

STATE OF NEW HAMPSHIRE

Inter-Department Communication

DATE: March 4, 2013
AT (OFFICE): NHPUC

FROM: *SEM*
Steven E. Mullen
Assistant Director – Electric Division

SUBJECT: DE 12-363 – New England Electric Transmission Corporation/New England Power Company – Petition for Authority to Transfer Certain Assets Associated with the Monroe HVDC Phase 1 Converter Facility
Staff Recommendation

TO: Chairman Amy Ignatius
Commissioner Michael Harrington
Commissioner Robert Scott
Executive Director Debra Howland

On December 21, 2012, New England Electric Transmission Corporation (NEET) and New England Power Company (NEP) (collectively, “the Joint Petitioners”) filed, pursuant to RSA 374:30, a “Petition for Authority to Transfer Certain Assets Associated with the Monroe HVDC Phase 1 Converter Facility.” As stated in the petition, both of the petitioners are wholly-owned subsidiaries of National Grid USA (National Grid). NEET was formed to build, own and operate six miles of high voltage direct current (HVDC) transmission line and the Monroe alternating current (AC)/direct current (DC) converter facility (HVDC Phase I Converter Facility) in Monroe, New Hampshire for the first phase of the Hydro-Quebec and New England HVDC interconnector project. NEP owns and operates approximately 2,400 miles of transmission facilities in various New England states, including New Hampshire. By the petition, NEET and NEP are seeking Commission approval, to transfer certain assets associated with the now-retired Monroe HVDC Phase I Converter Facility and other limited assets. NEET and NEP also propose to transfer certain assets to a third party, TransCanada, who owns and operates approximately 566 megawatts of hydroelectric generating facilities in New Hampshire, Vermont and Massachusetts.

On January 28, 2013, the Joint Petitioners filed the affidavit of William L. Malee, Director – Transmission Commercial for National Grid USA Service Company, Inc. for the purpose of supplementing and correcting certain limited information contained in the petition. By that affidavit, the Joint Petitioners requested additional approvals with respect to the assets to be transferred from NEET to NEP.

Having reviewed the filing and related discovery materials, and for the reasons set forth below, Staff recommends the Commission approve the petition, as modified by the January 28, 2013 affidavit.

Background

The joint petition includes a description of three separate proposed asset transfers¹:

1. A transfer from NEET to NEP of certain VAR support facility assets associated with the HVDC Phase I Converter Facility and other limited assets for \$1.00;
2. A transfer from NEET to TransCanada of certain communications-related assets located at Comerford Station in Monroe, New Hampshire (the NEET communications assets) for \$11,481; and
3. A transfer from NEP to TransCanada of certain other communications-related assets located at Comerford Station in Monroe, New Hampshire (the NEP communications assets) for \$15,686.

According to the Joint Petitioners, the HVDC Phase I Converter Facility began operation in 1986. In 2007, ISO New England issued a notice (included as Exhibit A to the petition) stating that retirement of the HVDC Phase I Converter Facility would not have a significant adverse effect on the stability, reliability or operating characteristics of New England transmission facilities, provided that the following facilities at the converter station remain operation and maintained by a National Grid entity:

- Four (4) 20 MVAR switched shunt reactors;
- Four (4) 31.5 MVAR switched capacitors; and
- Phase II HVDC related filtering and communications equipment.

The above listed assets are included in the VAR support assets to be transferred from NEET to NEP.² As described in the petition, all assets to be transferred from NEET to NEP have been fully depreciated and, as such, the transfer price for the assets would be \$1.00. With respect to that proposed transfer of assets, the Joint Petitioners state that, as NEP is a New Hampshire public utility, the Commission would still retain jurisdiction over the assets. In addition, they represent that a) NEET will benefit from the transfer by being able to dispose of fully depreciated assets without incurring any disposal or removal costs, and b) NEP will benefit by acquiring assets that it can utilize as additional inventory to support its existing transmission system.

