration  
8       of the survival of those reps and warranties.

9   Q.   And, under this Settlement deal, who ends up paying the  
10       costs of honoring those representations?

11  A.   If there are any costs, I think they would be part of  
12       the Total Transaction Value, and be securitized as a  
13       cost coming back to all of the PSNH customers.

14  Q.   In other words, it would -- all these risks would be  
15       laid on the ratepayers?

16  A.   I think the risks are there now on the ratepayers, if  
17       there's a problem with a piece of equipment or  
18       whatever. If you're suggesting would the costs, to the  
19       extent they manifest themselves, be part of the net  
20       cost in the stranded costs that's securitized here?  
21       Yes, that's my understanding.

22  Q.   And, in your view, does the deal -- this so-called  
23       "Settlement deal" impose any risks for this  
24       multiplicity of risks on this company at all?

[WITNESS: Reed]

1 A. The "company" being PSNH, not the buyer, we're talking  
2 about?

3 Q. The company being -- the company being Eversource.

4 A. Yes.

5 Q. PSNH, yes.

6 A. I think it imposes the risk, as I said, of acting  
7 prudently. It has to, in my opinion, manage this  
8 process reasonably and prudently, and I expect the  
9 Commission to review that. Apart from that, I think  
10 the -- one of the major purposes of the Settlement is  
11 to de-risk the situation by having customers, for  
12 example, no longer bear all of the elements of  
13 generating performance risk and market risk that they  
14 bear today.

15 Q. But it doesn't deal with all these internal risks, does  
16 it?

17 A. We'd have to be clear in our understanding of what you  
18 mean by "these internal risks"?

19 Q. All these unknown risks, the unquantified risks.

20 A. As I've said, I think the risks are there today. We  
21 don't know if these risks are going to have any costs.  
22 We don't know that whether they continue in utility  
23 operation or whether they continue under merchant  
24 operation post-sale. But I think the risks are there



[WITNESS: Reed]

1 today.

2 Q. But we don't know the amount?

3 A. That's correct.

4 MR. CUNNINGHAM: Thank you, Mr.

5 Chairman.

6 CHAIRMAN HONIGBERG: Mr. Speidel.

7 MR. SPEIDEL: Thank you, Mr. Chairman.

8 BY MR. SPEIDEL:

9 Q. Mr. Reed, having reviewed your testimony, which has  
10 been marked as "Exhibit H" in this proceeding, I was  
11 struck by your great, lengthy experience in the sale  
12 and purchase of utility assets throughout the United  
13 States. Do you have a working familiarity with the  
14 terms of CERCLA, or, as it's known in full as the  
15 "Comprehensive Environmental Response Compensation and  
16 Liability Act" of 1980, and another common name for  
17 that act is the "Superfund Act"?

18 A. Again, I have a layman's understanding, from having  
19 been briefed on it by counsel in different  
20 transactions.

21 Q. So, on the basis of your layman's understanding, and  
22 subject to the proviso that you're not a CERCLA  
23 attorney expert, is it fair to say that CERCLA imposes  
24 a joint and several liability along the chain of title

[WITNESS: Reed]

1       for an industrial asset that is sold to purchasers for  
2       cleanup costs that may be imposed in the future?

3               MR. ASLIN: Mr. Chairman, I would object  
4       that this calls for a legal conclusion and is a non-legal  
5       expert on the stand.

6               MR. SPEIDEL: I asked for a legal -- not  
7       for a legal opinion, but rather a layman's understanding.  
8       This gentleman has decades of experience in this area.

9               CHAIRMAN HONIGBERG: He can answer.

10   **BY THE WITNESS:**

11   A.   That's generally consistent with my understanding.  
12       That it is a joint and several liability to prior  
13       owners, under some circumstances.

14   BY MR. SPEIDEL:

15   Q.   And, do you also understand that at times the United  
16       States government, under the Superfund Act or CERCLA  
17       Act, can actually independently bring assessments of  
18       liability for both past owners and current owners of  
19       distressed industrial assets?

20   A.   It's my understanding that it has, yes.

21   Q.   And, I think Mr. Cunningham also made a reference to  
22       what amount to *qui tam*, or citizen lawsuits on a  
23       related act brought against prior or present owners, or  
24       both, of industrial assets, where there has been

[WITNESS: Reed]

1 evidence of impairment or contamination, is that  
2 correct?

3 A. I think that was his statement with regard to RCRA,  
4 yes.

5 Q. So, there are essentially two channels of potential  
6 public law liability, one from the United States  
7 government, in the form of the Environmental Protection  
8 Agency, and the second from citizen lawsuits. Are  
9 there any private law liabilities that might arise  
10 under CERCLA that you are aware of?

11 A. I think I'd take that separately. There are private  
12 liabilities that might arise. I don't know that they  
13 arise under CERCLA.

14 Q. Well, for instance, if a prospective purchaser or an  
15 actual purchaser were to take title to an industrial  
16 asset with some environmental contamination, and the  
17 United States government or a citizen lawsuit were to  
18 result in a judgment against that purchaser, have you  
19 seen instances where that purchaser can bring suit  
20 against the seller for those environmental costs?

21 A. Yes. That has happened, for example, in nuclear  
22 plants, with regard to groundwater contamination from  
23 cesium or tritium.

24 Q. So, when you began your presentation on direct this

[WITNESS: Reed]

1 morning, and you were talking about the need to have  
2 these remediation plans potentially begun before sale,  
3 at the request or at the recommendation of the auction  
4 manager that's been contemplated in the Settlement  
5 Agreement, the reasoning behind that is you want to  
6 limit those sorts of private law liabilities due to  
7 cleanup costs, is that right?

8 A. I want to limit the cost of addressing the liability  
9 and risk period. That means controlling it, so that  
10 the Company, and, on behalf of the ratepayers, is  
11 keeping the cost to a minimum. And, ensuring that it  
12 doesn't come back to haunt the Company after it has  
13 transferred the assets, and which would result in  
14 effectively paying twice. Once through a deduct  
15 against proceeds, and then having to come back to  
16 actually perform the remediation.

17 Q. So, in order to ameliorate potential environmental  
18 liabilities, one approach is to have a pre-sale  
19 remediation. Is it true that, in your experience,  
20 you've also seen the tool of disclosure being used to  
21 try to limit environmental liabilities on the part of  
22 the seller?

23 A. Yes. I have seen many sales that involve disclosure,  
24 and a legal transfer of pre-closing an on-site

[WITNESS: Reed]

1 environmental liability, sometimes even off-site  
2 environmental liabilities, to the extent permissible by  
3 law.

4 Q. In your opinion, would the Phase I environmental audits  
5 of all the physical plants of PSNH, including Schiller,  
6 that were stipulated to in July by the Company, would  
7 they be such a useful tool of disclosure to potential  
8 purchasers?

9 A. Yes. They are the standard beginning point for  
10 disclosure on environmental conditions.

11 Q. Do you have a layman's working understanding, based on  
12 your experience in this area, of some of the EPA  
13 regulations regarding what constitute "safe harbor"  
14 under CERCLA?

15 A. No. That goes beyond my understanding.

16 MR. SPEIDEL: Very well, sir. Thank you  
17 very much for your time. No further questions, Mr.  
18 Chairman.

19 CHAIRMAN HONIGBERG: Mr. Aalto, this is  
20 going to be the last time I'm going to allow you to do  
21 this. I asked before if anybody had questions for the  
22 witness. We're not in a legislative hearing where people  
23 get to hang back and wait to go last. Does everybody  
24 understand that?

[WITNESS: Reed]

1                               *[Non-verbal responses given.]*

2                               CHAIRMAN HONIGBERG: Thank you.

3                               Mr. Aalto, you may proceed.

4                               MR. AALTO: My apologies. The question  
5                               came out of the discussion that was going on.

6                               CHAIRMAN HONIGBERG: Fine, Mr. Aalto.  
7                               You may proceed.

8                               MR. AALTO: Two questions.

9                               BY MR. AALTO:

10                              Q. Have you had occasion to deal with an auction where the  
11                               seller has an obligation to some other entity for  
12                               perhaps a power sale that transfers with the sale?

13                              A. Yes.

14                              Q. So, the buyer picks up an obligation with the sale?

15                              A. Yes. Typically, there's an assignment of contracts,  
16                               whether it's a power sales agreement or a fuel contract  
17                               or a transportation contract.

18                              MR. AALTO: Thank you.

19                              CHAIRMAN HONIGBERG: Commissioner  
20                              Bailey.

21                              COMMISSIONER BAILEY: Good morning.

22                              WITNESS REED: Good morning.

23                              BY COMMISSIONER BAILEY:

24                              Q. Can you tell me how the environmental problem at

[WITNESS: Reed]

1 Schiller was discovered?

2 A. First of all, the assets were decommissioned partially  
3 in 1968, when the operation was ceased. In preparation  
4 for the original plans for divesting all of the  
5 generating assets in 1998-99, roughly, the Company  
6 undertook ASTM Phase I Site Assessments for all of its  
7 plants at that time. At that time, there were some  
8 environmental findings with regard to Schiller and  
9 mercury, as well as asbestos and potentially PCBs. So,  
10 certainly, at that time, there was an understanding  
11 that this was an issue if you were going to try and  
12 sell the plant.

13 So, I would say, certainly, from, what  
14 is that now, 17-18 years ago, that was understood to be  
15 the case. It wasn't, again, a liability that required  
16 immediate remediation. There was no cleanup obligation  
17 with regard to any exposure to toxins or other  
18 materials. But it was an issue that was raised in the  
19 ASTM Phase I at that time.

20 Subsequent to that, there have been, in  
21 the ordinary course of business, some cleanup  
22 activities at the plant, and some disposal of mercury  
23 that have occurred as part of ongoing, sort of,  
24 maintenance at the plant. So, it's actually been

[WITNESS: Reed]

1 ameliorated since '99, since the first assessment was  
2 done.

3 But it's something that, when we saw the  
4 ASTM Phase I from the last time, we said "Let's watch  
5 this closely with regard to what comes out of this  
6 round of site assessments, and then let's make a  
7 determination of the best way to handle it."

8 Q. So, was there another Phase I Assessment done of  
9 Schiller for this proceeding?

10 A. Yes. There was one for the prior divestiture plan,  
11 which was the late '90s, and another one just done in  
12 2015.

13 Q. And, that one also exposed the environmental risk  
14 associated with Schiller and the mercury?

15 A. Yes. There is an environmental condition listed there,  
16 two of them that mention mercury. There's, you know, a  
17 number of conclusions from the report, but two, as I  
18 recall, mentioned mercury.

19 Q. Okay. What happens in the Phase II Assessment?

20 A. Phase II is where you actually take a more invasive  
21 approach. You can actually bore holes in the ground,  
22 you can do sampling and testing of soil or waters or  
23 materials. And, there you're trying to actually  
24 ascertain what's there, not just -- Phase I, I should



[WITNESS: Reed]

1 say, is largely a document-based review; Phase II is a  
2 physical site assessment.

3 Q. And, when does that typically happen?

4 A. It may not happen at all, depending on the findings in  
5 the Phase I. If there are no material environmental  
6 conditions in the Phase I report, you don't do a Phase  
7 II. You do a Phase II, if there is a significant risk  
8 with regard to a need to quantify or better understand  
9 what's there.

10 Q. And, based on the Phase I Assessments, which assets  
11 need a Phase II Assessment?

12 A. I would have to go back and check the records on the  
13 Phase Is to answer that, I'm sorry.

14 Q. Does Schiller?

15 A. Schiller will, yes, if it hasn't already.

16 Q. What do mean "if it hasn't already"? They may have  
17 begun a Phase II?

18 A. Yes. I'm going to have to beg -- my memory does not  
19 serve me well with regard to how far that has gone at  
20 this point. I mean, we've done a lot of preparation.  
21 It was my understanding that this issue was not going  
22 to be addressed in this case, *per se*. It would be  
23 addressed at some point in the future.

24 But there's going to need to be, at the

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1 end of the day, a clean ASTM Phase I report. The buyer  
2 will determine whether that's a Phase I or a Phase II,  
3 because they will make it a closing condition.

4 Q. So, if, ultimately, the Company follows your  
5 recommendation, and spends the 20 to \$30 million  
6 necessary to clean up Schiller, will they repeat the  
7 Phase I assessment or will they have to perform a Phase  
8 II, to make sure that it's really all complete?

9 A. They will have to repeat either a I or a II, depending  
10 upon the closing condition insisted on by the buyer.  
11 The buyer will say "Pre-closing, you have to hand me  
12 the following documentation", and it will be up to the  
13 buyer to determine what they require.

14 Q. Do you happen to know if the 20 to \$30 million for the  
15 cost that's known for this cleanup was included in the  
16 estimated stranded costs that have been discussed in  
17 this proceeding?

18 A. Not to my knowledge. I think the estimated stranded  
19 costs were derived from the La Capra analysis largely.  
20 The La Capra analysis came up with a site value for  
21 Schiller of 5 million, but did not look at  
22 environmental liabilities. It looked at what I'll call  
23 "productive value" from the plant and the site. So,  
24 no, I don't believe, in those estimates that were filed

[WITNESS: Reed]

1 originally, that that was included.

2 Q. Do you know if La Capra was aware of the cleanup that  
3 would be necessary?

4 A. I don't know.

5 Q. Okay.

6 A. I don't recall seeing any mention of it in the report.  
7 But I don't know what they were aware of.

8 Q. Okay. Can you look at Page 38 of your testimony? And,  
9 it may be because some of the testimony was redacted.  
10 But, when I was reading this again recently, in Line 5,  
11 there's "OM". What is that?

12 A. That stands for "Offering Memorandum". It's  
13 essentially the document you distribute to bidders.

14 Q. And, on Line 8, it's "Once the EIL is sent to bidders".  
15 What's "EIL"?

16 A. "EIL" is an "Early Interest Letter". That's the first  
17 communication you have with bidders, sometimes --

18 *[Court reporter interruption.]*

19 **BY THE WITNESS:**

20 A. Yes. "EIL" is "Early Interest Letter". It is the  
21 first communication with bidders. Essentially,  
22 sometimes described as the "teaser letter".

23 **BY COMMISSIONER BAILEY:**

24 Q. And, is it -- I'm sorry. Is that a letter from the

[WITNESS: Reed]

1 bidder expressing their interest to the seller, or a  
2 letter from the seller to the bidder?

3 A. It's a letter from the seller or the seller's agent to  
4 potential bidders, saying "Here's what's being offered  
5 for sale. Please send an expression of interest and  
6 qualifications and a confidentiality agreement, if you  
7 want to proceed."

