

**STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION**

DOCKET NO. DE 14-238

**2015 PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
RESTRUCTURING AND RATE STABILIZATION AGREEMENT**

DIRECT TESTIMONY OF WILLIAM H. SMAGULA, P.E.

July 6, 2015

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1 **INTRODUCTION AND QUALIFICATIONS**

2 **Q. Please state your name, position, employer and address.**

3 A. My name is William H. Smagula. I am Vice President of Generation for Public
4 Service Company of New Hampshire (PSNH), d/b/a Eversource. My business
5 address is 780 North Commercial Street, P.O. Box 330, Manchester, New
6 Hampshire 03105.

7 **Q. Please provide a brief summary of your background.**

8 A. I received a Bachelor of Science in Mechanical Engineering from the University
9 of New Hampshire, and a Master of Science in Mechanical Engineering from
10 Northeastern University. I have worked for Public Service Company of New
11 Hampshire, Northeast Utilities and now Eversource since 1978. I am a Registered
12 Professional Engineer in the states of New Hampshire, Connecticut and
13 Massachusetts. My duties have included Manager of Generation Training for the
14 PSNH system, Station Manager - Merrimack Station, Steam Production Manager
15 - PSNH, Director Fossil Generation - The Connecticut Light and Power
16 Company, and Director, Manage and Operate Services - Northeast Generation
17 Services Company, Director - PSNH Generation in New Hampshire. In January
18 2013, I assumed the responsibilities of Vice President of Generation for PSNH.

19 **Q. Have you ever testified before the New Hampshire Public Utilities**
20 **Commission (NHPUC or Commission)?**

21 A. Yes. I have provided testimony in many previous Commission proceedings
22 regarding the operation of PSNH's fossil-fired, biomass and hydroelectric
23 generating plants. I have also testified before other agencies including the NH
24 Site Evaluation Committee, the NH Air Resources Council, the Connecticut
25 PURA, the Massachusetts DPU, and the Vermont Public Service Board.

1 **Q. Please describe your responsibilities as Vice President of Generation.**

2 A. In my present position as Vice President of Generation, I am responsible for the
3 operation and maintenance of PSNH's generating stations. PSNH maintains a
4 diversified fuel portfolio including gas, oil and coal-fired units as well as hydro
5 and renewable biomass stations with a total generation capacity of approximately
6 1150 MW. I have responsibility for three fossil-fired, steam electric generating
7 stations, nine hydroelectric generating stations, two remote combustion
8 turbine/diesel generator sites and a biomass fueled boiler at Schiller Unit 5
9 (Generation Assets).

10 **Q. Do you have prior experience with generation asset divestitures?**

11 A. Yes, I was the Director responsible for sale of all fossil and hydro assets owned
12 by The Connecticut Light and Power Company. I was also involved in fossil and
13 hydro asset sales for Western Massachusetts Electric Company. Additionally, I
14 have experience in due diligence asset assessment activities on a number of
15 occasions as part of Northeast Generation Services Company, an unregulated
16 subsidiary of Northeast Utilities.

17 **PURPOSE OF TESTIMONY**

18 **Q. Please provide an overview of your testimony in this proceeding.**

19 A. My testimony will focus on several areas; all related to the sale of PSNH's
20 generation assets as contemplated in the Restructuring and Rate Stabilization
21 Agreement (Agreement). I will provide a description of the Generation Assets to
22 be divested and the requirements that will be placed on the Buyer(s) of these
23 facilities. Additionally, my testimony will provide information on the PSNH
24 employees who are the key to keeping the Generation Assets running and will
25 explain the employee protection provisions that are required under New
26 Hampshire law as a result of the divestiture of the Generation Assets.

1 **GENERATION ASSETS**

2 **Q. Please provide information concerning the Generation Assets that are**
3 **described in the Agreement.**

4 A. The Agreement provides a listing and brief description concerning the Generation
5 Assets to be sold as part of the asset auction (Generation Asset Auction). A
6 summary of asset-by-asset detail is included as Attachment WHS-1. Included in
7 the auction are: 1) a two-unit coal fired fossil steam station (Merrimack), with two
8 combustion turbines; 2) a two-unit coal/oil and one-unit wood fired steam station
9 with an associated combustion turbine (Schiller); 3) an oil and natural gas fired
10 fossil steam station (Newington); 4) nine hydroelectric stations (20 units total);
11 and 5) two remote combustion turbine sites. In total, these assets combine for
12 approximately 1,150 megawatts of generating capability.