According to the Joint Petitioners, the communications-related assets to be transferred to TransCanada by both NEET and NEP consist of certain fiber optic cable and supporting equipment that were previously used for communication between the HVDC Phase I Converter Facility and NEP's transmission facilities. With the retirement of the converter station, the Joint Petitioners represent that those communications assets are no longer required by NEET or NEP. Further, at paragraph 8 on page 4 of the petition, the Joint Petitioners state that the NEET and NEP communications assets:

¹ The petition also included, for informational purposes, a description of other communication-related assets located in Bellows Falls, Vermont, but those assets are not a subject of the requested approvals.

² A detailed list of all assets to be transferred from NEET to NEP was included as Appendix B to the petition.

...were not offered for sale to any entity except TransCanada because their value to TransCanada is based on the fact that it owns generation assets at the Comerford site and they can be used to provide an alternate communications route for protective relaying purposes. The...[a]ssets would be of little or no value to any other entity.

Transferring the communication-related assets to TransCanada, NEET and NEP state, will allow them to obtain compensation through arm's length transactions for assets that are no longer of value to them.

In the January 28, 2013 affidavit, the Joint Petitioners requested approval of the following additional asset transfers:

4. Certain transmission-related spare parts and inventory at a book cost of \$50,384; and
5. Certain real property interests formerly associated with the HVDC Phase I Converter Facility.

According to Mr. Malee, subsequent to filing the initial petition, it was determined that the spare parts and inventory would be included in the asset transfer from NEET to NEP. Regarding the real property, it was described as

...a 5.87 mile long right-of-way corridor (formerly the ground electrode feeder) through the towns of Lisbon, Littleton and Lyman, and a 300 acre parcel of land (formerly the ground electrode site) situated in the town of Lisbon.

As explained by Mr. Malee, as the real property is non-depreciable, it is to be transferred at its book value of \$440,049. Finally, attached to the affidavit was a copy of the January 15, 2013³ approval by the Federal Energy Regulatory Commission (FERC) of the portion of aspects of the proposed transactions that are subject to FERC jurisdiction.

Analysis

Staff conducted two rounds of discovery with respect to the proposed transactions. Staff views the amounts to be paid by NEP for the assets it is to acquire as reasonable as they are all based on net book value. Regarding the prices to be paid by TransCanada for the NEET and NEP communications assets, Staff learned through the discovery process that the amounts were determined through either a net present value calculation of the current lease payments from TransCanada (NEET communications assets) or through a comparison of value for like equipment (NEP communications assets). Both valuations appear to be reasonable methods based on the particular assets at issue.

³ Although the cover letter to the Joint Petitioners' December 21, 2012 initial filing indicated that NEET had requested FERC approval by January 15, 2014, that was due to a typographical error.

NEET currently receives revenues associated with assets that are being transferred to NEP and TransCanada, and those revenues are included in the determination of NEET's annual assessment by the Commission pursuant to RSA 363-A:2. For future assessment purposes, the transfer of assets from NEET to NEP will result in NEET's New Hampshire-related revenues decreasing while NEP's New Hampshire-related revenues should increase, all else being equal. Those revenues relate to the costs of owning and operating the VAR support equipment. The actual changes in revenues for the two entities, however, may differ due to differences in the formula rate calculations approved by the FERC for the two companies.⁴ In addition, NEET will experience a decrease in revenue upon the transfer of assets to TransCanada as a lease associated with the NEET communications assets will terminate.⁵

Regarding the overall purpose for the transfer of the VAR support equipment from NEET to NEP, the Joint Petitioners explained as follows:

The VAR support equipment was originally intended for the operation of the Phase 1 HVDC terminal. Upon the retirement of the terminal, the VAR support equipment was retained for a different purpose, i.e., voltage control on the AC system. NEP is the operator recognized by ISO-NE for AC equipment under the Transmission Operating Agreement. NEET, as a party to the Phase I/II Transmission Operating Agreement, is only recognized for the operation of any equipment necessary for Phase I. Since equipment owned by NEET is paid for by a different set of stakeholders than equipment owned by NEP, the transfer is needed so that the cost allocation for the ongoing costs of maintaining the VAR support equipment is correct.⁶

Taking all of the above into consideration, Staff recommends the Commission approve the petition, as modified and supplemented by the January 28, 2013 affidavit. Such approval would encompass the asset transfers identified as numbers 1-5 above. The petitioners originally requested an expedited Commission ruling by January 31, 2013; however, no new date for approval was requested with the filing of the supplemental affidavit. Staff recommends that Commission approval be via an order *nisi*, with a potentially decreased period of time for interested parties to file comments or request a hearing.

