

ORIGINAL

DE 11-014

Exhibit No. #2

Witness

JOINT TESTIMONY OF  
JAMES J. JUDGE AND DAVID R. MCHALE  
EXHIBIT NO. 1 FROM FILE

D.P.U. 10-170

Exhibit JP-1

1 I. INTRODUCTION

2 Q. Mr. Judge, would you please state your name and business address.

3 A. My name is James J. Judge. My business address is 800 Boylston Street, Boston,  
4 Massachusetts.

5 Q. By whom are you employed and in what capacity?

6 A. I am Senior Vice President and Chief Financial Officer of NSTAR, the holding  
7 company parent, and NSTAR's two operating affiliates, NSTAR Electric  
8 Company ("NSTAR Electric") and NSTAR Gas Company ("NSTAR Gas"). In  
9 that capacity, I am responsible for treasury and accounting operations, investor  
10 relations, financial planning, rates, performance management, asset management,  
11 energy supply, supply chain, environmental affairs and information systems.

12 Q. Please summarize your educational and professional background.

13 A. As of the time of the merger of BEC Energy and Commonwealth Energy Systems  
14 in 1999, I served as the Senior Vice President, Treasurer and Chief Financial  
15 Officer of BEC Energy. I continued in these positions following the creation of  
16 NSTAR in 1999, although in 2009 I delegated my responsibilities as Treasurer to  
17 one of my direct reports. I joined Boston Edison Company in 1977 and held  
18 various positions in the rate, treasury, planning and financial management  
19 organizations prior to becoming Chief Financial Officer in 1995. I hold a

1 Bachelor of Science degree and a Masters degree in Business Administration  
2 from Babson College.

3 **Q. Mr. McHale, would you please state your name and business address.**

4 A. My name is David R. McHale. My business address is 56 Prospect Street,  
5 Hartford, Connecticut.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am Executive Vice President and Chief Financial Officer of Northeast Utilities  
8 (“NU”), which is the holding company parent of Western Massachusetts Electric  
9 Company (“WMECO”). In that capacity, I am responsible for NU’s treasury,  
10 accounting, investor relations, financial planning and budgeting, investment  
11 management, risk management, wholesale power contracts and shared services,  
12 consisting of information technology, purchasing, environmental and property  
13 management.

14 **Q. Please summarize your educational and professional background.**

15 A. I was named to my current position in January 2005. Prior to that, I held the  
16 position of Vice President and Treasurer from July 1998 to January 2005, and  
17 Assistant Treasurer-Finance from May 1995 to July 1998. I joined NU in 1981  
18 and, in the period 1981 through 1998, I held several positions with successive  
19 levels of responsibility, including research analyst in marketing and consumer  
20 economics, financial analyst responsible for financial forecasting and systems  
21 design and manager of investor relations within NU’s treasury organization. I

1 earned a Bachelor of Science degree in economics from Southern Connecticut  
2 State University in 1982 and a Masters of Business Administration in Finance  
3 from the University of New Haven in 1986. I am also a 1997 graduate of the  
4 Stanford University Executive Financial Management Program and a 2003  
5 graduate of Stanford's Executive Program in Strategy and Organization.

6 **Q. What is the purpose of your joint testimony?**

7 A. The purpose of our testimony is to: (a) describe the merger transaction taking  
8 place to combine NSTAR and NU (the "Proposed Merger"), and (b) demonstrate  
9 that the Proposed Merger satisfies the public-interest standard of G.L. c. 164,  
10 § 96, as applied by the Department in relation to the impact on Massachusetts  
11 customers. The Proposed Merger is the result of an Agreement and Plan of  
12 Merger (the "Merger Agreement") entered into by NU and NSTAR on October  
13 16, 2010, as amended on November 1, 2010, which provides for the merger of  
14 NSTAR and NU into a consolidated organization that will retain the name  
15 Northeast Utilities. The Merger Agreement is provided in this filing as Exhibit  
16 JP-2. As denoted in the Merger Agreement, there are certain filings, notices and  
17 waiting periods required in order for NU and NSTAR to obtain authorization,  
18 approval or consent from a number of federal and state regulatory authorities  
19 having jurisdiction over aspects of the Proposed Merger. In this proceeding  
20 NSTAR, NU, NSTAR Electric, NSTAR Gas and WMECO ("Joint Petitioners")

1 are requesting the Department's approval of the Proposed Merger under G.L. c.  
2 164 § 96.