8 Q. And, that hasn't been issued yet, has it?

9 A. Correct.

10 Q. On Page 36, you talk about how important it is to have  
11 the Settlement Agreement approved in December, so that  
12 potential bidders can review the coal plants while  
13 they're operating, and that that's going to be a big  
14 problem, it seems like, if that can't happen. So, now,  
15 we're in February reviewing the Agreement, and it seems  
16 unlikely that they can get everything -- I mean, even  
17 if we issued an order approving it in two weeks, that  
18 only gives the Company a month to issue the EIL and get  
19 interested bidders. And, I assume -- well, do the  
20 bidders have to be qualified to have a tour?

21 A. They do. The qualification process is usually quite  
22 quick. We know the bidders, we know their financial  
23 capabilities, so that doesn't usually take much  
24 time. But, you're right. If it's going to be seeing

[WITNESS: Reed]

1 in operation in the winter months, time is of the  
2 essence. It may be that they have to be toured in the  
3 summer months, when they may or may not be operational.

4 Q. Do you think it's in any way possible to get -- to get  
5 enough done in time for bidders to tour the plant while  
6 it's operating, or have we already passed that  
7 threshold?

8 A. It's going to be a challenge for sure. I will say that  
9 a lot of preparatory work has been done. And, I think  
10 the auction process, once an auction agent is selected,  
11 can be begun almost immediately. But it's going to be  
12 a real challenge to get it to the point where you could  
13 tour the facilities before May.

14 Q. Okay. Oh. Would you have expected the Phase I  
15 Environmental Assessments to expose potential PCB  
16 contamination from the Merrimack River -- from the  
17 Piscataqua River from the Merrimack Station?

18 A. If the Merrimack Station was the cause of that, I would  
19 expect it to be listed as an environmental condition  
20 for the site, yes.

21 Q. So, was it an environmental condition?

22 A. Not to my recollection. But, again, I'd have to go  
23 back to the documents to verify that. There is a  
24 record of PCBs, but I don't recall it as being listed

[WITNESS: Reed]

1 as a "discharge issue into the Piscataqua".

2 Q. Do you have any idea what else might cause that?

3 A. No. I don't want to speculate.

4 Q. I mean, just based on your experience, what other  
5 kinds of, not -- if it wasn't the plant, what other  
6 kinds of equipment could produce that kind of  
7 contamination?

8 A. PCBs are in paint. They're in solvents. They're in  
9 many other substances, or they were, not anymore. So,  
10 you'd have to look at the whole range of industrial  
11 activity up and down the river.

12 Q. Okay. Thanks. I think we may have covered this, but I  
13 just want to make sure that it's fully -- that I fully  
14 understand it. On Page 6 of your testimony, you say  
15 "PSNH has appropriately begun preparing for the  
16 auction", but "the effort that's needed to effectively  
17 pull together all the materials...could take a  
18 significant amount of time." Can you tell me how much  
19 time and how far along in the process we are?

20 A. Since this was submitted in July, the Company and our  
21 team has worked diligently every month to move that  
22 forward. So, essentially, we have six, seven months of  
23 activity under the belt. And, what would have taken,  
24 you know, a long time to prepare, actually now is ready

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1 to go.

2 The remaining major tasks are to draft  
3 the proposed asset sale agreements, and work out some  
4 other defined terms. Those could actually be continued  
5 even after the auction process is formally launched.

6 I can say that if -- it's my  
7 understanding that the Commission would be going out  
8 with a solicitation for an auction advisor sometime in  
9 the near future. Once that auction advisor is onboard  
10 and ready to go, I can tell you the Company will be  
11 ready to proceed immediately. There will be no delay  
12 at that point.

13 Q. Okay. On Page 10 [Page 8?] you talk about "non-cash  
14 elements", at Line 10. And, my question is, when  
15 analyzing Total Transaction Value, how do you put a  
16 value on the non-cash elements?

17 A. It's subjective, which is why you need someone who's  
18 been through this process. A good example is, I have  
19 seen bidders say "If you're willing to take my markup  
20 of excused performance or my markup of closing  
21 conditions, I'll offer \$10 million more. If you aren't  
22 willing to take my markup on closing conditions, my  
23 offer is \$10 million less."

24 So, then, you have to look at their

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1 markup and say "What does that mean, in terms of risk?"  
2 "How likely is the bidder to have a situation where  
3 they don't have to close, because a condition has  
4 arisen, and is that worth \$10 million?"

5 So, it's, in many cases, a subjective  
6 assessment. It's one where you work with the seller,  
7 and their regulators and agents, and say "This is  
8 serious."

9 The most attractive-looking bid is  
10 worthless, if it's not going to actually lead to a  
11 closure. If the answer is, they can walk away without  
12 having any economic consequences because of a failure  
13 to achieve a closing condition, you've wasted your  
14 time.

15 So, I tend to take a pretty harsh view  
16 towards those kinds of conditions and deals. I don't  
17 want to get really close to the finish line and then  
18 have it yanked away.

19 So, it is subjective. It's also a  
20 matter of understanding the risk to the ratepayers, to  
21 the customers. And, you know, what happens if you end  
22 up having a failed auction and having to start over?  
23 You've missed a window of opportunity on  
24 securitization. So, you have to evaluate that.



[WITNESS: Reed]

1                   Whereas, you'd like to simply say "Here  
2           are my terms. Take them or leave them." Bidders are  
3           very creative, and they come back and say "Are you  
4           really going to walk away from \$20 million or \$10  
5           million or \$30 million, because you insist on these  
6           words in the contract?"

7   Q.   So, a good auction manager would be able to manage  
8           that?

9   A.   Yes.

10   Q.   Because that's what they're there for?

11   A.   Yes. They're there to understand the temperament of  
12           bidders, the risks of these types of transactions, and  
13           what's industry norms. One of the things that our firm  
14           is good at is being able to tell a bidder and tell our  
15           client, the seller, in this case, "This is the industry  
16           norm. Okay? I can show you eleven deals where this is  
17           the language that has been there in eleven deals. So,  
18           don't tell me you insist on having this change and that  
19           it's reasonable. If eleven others have been able to  
20           say "yes", you can say "yes"."

21                   We've even found situations where that  
22           bidder said "yes" in other deals. And, like, "Okay,  
23           you agreed with it here." "I'm sorry, we don't accept  
24           that."

[WITNESS: Reed]

1                   But, yes. An auction manager, that's  
2                   part of the job.

3   Q.   On Page 26, you talk a little bit about the timing, and  
4           if we had a Commission decision in December, that you  
5           would have expected binding bids in the second quarter.  
6           Do you -- what's your -- what do you predict now?

7   A.   From the commencement of the auction, which I define as  
8           "issuance of the EIL", when you're actually sending the  
9           first letter to potential bidders and asking them to  
10          submit a response, to signing an asset sale agreement,  
11          that's not closing, that's signing the agreement to  
12          come back to the Commission for approval, a really,  
13          really fast process is four months. A more typical  
14          process is five to six months. But that range defines  
15          that timeline, of basically four to six months, from  
16          issuance of the EIL to signing of the asset sale  
17          agreement.

18   Q.   And, how long will it take to get issuance of the EIL  
19          after Commission's decision?

20   A.   After the auction agent is appointed and the Commission  
21          has fully approved the process going forward, I think  
22          you could probably have an EIL out in a couple of days.

23   Q.   So, the oneness is on us?

24   A.   The what?

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1 Q. The oneness.

2 COMMISSIONER BAILEY: I think that's all  
3 I have. Thank you.

4 WITNESS REED: Okay.

5 CHAIRMAN HONIGBERG: Commissioner  
6 Iacopino.

7 SP. COMMISSIONER IACOPINO: Good  
8 morning, Mr. Reed.

9 WITNESS REED: Good morning.

10 BY SP. COMMISSIONER IACOPINO:

11 Q. The first thing I want to just make clear in my own  
12 mind is the costs of the Schiller remediation, which we  
13 have these estimates of "20 to \$30 million". And, that  
14 the Company has undertaken at least the Phase I, is  
15 obviously preparing to deal with this issue now, even  
16 before the sale of the asset. That is an environmental  
17 cost that is securitized under the Agreement, correct?

18 A. Yes. That's my understanding.

19 Q. Okay. Because the Non-Securitized Stranded Costs also  
20 include environmental -- environmental costs of an  
21 asset that does not sell. Are you aware of that?

22 A. No. I'll accept your characterization of it. I'm  
23 operating from memory here on that document.

24 SP. COMMISSIONER IACOPINO: And, for the

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1 Parties, I'm on Page 11 of the Agreement.

2 BY SP. COMMISSIONER IACOPINO:

3 Q. So, I guess my question is, if these assets don't all  
4 sell as one group, and let's say Schiller does not  
5 sell, does the cost of the remediation that's  
6 undertaken by the Company go into the Securitized  
7 Stranded Costs or the Non-Securitized Stranded Costs?

8 MR. BERSAK: Mr. Iacopino, that would be  
9 a good question for our Treasury panel, which will be up  
10 following Mr. Reed.

11 SP. COMMISSIONER IACOPINO: Okay.

12 BY SP. COMMISSIONER IACOPINO:

13 Q. But does Mr. Reed have any idea?

14 A. No. I'd have to go back, and the short answer is "I do  
15 not have a view on that at this time."

16 Q. Thank you. Do you have a copy of your testimony in  
17 front of you?

18 A. I do.

19 Q. Okay. I want to go through it with you. And, please  
20 bear with me. Some of this may be -- may sound like a  
21 newbie's questions, but I kind of am. You indicate, on  
22 Page 8 of your testimony, that "[every] divestiture is  
23 unique to its particular assets and circumstances".  
24 And, prior to our discussion regarding the Schiller

[WITNESS: Reed]

1 plant, which has become more unique as I've sat through  
2 this proceeding, the biggest unique asset here is the  
3 Merrimack Station, which is a existing coal plant,  
4 fairly old, with a very new pollution control device on  
5 it.

6 And, what I wanted to understand is if  
7 you have any particular idea about, from your  
8 experience or whether you've ever dealt with a unique  
9 asset like that in your prior experience in divesting  
10 utilities?

11 A. We've sold lots of coal plants, dozens and dozens.  
12 Some of which are practically brand new, some of which  
13 are very old. It's not unusual, for an asset that is  
14 an older coal plant, to have the vast majority of its  
15 book value actually in the environmental control  
16 systems, whether it's scrubbers or precipitators or  
17 SCRs. That's just the nature of depreciation and  
18 versus new costs.

19 So, you know, I don't see anything  
20 particularly unique in that aspect of Merrimack. You  
21 have a market here that has shifted so much that the  
22 traditional sort of baseload or even intermediate load  
23 nature of Merrimack doesn't exist anymore. It's  
24 essentially a cycling unit. But it does provide very

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1 valuable capacity to the marketplace, and non-gas  
2 capacity, which is becoming quite important as well.

3 So, the sources of value are different  
4 for this unit. It is heavily dependent on the capacity  
5 market. You don't derive a substantial amount of  
6 revenue from the energy market, or the ancillary  
7 service market. So, that's perhaps more unique than  
8 other regions and other plants. But I don't think the  
9 mix of invested capital in the base plant versus the  
10 pollution control systems is that different.

11 Q. So, there's nothing in particular, and I'm just going  
12 to summarize what I think I heard you say, there's  
13 nothing in particular about Merrimack Station that  
14 makes it unique to -- when you're in an auction  
15 situation?

16 A. Not from an asset perspective. From a market  
17 perspective, it's unusual to have a plant that large  
18 that is essentially deriving its value from capacity  
19 markets, rather than energy markets, but not from the  
20 asset perspective.

21 Q. You also indicate, on Page 8 of your testimony, that  
22 the goal of "establishing a competitive energy market  
23 is a reasonable objective and consistent with  
24 divestiture norms". And, I understand that you've been

[WITNESS: Reed]

1 involved in a number of forced divestitures, I guess,  
2 or deregulation divestitures. And, has that norm,  
3 particularly in your experience, played out in those  
4 cases where you've been involved?

5 A. Yes. If you look all through New England and New York,  
6 PJM, those markets were opened up at the same time  
7 divestitures were undertaken in the '97 to 2000  
8 timeframe. And, I would say that the creation of the  
9 competitive generation market has worked very well in  
10 all of those markets. We have competitive LMP-based  
11 markets today that I think are functioning well. We  
12 can all have different views as to whether they're  
13 incenting the right behavior and providing all the  
14 right economic signals.

15 But, in terms of promoting entry,  
16 creating competition, and having an efficient market,  
17 as I would describe it from an economist's perspective,  
18 yes, I think it's been successful.

19 Q. One of -- on Page 12, you point out that one of the  
20 requirements of the Agreement is that the "purchasers  
21 of Public Service's Generating Assets shall be required  
22 to keep the plants in service for a minimum of eighteen  
23 months". How do you accomplish that? How is it that  
24 there is -- that you can require the purchaser to

[WITNESS: Reed]

1 maintain operation for 18 months?

2 A. You have to require that they keep it in service, which  
3 means that they cannot seek a retirement decision from  
4 ISO-New England, and they cannot close the plant, in  
5 terms of, again, maintaining operability, basically,  
6 installed capacity. So, there are ISO-New England  
7 requirements as to what you can -- what you have to do  
8 in terms of achieving claimed -- capacity claimed  
9 capability.

10 So, I think the answer will probably be  
11 defining that in terms of the ISO's standards for  
12 operability. You can't require that they operate on  
13 any given hour, that's a function of their dispatch  
14 under ISO's energy market. But you can require that  
15 they not retire the unit, seek retirement, or -- and  
16 also insist that they maintain the claimed capability  
17 according to ISO standards.

18 Q. What's the remedy if there's a breach by the buyer?

19 A. That's going to be an issue to be addressed in the  
20 asset sale agreement. It can be unspoken, in which  
21 case it's damages. It's "go to court and seek  
22 damages". I'm not sure, at this point, whether the  
23 lawyers are going to recommend a more specific remedy,  
24 whether it's equitable or civil, in terms of, again,



[WITNESS: Reed]

1 seeking some form of compensation.

2 It's pretty difficult to imagine, you  
3 know, an equitable remedy here, where you basically  
4 have enforced performance, especially when it may only  
5 be for six months or whatever is left of the 18. But I  
6 will leave that to the lawyers to figure out what's the  
7 right remedy.

8 Q. You make mention of the capacity value of the fleet in  
9 your testimony at Page 14. And, I assume that you're  
10 doing that as part of your sort of assessment of what  
11 the likelihood of a successful auction is, is that  
12 correct?