Please let me know if you have any questions or would like to discuss this matter further.

cc: Suzanne Amidon
Thomas Frantz
Service List

⁴ See NEET/NEP responses to Staff 1-6 and 2-3, included as Attachments 1 and 2.

⁵ See Attachment 1. As a point of reference, NEET's 2011 FERC Form 1 indicates that the lease payments received by NEET during 2011 were approximately \$6,500.

⁶ See NEET/NEP response to Staff 1-7, included as Attachment 3. See also Attachment 4, response to Staff 2-4, for a listing of the differing groups of stakeholders.

NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION/
NEW ENGLAND POWER COMPANY

DE 12-363

NEET/NEP'S RESPONSES TO
STAFF'S DATA REQUESTS – SET 1

Date Request Received: 01/07/13
Request No. Staff 1-6

Date of Response: 01/10/13
Witness: Edward Kremzier

REQUEST: Reference NEET's 2011 FERC Form 1, pages 300 and 328. Will NEET experience any changes to its revenues as a result of the proposed transactions? If so, please provide details.

RESPONSE: There are two changes to revenues that are expected to occur as a result of the proposed transactions. First, the NEET/NEP transaction would result in a reduction in the support payments reported on Line 21 under Other Electric Revenues and attributable to the loss of any ongoing costs to operate and maintain the VAR support equipment. (See also response to Data Request Staff 1-7.) Second, the NEET/TransCanada transaction would result in a loss of all revenue reported on Line 19 under Rent from Electric Property upon the termination of a lease for the associated Communications-Related Assets. (See also response to Data Request Staff 1-1.)

NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION/
NEW ENGLAND POWER COMPANY

DE 12-363

NEET/NEP'S RESPONSES TO
STAFF'S DATA REQUESTS – SET 2

CORRECTED RESPONSE

Date Request Received: 01/11/13
Request No. Staff 2-3

Date of Corrected Response: 01/23/13
Witness: Edward Kremzier

REQUEST: Reference response to 1-6. Please quantify the expected amount of the reduction in the support payments to be received by NEET. Will the associated revenues now be received by NEP? If not, please explain. If so, will such revenues received by NEP equal the amount of revenues no longer received by NEET? Please explain any differences.

RESPONSE: The expected amount of reduction in the support payments to be received by NEET is directly associated with the actual cost to operate and maintain the VAR support equipment. At this time, no estimate has been made of these costs. NEP will assume the costs to operate and maintain the VAR support equipment and will receive corresponding revenues in accordance with the FERC-approved Open Access Transmission Tariff (OATT) applicable to transmission facilities owned by NEP. Differences, if any, in the amount of revenues received by NEP would be the result of differences in the formula rate calculation approved by FERC for NEP versus the formula rate calculation approved by FERC for NEET.

NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION/
NEW ENGLAND POWER COMPANY

DE 12-363

NEET/NEP'S RESPONSES TO
STAFF'S DATA REQUESTS – SET 1

Date Request Received: 01/07/13
Request No. Staff 1-7

Date of Response: 01/10/13
Witness: Edward Kremzier

REQUEST: Please explain why the transaction to transfer ownership of the VAR support equipment to NEP from NEET is necessary. In other words, if NEET retained ownership of the VAR support equipment, what, if anything, would be different?

RESPONSE: The VAR support equipment was originally intended for the operation of the Phase I HVDC terminal. Upon the retirement of the terminal, the VAR support equipment was retained for a different purpose, i.e., voltage control on the AC system. NEP is the operator recognized by ISO-NE for AC equipment under the Transmission Operating Agreement. NEET, as a party to the Phase I/II Transmission Operating Agreement, is only recognized for the operation of any equipment necessary for Phase I. Since equipment owned by NEET is paid for by a different set of stakeholders than equipment owned by NEP, the transfer is needed so that the cost allocation for the ongoing costs of maintaining the VAR support equipment is correct.

NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION/
NEW ENGLAND POWER COMPANY

DE 12-363

NEET/NEP'S RESPONSES TO
STAFF'S DATA REQUESTS – SET 2

Date Request Received: 01/11/13
Request No. Staff 2-4

Date of Response: 01/22/13
Witness: Edward Kremzier

REQUEST: Reference response to 1-7. Please identify the differences in the stakeholder groups referred to in the last sentence of the response, i.e., those that pay for equipment owned by NEET vs. those that pay for equipment owned by NEP.

RESPONSE: Attachment 2-4A contains the list of utility participants, with their respective shares, that make support payments to NEET. Attachment Staff 2-4B is the list of entities that pay for local transmission service charges from NEP. The shares for local service vary from month-to-month based on the load ratio of the entities that take service at the time of NEP's coincident peak. (See Attachments Staff 2-4A and Attachment Staff 2-4B.)

NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION

NEET-5413

Invoice for the Month of January 2013

TOTAL ESTIMATE - January 2013

\$143,661.00

LIST OF UTILITY PARTICIPANTS

<u>UTILITY PARTICIPANT</u>	<u>PARTICIPANT SHARE</u>	<u>TOTAL DUE</u>	<u>INVOICE NUMBER</u>
THE CONNECTICUT LIGHT AND POWER COMPANY	18.48700%	\$26,558.61	5413-2013-01-01
NEW ENGLAND POWER COMPANY	17.96963%	\$25,815.35	5413-2013-01-02
PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE	11.84823%	\$17,021.29	5413-2013-01-03
NSTAR	11.24796%	\$16,158.93	5413-2013-01-04
VERMONT ELECTRIC POWER COMPANY	9.48183%	\$13,621.69	5413-2013-01-05
CENTRAL MAINE POWER COMPANY	6.99346%	\$10,046.87	5413-2013-01-06
THE UNITED ILLUMINATING COMPANY	5.44715%	\$7,825.43	5413-2013-01-07
WESTERN MASS ELECTRIC COMPANY	3.75741%	\$5,397.93	5413-2013-01-08
CANAL ELECTRIC COMPANY	3.72867%	\$5,356.64	5413-2013-01-09
NEW ENGLAND POWER - MONTAUP	3.57770%	\$5,139.76	5413-2013-01-10
MASS MUNICIPAL WHOLESALE ELECTRIC CO.	3.45308%	\$4,960.73	5413-2013-01-11
BANGOR HYDRO-ELECTRIC COMPANY	1.50834%	\$2,166.90	5413-2013-01-12
CONNECTICUT MUNICIPAL ELECTRIC ENERGY COOP	0.82968%	\$1,191.93	5413-2013-01-13
NEW ENGLAND POWER - NEWPORT	0.44217%	\$635.23	5413-2013-01-14
FITCHBURG GAS & ELECTRIC LIGHT COMPANY	0.42636%	\$612.51	5413-2013-01-15
TAUNTON MUNICIPAL LIGHTING PLANT	0.35520%	\$510.28	5413-2013-01-16
CITY OF CHICOPEE MUNICIPAL LIGHTING PLANT	0.32263%	\$463.49	5413-2013-01-17
HOLYOKE WATER POWER COMPANY	0.12350%	\$177.42	5413-2013-01-18
TOTAL	<u>100.00000%</u>	<u>\$143,661.00</u>	