3 **Q. As an initial matter, would you please summarize the rationale for the**  
4 **merger between NSTAR and Northeast Utilities?**

5 A. The rationale for the Proposed Merger stems from the overall challenges facing  
6 utilities in today's environment. As has always been the case, utilities must  
7 provide a high quality of service, at a reasonable cost, and with the extraordinary  
8 level of reliability demanded by the critical importance of electricity and gas to  
9 the economy, public safety and welfare. Today, utilities face the additional  
10 challenges of supporting substantially increased reliance on renewable energy  
11 while attempting to minimize price increases to customers. In addition, utilities  
12 are confronting the challenges of aging-infrastructure replacement while  
13 simultaneously working to deploy new "smart grid" technology. Meeting these  
14 challenges is necessary to assure that the utility is technologically positioned to  
15 provide the most efficient and effective metering, billing and customer care  
16 opportunities for customers and to maintain a committed, qualified workforce  
17 able to meet the demands of our "digital" society. Moreover, these requirements  
18 must be met against a backdrop of a regional economy that has yet to recover  
19 from the financial upheaval of the recent past.

20 Although NU and NSTAR are each capable of addressing these issues on their  
21 own, they are able to do so more effectively and efficiently by merging into one

1 company. The merged entity will be significantly larger, thus able to not only  
2 support needed future investment but also to withstand further volatility in the  
3 national economy. The expanded service territory of the new company will bring  
4 significant geographic diversity, which will enable enhanced mutual support  
5 during storms or other service disruptions that are usually localized in nature. The  
6 merged company will bring together the complementary strengths of a best in  
7 class distribution company, which is largely urban in nature and has significant  
8 expertise with underground systems, with a best in class transmission provider,  
9 whose service territory is largely suburban and rural. Combining the two  
10 companies also will provide the inherent benefits of bringing together two  
11 creative and capable workforces focused on identifying and implementing best  
12 practices. For these reasons, the Proposed Merger makes a great deal of sense and  
13 will benefit customers, communities and shareholders alike.

14 **Q. Would you briefly summarize the reasons that the Proposed Merger is in the**  
15 **public interest as defined by the Department in its prior precedent for utility**  
16 **mergers?**

17 **A.** The Department's longstanding policy has been to encourage cost-effective utility  
18 mergers and acquisitions, as one of several means by which utilities may be able  
19 to reduce their cost of service, improve service reliability and enhance their  
20 financial strength. The Proposed Merger will satisfy these important public-  
21 policy objectives by bringing together two utility holding companies with  
22 complementary distribution and transmission assets, a substantial customer base

1 located entirely within New England, and qualified and experienced utility  
2 workforces trained to fulfill the public service obligations attendant to the  
3 delivery of gas and electric service. Through the Proposed Merger, NU and  
4 NSTAR will become the largest utility company in New England, and one of the  
5 largest in the United States, based on the size of the customer base and market  
6 capitalization. This broad-based operating platform will create economies of  
7 scale and scope (and resulting public-interest benefits), which could not be  
8 attained in the absence of the Proposed Merger.

9 We also note that all constituencies benefit from local ownership and  
10 management of utility companies, which the Proposed Merger provides. In this  
11 regard the “merger of equals” of NU and NSTAR is fairly unique, when viewed  
12 in the context of most mergers in recent years, which have been acquisitions by  
13 remote owners resulting in the loss to the region of the benefits of local  
14 connection. Here, the benefits of increased scale and scope come without any  
15 change in the provision of locally owned and locally managed utility service, or  
16 any change in relationship between NU and NSTAR and the New England  
17 communities in which they have historically served.