13 A. Yes.

14 Q. And, I guess one question that came up as I was reading  
15 through your testimony is, is capacity value really the  
16 key for this fleet or is there some other value that is  
17 out there?

18 A. The three forms of value in the ISO marketplace are  
19 capacity, energy, and ancillary services. And, if you  
20 divide the fleet into two parts, fossil and hydro,  
21 hydro is primarily an energy-based revenue stream and  
22 renewable credits energy stream. The fossil, in terms  
23 of margin or profitability, it looks now, based on  
24 where capacity markets are, that the capacity markets

[WITNESS: Reed]

1 will be the driver of the profitability, at least for  
2 the near term. Newington --

3 Q. If I can interrupt you just for a second about the  
4 fossils, that's really what my question is about. Is  
5 you make reference in here that, if any of these plants  
6 withdraw from the capacity market, they will be subject  
7 to penalties. Is it typical, in the auction scenario,  
8 for that risk to be determined between the parties or  
9 is that something that's always going to go with the  
10 purchaser?

11 A. It's always going to go to the purchaser. They have  
12 the decision as to whether to retire and not meet the  
13 forward capacity requirement they have signed up for.  
14 So, I would not want the seller to retain that.

15 Q. Is part of the asset that's sold is actually the  
16 obligation to ISO as well?

17 A. Yes. There is always going to be an "assumed  
18 liability" section of the asset sale agreement. And,  
19 one of the assumed liabilities will be the contract  
20 with the ISO.

21 Q. So, if Public Service writes its sale contract  
22 correctly, then they never have to worry about any  
23 forward capacity market penalties being assessed to  
24 Public Service from this asset?

[WITNESS: Reed]

1 A. Yes. I would think so. Barring some really unforeseen  
2 circumstance, I think that is an obligation that's  
3 going to be on the buyer. And, while there are always  
4 market ramifications of an asset dropping out of the  
5 market or not being available, from a contractual  
6 perspective, I see that as going to the buyer.

7 Q. And, I'm just looking from penalties, that's --

8 A. (Witness nodding in the affirmative).

9 Q. Okay. You do make a reference, on Page 15 of your  
10 testimony, to the Generating Assets currently being a  
11 "backstop" to the default service of Public Service. I  
12 assume you're talking about it as a hedge, is that  
13 right?

14 A. Yes.

15 Q. The value of this asset as a hedge doesn't transfer to  
16 a buyer, because a buyer is likely not to be somebody  
17 who needs a hedge, correct?

18 A. No. That's not my view.

19 Q. Okay. Explain why.

20 A. If you look at buyers, they tend to be merchant  
21 operators, and they tend to look for ways in which they  
22 can, in fact, either through off-take agreements or  
23 through financial hedges, help lock in some level of  
24 profitability. It's not -- it may not have value in

[WITNESS: Reed]

1 terms of a reliability hedge. But, in terms of a hedge  
2 against another Polar Vortex kind of an event, where  
3 gas prices went from \$3 to \$30, having a non-gas asset,  
4 a coal asset or even an oil asset, can be a very good  
5 financial hedge against that kind of escalation in the  
6 market. Your costs don't escalate nearly to the extent  
7 that your competitors' costs do or to the extent the  
8 LMP does.

9 Q. Okay. We heard from another witness who discussed that  
10 the real focus of buyers may be "repowering", at least  
11 the fossil plants. And, do you see that as a potential  
12 use of these plants?

13 A. Yes. It's a use of the sites. And, it depends on the  
14 specific repowering opportunity, as to whether it  
15 involves this equipment or new equipment. But, given  
16 where natural gas is right now, vis-a-vis coal,  
17 vis-a-vis oil, I think repowering is something that  
18 every buyer is going to look at. It could even be  
19 adding supplemental generation, not just taking the  
20 existing footprint or the existing boilers and  
21 replacing them with gas-fired boilers, as opposed to  
22 something else. But repowering, and the opportunity  
23 for expanding the generation at the site, is a valuable  
24 portion of what's being sold.

[WITNESS: Reed]

1 Q. Is there a lot of repowering activity going on in the  
2 New England market at this point? I mean, this is the  
3 type of stuff that you advise on, right?

4 A. Yes. Within the New England market, not yet. Because  
5 everyone is waiting for the chips to fall where they  
6 may with regard to new gas pipelines. We need to know  
7 how much capacity is going to be available on the  
8 pipelines and where it's going to go. Is it the Kinder  
9 Morgan/Tennessee proposal? Is it Algonquin? Is it  
10 both? Is it a third option?

11 So, once we have greater foreseeability  
12 and transparency on location of supply and amount of  
13 supply, I think repowering activity will occur more in  
14 New England.

15 Q. You say that one of the major requirements to succeed  
16 at auction is to make sure that the -- that the terms  
17 of the Agreement, and, in this case, I mean the  
18 Settlement Agreement in the case, are clear. I think  
19 you mention that on Page 16. Where you say "The  
20 clarity offered by the Agreement significantly reduces  
21 regulatory risk and uncertainty", at lines 13 and 14?

22 A. Yes.

23 Q. Are there any ways in which this particular Settlement  
24 Agreement that we're to consider could be any clearer,

[WITNESS: Reed]

1 in terms of the things that are important to  
2 participants in the auction?

3 A. None that come to mind. It will be approved with a  
4 finding that "proceeding promptly with divestiture is  
5 in the public interest". I think that's really  
6 important. Where I see commissions say to their  
7 utilities "go ahead and test the market, and we'll see  
8 what comes out of it and talk about it later", that's  
9 not really a ringing endorsement for divestiture. And  
10 you do see bidders tend to approach the process by  
11 saying "we're skeptical that it's actually going to  
12 ever happen." I don't think that's the result here. I  
13 think the language is clear. I think it will enable  
14 the market to react quickly.

15 I mean, if I had any other advice to  
16 offer with regard to helping to ensure this process  
17 moves quickly and efficiently, it's having confidence  
18 that the approval process, once the deal is signed and  
19 comes back to the Commission for ultimate approval,  
20 isn't going to take forever to get Commission approval.

21 I have seen divestitures languish nine  
22 months, twelve months at a Commission waiting for  
23 approval. That's when they tend to fail. That's when  
24 somebody tends to blow it up, either on a "clock" basis

[WITNESS: Reed]

1 or on a "material adverse event" basis.

2 So, if it's possible to layout,  
3 basically, a timetable for approval of a deal after it  
4 comes back to the Commission, that I think could be  
5 helpful.

6 Q. Okay. Part of what some of the other witnesses had  
7 discussed that I've asked questions about is, are you  
8 familiar with the Amended Settlement Agreement?

9 A. Yes.

10 Q. And, essentially, as I read that, that makes the  
11 Commission, basically, responsible for the auction. Is  
12 that your understanding as well?

13 A. It's my understanding that the Commission is  
14 responsible for retaining the auction manager, and  
15 basically providing direction to that auction manager.  
16 Even under the structure that's in the Amended  
17 Settlement, this is the January 26th document, right?

18 Q. Yes.

19 A. Let me be clear, it's a cooperative process. You can't  
20 sell without the Company agreeing to the terms of sale  
21 and agreeing to sign the document. You can't sell  
22 without the Company providing a very large degree of  
23 support and due diligence, plant tours, Q&A process,  
24 all of that. And, of course, it also has to transfer

[WITNESS: Reed]

1 employees. So, it's a cooperative process no matter  
2 what.

3 But, yes. It is my understanding that  
4 the Agreement calls for the Commission to retain the  
5 auction manager and to provide direction to that  
6 manager.

7 Q. And, in your experience with the auctions that you've  
8 been involved in, is that the way that most states have  
9 divested or deregulated?

10 A. In my experience, that's not the way most states have  
11 done it.

12 Q. How have they done it?

13 A. Most states have the company retain the auction manager  
14 and financial advisor, and have the Commission  
15 involved. There are a few states, and I would not  
16 recommend this approach, there are a few states where  
17 the Commission Staff doesn't get involved until the  
18 deal is done.

19 But, at the other end of the spectrum,  
20 the collaborative approach, if you looked at the way  
21 New York has done all of its divestitures, and we've  
22 done five, I think, in New York, there they have the  
23 company retain the auction manager, which is fine, but  
24 they then embed staff with the auction divestiture



[WITNESS: Reed]

1 team.

2 So, while I was running the auction  
3 processes for Central Hudson and Niagara Mohawk and  
4 ConEd and so forth, I literally had two technical staff  
5 members and two legal staff members from the New York  
6 Commission standing right next to me. In every bidder  
7 meeting I conducted and every negotiating session I  
8 conducted and every plant tour we conducted, we had  
9 Commission staff personnel going along with us, and  
10 basically monitoring the process, watching the process.

11 So, while that's different from New  
12 Hampshire, in that it doesn't have the contractual  
13 relationship between the auction manager and the  
14 Commission, it's effectively the same. It is a  
15 cooperative approach. And, I can say, from my  
16 experience, that is the right way to do it.

17 Trying to have a process go forward and  
18 have the Commission staff come in at the very end with,  
19 I mean, I've had cases in Michigan where we had 500  
20 data requests from the Commission staff after the deal  
21 was done. It would have been so much simpler if they  
22 had been there with us all along the way, as opposed to  
23 trying to review the process entirely after the fact.

24 Q. How did that -- I'm interested in your New York

[WITNESS: Reed]

1 experience, first of all, with having the staff there,  
2 I assume that was helpful to you?

3 A. It was. We actually, in bidder meanings, I  
4 occasionally turned to the Assistant General Counsel of  
5 the Commission who was sitting next to me and say "what  
6 do you think of that?" And, I was able to get  
7 real-time feedback. We had a bidder, we were selling  
8 assets in that state, for example, with a PPA, so that  
9 the utility was buying the power back from the new  
10 buyer of the plant for three years, we had a bidder  
11 that said "We want to extend it four years. We don't  
12 want to stop at three, we want a four-year PPA." Now,  
13 that's different, it's something that's going to sort  
14 of slow down the transition to competition. I was  
15 actually able to turn to the head of staff and to the  
16 head of the Legal Division, and say "What do you think?  
17 Is that going to mess up the Commission's timeline for  
18 transitioning to competition? Is that going to mess up  
19 our approval process?" And, they said "go for it."

20 Q. And, what was the workflow, between the Commission  
21 staff in New York and their Commission, in terms of was  
22 there just a report prepared? In other words, the  
23 Commission ultimately approves some sale. What was the  
24 way that the Commission itself got its information?

[WITNESS: Reed]

1 Did they have a hearing or did they --

2 A. Yes. They had a hearing. They had, because there  
3 actually intervenors who were opposed to these sales,  
4 in some cases, I submitted testimony, the company, the  
5 seller, submitted testimony, and the Commission  
6 technical staff submitted testimony saying "We were  
7 there along the way. We can vouch for these things  
8 having occurred in a capable manner." And, then, the  
9 Commission made their ruling, after also hearing  
10 testimony from intervenors, who said, you know, "we  
11 don't like the labor effects or the property tax  
12 impacts, or the other issues associated with  
13 divestiture."

14 Q. You indicate that -- well, let me just back up. Have  
15 you ever been involved in an auction where the auction  
16 did not work, where it failed?

17 A. Yes.

18 Q. And, was it a -- I assume it was a regulated utility,  
19 and it was an asset that was regulated?

20 A. I've been involved in both regulated and non-regulated  
21 auctions that failed.

22 Q. Okay. And, did they have -- did they have provisions  
23 similar to our Settlement Agreement, as to what goes on  
24 in the event of a failed auction?

[WITNESS: Reed]

1 A. No, typically not. This is actually pretty -- very  
2 forward thinking, in terms of addressing that issue up  
3 front, with regard to either retirement or  
4 securitization. In other states where there's been a  
5 failed transaction, the utility just retained the  
6 assets, and it was addressed someplace two, five, ten  
7 years down the road. So, there was nothing  
8 predetermined with regard to what would happen upon a  
9 failed auction.

10 Q. So, do you find this Agreement to be more protective  
11 than what you've seen in other situations? And, when I  
12 say "protective", I mean, of, obviously, the ratepayer.

13 A. Yes. I think it's more beneficial to the ratepayer and  
14 more productive, because it does lay out the Plan B, if  
15 there is a failed auction. We aren't left holding the  
16 bag as to, "Okay, are they going to keep it? Is the  
17 company going to close it?"

18 There are still issues to be addressed  
19 in a possible subsequent auction under the terms of the  
20 Settlement. But I think it's just prescriptive and  
21 protective as it can be.

22 Q. Is a second attempt sort of an industry standard or  
23 not?

24 A. It depends entirely on the reason why the auction

[WITNESS: Reed]

1 process failed. I mean, Nevada is a good example.

2 2001, Nevada is in the process of approving the sale of  
3 all of Nevada Power's auctions. That's just when the  
4 California power market blew up, and all the Enron  
5 crisis occurred, and all of the allegations of fraud  
6 and market manipulation. And, Nevada was very much a  
7 part of that integrated market with California.

8 The Commission there just simply said  
9 "Stop. If this is what divestiture and deregulation  
10 looks like, we don't want to go there." Now, a year  
11 later they were like "okay, can we change our mind?"  
12 But there, it never did go back up for auction again.  
13 And, the Company held onto the assets. And, Nevada is  
14 right now sort of an island, where there's still a  
15 vertically regulated market.

16 So, different answers, there have been  
17 others, like New York, did have a failed auction,  
18 very -- I should say a "minimally successful auction"  
19 for the Nine Mile Nuclear Plant. We were brought in to  
20 see if we could make a better result. We re-auctioned  
21 the plant and got much, much more money, and that  
22 second auction did go forward, that sale did close.  
23 So, there, that was a case where the Commission just  
24 did not like the results of the first auction.

[WITNESS: Reed]

1 Q. You mention, at Page 19 of your testimony, that one of  
2 the advantages of going through this process is to  
3 "take advantage of the historically low financing" --  
4 "low-cost financing investment [environment?]." And,  
5 you also -- you had answered some questions for  
6 Commissioner Bailey about timing as well, since this  
7 was, obviously, submitted in July. Is there anything  
8 about the financing environment that's changed between  
9 submitting this testimony and today that impacts your  
10 opinion?