	B	C	D	E	F
7	Location Description	Non-PTF	Non-PTF Share	PTF	PTF Share
8	Mass. Electric District	2,584,428	0.5629188	2,588,938	0.4914618
9	EUA/EET Totals (4)	465,251	0.0962948	465,251	0.0883184
10					
11	Narragansett District	894,223	0.1889244	894,223	0.1697518
12	EUA/EET Totals (4)	214,810	0.0453834	205,014	0.0389181
13	NEWPORT (4)	91,700	0.0193737	91,700	0.0174076
14					
15	Middleboro Municipal	0	0.0000000	42,790	0.0081228
16	Taunton Municipal	0	0.0000000	102,220	0.0194046
17	Pascoag:	9,796	0.0020687	9,796	0.0018597
18					
19	New Hampshire Pilots "N"	0	0.0000000	0	0.0000000
20	Grande State District total "N"	138,455	0.0292517	138,455	0.0262831
21	Public Service of New Hampshire	0	0.0000000	0	0.0000000
22	New England Power (Island Corp. - info. only) "N"	130	0.0000274	130	0.0000248
23	ANP Bellingham	0	0.0000000	1,000	0.0001898
24	ANP Milford	0	0.0000000	475	0.0000902
25	City of Peabody	0	0.0000000	76,400	0.0145031
26	Town of Ashburnham	0	0.0000000	6,073	0.0011528
27	Town of Boylston	0	0.0000000	5,131	0.0009740
28	Town of Danvers	0	0.0000000	49,104	0.0093215
29	Town of Georgetown	8,150	0.0017219	8,150	0.0015472
30	Town of Groton	11,982	0.0025314	11,982	0.0022745
31	Town of Grovetland	6,019	0.0012717	6,019	0.0011426
32	Town of Holden	17,578	0.0037140	17,578	0.0033371
33	Town of Hudson, Mass.	47,628	0.0100825	47,628	0.0090413
34	Town of Ipswich	18,103	0.0038248	18,103	0.0034365
35	Town of Littleton, Mass.	0	0.0000000	41,127	0.0078072
36	Town of Mansfield	7,085	0.0014989	32,904	0.0062482
37	Town of Marblehead	0	0.0000000	18,630	0.0035366
38	Town of Merrimac	0	0.0000000	4,978	0.0009447
39	Town of Middletown	0	0.0000000	14,828	0.0028144
40	Town of North Attleboro	0	0.0000000	38,992	0.0074019
41	Town of North Reading	0	0.0000000	27,392	0.0051099
42	Town of Paxton	4,357	0.0009205	4,357	0.0008271
43	Town of Princeton	2,926	0.0006182	2,926	0.0005555
44	Town of Rowley	7,177	0.0015163	7,177	0.0013624
45	Town of Shrewsbury	0	0.0000000	44,716	0.0084885
46	Town of Sterling	0	0.0000000	9,381	0.0017827
47	Town of Templeton	0	0.0000000	9,354	0.0017757
48	Town of Wakefield	0	0.0000000	30,583	0.0058076
49	Town of West Boylston	0	0.0000000	9,284	0.0017824
50	Littleton, N.H.	11,690	0.0024698	11,690	0.0022192
51					
52	Green Mountain Power Co. total	79,427	0.0167807	96,482	0.0183115
53					
54	Boston Edison "P"	0	0.0000000	42,818	0.0081278
55	Central Vermont Public Service "N"	NA	NA	NA	NA
56	CVPS West - Cent MA (181)	NA	NA	NA	NA
57	N. H. Electric Coop (Comerford HVDC SS, Christwn)"N"	1,623	0.0003429	1,623	0.0003081
58	Western Mass. Electric "N"	4,292	0.0009088	9,108	0.0017290
59	Merril Lynch Commodities Inc. (former Millennium Pwr)	1,970	0.0004182	1,970	0.0003740
60	Brookfield Energy Marketing (Brascan)	0	0.0000000	0	0.0000000
61	TransCanada Power Marketing	175	0.0000369	179	0.0000339
62	Dominion (see table below for Dominion breakdown)	0	0.0000000	0	0.0000000
63	Salem Harbor (former Dominion)	0	0.0000000	0	0.0000000
64	Somerset Power LLC (in EUA E.E. as of 4/1/2012)	NA	NA	NA	NA
65	Tanner St. Generation	0	0.0000000	0	0.0000000
66	Mass. Landbank (Deven's Commerce Ctr.) "N"	16,305	0.0034447	16,305	0.0030952
67	Dighton Power LLC	0	0.0000000	378	0.0000718
68					
69	NBTA MECo Roll-up	7,732	0.0016336	4,271	0.0008108
70	NBTA, EUA EEMeco Roll-up	221	0.0000467	221	0.0000419
71	TOTALS	4,733,232	1.0000000	5,287,828	1.0000000
72					
73					
74					