18 Each of the affected constituencies will see benefits from the Proposed Merger.  
19 Customers will see the cost savings associated with increased operating  
20 efficiencies, the implementation of best practices and process improvements,

1 increased purchasing leverage, voluntary employee attrition and retirements.  
2 Customers will also benefit from the increased scale of the new organization,  
3 which will allow for investments in infrastructure, information technology and  
4 other items to be spread over a larger customer base, thereby lowering per  
5 customer costs. In addition, the Proposed Merger may also make possible  
6 investment in technologies and processes that might be less feasible from an  
7 economic perspective for each company to undertake on a stand-alone basis. In  
8 addition, the larger scale and scope will create the financial strength to meet  
9 enhanced service reliability standards over time on an efficient, sustainable basis.

10 Employees will see greater opportunities to utilize their skills and capabilities, as  
11 well as increased opportunities for career growth. The post-merger organization  
12 will honor all existing collective-bargaining agreements. In addition, the  
13 Company will work to achieve cost savings by leveraging existing work-force  
14 capabilities as employee attrition occurs through voluntary departures and  
15 retirements.

16 Regionally, the financial strength of the combined organization will enable  
17 investment in capital-intensive distribution and transmission projects, which will  
18 provide important benefits to the local economy. The combined organization will  
19 also allow for greater financial flexibility and the liquidity necessary to weather  
20 cyclical conditions in the utility industry and general economy. In addition, the

1 larger scale and scope will give the combined company a stronger regional voice  
2 in national energy policy discussions for the benefit of customers and the  
3 communities in which the NU organization will provide electric and gas delivery  
4 service.

5 For all of these reasons, the Proposed Merger is in the public interest and should  
6 be approved by the Department.

7 **II. DESCRIPTION OF THE MERGER TRANSACTION**

8 **Q. Please describe NSTAR and NU and their respective utility operating**  
9 **subsidiaries?**

10 A. NSTAR is a Massachusetts business trust and a public-utility holding company  
11 with a principal office in Boston, Massachusetts. NSTAR is engaged primarily in  
12 the energy delivery business through its two wholly-owned regulated utility  
13 subsidiaries in Massachusetts, which are NSTAR Electric and NSTAR Gas.  
14 NSTAR Electric is a Massachusetts electric distribution company, pursuant to  
15 G.L. c. 164, § 1, with a principal office in Boston, Massachusetts. NSTAR  
16 Electric provides electric distribution service to approximately 1.1 million retail  
17 customers in the cities of Boston and Cambridge, as well as 80 surrounding cities  
18 and towns, including those encompassed within the geographic area of Cape Cod  
19 and Martha's Vineyard. NSTAR Gas is a Massachusetts natural gas local  
20 distribution company, pursuant to G.L. c. 164, § 1, with a principal office in  
21 Boston, Massachusetts. NSTAR Gas purchases, distributes and sells natural gas



1 to approximately 300,000 retail customers in 51 communities in central and  
2 eastern Massachusetts, including, Cambridge, Framingham, Plymouth, New  
3 Bedford, Worcester, and an area within the City of Boston.

4 NU is a Massachusetts business trust and public-utility holding company with its  
5 principal office in Springfield, Massachusetts. NU has its corporate offices in  
6 Hartford, Connecticut. NU is engaged primarily in the energy delivery business  
7 through its four wholly-owned regulated utility subsidiaries in Connecticut,  
8 Massachusetts and New Hampshire. NU's Massachusetts wholly owned electric  
9 distribution company is WMECO with its principal office in Springfield,  
10 Massachusetts. WMECO provides electric distribution service to approximately  
11 210,000 retail customers in 59 cities and towns in western Massachusetts,  
12 including the cities of Springfield and Pittsfield, Massachusetts. Other wholly  
13 owned subsidiaries of NU include The Connecticut Light and Power Company,  
14 Yankee Gas Services Company and Public Service Company of New Hampshire.  
15 However, none of these NU affiliates provide service to Massachusetts customers,  
16 nor own any assets in Massachusetts.