11 A. No. And, I would invite you to ask the same question  
12 of Mr. Lembo, from the financial side of the Eversource  
13 house. But, as I see the market, the market for  
14 securitization is still strong. While we've seen a  
15 little tiny bit of Fed tightening, there's not been any  
16 appreciable step-up in the long-term rates, I mean,  
17 five to fifteen, five to twenty years. So, it's still,  
18 in my view, a very variable time to move this forward  
19 and take the securitization bonds to market.

20 Q. And, in your business, I assume that, when the Fed  
21 starts tightening, you start getting calls from people,  
22 saying "should you do something"?

23 A. Sometimes. I mean, we get calls both ways, to be  
24 honest. The Fed tightening, obviously, has an

[WITNESS: Reed]

1 influence on debt markets. It increases bidders' cost  
2 of capital, it increases the opportunity cost of  
3 capital to sellers. So, I wouldn't say the transaction  
4 activity necessarily picks up in a tightening market.

5 Q. But, for ratepayers, it's best to have the low-interest  
6 rate situation?

7 A. For sure.

8 Q. Then, the other questions I had I think you already  
9 answered with respect to Commissioner Bailey's  
10 questions. So, I guess the only thing that I would  
11 like to get sort of in one answer, just so that it's  
12 organized in my own mind, timingwise, from the date  
13 that, if this Commission determines to approve this  
14 Settlement Agreement, can you give us what you believe  
15 the timeline should be from Commission order to  
16 closing, assuming successful auctions?

17 A. The only part of that I'm not certain on is the  
18 timeline necessary for the procurement process, for the  
19 selection and appointment of the auction manager. So,  
20 if that can be done in parallel with this Commission's  
21 deliberation and issuance of an order, I mean, if we  
22 can determine that that is not a gating item, the  
23 appointment of the auction manager, then, if an auction  
24 manager is in place and this Commission issues an

[WITNESS: Reed]

1 order, and I don't know if it has to run through a --  
2 either a rehearing or appeal process, hopefully not,  
3 the auction can begin almost immediately.

4 I mean, literally, the materials, the  
5 EIL, the Offering Memorandum, the confidentiality  
6 agreement, the database, the document room, the Q&A  
7 website, I expect will all be either operational or  
8 close to operational by that time.

9 So, my hope would be that the auction  
10 process could begin immediately. The auction manager  
11 will decide how quick you want that process to be,  
12 whether it's four months, five months, six months. My  
13 inclination is quicker is better, but it's in that  
14 timeframe.

15 Q. I don't know, my fellow Commissioners may already know  
16 the answer to this, but, if the Commission were  
17 required to put out an RFP to hire an auction manager,  
18 how much time would be consistent with the market to  
19 give people to respond to that?

20 A. Two or three weeks, not long. Those of us that do it,  
21 you know, we have our qualifications, we have our list  
22 of deals. So, a response time of two to three weeks  
23 isn't bad. But, presumably, there's going to be  
24 interviews. What I didn't understand is whether it has



[WITNESS: Reed]

1 to go to -- is it called "Governor and Council", is  
2 that the process in New Hampshire for approval?

3 Q. There is a Governor and Council. And, I don't know if  
4 it has to or not. But I'm sure somebody will tell the  
5 Commission whether that's a requirement or not. And,  
6 like I say, the other Commissioners may already know  
7 that. But I'm just curious, because I'm trying to get  
8 the timeline down in my head.

9 A. Okay.

10 Q. So, if there is a delay to hire the auction manager,  
11 you're still talking four to six months till a sale?

12 A. Four to six months till signing of an asset purchase  
13 agreement or asset sale agreement, and then back to  
14 this Commission for approval of that deal, or deals. I  
15 mean, realistically, we have to plan for there being  
16 multiple deals for different assets.

17 Q. And, then, from that to closing?

18 A. That's up to you. I don't know if the approval process  
19 would be -- I've seen it take three months, I've seen  
20 it take six or nine months.

21 Q. Let me change the question. From approval to closing?

22 A. Approval of the transaction to closing is usually a  
23 matter of days. Unless there's some other, like here,  
24 for example, if there's a condition of closing that you

[WITNESS: Reed]

1 have to deliver a new ASTM Environmental Assessment,  
2 that may be a gating item. But, if there's no other  
3 open items on the closing conditions list, I've seen  
4 deals close 72 hours after commission approval was  
5 granted.

6 MR. BERSAK: Commissioner Iacopino,  
7 since you have a interest in this timing issue, I would  
8 like to refer you to what's been marked as "Exhibit B",  
9 which is the Amendment to the Settlement Agreement,  
10 specifically down to the first full paragraph, which is  
11 on -- starts in the middle of Page 3. Under the process  
12 that the Settling Parties have agreed to as part of the  
13 Litigation Settlement process, these amendments indicate  
14 that "the structure and details of an auction process  
15 shall be established by the auction advisor...subject to  
16 additional expedited adjudicatory proceedings" before this  
17 Commission. So, the anticipation under this Amended  
18 Settlement is that there would be an auction agent  
19 engaged, as Mr. Reed testified to, then the Parties would  
20 get together with that auction agent, and, with any luck,  
21 there would be a consensus on these issues, and a  
22 recommendation to the Commission as to how to move  
23 forward.

24 However, if there is not such a

[WITNESS: Reed]

1 consensus, and any disputes, there would be another  
2 adjudicative process before this Commission to resolve  
3 those, and for the Commission to dictate the process going  
4 forward. So, that would have to be included in your  
5 timeline.

6 SP. COMMISSIONER IACOPINO: Thank you.  
7 I have no further questions.

8 CHAIRMAN HONIGBERG: I have no further  
9 questions for Mr. Reed.

10 Mr. Bersak, do you have any follow-up  
11 for your witness?

12 MR. BERSAK: Yes, please. Thank you.

13 **REDIRECT EXAMINATION**

14 BY MR. BERSAK:

15 Q. Mr. Reed, when you first started your presentation this  
16 morning, you talked about a symbiotic relationship  
17 between the Company's Schiller Station and Newington  
18 Station. Do you recall that?

19 A. I do.

20 Q. And, I believe you testified that, if Schiller Station  
21 was to fail to be divested for any reason, that the  
22 sale of Newington Station might also be imperiled, is  
23 that correct?

24 A. Yes.

[WITNESS: Reed]

1 Q. Attorney Chamberlin had you read a valuation for  
2 Schiller Station that was made by the La Capra  
3 consulting firm that was contained in Exhibit V. It's  
4 marked "2014 Report". Do you recall that?

5 A. Yes.

6 Q. But, since there's this symbiotic relationship between  
7 Newington and Schiller, would you agree that the proper  
8 number that should be looked at would be the total  
9 value for both Schiller and Newington Stations?

10 A. Yes, in terms of what we're striving to achieve. I  
11 would also urge the Commission that the cost of  
12 remediation and disposal and dismantlement of this  
13 equipment has to be incurred at some time, at some time  
14 that the plant is retired. So, we're not creating a  
15 cost here. This is a cost that's there, whether it's  
16 incurred now or ten years from now, when there's a  
17 retirement, or any other time. But, yes. I believe it  
18 has the potential to affect Newington and Schiller, and  
19 the aggregate value of that package of plants.

20 Q. What's been marked in this proceeding as "Exhibit X" is  
21 an updated La Capra analysis that was prepared in  
22 August of 2015. Are you aware that, in that updated  
23 analysis in Exhibit X, that La Capra had established an  
24 updated reconciled value for Newington Station of

[WITNESS: Reed]

1       \$130 million?

2   A.   I'd have to accept that subject to check. I don't have  
3       that document in front of me. I know of the study, and  
4       I know that there's an updated value.

5   Q.   You testified that the unique aspect of Schiller  
6       Station is that it had a mercury boiler system,  
7       correct?

8   A.   Yes.

9   Q.   And, that was one of four or five installations of that  
10       in the country?

11   A.   Four, yes.

12   Q.   And, the mercury was used as the heat transfer medium?

13   A.   Yes.

14   Q.   So, the mercury was purposefully put there in order to  
15       operate this plant using that mercury technology?

16   A.   Yes. It was an essential part of the technology.

17                   CHAIRMAN HONIGBERG: Mr. Bersak, how is  
18       this redirect?

19                   MR. BERSAK: How is it redirect? I  
20       think that Commissioner Bailey asked "when did the Company  
21       discover that there was mercury at Schiller?" We didn't  
22       discover it, we put it there. I mean, it was part of the  
23       operation of the plant. So, it wasn't a question of  
24       discovering things. This was part of the operation of the

[WITNESS: Reed]

1 plant, and we've known it's been there for a long time.  
2 It's just a question of "how do we deal with this as part  
3 of the sale process?"

4 CHAIRMAN HONIGBERG: All right. Is  
5 there more you have for him on this topic?

6 MR. BERSAK: I can, since I just  
7 testified sort of to that, I can move on.

8 CHAIRMAN HONIGBERG: I had a feeling  
9 that was going to be the answer.

10 BY MR. BERSAK:

11 Q. In the sale of Seabrook Station, do you recall whether  
12 this Commission engaged the auction agent?

13 A. Yes, it did. The process established in the Settlement  
14 here is directly analogous to what was used  
15 successfully in Seabrook.

16 MR. BERSAK: Thank you. I'm all done.  
17 Thank you.

18 CHAIRMAN HONIGBERG: All right. Thank  
19 you, Mr. Reed. I think you can return to your seat. Or,  
20 actually, why don't you stay, because we're about to take  
21 a break.

22 We're going to take a ten-minute break  
23 to eleven o'clock. When we return, I think we'll be  
24 picking up with Mr. Lembo and Ms. O'Neil, is that correct?

1 MS. AMIDON: Yes.

2 CHAIRMAN HONIGBERG: All right. We are  
3 adjourned.

4 (Recess taken at 10:49 a.m. and the  
5 hearing resumed at 11:07 a.m.)

6 CHAIRMAN HONIGBERG: It appears that  
7 Mr. Lembo and Ms. O'Neil are in place and are ready to be  
8 sworn in.

9 (Whereupon **Philip J. Lembo** and  
10 **Emilie G. O'Neil** were duly sworn by the  
11 Court Reporter.)

12 **PHILIP J. LEMBO, SWORN**

13 **EMILIE G. O'NEIL, SWORN**

14 **DIRECT EXAMINATION**

15 BY MR. BERSAK:

16 Q. Good morning, Mr. Lembo and Ms. O'Neil. I would like  
17 to start with Mr. Lembo. Can you please state your  
18 name for the record?

19 A. (Lembo) Philip Lembo.

20 Q. And, by whom are you employed?

21 A. (Lembo) Eversource Energy Services Company.

22 Q. What is your position with Eversource?

23 A. (Lembo) I'm the Treasurer.

24 Q. And, does that include being Treasurer for Public

[WITNESS PANEL: Lembo~O'Neil]

1 Service Company of New Hampshire?

2 A. (Lembo) Yes, it does.

3 Q. And, Ms. O'Neil, would you state your name please.

4 A. (O'Neil) My name is Emilie O'Neil.

5 Q. Turn the microphone on.

6 A. (O'Neil) Is that better?

7 Q. Oh, much better.

8 A. (O'Neil) Good. My name is Emilie O'Neil.

9 Q. And, by whom are you employed?

10 A. (O'Neil) Eversource Energy Service Company.

11 Q. And, what is your position with Eversource?

12 A. (O'Neil) I am Director of Corporate Finance and Cash  
13 Management.

14 Q. And, is it true that the two of you prepared prefilled  
15 direct testimony that was filed with the Commission  
16 back in July of last year, which has been marked as  
17 "Exhibit I"?

18 A. (Lembo) Yes.

19 A. (O'Neil) Yes.

20 Q. Do you have any corrections or updates to that  
21 testimony?

22 A. (Lembo) No.

23 A. (O'Neil) No.

24 Q. Earlier in this proceeding there were three questions



1 that came from Commissioners that we deferred until  
2 your arrival here. And, I think, just to make sure we  
3 don't forget about those, I would just ask those right  
4 now.

5 The first two came from Commissioner  
6 Bailey. And, one of her questions was "in the event of  
7 a failed auction for one or more of PSNH's generating  
8 assets, would the securitization financing have to wait  
9 until the failed auction issue was rectified?" Can you  
10 respond to that please?

11 A. (Lembo) Yes, I can respond to that. I'd say that, once  
12 the asset are divested, and there's a determination  
13 made of what the stranded costs are, then we can make a  
14 determination about proceeding forward with the  
15 securitization. So, once the divestiture occurs and  
16 the stranded costs are known, then you can move forward  
17 with the securitization.

18 Q. Commissioner Bailey also asked about a reference on  
19 Line 885 of the Settlement Agreement. And, her  
20 question was "why are any balances in the Reserve  
21 Subaccount returned to PSNH, once the Rate Reduction  
22 Bonds are paid off, instead of going to customers?"

23 A. (Lembo) Well, because the initial contribution into  
24 that account comes from the Company, such that, when

1       it's no longer needed, the funds will be returned to  
2       the Company.

3   Q.   And, finally, the third of the trio of questions came  
4       from Commissioner Iacopino. And, he referred to Line  
5       560 of the Settlement Agreement, which says that "The  
6       asset sales may require consent of certain lenders  
7       under PSNH's existing credit agreements." Can you  
8       explain what that means?

9   A.   (O'Neil) Sure. PSNH has mortgage indentures  
10       outstanding, and the generation plants are part of the  
11       assets that form the security for those mortgages.  
12       Once the generating plants are sold, the indenture  
13       requires certain calculations to be performed to ensure  
14       that the remaining PSNH assets are sufficient to  
15       provide security to the lenders. We fully expect that  
16       the remaining PSNH assets will provide an appropriate  
17       level of security. We would then complete certain  
18       documents in order to release the property out from the  
19       indenture.

20               SP. COMMISSIONER IACOPINO: May I just  
21       step in for a second, Mr. Chairman?

22               CHAIRMAN HONIGBERG: Go ahead,  
23       Commissioner Iacopino.

24               SP. COMMISSIONER IACOPINO: Thank you.

1 BY SP. COMMISSIONER IACOPINO:

2 Q. Are those indentures to other financial companies or  
3 are they with other companies within the Eversource  
4 family?

5 A. (O'Neil) The indenture I'm talking about right now is  
6 only applicable for PSNH. Other entities --

7 Q. Who's the lender? Is it another Eversource company or  
8 is it --

9 A. (O'Neil) It's outside lenders, bondholders.

10 SP. COMMISSIONER IACOPINO: Thank you.

11 WITNESS O'NEIL: You're welcome.

12 CHAIRMAN HONIGBERG: Mr. Bersak.

13 MR. BERSAK: Thank you. I have no  
14 further questions. And, the witnesses will entertain  
15 questions from the Parties and Commissioners.