17 **Q. Please describe the Proposed Merger transaction.**

18 A. The Merger Agreement establishes the structure of the transaction as an all-  
19 equity, stock-for-stock exchange where cash will only be paid in lieu of issuing  
20 fractional shares, as appropriate. In accordance with the Merger Agreement, each  
21 holder of an NSTAR common share will be entitled to receive 1.312 shares of NU

1 common shares (the “exchange ratio”). The exchange ratio is intended to  
2 represent an average of the closing price during the 20 trading days preceding the  
3 merger announcement, with no “premium” due either to NU or NSTAR  
4 shareholders. Following completion of the Proposed Merger, Charles W. Shivery  
5 will serve as the non-executive Chairman of the Board and Thomas J. May will  
6 serve as President and Chief Executive Officer of NU. The senior management of  
7 the Company and Board of Trustees will be drawn equally from the officers and  
8 trustees of NSTAR and NU, respectively. NU will have dual headquarters in  
9 Boston, Massachusetts and Hartford, Connecticut.

10 **Q. Please describe the process by which the Proposed Merger will occur.**

11 A. The Proposed Merger will be accomplished in a two-step process, as set forth in  
12 the Merger Agreement. As described therein, the Proposed Merger will consist  
13 first of a merger under Massachusetts law, whereby NSTAR will combine with,  
14 and into, a new first tier, wholly owned subsidiary of NU, called NU Holding  
15 Energy 1 LLC (“Merger Sub”). In this part of the transaction, Merger Sub will  
16 cease to exist and NSTAR becomes the surviving entity (termed the “Surviving  
17 Trust”). Immediately thereafter, NSTAR, the Surviving Trust, will merge with  
18 and into a second, wholly-owned first tier subsidiary of NU (NU Holding  
19 Energy 2 LLC or “Acquisition Sub”). The Acquisition Sub will be the surviving  
20 entity and renamed NSTAR LLC. As a consequence of the two concurrent  
21 mergers, NSTAR will become a wholly owned, first tier subsidiary of NU in a

1 transaction intended to produce a tax-free exchange of stock for the present  
2 shareholders of both NSTAR and NU.

3 **Q. In addition to approval of the Department, what other regulatory filings are**  
4 **required to complete the merger?**

5 A. The Proposed Merger will require the approval of the Federal Energy Regulatory  
6 Commission under § 203 of the Federal Power Act; pre-merger notifications to  
7 the Department of Justice and the Federal Trade Commission under the Hart-  
8 Scott-Rodino Antitrust Improvements Act of 1976; approval of the Nuclear  
9 Regulatory Commission (“NRC”) in connection with the indirect interests held in  
10 decommissioned nuclear power plants that remain licensed by the NRC for the  
11 purpose of spent fuel storage; approval of the Federal Communications  
12 Commission (“FCC”) in connection with the indirect transfer of ownership or  
13 control of FCC-issued licenses; and approval of the Maine Public Utilities  
14 Commission in conjunction with ownership by Public Service Company of New  
15 Hampshire of a small amount of transmission assets in the state of Maine.

16 In addition, NU and NSTAR filed a Form S-4 Registration Statement with the  
17 Securities and Exchange Commission (“SEC”) on November 22, 2010, which  
18 includes a joint proxy statement of NU and NSTAR, and which also constitutes a  
19 prospectus of NU. The joint proxy statement/prospectus will be mailed to the  
20 respective shareholders of NU and NSTAR once the Form S-4 Registration  
21 Statement has been declared effective. To obtain approval of the merger and

1 related proposals, shareholder votes are expected in late March or early April,  
2 2011, depending on the timing of SEC comments. The Proposed Merger must be  
3 approved by two-thirds of the outstanding shares of both NU and NSTAR.