16 CHAIRMAN HONIGBERG: All right. Who has  
17 questions for these witnesses?

18 *[Show of hands.]*

19 CHAIRMAN HONIGBERG: I see Mr. Aalto,  
20 Mr. Speidel. Anybody else?

21 *[No indication given.]*

22 CHAIRMAN HONIGBERG: All right.

23 Mr. Aalto, you may proceed.

24 **CROSS-EXAMINATION**

1 BY MR. AALTO:

2 Q. If the securitization instruments allowed for a  
3 prepayment, what would stop us from essentially  
4 securitizing the whole thing up front, and then  
5 subtracting from that later whatever values came out of  
6 sale or other resolution of the equipment or the  
7 facilities?

8 A. (Lembo) Well, the New Hampshire law stipulates that  
9 securitization doesn't occur until after the  
10 divestiture and stranded costs are determined. So, I'd  
11 say it would be that law that would prevent it.

12 MR. AALTO: Thank you.

13 CHAIRMAN HONIGBERG: Mr. Speidel.

14 MR. SPEIDEL: Thank you, Mr. Chairman.

15 BY MR. SPEIDEL:

16 Q. Ms. [Mr.] Lembo and Mr. [Ms.] O'Neil, just a quick  
17 question just for a clarification to benefit the  
18 Commission. Basically, the securitization vehicle  
19 through which the cash flow from the distribution rate  
20 or the Stranded Cost Recovery Charge rate will be  
21 flowed into the special purpose vehicle, is that  
22 correct?

23 A. (Lembo) Yes.

24 A. (O'Neil) Actually, if you can please repeat the

1 question?

2 Q. There's going to be the special purpose vehicle created  
3 for the issuance of the bonds of the debentures, is  
4 that correct?

5 A. (O'Neil) That is correct.

6 Q. And, there are going to be ratepayer monies flowing  
7 back into that special purpose vehicle, is that  
8 correct?

9 A. (O'Neil) Why don't we -- probably the best way to  
10 answer that is, let me just explain for the Commission,  
11 in terms of how securitization works.

12 Q. Okay. In this instance, yes.

13 A. (O'Neil) Okay. We would set up a Special Purpose  
14 Securitization Entity outside of PSNH. PSNH would sell  
15 the right to collect the RRB Charge to this Special  
16 Purpose Securitization Entity. The Special Purpose  
17 Securitization Entity goes out and issues RRB bonds,  
18 which is known as the securitization. They take the  
19 proceeds from those bonds, and they give all that  
20 proceeds over to PSNH, in exchange for the right to  
21 collect the RRB Charge. So, the RRB Charge would be  
22 part of the Stranded Cost Recovery Charge. If that's  
23 your question?

24 Q. Yes. Thank you for that clarification. And, one more

[WITNESS PANEL: Lembo~O'Neil]

1 thing. Would you both agree that an important  
2 component of this securitization scheme is the  
3 guarantee embedded within the legislative enactment  
4 that the New Hampshire Legislature had passed, and the  
5 New Hampshire Legislature's passage was confirmed by  
6 the Governor, insofar as the guarantee of the revenue  
7 stream, through the Rate Reduction Bond charge, is also  
8 embedded in public law?

9 A. (O'Neil) Okay. It's not a guarantee by the state.

10 Q. Yes.

11 A. Okay? What the law, and what we would ask the  
12 Commission to say, is, because the protection of the  
13 bondholder is really the RRB Charge, we need to know,  
14 and the bondholders need to know, that that charge  
15 cannot be altered. But it is not a guarantee by the  
16 state.

17 Q. I understand it's not a guarantee by the state. But  
18 that the existence of the RRB Charge is underpinned by  
19 the legislative enactment, SB 221, is that correct?

20 A. (O'Neil) We would not be able to issue the RRBs and get  
21 the Triple-A rating without the appropriate  
22 legislation.

23 MR. SPEIDEL: Thank you very much for  
24 those explanations. I have no further questions.

1 CHAIRMAN HONIGBERG: Commissioner  
2 Bailey.

3 BY COMMISSIONER BAILEY:

4 Q. I'm sorry. Could you -- I got the first half of that  
5 explanation about the special entity. So, PSNH sells  
6 the right to collect the bond -- the RRB -- the  
7 RRBs, --

8 A. (O'Neil) The charge.

9 Q. -- the charge --

10 A. (O'Neil) Correct.

11 Q. -- to the special entity. And, then, --

12 A. (O'Neil) Correct. So, what would happen is,  
13 securitization is actually -- it's sort of what Wall  
14 Street knows is an "asset-based" structured financing.  
15 Where you would -- an entity would issue debt, the  
16 SPSE, and the way that that debt gets paid back is  
17 PSNH, as the servicer of that debt, would remit daily  
18 into a trust, and that's how the money would get paid  
19 back. So, PSNH gets all the money up front, say we  
20 issue, in Mr. Chung's testimony, \$507 million. Let's  
21 just say that that's what the Commission says is  
22 stranded. We'd get the 500 -- the SPSE would issue  
23 \$507 million, and they would give that money to PSNH,  
24 in exchange for PSNH to do a legal sale of the right to

1 collect the RRB Charge to the SPSE.

2 Q. But PSNH collects it --

3 A. (O'Neil) Correct.

4 Q. -- and remits it?

5 A. (O'Neil) That's exact -- PSNH would be the servicer.

6 And, what we would do is we would bill, collect, and

7 remit to the trust daily.

8 Q. And, for that, you get 10 percent of the 507 million?

9 A. (O'Neil) No, not 10 percent. 0.1 percent.

10 Q. Okay. Is that an annual amount?

11 A. (O'Neil) It is an annual amount. It is market  
12 standard. And, the reason why you want it to be market  
13 standard is because we need to show a real disconnect  
14 between PSNH and the new SPSE, to show that it's  
15 bankruptcy-remote. That's one of the requirements in  
16 order to get the Triple-A. And, in the -- I mean,  
17 there's been a market rate that was given in the prior  
18 two PSNH securitizations. And, that's just market  
19 standard.

20 Q. And, what is the market for this kind of servicing?

21 A. (O'Neil) Well, the market really would be, if there's  
22 an entity out there who would serve -- I mean, there  
23 are entities out there who do actually service these  
24 types of debt.



[WITNESS PANEL: Lembo~O'Neil]

1 Q. But they don't have the legal backing to collect the  
2 money, like PSNH does, do they? I mean, isn't this  
3 kind of more unique than market-driven?

4 A. (O'Neil) I'd say it's both. I'd say it's both.

5 Q. So, how do we -- and, so, and the annual servicing fee  
6 is 5 million?

7 A. (O'Neil) Oh, no. It would be 0.1 percent on  
8 507 million. Let's call it 500 --

9 A. (Lembo) And, these charges would be typically in all  
10 securitizations.

11 *[Court reporter interruption.]*

12 **BY THE WITNESS:**

13 A. (Lembo) So, you know, there's been dozens of  
14 securitization financings done in the U.S. And, this,  
15 when you say "market-based", too, this is sort of a  
16 typical provision, there's a service fee included in  
17 each of those securitizations.

18 **BY COMMISSIONER BAILEY:**

19 Q. But they're mostly utility transactions?

20 A. (Lembo) Well, the ones I'm mentioning are, the ones I'm  
21 familiar with, the dozens or so, are utility  
22 transactions, correct.

23 Q. Okay.

24 A. (O'Neil) This would be 500,000, not of 5 million.

[WITNESS PANEL: Lembo~O'Neil]

1 Q. Okay. All right. Oh, that's right. You said "a tenth  
2 of a percent", not a --

3 A. (O'Neil) Yes.

4 Q. Okay. In a follow-up to the question that Attorney  
5 Bersak asked you that was my question about "if there's  
6 a failed auction", your response was "we have to wait  
7 until we know all the stranded costs." So, if there is  
8 a failed auction, we don't know all the stranded costs,  
9 is that right?

10 A. (Lembo) I guess, until we know, yes, until we know what  
11 they are.

12 Q. Right. When are we going to know?

13 A. (Lembo) Right.

14 Q. When they're all sold. Or, we've retired them.

15 A. (Lembo) When we determine what they are, or the  
16 Commission determines. So, once there's a  
17 determination as to what the stranded costs are, then  
18 they can be securitized.

19 Q. Can we determine it before the sale?

20 A. (Lembo) No. That's what I'm saying. The divestiture  
21 would create that. The divestiture of the assets.

22 Q. So, either -- so, either the assets all have to be  
23 sold, or we have to decide to retire them, before we  
24 know what the total stranded costs are?

- 1 A. (Lembo) You could know -- if you went through the  
2 auction process, I think we talked, you know, you could  
3 go from anywhere to, you know, receiving proceeds that  
4 are greater than the book value, right? Then, there  
5 would be no stranded costs. Or, there would be  
6 proceeds received that do not equal or are below the  
7 book value. So, as part of that analysis process that  
8 we would do when we are looking at the auction results,  
9 we would make some determination what the stranded --  
10 what the stranded costs are, and then move forward with  
11 the securitization.
- 12 Q. Right. But we're not going to know that if there's a  
13 failed auction?
- 14 A. (Lembo) I guess, by definition, there would be no --  
15 you're saying there's no bidder?
- 16 Q. There's no -- right. There's no bidder that wants to  
17 buy one of the assets.
- 18 A. (Lembo) But then there's remedies in the -- what to do  
19 to determine.
- 20 Q. Right. And, the remedies are "have a second  
21 auction" --
- 22 A. (Lembo) Right.
- 23 Q. -- or "retire it"?
- 24 A. (Lembo) You could have a -- so, if stranded costs

1 created from the divestiture then could be securitized,  
2 yes.

3 Q. Okay. But, after the second auction or we decide to  
4 retire?

5 A. (Lembo) I think what -- so, what you're saying is, if  
6 some of the auctions -- if some of the units were sold,  
7 and not all of them?

8 Q. Right. Yes.

9 A. (Lembo) So, I guess, once you determine that, what's  
10 the level of stranded costs for those assets.

11 Q. That are sold?

12 A. (Lembo) That are sold. So, it may make sense, at that  
13 point, to make a determination to move forward with the  
14 securitization, because the remaining book value is  
15 small. So, I think the issue is "see what the results  
16 are, and then we can make a determination what to do to  
17 move forward." You know, the securitization, you know,  
18 activity, you know, requires, you know, investors to be  
19 interested in it. And, you know, that it has to be of  
20 a good size, so that the investors are interested. So,  
21 once we went through the auction, and we've determined  
22 what the stranded costs were, we could make some  
23 determination how to move forward then on a  
24 securitization. And, that may be, you know, wait till

1 a Phase II or something like that. So, we try to make  
2 a determination right up front.

3 Q. Could we securitize twice?

4 A. (Lembo) These different assets you're talking about?

5 Q. Right. Like, if everything but Merrimack sold in the  
6 first auction, and then we had to have a decision -- we  
7 had to make a decision whether to retire Merrimack,  
8 which is the majority of stranded costs, I'm  
9 guessing, --

10 A. (Lembo) Yes.

11 Q. -- or try to sell it in a second auction. I mean, I  
12 don't think it's likely.

13 A. (Lembo) Yes.

14 Q. But I just want to know how, mechanically, it would  
15 work?

16 A. (Lembo) Yes. I guess, legally, once you know what the  
17 stranded costs are, you could securitize. Now,  
18 practically, it may be a small amount that you'd make  
19 some determination, you could collect the stranded  
20 costs through another method. It might be too small a  
21 book value left over to go out and do a securitization.  
22 So, I guess, legally, you could do, as long as it was a  
23 stranded cost as a result of a divestiture, then you  
24 could securitize it.

[WITNESS PANEL: Lembo~O'Neil]

1 COMMISSIONER BAILEY: Okay. Thank you.

2 CHAIRMAN HONIGBERG: Commissioner

3 Iacopino.

4 BY SP. COMMISSIONER IACOPINO:

5 Q. I just want to start where you just left off. My  
6 understanding is that the stranded costs are divided  
7 into two parts. Part 1 would be what eventually  
8 becomes the Rate Reduction Bonds. It's the costs that  
9 are actually securitized. And, if I understand Part 2,  
10 Part 2 of the stranded cost is not going to be  
11 securitized. And, included in Part 2 would be if the  
12 Company has to keep an asset ongoing. Am I correct in  
13 that understanding?

14 A. (Lembo) I would -- yes, go ahead.

15 A. (O'Neil) I would have to -- well, I would have to defer  
16 to the rate experts on that.

17 A. (Lembo) I would think that, if an asset is ongoing,  
18 it's not stranded.

19 Q. Right. But, if it's retired, without divestiture, my  
20 understanding is that goes into Part 2 of the stranded  
21 costs, which are not going to be securitized?

22 A. (Lembo) Yes.

23 A. (O'Neil) My understanding is that, in order to  
24 securitize, those costs need to be divested of.

[WITNESS PANEL: Lembo~O'Neil]

1 Q. And, just, and for the lawyers, too, I'm looking at  
2 Page 11 of the original Agreement, Lines 273 through  
3 283. Where it says "The costs of power", I'm starting  
4 with the second sentence, --

5 CHAIRMAN HONIGBERG: Wait. Do the  
6 witnesses have a copy of the Settlement Agreement up  
7 there?

8 WITNESS LEMBO: I do not.

9 WITNESS O'NEIL: I do.

10 CHAIRMAN HONIGBERG: I think Mr. Bersak  
11 has one, if you don't.

12 MR. BERSAK: Do you have one?

13 WITNESS O'NEIL: I think I do. Unless  
14 you have it right here?

15 MR. BERSAK: I've got it right here. I  
16 could probably recite it by memory. So, you can have  
17 mine.

18 *[Atty. Bersak handing document to the*  
19 *witnesses.]*

20 CHAIRMAN HONIGBERG: That's depressing,  
21 Mr. Bersak.

22 MR. BERSAK: I know.

23 CHAIRMAN HONIGBERG: To even think you  
24 might be able to recite it from memory.

1 BY SP. COMMISSIONER IACOPINO:

2 Q. You see where I'm looking at, starting on -- well, you  
3 can start at Line 273, on Page 11, to Line 283?

4 A. (Lembo) Uh-huh.

5 Q. Is my understanding of that correct, that, if there was  
6 a retirement, and any ongoing costs that wind up being  
7 incurred, decommissioning, environmental, and other  
8 residual costs, become part of Part 2 stranded costs,  
9 and those would not be securitized?

10 A. (O'Neil) That is my understanding as well.

11 A. (Lembo) Right.

12 Q. Do you think you would need additional legislation if,  
13 at some point, the Commission determined that this is  
14 something that should be securitized?

15 A. (O'Neil) Well, I'm not a lawyer. But I would imagine,  
16 yes, because, right now, the legislation says that,  
17 under the securitization law, NH RSA Chapter 369-B,  
18 "Electric Rate Reduction Financing and Commission  
19 [Act]", only stranded costs resulting from the  
20 divestiture of all or some of PSNH's generation assets  
21 may be securitized.

22 Q. I had a question regarding your testimony on Page 8,  
23 this deals with the servicing -- I'm sorry,  
24 "bankruptcy-remoteness", okay. And, it's just that I



1 just don't understand the practicality of what it  
2 means. The last sentence on Page 8 -- I'm sorry, not  
3 the last sentence, it's Lines 4 through 7. It says  
4 "Although PSNH will collect the billed RRB Charge as  
5 Servicer for the RRBs, for legal purposes, the RRB  
6 Property will remain isolated to the extent possible  
7 from PSNH's revenues and assets." What does that mean,  
8 "will remain isolated to the extent possible"?

9 A. (O'Neil) Okay. When the customers pay their bill, they  
10 pay one bill into PSNH. So, let's just say the bill is  
11 \$60. That money comes in. It's not totally isolated  
12 when it comes in, it's one check. So, what we do is,  
13 what we'll do is we'll take a portion of that that  
14 belongs to the SPSE, and we will remit that.

15 Q. Uh-huh. So, it's basically a provision just to protect  
16 you from when the money comes in and it obviously comes  
17 in in a commingled form?

18 A. (O'Neil) Exactly.

19 Q. Okay. Okay. You indicate in your testimony a number  
20 of things that are necessary to get this Triple-A  
21 rating. And, we won't know if we've met those things  
22 until divestiture has occurred, correct?

23 A. (O'Neil) Well, we know already that we've met some of  
24 them. What we haven't met at this point is, for

1 instance, we need a finance order from the Commission.  
2 And, we'll be back asking you for a finance order at  
3 the same time that we'll be asking you to approve the  
4 sale.

5 Q. Is that the only thing that you -- that is necessary,  
6 in your opinion, to get to that Triple-A rating?

7 A. (O'Neil) No.

8 Q. That's left to be done?

9 A. (O'Neil) No.

10 Q. Okay. What else?

11 A. (O'Neil) Well, I mean, I'm sure there are a few other  
12 things that are left to be done. The rating agencies,  
13 we'll need several meetings with the rating agencies.  
14 They're going to want to take a look at charge-offs,  
15 they're going to want to take a look at kWh. They're  
16 going to want to understand what the rate to the  
17 customer is going to be. They're going to want to  
18 understand what kind of percentage of the RRB  
19 represents of the total bill. They're going to look at  
20 the economy in New Hampshire. So, there's a whole  
21 rating agency process that will need to be done.

22 Q. So, that's a little bit more than the three things  
23 that -- or, the four things that you listed in your  
24 testimony, on Page 7, right? There you talk about

1 "bankruptcy-remoteness", "non-bypassability",  
2 "successor servicer", "credit enhancement", and  
3 "irrevocability".

4 A. (Lembo) I think you could consider some of that "credit  
5 enhancement", too, in terms of, you know, that there's  
6 a true-up mechanism, we're allowed to reconcile, to  
7 make sure that the balance in the account is sufficient  
8 to, you know, cover the interest on the bonds. I mean,  
9 when you step back and look at it, the Triple-A rating  
10 is the highest rating available. So, --

11 Q. And, it's necessary in this type of case, isn't it?

12 A. (Lembo) Yes. It's -- we haven't seen a securitization  
13 financing that has not. Triple-A, it's just like, if  
14 you went to borrow money at the bank, the higher your  
15 credit score, so, the lower your rate. So, Triple-A  
16 rating ensures that customers benefit from the lowest  
17 rate that's available out there.

18 Q. But what I'm trying to do, though, is to assess the  
19 risk of us not meeting those criteria, should we adopt  
20 this Settlement Agreement. How should I measure that,  
21 the risk of not meeting the Triple-A requirement?

22 A. (O'Neil) Well, I would say that, if we get a financing  
23 order that has all the necessary requirements in it,  
24 then we should -- I would be shocked if we didn't

[WITNESS PANEL: Lembo~O'Neil]

1 get -- end up with the Triple-A rating. I mean, I've  
2 been involved with two of these, not in New Hampshire,  
3 but in Massachusetts. And, so, I'm very familiar with  
4 what the rating agencies are looking for, and I've been  
5 through the process. So, if we get a financing order  
6 that, you know, gives the necessary things, then I  
7 would -- I would presume that we will get the Triple-A  
8 rating.

9 Q. And, in your opinion, does approval of this Agreement  
10 provide the necessary requirements that would --

11 A. (O'Neil) Approval of the Settlement Agreement?

12 Q. Yes.

13 A. (O'Neil) Oh, we're going to -- I mean, that's  
14 necessary. But, when we come back with a finance  
15 order, there are going to be many other things that  
16 we're going to need for "bondholder" protection, such  
17 as credit enhancements. We're going to need the  
18 Commission to say that this charge is irrevocable and  
19 that, you know, it will never be impaired. But it will  
20 be very, very consistent with what the Commission gave  
21 in the prior two PSNH securitizations. So, PSNH has  
22 securitized two other times. And, the Commission gave  
23 a finance order in both of those, and both of those met  
24 the Triple-A rating.

[WITNESS PANEL: Lembo~O'Neil]

1 Q. So, I guess you're saying this: As long as the  
2 Commission does its job right, the risk of not making a  
3 Triple-A rating is low?

4 A. (O'Neil) I'd say very low.

5 Q. Thank you. How about timing? We've talked a little  
6 bit with a prior witness about timing. In order to  
7 make this process that's envisioned by the Settlement  
8 Agreement as beneficial to ratepayers as possible, --

9 A. (O'Neil) Uh-huh.

10 Q. -- what are the timing constrictions? We know we've  
11 already gone past some of what we've seen in testimony.  
12 Originally, they were hoping for an order in December,  
13 I guess, on this. We're in February. What does a  
14 delay, as far as timing goes, what difference does that  
15 make?

16 A. (O'Neil) That's very hard to predict. I mean, I don't  
17 think either Mr. Lembo or myself can predict where  
18 interest rates are going. So, it's very difficult to  
19 predict. Right now, rates are low. Rates are actually  
20 even lower than when we filed in July. So, it's hard  
21 to say where rates are going to be, you know, three  
22 months from now, six months from now, nine months from  
23 now.

24 A. (Lembo) But, in terms of, similar to the description

[WITNESS PANEL: Lembo~O'Neil]

1       that Mr. Reed gave, in terms of a lot of work is being  
2       done in, you know, to get ready for the auction, you  
3       know, we would do the same thing on the financing side.  
4       As the auction process is moving, you know, we'll be  
5       doing a lot of work with the rating agencies and  
6       etcetera, so that -- that we would do a filing at the  
7       same time for a financing order. So, when the asset is  
8       approved, the financing order comes out, and then it  
9       may be, you know, a few -- a month or so --

10    A.   (O'Neil) Right.

11    A.   (Lembo) -- that the bonds could be issued. So, we  
12       would also, you know, we wouldn't wait till the tend,  
13       then to say "okay, now we know the number and then  
14       we're going to file". We would do it coincident with  
15       what was going on with the auction, so that we get a  
16       financing order and the approval on the divestiture at  
17       same time, and then, you know, quickly move into the  
18       market.

19    A.   (O'Neil) It would be a coterminous process.

20    Q.   That's all the questions I have about the RRBs. I do  
21       have one other. Were either of you involved in the --  
22       sort of the determination of what the property tax  
23       stabilization rate would be, and not "rate", but the  
24       property tax stabilization payments?

1 A. (Lembo) I was not, no.

2 A. (O'Neil) No.

3 SP. COMMISSIONER IACOPINO: All right.

4 I have no other questions.

5 BY CHAIRMAN HONIGBERG:

6 Q. I'd like to, I think, close the loop on a conversation  
7 you were having with Commissioner Bailey regarding the  
8 "market-based", which is in quotation marks in your  
9 testimony, nature of the one-tenth of 1 percent.

10 A. (O'Neil) Uh-huh.

11 Q. I think what you said is that "this is what you find  
12 out there when these things are done, and you've seen  
13 dozens of them nationwide." Is that essentially what  
14 you're saying?

15 A. (O'Neil) Absolutely. You know, the underwriters have  
16 seen, I think there's probably been about maybe -- I  
17 can probably give you the exact amount actually. In  
18 the last -- in the last 20 years, there's been 68  
19 "utility RRB" financings. And, if you took a look at  
20 basically what the servicing fee is, it's about ten  
21 basis -- it's about 0.1 of a percent. And, I just want  
22 to say, there is, only because I've been through this a  
23 few times, there's a lot of work involved being the  
24 servicer.

[WITNESS PANEL: Lembo~O'Neil]

1 Q. Oh, I have no doubt that's true. I just wanted to --  
2 the way you had left it with Commissioner Bailey, I  
3 didn't feel like you really had adequately explained  
4 what you meant by "market-based".

5 A. (O'Neil) All right.

6 Q. The other thing I wanted to clarify with you is, I  
7 think it's something -- it's phrasing that you've used  
8 a couple of times when you've used the word "collect"  
9 two different ways. You "sold the right to collect",  
10 but "you are collecting". What you really mean is,  
11 you've "sold the right to that, to those funds", and  
12 you're "going to collect and remit those funds to the  
13 entity you sold the funds"?

14 A. (O'Neil) That's exactly right.

15 CHAIRMAN HONIGBERG: Okay. That's what  
16 I thought. I have nothing further. Thank you.

17 WITNESS O'NEIL: Uh-huh.

18 CHAIRMAN HONIGBERG: Mr. Bersak, do you  
19 have any further questions for your witnesses?

20 MR. BERSAK: No, sir. Thank you.

21 CHAIRMAN HONIGBERG: All right. Thank  
22 you very much. You can return to your seats.

23 WITNESS LEMBO: Thank you.

24 CHAIRMAN HONIGBERG: All right. I think



[WITNESS: Cronin]

1 we are up to Mr. Cronin, is that correct? All right. Mr.  
2 Cunningham, you can ask Mr. Cronin to proceed to the  
3 witness area.

4 (Whereupon **Terence M. Cronin** was duly  
5 sworn by the Court Reporter.)

6 **TERENCE M. CRONIN, SWORN**

7 **DIRECT EXAMINATION**

8 BY MR. CUNNINGHAM:

9 Q. Mr. Cronin, would you state your full name and address  
10 for the Commission please.

11 A. Yes. My name is Terence Michael Cronin. And, my  
12 address is at 643 Briar Hill Road.

13 Q. And, --

14 A. I'm sorry, in Hopkinton, New Hampshire.

15 Q. And, you are an intervenor in this case, are you not?

16 A. Yes, I am. I'm a residential ratepayer.

17 Q. And, would you be good enough to tell the Commission  
18 how long you have been a residential ratepayer of PSNH?

19 A. I hate to say, I don't exactly remember, but it's  
20 certainly over 20 years.

21 Q. And, you have filed testimony in this case, have you  
22 not?

23 A. I have.

24 Q. And, are you satisfied with that testimony?

[WITNESS: Cronin]

1 A. I am.

2 Q. Now, you've been in this room for, I guess, three days  
3 now, Mr. Cronin. Would you like to advance your  
4 testimony, having listened to other witnesses and seen  
5 other documents?

6 A. Yes. May I?

7 Q. Yes.

8 A. Thank you.

9 Q. Would you please.

10 A. Yes. And, I have some written. Bear with me.

11 CHAIRMAN HONIGBERG: Well, Mr. Cronin, I  
12 would just say, if you're going to read, read slowly.

13 WITNESS CRONIN: I will.

14 CHAIRMAN HONIGBERG: And, what you're  
15 talking about reading is not -- that's not the -- it's  
16 something different from the prefiled testimony, correct?

17 WITNESS CRONIN: I dare say some of it  
18 is, for sure.

19 CHAIRMAN HONIGBERG: Well, I will tell  
20 you, we have your prefiled testimony.

21 WITNESS CRONIN: Yes. Well, --

22 CHAIRMAN HONIGBERG: And, we don't want  
23 you to read it.

24 WITNESS CRONIN: I would say this is.

[WITNESS: Cronin]

1 This is different.

2 CHAIRMAN HONIGBERG: Okay.

3 WITNESS CRONIN: Rather different,  
4 really.

5 BY MR. CUNNINGHAM:

6 Q. And, let me ask you this, Mr. Cronin. How much  
7 experience have you had testifying before a  
8 judicial-type body?

9 A. Well, not much. I can say that.

10 CHAIRMAN HONIGBERG: And, that's fine.  
11 I'm not trying to make it worse, in fact, I'm trying to  
12 make it easier for you, by asking you not to read your  
13 prefiled testimony.

14 WITNESS CRONIN: Okay. It's not.

15 CHAIRMAN HONIGBERG: But, if you are  
16 reading from something else, that's fine. I would just  
17 ask you to go slowly for Mr. Patnaude, and so those who  
18 are taking notes can follow along with you. Okay?

19 WITNESS CRONIN: No, I will. And, it  
20 shouldn't take long.

21 CHAIRMAN HONIGBERG: Okay.

22 **BY THE WITNESS:**

23 A. Though I oppose this Settlement, I know that  
24 divestiture and restructuring are urgent and important.

[WITNESS: Cronin]

1 I've read much testimony and heard many witnesses.  
2 But, in my opinion, there is no evidence that the  
3 prudence issues for the Scrubber were addressed, except  
4 for the Settling Parties' claims that they were  
5 addressed.

6 Commissioner Iacopino asked the panel  
7 Tuesday how they arrived at the 25 million in the  
8 equity related to the Scrubber. And, the panel  
9 answered the Commission -- the Commissioner that they  
10 were reached -- they reached it as part of the larger  
11 overall Settlement. This sounded as vague as what we  
12 heard in an August technical session that the  
13 25 million was just a negotiated number. To my mind,  
14 the 25 million equity number is the only place in the  
15 Settlement where the Settling Parties could have  
16 reviewed the issues of prudence.

17 So, we have yet to learn how the  
18 decisions to incur the Scrubber costs related to the  
19 issues of prudence that amounted to 25 million. This  
20 is important to me as a residential ratepayer, because,  
21 in just over two years, from the time of the temporary  
22 rate increase, the La Capra report showed that the  
23 plant with the Scrubber was near worthless.