4 **Q. What is the anticipated timeline for closing the Proposed Merger of NSTAR**  
5 **and NU?**

6 A. NU and NSTAR are seeking to obtain all of the necessary regulatory and  
7 shareholder approvals on or before May 15, 2011, with the closing of the  
8 proposed merger completed as soon as possible thereafter. Therefore, the Joint  
9 Petitioners respectfully request that the Department issue an order in this  
10 proceeding by May 15, 2011.

11 **III. THE PROPOSED MERGER IS CONSISTENT WITH THE PUBLIC**  
12 **INTEREST**

13 **Q. What is your understanding of the approval that is necessary from the**  
14 **Department under G.L. c. 164, § 96?**

15 A. Our understanding is that the Department's approval of the Proposed Merger is  
16 required under G.L. c. 164, § 96 because both NU and NSTAR own and operate  
17 affiliates that provide electric or gas distribution service to Massachusetts  
18 customers subject to the Department's jurisdiction under G.L. c. 164, § 1. Our  
19 further understanding is that the review that the Department applies under § 96 is  
20 focused on evaluating the potential impacts of the planned merger or  
21 consolidation on the interests of Massachusetts customers. This scope of review  
22 requires a demonstration that the proposed transaction is "consistent with the

1 public interest” and will result in “no net harm” for Massachusetts customers. We  
2 also understand that, under the “no net harm” standard, a proposed merger is  
3 allowed to go forward on a finding by the Department that the “public interest  
4 would be at least as well served by approval of a proposal as by its denial.”

5 Based on these understandings, our testimony is designed to review the factors  
6 that the Department has previously identified as important in evaluating the costs  
7 and benefits of a proposed merger and to demonstrate that the Proposed Merger is  
8 in the public interest and will result in no net harm for Massachusetts customers.

9 **Q. Does the Proposed Merger meet the public-interest standard of G.L. c. 164,**  
10 **§ 96, as applied by the Department in prior cases?**

11 **A.** Yes. It is our belief that the Proposed Merger not only meets the “no net harm”  
12 test, but in the long run, will provide the opportunity for benefits that would not  
13 otherwise be achievable. The Department’s review of this Joint Petition will  
14 show that the Proposed Merger is consistent with the public interest because the  
15 transaction will create opportunities for cost reduction, service improvements and  
16 enhanced financial strength, among other beneficial results, which would not be  
17 available in the absence of the Proposed Merger. These are fundamental public-  
18 policy objectives that the Department has long promoted. Therefore, given that  
19 the positive impacts of the Proposed Merger are consistent with the Department’s  
20 central policy objectives, the Department’s review of this filing will show that the  
21 Proposed Merger meets the Department’s public-interest standard. Thus, the

1 interests of Massachusetts customers served by NSTAR Electric, NSTAR Gas  
2 and WMECO will be better served by the Department's approval of the Proposed  
3 Merger than by its denial.

4 **Q. Would you please explain your understanding of the specific factors that**  
5 **must be addressed to demonstrate that the Proposed Merger meets the**  
6 **Department's standard for approval under G.L. c. 164, § 96?**

7 **A.** Yes. Our understanding is that the Department has stated that it will consider a  
8 number of factors in order to determine whether a proposed transaction is  
9 "consistent with the public interest" and will result in "no net harm" to  
10 Massachusetts customers, including:

- 11 • Impact on rates (including proposed rate changes at the time of the  
12 closing of the transaction);
- 13 • Long-term strategies that will assure a reliable, cost-effective energy  
14 delivery system;
- 15 • Impact on the quality of service, including any potential for  
16 interruptions in service or the existence of other factors that may  
17 negatively affect customer service;
- 18 • Resulting net savings;
- 19 • Effect on competition;
- 20 • Financial integrity of the post-merger entity;
- 21 • Fairness of the distribution of resulting benefits between stockholders  
22 and customers;
- 23 • Societal costs and effect on economic development; and
- 24 • Alternatives to the merger.