24 The other matter in the Settlement that,

[WITNESS: Cronin]

1 in my opinion, is unfair is the inclusion of the  
2 Burgess Biomass PPA in the stranded costs. At the  
3 time, the former Consumer Advocate opposed both the  
4 cost increase for the Scrubber, as well as the  
5 over-market priced Burgess Biomass PPA, because either  
6 were in the residential ratepayer interest. And, to  
7 this day, they are not. Nor is this Settlement, in my  
8 opinion, in the public interest.

9 A short time after the Consumer  
10 Advocate's opposition, the Executive Council denied the  
11 Consumer Advocate her contract for renewal, in my  
12 opinion, for doing her job, and that was protecting the  
13 residential ratepayer interests from these poor PSNH  
14 management decisions.

15 Now, our present Consumer Advocate has  
16 been denied her contract renewal, and residential  
17 ratepayer interests, I think, continue to be undermined  
18 in the revolving door of the OCA.

19 Since the settlement was held in  
20 exclusionary and secret negotiations, I tried to learn  
21 what campaign finance and in-kind contributions were  
22 made to the Senators from the other Settling Parties.  
23 But the state's public record on campaign finance is  
24 opaque and beyond both my time and ability to research.

[WITNESS: Cronin]

1 My exhibit marked "MM", "New Hampshire gets a Grade-D",  
2 this was from the Center for Public Integrity, it bears  
3 this out.

4 In my opinion, this lack of transparency  
5 poses harm to the public interest in the context of  
6 this Settlement. Also, the Parties to this Settlement  
7 Agreement failed to demonstrate that the issues were  
8 diligently explored and negotiated at length.

9 Moreover, they didn't consider PSNH's  
10 promise in 2008 to deliver "a vital base load of  
11 reliable and affordable power" after giving notice to  
12 the PUC of the cost increase for the Scrubber. This  
13 PSNH failure to deliver on its promise deserved  
14 exploring in order to ensure that a just and reasonable  
15 settlement had been reached. Had the Parties explored  
16 it, instead of the 25 million in equity related to the  
17 Scrubber, they would have come much closer to 172  
18 million in equity, and nearer to the 250 million  
19 originally approved -- or, excuse me, originally  
20 estimated.

21 To my mind, this 25 million equity  
22 number is the only place in the Settlement where the  
23 Settling Parties could have reviewed these issues of  
24 prudence again.

[WITNESS: Cronin]

1                   Given that the future cost savings  
2           agreed upon by the Settling Parties has now been cut in  
3           half, one could conclude that modeling is a difficult  
4           art, and that any estimates of potential losses to be  
5           absorbed by the residential ratepayers are likely to  
6           escalate. So, why not consider a PSNH equity figure  
7           that is tied to a percentage of any losses over the  
8           originally agreed upon 250 million for the Scrubber, as  
9           opposed to a flat equity figure? Say 30 or 40 percent?

10                   Finally, I've seen and heard testimony  
11           that, if we don't accept the Settlement, that it will  
12           result in years of litigation and compounding costs, as  
13           with the Seabrook project. But I think this situation  
14           is different today, and, in point, different because  
15           there are significant risks to PSNH and the state  
16           should the Company continue to lose its default service  
17           customer base. Therefore, there is a much greater  
18           urgency for all the parties to ensure that a just and  
19           reasonable settlement be reached now, one that is truly  
20           in the Public Service.

21                   And, that's what I have.

22                   CHAIRMAN HONIGBERG: Mr. Cunningham, do  
23           you have any further questions for your witness?

24                   MR. CUNNINGHAM: I do not, Mr. Chairman.

[WITNESS: Cronin]

1 CHAIRMAN HONIGBERG: Who would like to  
2 ask questions of Mr. Cronin? Anyone?

3 *[No indication given.]*

4 CHAIRMAN HONIGBERG: All right. Seeing  
5 none, Commissioner Bailey, do you have any questions for  
6 Mr. Cronin?

7 COMMISSIONER BAILEY: Just one  
8 clarifying question.

9 BY COMMISSIONER BAILEY:

10 Q. Mr. Cronin, --

11 A. Yes.

12 Q. -- I believe that you just recommended that the  
13 disallowance for the Scrubber should be 30 or  
14 40 percent of --

15 A. No. No, like to tie that -- that the losses should  
16 be -- excuse me. That an equity figure that is tied to  
17 a percentage of any losses over the originally agreed  
18 upon 250 million for the Scrubber, is what I'm  
19 recommending.

20 COMMISSIONER BAILEY: Okay. Thank you.

21 CHAIRMAN HONIGBERG: Commissioner  
22 Iacopino.

23 WITNESS CRONIN: Oh, I'm sorry.

24 SP. COMMISSIONER IACOPINO: Just to take



[WITNESS: Cronin]

1 Commissioner Bailey's question to the next step.

2 WITNESS CRONIN: Yes.

3 BY SP. COMMISSIONER IACOPINO:

4 Q. So, you're saying "30 or 40 percent of the difference  
5 between 250 and the ultimate -- what the ultimate cost  
6 was", is that --

7 A. It's just, you know, it's a suggestion.

8 Q. I understand.

9 A. Yes.

10 Q. But I'm just trying to make sure I understand that what  
11 the suggestion -- the structure of your suggestion.

12 A. Yes. And, you know, because I think, you know,  
13 25 million, and, as I said, I just don't see how where  
14 anybody has shown that these issues for prudence have  
15 been addressed.

16 Q. Okay. And, I guess I would have one other question.  
17 In your direct testimony, you referenced the Senators  
18 being afraid of the protracted litigation. Do you  
19 recognize that as a financial risk, the financial --  
20 the protracted litigation that might occur?

21 A. Well, --

22 Q. As a financial risk to the ratepayer?

23 A. Yes. But it is, by the same token, it's an especially  
24 big risk for the state, as well as the Company.

[WITNESS: Cronin]

1           Because what happens if all the ratepayers go onto  
2           the -- you know, go to a different generator company?

3                       SP. COMMISSIONER IACOPINO: Thank you.  
4           I have no other questions.

5                       CHAIRMAN HONIGBERG: Mr. Cronin, I have  
6           a couple questions.

7                       WITNESS CRONIN: I'm sorry.

8                       CHAIRMAN HONIGBERG: It's weird. We go  
9           one at a time. We don't pool our questions. And, we  
10          don't talk about them generally before we start.

11       BY CHAIRMAN HONIGBERG:

12       Q.    You've been interested in these issues for a number  
13              years, haven't you?

14       A.    A few years, yes.

15       Q.    I mean, has it been ten years?

16       A.    Six.

17       Q.    Six years?

18       A.    Six is when I kind of picked up on it, right.

19       Q.    So, a lot having to do with the Scrubber, is that  
20              right?

21       A.    Yes. I did start out kind of on the transmission  
22              project, but I went over to here more.

23       Q.    And, you've read -- you read the papers about these  
24              things?

[WITNESS: Cronin]

1 A. Yes. I get a lot of my information there.

2 Q. Do you go to the Commission's website and look at  
3 what's going on in our dockets?

4 A. I have. I have for sure.

5 Q. And, how much of the Scrubber docket, the docket  
6 11-250, have you had a chance to look at?

7 A. I did not read the whole thing, I can tell you that.

8 Q. But you read parts of it?

9 A. I've read, I'd say, significant parts of it.

10 Q. And, so, you know that there are dozens, well over 100  
11 exhibits in that docket, are there not? Did you look  
12 at any of the exhibits that have been filed in that  
13 case?

14 A. I'm sure I did. And, I can't tell you what.

15 Q. Did you read any of the legal arguments that were  
16 submitted by the parties in 11-250?

17 A. I did.

18 Q. And, none of -- you had arguments from both sides on  
19 how that should be resolved, were there not? And, you  
20 probably read the Company's arguments, right?

21 A. Yes.

22 Q. And, you read the arguments filed by the entities that  
23 were here opposing the Company's request, and some of  
24 whom are in the room, right?

[WITNESS: Cronin]

1 A. Yes.

2 Q. And, I take it then that you agree with some of what  
3 you read, but you're not really sure who filed it,  
4 would that be a fair statement?

5 A. Well, I --

6 Q. That's an unfair question. Let me ask it a different  
7 way. Were there things that you read in that docket  
8 that you agreed with? Arguments that were made by  
9 parties?

10 A. Yes. I should say, yes.

11 Q. Do you remember any of those arguments?

12 A. I can't tell you specifically, no. But I could tell  
13 you, you know, I've seen things from the Conservation  
14 Law Foundation and the Sierra Club and the Consumer  
15 Advocate, to name a few.

16 Q. And, that's the same Consumer Advocate that's a party  
17 to this Settlement, right?

18 A. Yes.

19 CHAIRMAN HONIGBERG: All right. I don't  
20 think I have any other questions for you. Thank you very  
21 much.

22 Mr. Cunningham, do you have any further  
23 questions for your witness?

24 MR. CUNNINGHAM: No, I don't. Thank

[WITNESS: Aalto]

1       you, Mr. Chairman.

2                   CHAIRMAN HONIGBERG: All right. Mr.  
3       Cronin, thank you. Now you can return to your seat.

4                   WITNESS CRONIN: Thank you.

5                   CHAIRMAN HONIGBERG: Mr. Aalto. First  
6       in alphabetical order, but last on the schedule.

7                   MR. AALTO: That's reasonable.

8                   MR. ASLIN: Mr. Chairman, I'm going to  
9       give Mr. Aalto the courtesy of introducing him, as I did  
10      for the Senators.

11                  CHAIRMAN HONIGBERG: Thank you,  
12      Mr. Aslin. That is an appreciated service that you're  
13      providing.

14                  MR. ASLIN: Before I do that, I believe  
15      Mr. Aalto has one additional exhibit that we should mark,  
16      which is comments that he filed in this docket on  
17      December 8th, 2014. And, I think we're up to "Exhibit  
18      aaa" or "bbb"?

19                  MS. CARMODY: "bbb".

20                  CHAIRMAN HONIGBERG: "bbb".

21                         (The document, as described, was  
22                         herewith marked as **Exhibit bbb** for  
23                         identification.)

24                         (Whereupon **Pentti J. Aalto** was duly

[WITNESS: Aalto]

1 sworn by the Court Reporter.)

2 [Atty. Amidon distributing documents.]

3 CHAIRMAN HONIGBERG: Just before you  
4 start, Mr. Aslin, am I correct that Ms. Amidon is handing  
5 out bbb?

6 MR. ASLIN: Yes, I believe so.

7 MS. AMIDON: One moment, Mr. Chairman.  
8 I believe that he had a placeholder for Exhibit PP, which  
9 I didn't distribute. So, I apologize for that. PP, it  
10 was previously identified as something that was going to  
11 be introduced at this hearing. So, this was previously  
12 agreed to be marked for identification as "PP".

13 (Atty. Amidon distributing premarked  
14 Exhibit PP.)

15 CHAIRMAN HONIGBERG: All right. Mr.  
16 Aslin, I think we're ready to go.

17 MR. ASLIN: Thank you, Mr. Chairman.

18 **PENTTI J. AALTO SWORN**

19 **DIRECT EXAMINATION**

20 BY MR. ASLIN:

21 Q. Mr. Aalto, if you could please state your name and  
22 spell it for the record.

23 A. My name is Pentti Aalto, P-e-n-t-t-i, middle initial J,  
24 last name A-a-l-t-o.

[WITNESS: Aalto]

1 Q. And, Mr. Aalto, in what capacity are you here  
2 testifying today?

3 A. I'm representing myself as a ratepayer. My business is  
4 as a consultant in energy systems.

5 Q. Thank you. And, would you please give the Commission a  
6 brief summary of your background and expertise in the  
7 energy field.

8 A. Sure. I have spent some -- quite a few years of my  
9 life as an energy systems designer, focused on issues  
10 of cogeneration systems, heat pumps, district heating,  
11 solar, and other renewables, that sort of thing. A  
12 more complete listing can be found in Exhibit U, on the  
13 last page of it.

14 The high points, I would say, would be,  
15 when I first got into this, I was -- became interested  
16 in cogeneration systems. And, the first thing that I  
17 noticed was that I would have excess electricity if I  
18 were heating a building. And, the thought was to sell  
19 it to my friendly utility, who turned out not to be  
20 that friendly toward buying power. This would be about  
21 1973.

22 What that led me to was that, while the  
23 technical aspects of this stuff were important and was  
24 essential, they were insufficient. That much more had

[WITNESS: Aalto]

1 to go into policy and such.

2 And, how to get that done, I designed a  
3 project that became the Governor's Commission on  
4 Cogeneration in Massachusetts, that looked at the  
5 issues of cogeneration and its integration into the  
6 grid. It served to help support the Energy Act of the  
7 day, and became -- and led, in part, to the development  
8 of the PURPA regulations, which the Commonwealth of  
9 Massachusetts had substantial testimony, including  
10 pieces like the definition of "efficiency standards"  
11 that were part of that came from one of the people that  
12 I worked with. In fact, even the use of the word  
13 "cogeneration" came from one of the people in that  
14 group.

15 Since then, it's been mainly looking at  
16 where and when these various types of systems would  
17 make sense, and how they should be integrated into the  
18 system, into the electrical system as a whole.

19 Primarily, the technical end of it has  
20 been focused on what I would call "Second Law  
21 efficiency issues". That's where you look at the  
22 quality of the energy that you're using for each task,  
23 not necessarily just the amount of energy involved.

24 And, that leads to the potential for substantial



[WITNESS: Aalto]

1 savings. And, practical examples of that are heat  
2 pumps and heat recovery from power plants or  
3 cogeneration systems in smaller scale. Much used in  
4 Europe, not so much here.

5 On the policy end of it, work has been  
6 spent looking at the types of contracts that would make  
7 sense in a restructured industry, and involvement with  
8 a fairly substantial power purchase contract for a  
9 university in New Hampshire, buying power from a wind  
10 farm in New York, under a long 15-year fixed price  
11 contract, with all of the issues that comes with that.  
12 As a forward contract, the price can go up and down,  
13 and there can be a savings or a loss.

14 I've also looked at the issues of  
15 metering, real-time metering for customers. One of the  
16 previous occasions here at the Commission was to  
17 propose a possible system that would look at those  
18 types of things.

19 To get to the issue at hand, --

20 Q. Mr. Aalto, if I could just, --

21 A. Yes, please.

22 Q. -- procedurally, to get your exhibit into the record  
23 first.

24 A. Okay.

[WITNESS: Aalto]

1 Q. So, you have, I believe, in front of you comments that  
2 you filed in Docket 13 -- IR 13-020, on August 6, 2013.  
3 Do you have that in front of you?

4 A. I do have that.

5 Q. And, that has been premarked as "Exhibit PP" for  
6 identification, is that correct?

7 A. That's correct.

8 Q. And, those were comments that you produced and filed in  
9 that docket?

10 A. That is. They are.

11 Q. And, then, you also had filed comments in this docket  
12 on December 8th, 2014. Do you have that document in  
13 front of you?

14 A. I do have that.

15 Q. And, that's been marked now as "Exhibit bbb" for  
16 identification?

17 A. That's correct.

18 Q. And, those are, again, your comments that you filed in  
19 this docket?

20 A. They are, yes.

21 Q. Thank you. And, then, finally, your testimony that was  
22 filed in this docket has been marked as "Exhibit U".

23 And, do you have that testimony in front of you?

24 A. Yes, I do.

[WITNESS: Aalto]

1 Q. Do you adopt that as your testimony today under oath?

2 A. Yes.

3 Q. Thank you. With that, I will turn it over to you to  
4 present whatever you would like to say to the  
5 Commission about your testimony.

6 A. Thank you. The issue at hand is that, with the end of  
7 the restructuring, the original restructuring process,  
8 we are left with a hybrid structure. That retained the  
9 utility as the default service provider, with all of  
10 its operating costs for its generation to be recovered  
11 from the default service customers. But the customers  
12 were given the opportunity to leave, to leave and buy  
13 power in the competitive markets.

14 In the early years, the price that the  
15 Company had were quite low and defection was relatively  
16 low. As prices began to change, the large customers  
17 and the large members left, and then, in recent years,  
18 even homeowners have left. I get two or three calls a  
19 week saying "we can give you power for a penny less."

20 The problem then becomes, as those costs  
21 have to be recovered from those customers, and the  
22 customer base drops, the fixed costs are not recovered,  
23 and tend to raise the price for the remaining customers  
24 on that system, as is fairly clear. Those customers

[WITNESS: Aalto]

1 are protected, because they can leave. Now, there are  
2 customers who would have difficulty leaving, because of  
3 either credit issues or otherwise. They are also  
4 protected because the Commission ultimately would have  
5 a reasonableness level that it could permit rate  
6 increases. If that level were met, then the Company  
7 would not earn its full rate of return, and would  
8 strive to do something about it, either reduce its  
9 costs or perhaps sell and get rid of the facilities.

10 Part of the original resettlement --  
11 Settlement Agreement has a backdoor that says "And, oh,  
12 by the way, should we decide to sell these, any  
13 stranded costs over book value will be recovered from  
14 the ratepayers." And, that's where we are.

15 And, if we did nothing, we would be in  
16 that fix fairly soon, if the market stayed where they  
17 are. So, we would be doing exactly what we're doing  
18 now, without the Settlement as part of it, or the  
19 current Settlement as part of the understandings.

20 And, that would lead to the question of  
21 prudence issues, which the Settlement tries to fix. I  
22 don't take a position on the prudence at this point,  
23 because I have not addressed that in any detail, other  
24 than to note that customers are essentially picking up,

[WITNESS: Aalto]

1 essentially, the full tab for everything.

2 The various comments that I've submitted  
3 have looked at various ways of trying to maximum the  
4 customer benefit of whatever we do going forward.

5 Primarily, one of the things that it offers is that we  
6 find a simple example might be that, instead of selling  
7 the plants, that we securitize all of it, and have PSNH  
8 continue to operate them as a fully depreciated asset.  
9 It would probably require some payment for its  
10 management to do that.

11 Today's testimony earlier said "well, we  
12 can't do that, it's not written into the law that way."  
13 Perhaps that's something that could be done as a  
14 change. Other options are that, when we sell them, we  
15 sell them with a, instead of in an absolute auction, we  
16 sell them in a reserve auction. With the idea that  
17 perhaps, if we analyze each plant's behavior and its  
18 income in the near term, we might say that we'd like to  
19 see at least three years' worth of income, after  
20 expenses, as a minimum price in a sale. Another option  
21 is to sell it with a contract that would have a portion  
22 of the revenues from the owner, the new owner,  
23 committed to the -- to the customers to support the  
24 stranded cost payments going forward. Each of these I

[WITNESS: Aalto]

1 look at to some extent.

2 In the earlier paper, I also look at the  
3 issue of what other cost savings measures there might  
4 be, and also carbon reduction measures.

5 There are many ways we could proceed.  
6 And, I guess that's the primary message that I would  
7 have is that, simply selling them, as we've done in the  
8 past, may not be the best for customers. There may be  
9 other solutions that we can use that would give greater  
10 value going forward.

11 And, I thank the Commission for allowing  
12 me to speak, and also for putting up with my not  
13 knowing what I'm doing.

14 CHAIRMAN HONIGBERG: I feel your pain.  
15 Does anybody have questions for Mr. Aalto?

16 *[No indication given.]*

17 CHAIRMAN HONIGBERG: All right. None  
18 out in the audience.

19 Commissioner Bailey, do you have any  
20 questions?

21 COMMISSIONER BAILEY: Just a few.

22 BY COMMISSIONER BAILEY:

23 Q. You just said that, "if we approve the Settlement  
24 Agreement, customers would be picking up the full tab

[WITNESS: Aalto]

1           for everything." Is that what you said?

2   A.    Just about.

3   Q.    Right?

4   A.    Yes. Other than whatever comes from the sale.

5   Q.    Right.

6   A.    But, essentially, before the sale, we're responsible  
7           for everything, other than the 25 million, and then the  
8           5 million for other things.

9   Q.    And, before the sale, customers are also responsible  
10          for a 10 percent return on investment of --

11   A.    Yes.

12   Q.    And, if we securitize --

13   A.    That goes away.

14   Q.    That goes away. So, there is some savings?

15   A.    Right. And, that was a suggestion that perhaps we  
16          securitize everything, and then later pick up whatever  
17          we get from selling or other disposition of the  
18          equipment.

19   Q.    But we can't do that right now, because --

20   A.    Because of the way the rule is structured.

21   Q.    Right. And, the key legislators who were -- who  
22          designed that law are Parties to this Settlement  
23          Agreement?

24   A.    That's right.

[WITNESS: Aalto]

1 Q. So, how likely is it that we're going to get that law  
2 changed? Not that likely?

3 A. Not that likely.

4 Q. Do we agree?

5 A. Yes.

6 Q. Okay. So, then, we delay this for a number of years,  
7 and maybe, I guess, you know, your idea about a reserve  
8 auction, where we look at the net income as the minimum  
9 sale price over the next three years, and we try to get  
10 the law changed, which is still probably unlikely.

11 A. That might not require a law change.

12 Q. Okay.

13 A. Because it's going out for sale, it's just that's a  
14 condition of the sale.

15 Q. All right. So, what happens in the next three years if  
16 the environmental -- I don't know what you call them --  
17 the Clean Power -- the Clean Water Act, that might  
18 require additional investment in the Merrimack  
19 Scrubber, --

20 A. Yes.

21 Q. -- to reduce the water -- that goes to the temperature  
22 of the water.

23 A. The cooling water, yes.

24 Q. I think that's what they were talking about.



[WITNESS: Aalto]

1 A. I don't think there was any suggestion that that would  
2 delay the sale. The sale would occur immediately.

3 Q. No, but your suggestion is to wait three years.

4 A. Oh, if we did the --

5 Q. Right.

6 A. -- the former. That is to say, I wouldn't wait the  
7 three years, just try to estimate what the value is for  
8 three years, and put it out immediately for auction, --

9 Q. Sell it now?

10 A. -- but a reserve auction, instead of an absolute  
11 auction.

12 Q. Okay. Can you tell me what that means, a "reserve  
13 auction"?

14 A. Oh. "Absolute auction" is you take what you get and  
15 it's sold. If somebody says "I'll give you a dollar",  
16 it's sold. The "reserve auction" says, kind of like  
17 buying something on Ebay, --

18 Q. Minimum price?

19 A. Minimum price.

20 Q. Oh, okay. So, --

21 A. And, that could be publicly available, or it might be  
22 *in camera*.

23 COMMISSIONER BAILEY: Okay. All right.

24 Thank you.

[WITNESS: Aalto]

1 CHAIRMAN HONIGBERG: Commissioner  
2 Iacopino.

3 BY SP. COMMISSIONER IACOPINO:

4 Q. I am curious as to how you think that would work in the  
5 financial markets, of securitizing something that's  
6 not -- doesn't have an asset backing it up?

7 A. Well, there's no asset backing it up, other than the  
8 securitization here. The only asset that's there is  
9 the asset of the law that says "customers are going to  
10 pay".

11 Q. Right. But what you don't have under your situation --

12 A. You would have that same. If you securitize what -- in  
13 either ways that I'm thinking, the customers are fully  
14 liable for the full whatever they're committed to.

15 Q. So, but what you're saying, though, is we have to set  
16 a --

17 A. You set a number.

18 Q. We're setting something without the benefit of  
19 auctioning off the asset?

20 A. That's right. Yes. And, as I say, for the risk that  
21 comes with that for the customers is what comes in in  
22 the future may be a lot less than that they might have  
23 gotten by the sale.

24 Q. Who would buy those bonds?

[WITNESS: Aalto]

1 A. The same people who buy the others. They see no  
2 difference in the risk. The bond buyer sees exactly  
3 the same risk that the customer will pay.

4 Q. One other question.

5 A. Sure.

6 Q. In your -- I think it's "Exhibit PP"?

7 A. Yes.

8 Q. You mention using, at Merrimack Station, using the  
9 heating, you know, district heating or avoiding the  
10 cost of a new cooling tower by various options you have  
11 here: "Efficiency improvement", "co-firing with gas or  
12 wood", "cycle modification", "carbon capture", and "use  
13 of waste condenser heat".

14 A. Uh-huh.

15 Q. And, I think you suggest those as things that might  
16 reduce the need for a new cooling tower?

17 A. Certainly, the water use ones would, the district  
18 heating would. The others address some of the other  
19 environmental impacts. But the cooling water for  
20 direct heating, I mean, that's a fairly common practice  
21 in other countries, using waste heat from power plants,  
22 not that much here.

23 Q. Have you done any research to actually determine  
24 whether or not that would eliminate the NPDES

[WITNESS: Aalto]

1 environment problem?

2 A. No.

3 SP. COMMISSIONER IACOPINO: Okay. Thank  
4 you.

5 BY CHAIRMAN HONIGBERG:

6 Q. Mr. Aalto, I understand what you're saying about the  
7 issuance of a financing order, and that the bonds would  
8 be backed by the obligation of the ratepayers to pay.  
9 How would we know how much we're supposed to  
10 securitize? What are we -- subtracting A from B, what  
11 are A and B to determine what's the right amount of the  
12 bonds?

13 A. Well, if you started with the former, which is the  
14 illegal version, and that is you securitize it all,  
15 everything that you had determined the customers were  
16 liable for. So, if there were a disallowance, it would  
17 be the full book value, and other obligations that are  
18 there, minus any disallowance, and that's what the net  
19 is there, that would be the number.

20 Q. So, that you're talking about the Scrubber, period?

21 A. Mostly the Scrubber. But it could be the whole system.  
22 I mean, it could be all of it, if you wanted to.

23 Q. So, you'd try and identify the book value of the  
24 system?

[WITNESS: Aalto]

1 A. Yes.

2 Q. And float bonds to cover that entire --

3 A. Minus any disallowance that might be there.

4 Q. All right.

5 A. And, then, any income from the operation of those  
6 facilities would tend to reduce the price that  
7 customers see in real-time going forward.

8 CHAIRMAN HONIGBERG: Okay. That's all I  
9 had. I think we have nothing else for you. I think you  
10 can return to your seat.

11 WITNESS AALTO: Thank you.

12 CHAIRMAN HONIGBERG: Thank you very  
13 much, Mr. Aalto.

14 I think that's the last of the  
15 witnesses, am I correct?

16 *[No verbal response]*

17 CHAIRMAN HONIGBERG: I am correct. We  
18 have a couple of things we need to do. We need to deal  
19 with exhibits that haven't been already admitted into  
20 evidence, which I believe starts with letter V, and  
21 everything after letter V is at least potentially open for  
22 discussion. Some of those exhibits were never referenced.  
23 So, I'm expecting that we're not allowing all of those  
24 exhibits in.

1                   And, then, we also have to do closings,  
2                   for those who want to do them. Let me get a sense of how  
3                   many people want to do an oral closing and how many people  
4                   would prefer to submit something in writing at the end of  
5                   the day, by the end of the day?

6                   So, Mr. Cunningham, you want to do an  
7                   oral closing. I see a lot. How many people want to  
8                   submit something in writing?

9                   *[No indication given.]*

10                  CHAIRMAN HONIGBERG: Nobody. Ms. Ross,  
11                  you have whatever it was that Commissioner --

12                  MS. ROSS: I have Mr. Harrington's.

13                  CHAIRMAN HONIGBERG: Yes, Mr. Harrington  
14                  wanted to submit. So, we'll need to -- we're going to do  
15                  the closings after lunch.

16                  Are people in a position right now to  
17                  try and deal with exhibits? Or, actually, maybe let me  
18                  make a different suggestion. I think maybe what should  
19                  happen is, the three of us should leave, and the group can  
20                  discuss the exhibits, and what has been used, and no one  
21                  has an objection to having the ID struck and become full  
22                  exhibits. If there are ones you can't agree on, we'll  
23                  deal with them when we come back, at whatever that's going  
24                  to be, probably around 1:30.

1 Does that sound like a way to go? Do  
2 you think that's enough time? Is 15 minutes going to be  
3 enough to deal with exhibits?

4 One person is nodding his head. I  
5 appreciate the affirmation, Mr. Bersak.

6 MS. AMIDON: I think that's enough time.

7 CHAIRMAN HONIGBERG: All right. So,  
8 that's what we're going to do. The three of us are going  
9 to leave. We'll plan to come back at 1:30. We'll deal  
10 with exhibits first, and then we'll hear from all of you  
11 in your closings. Thank you very much.

12 **(Lunch recess was taken at 12:14 p.m.)**

13 (This concludes the **Morning Session** of  
14 Day 3 regarding DE 14-238 & DE 11-250.  
15 Please note that the **Afternoon Session**  
16 is being provided ***under separate cover***  
17 so designated.)  
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