25 Our testimony below addresses each of these factors in sequence.

1 **Q. Turning now to the specific public-interest factors considered by the**  
2 **Department, will the Proposed Merger have an adverse impact on the rates**  
3 **of NSTAR Electric, NSTAR Gas, or WMECO?**

4 A. No. Through this merger request, the Joint Petitioners are not seeking any  
5 changes to the rates charged to customers of NSTAR Electric, NSTAR Gas and  
6 WMECO. No changes to the tariff rates or services of NSTAR Electric, NSTAR  
7 Gas or WMECO are planned or contemplated as a condition of the Proposed  
8 Merger. Moreover, because there is no consolidation of NSTAR Electric,  
9 NSTAR Gas and/or WMECO that would be effected upon the closing of the  
10 Proposed Merger, the Department will retain the ability to examine future changes  
11 in rates in accordance with the cost structures and rate mechanisms applicable to  
12 each of those individual companies. Therefore, no negative rate impact can result  
13 to customers as a result of effectuating the Proposed Merger and, over time,  
14 efficiencies from the merger will positively affect future rates.

15 **Q. Will the Proposed Merger have an effect on long-term strategies that will**  
16 **assure a reliable and cost-effective energy delivery system?.**

17 A. The Proposed Merger will have a positive impact on the reliable and cost-  
18 effective delivery of gas and electricity to Massachusetts customers. NSTAR  
19 Electric, NSTAR Gas and WMECO have always endeavored to provide  
20 customers with reliable and cost-effective delivery service. The merger provides  
21 an opportunity to adopt best practices across the organization to enhance the  
22 existing quality of service. Moreover, the key to maintaining a reliable system in

1 the long run is the consistent and adequate investment of capital by utility  
2 managers. The Proposed Merger is occurring at the holding company level and  
3 will have the effect of strengthening financial integrity and increasing investment  
4 capability. In fact, the Joint Petitioners view this enhanced capability as a core  
5 driver of the merger transaction and plan to make substantial investments in  
6 regional infrastructure improvements over the next five years. These  
7 infrastructure improvements will inure to the benefit of customers in the form of  
8 enhanced service reliability and improved system-operating efficiency.

9 **Q. Please describe how the Proposed Merger will affect service quality,**  
10 **including whether any service interruptions or negative consequences are**  
11 **anticipated as a result of the merger.**

12 **A.** An important aspect of the Proposed Merger is that the current structure of the  
13 Massachusetts operating companies will not change and NSTAR Electric,  
14 NSTAR Gas and WMECO will continue to operate as independent entities.  
15 Accordingly, there will be no adverse impact on service quality, no greater  
16 potential for service interruptions, and no negative service quality consequences  
17 resulting from the Proposed Merger. Senior management of both companies are  
18 committed to providing high quality service that meets or exceeds the  
19 expectations of customers and other stakeholders. The holding company merger  
20 will have no detrimental impact on management's commitment and close  
21 attention to service quality. In fact, the Joint Petitioners anticipate that service  
22 quality will be favorably affected by the adoption of "best practices" between and



1 among subsidiary companies. Customers should benefit from the exchange of  
2 ideas, methods and procedures and the implementation of system-wide best  
3 practices in the areas of operations and customer service.

4 Moreover, the Proposed Merger will not change the Department's authority with  
5 respect to the quality of service provided by NSTAR Electric, NSTAR Gas and  
6 WMECO to Massachusetts customers. The closing of the Proposed Merger will  
7 not disturb or change the Department's ability to measure and monitor the service  
8 quality of each utility after the Proposed Merger. Service quality is measured,  
9 monitored and enforced through the annual service-quality review undertaken by  
10 the Department and service-quality penalties may be assessed if service were to  
11 fall below historical benchmark levels. However, NSTAR Electric, NSTAR Gas  
12 and WMECO do not anticipate any negative service-quality impacts resulting  
13 from the Proposed Merger. As noted above, the Joint Petitioners' expectation is  
14 that service quality will be positively affected over time as best practices are  
15 implemented.

16 **Q. Do NSTAR and NU anticipate that net savings associated with operating and**  
17 **maintenance costs will result from the Proposed Merger?**

18 A. Over time, the integration of the NSTAR and NU operations is anticipated to  
19 produce net savings associated with operating and maintenance ("O&M") costs.  
20 However, the scope and timing of O&M savings is not yet known, and therefore,  
21 there are no estimated or quantified savings at this time. There are no plans to

1 consolidate subsidiary operations below the holding company level as part of the  
2 Proposed Merger, and therefore NSTAR Electric, NSTAR Gas and WMECO will  
3 continue to be operated as independent entities. Over time, efficiencies are  
4 expected to result primarily from process improvements, purchasing leverage,  
5 voluntary employee attrition and retirements and other potential efficiencies. As  
6 cost savings are obtained, the net benefit of those savings will be passed on to  
7 customers through reduced costs of service in future rate proceedings.

8 **Q. Will the Proposed Merger have any effect on competition?**

9 A. Completion of the Proposed Merger will not have any adverse impact on retail  
10 competition in Massachusetts. NSTAR Electric, NSTAR Gas and WMECO have  
11 established comprehensive internal processes in order to conduct business  
12 transactions with competitive suppliers serving customers on each distribution  
13 system. These internal processes are consistent with the protocols established by  
14 the Department since the enactment of the Electric Utility Industry Restructuring  
15 Act of 1997 and will be maintained as such following the completion of the  
16 Proposed Merger.

17 In addition, neither NU nor NSTAR, nor their operating companies, compete for  
18 retail customers in Massachusetts. None of the geographic service territories of  
19 NSTAR Electric, NSTAR Gas and WMECO overlap. In addition, there will be  
20 no change in the various practices and procedures governing retail choice

1 activities supported by NSTAR Electric, NSTAR Gas and WMECO for  
2 customers served by competitive suppliers on each system.

3 **Q. How will the Proposed Merger affect the financial integrity of the post-**  
4 **merger entity?**

5 A. The post-merger organization will have an enterprise value of approximately \$18  
6 billion and a market capitalization of approximately \$10 billion. The post-merger  
7 organization will provide electric and gas delivery services to approximately 3.5  
8 million customers in three states through six operating companies. This scale and  
9 scope of operation will result in greater financial strength. Currently, both  
10 NSTAR and NU have strong balance sheets, established track records of  
11 profitability and investment grade credit ratings. The merger of the NSTAR and  
12 NU holding companies will create incremental financial strength through the  
13 combination of cash flows, the consolidation of revenues and earnings, balance  
14 sheet consolidation and business and regulatory diversity. The combined  
15 organization will also allow for greater financial flexibility and the liquidity  
16 necessary to weather cyclical conditions in the utility industry. Consequently, the  
17 Proposed Merger will have a positive impact on the going-forward financial  
18 integrity of the post-merger organization.

19 **Q. How will the benefits of the Proposed Merger be distributed between**  
20 **shareholders and customers?**

21 A. As anticipated by the Department in establishing a policy to encourage utility  
22 mergers and acquisitions, the Proposed Merger will create benefits such as

1 increased efficiencies, reduced costs of service, improved service reliability and  
2 enhanced financial strength. These benefits will inure to the benefit of customers  
3 and will be incorporated into rates and service-quality metrics over time, as  
4 appropriate. Although the Joint Petitioners will incur costs to achieve these  
5 benefits, the Department's policy is that merger-related costs cannot be recovered  
6 from customers unless and until a demonstration is made that merger-related  
7 savings will be achieved to offset those costs. As a result, the distribution of  
8 benefits between shareholders and customers that would occur as a result of the  
9 Department's approval of the Proposed Merger is fair, appropriate and reasonable.

10 **Q. Are there societal or economic impacts that could result from the Proposed**  
11 **Merger?**

12 **A.** The Proposed Merger will have positive economic and societal impacts in several  
13 respects. First, the operating utilities providing service to Massachusetts  
14 customers (NSTAR Electric, NSTAR Gas and WMECO) will continue to be  
15 locally owned and locally managed. This means that the post-merger  
16 organization will continue to remain knowledgeable of, and committed to, the  
17 Department's core policy goals of cost efficiency, service reliability and financial  
18 integrity. The post-merger organization will also remain attuned to the needs,  
19 concerns and expectations of Massachusetts customers, as well as customers  
20 served throughout New England. To that end, the post-merger organization will  
21 retain dual headquarters in Boston, Massachusetts and Hartford, Connecticut.  
22 The charitable contributions and community support extended by NSTAR and

1 NU prior to the merger will continue in the future and will reflect the ongoing  
2 commitment that the post-merger organization will have to the state jurisdictions  
3 in which it provides service to customers.

4 Second, the Proposed Merger will create the opportunity to strengthen the ability  
5 of NSTAR and NU to meet New England's evolving energy needs. Reliable,  
6 dependable and cost-effective access to sustainable energy resources is important  
7 to the region's long-term economic prosperity. Significant new infrastructure  
8 investment will be required to achieve the energy goals and policies established  
9 by the Commonwealth and the New England region. The Proposed Merger will  
10 facilitate that needed investment and will bring additional jobs and tax revenues to  
11 the region. The merger of NSTAR and NU will bring complementary operations  
12 together toward the achievement of the region's economic, energy and  
13 environmental goals. The larger scale and scope of the business enterprise will  
14 create a stronger voice in regional and national energy policy and ensure that  
15 advocacy efforts on behalf of customers, communities in which customers are  
16 served and the New England region find a place at the table.

17 Third, the Proposed Merger will not have an adverse impact on employment  
18 because the Proposed Merger will combine two, experienced and qualified utility  
19 work forces, with labor-related operating efficiencies expected to be achieved  
20 through normal employee attrition and retirements rather than layoffs or

1 involuntary headcount reductions. The post-merger organization will honor  
2 existing collective-bargaining agreements. Moreover, to the extent that the  
3 financial strength of the combined organization will enable increased investment  
4 in significant capital projects, this investment has the potential to increase  
5 employment opportunities rather than having an adverse impact.

6 **Q. Did NU and NSTAR consider any alternatives to the Proposed Merger?**

7 A. The NU and NSTAR boards have concluded that the Proposed Merger represents  
8 an optimally structured strategic transaction, which serves the interests of  
9 customers, shareholders and employees, as well as the interests of the  
10 Commonwealth of Massachusetts and the New England region. Although the  
11 management of both companies have, from time to time, considered the merits of  
12 mergers and other strategic transactions, as discussed above, the Proposed Merger  
13 is unique and other transactions do not reasonably represent alternatives to the  
14 Proposed Merger. Nor would other transactions provide the same unique benefits  
15 as the Proposed Merger. As a result, the only real alternative to the transaction  
16 would be to maintain the status quo, which would mean foregoing the anticipated  
17 benefits achievable only through the Proposed Merger.

18 **Q. Do you have any final comments on the Proposed Merger and its impact on**  
19 **Massachusetts customers?**

20 A. Yes. In our experience, the proposed combination of NU and NSTAR presents a  
21 unique opportunity to obtain the range of benefits available through a merger

1 without the loss of local control. There are obvious benefits that are possible as a  
2 result of the larger scale and scope of the combined organization, which could not  
3 be achieved as efficiently or effectively by NU or NSTAR in the absence of the  
4 Proposed Merger. In addition, there are no adverse impacts that have the  
5 potential to result from the Proposed Merger for Massachusetts customers because  
6 the merger will occur at the holding company level so that utility operations are  
7 not disrupted or changed. Moreover, both NU and NSTAR are “known  
8 quantities” to the Department and the Proposed Merger will not affect the  
9 Department’s familiarity with the operations, finances and management of  
10 NSTAR Electric, NSTAR Gas and WMECO. There is no other combination that  
11 we could envision that would have these unique attributes, and therefore, we  
12 request that the Department approve the Proposed Merger.

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

14 A. Yes.

15