13 The Table below provides an overview of each site.

Plant Name	Capacity (MW)	Primary Fuel	Location
Merrimack	481.6	Coal	Bow, NH
Schiller	158.1	Coal/Oil/Wood	Portsmouth, NH
Newington	400.2	Oil/Gas	Newington, NH
Smith	17.6	Hydro	Berlin, NH
Gorham	2.1	Hydro	Gorham, NH
Canaan	1.1	Hydro	Canaan, VT and Stewartstown, NH
Ayers Island	9.1	Hydro	Bristol, Bridgewater, Ashland, New Hampton, NH

Plant Name	Capacity (MW)	Primary Fuel	Location
Eastman Falls	6.5	Hydro	Franklin, NH
Amoskeag	17.5	Hydro	Manchester, NH
Hooksett	1.9	Hydro	Hooksett, NH
Garvin Falls	12.9	Hydro	Bow, NH
Jackman	3.6	Hydro	Hillsborough, NH
Lost Nation	18	Oil (CT)	Groveton, NH
White Lake	22.4	Jet Fuel (CT)	Tamworth, NH

1 By contractual commitment, PSNH must offer its 12.5% ownership interest in the
2 Androscoggin Reservoir Company (ARCO), which includes ownership rights in a
3 reservoir system that regulates water flow to two of PSNH's northern
4 hydroelectric generating stations (Smith and Gorham), to the other current joint
5 owners of the project, prior to offering it for sale to other non-owners. To
6 accommodate this requirement, PSNH will offer for sale its ownership interest in
7 the ARCO and, initially, keep the process separate from the Generation Asset
8 Auction. Should the PSNH ownership share not be sold to one or more of the
9 current joint owners, the 12.5% stake in ARCO will be included in the Generation
10 Asset Auction.

11 PSNH Generation currently has as part of its organization a maintenance support
12 department which consists of: 1) a small and flexible mobile maintenance work
13 force; 2) in-shop and field machining; and 3) fabrication services provided to all
14 of Eversource Energy's operating companies. This department provides overhaul
15 planning and rotating equipment repair, technical support (including expert
16 turbine and generator engineering capability), outage planning and management,

1 and a full line of craft labor to perform a full scope maintenance work for
2 generation, transmission and distribution assets. A determination of how the
3 divestiture process will impact this maintenance activity has not yet been made.

4 Finally, as noted in the Agreement, PSNH's minority ownership interest in
5 Wyman Unit 4 (Wyman 4), will be offered for sale and may be sold outside of the
6 auction process or dealt with as deemed appropriate by the Commission. PSNH
7 has a minority interest in this 600 MW unit, amounting to a 3.14% share (18.84
8 MW). The majority interest in this oil-fired, generator is held by NextEra Energy
9 Resources. Sale of this minority ownership share in Wyman 4 may take place
10 outside of the Generation Asset Auction.

11 The auction of the Generation Assets and ownership interests represents the last
12 major divestiture of generation to occur as part of Electric Utility Restructuring in
13 New England. The Generation Assets are participating units in the ISO-New
14 England energy, capacity and reserve markets, with a record of high availability
15 and high performance, in particular during periods of strained natural gas
16 supplies. PSNH has been successful at meeting current and emerging strict
17 environmental air and water emissions regulations and has prepared these
18 facilities to operate into the future. As a result, these assets may bring a high level
19 of interest from a wide array of companies who are, or wish to be, owners of
20 electric generating facilities in New England.

21 **Q. You indicated that you have previous experience with generation divestiture**
22 **processes in New England. Are you familiar with the divestiture proposal**
23 **and schedule filed by Non-Settling Staff on June 17?**

24 **A.** Yes I am.

1 **Q. Based upon your experience in past New England generation divestiture**
2 **processes, do you have any comments on Non-Settling Staff's proposal?**

3 A. Yes I do. In my opinion, the divestiture process and schedule proposed by Non-
4 Settling Staff in its June 17 filing will not result in PSNH receiving the maximum
5 value possible for its Generation Assets. The proposed schedule contained in the
6 “Joint Motion for Expedited Approval of Settlement Agreement and Rate
7 Adjustments” filed on June 10 was vetted by all of the Settling Parties, including
8 power generators likely to bid on the assets, PSNH which will sell the assets,
9 environmental interests, consumer advocates, legislators, and Settling Staff. That
10 proposed schedule best meets the goal of maximizing the value of the assets to be
11 divested and minimizing the risk of schedule extension. I concur with the
12 comments and observations contained in the testimony of Mr. John Reed, and
13 recommend that the Commission adopt the proposed procedural schedule
14 contained in the Settling Parties Joint Motion.

15 **GENERATION MANAGEMENT AND ASSET MANAGEMENT**

16 **Q. How will PSNH manage the Generating Assets going into the divestiture**
17 **process?**

18 A. PSNH management will ensure that the assets being divested are properly
19 operated and maintained to provide reliable resources to the new owner(s).

20 **Q. Please discuss actions that may be required or will be taken up through the**
21 **potential financial closing on the sale of the Generation Assets.**

22 A. During this transition period, PSNH Generation will continue to prudently operate
23 and maintain the units consistent with past practice. That is, as contemplated by
24 the Agreement, PSNH will be responsible for continuing to perform maintenance

1 and sustain proper management of all Generation Assets, and continue to actively
2 manage the generation-related entitlements and purchase obligations in which it
3 retains an interest until such time as they are sold or transferred to another entity,
4 retired, or purchase obligations terminate.

5 Within 45 days of the Commission's approval of the Agreement, but no later than
6 February 15, 2016, PSNH shall file with the Commission an annual plan for its
7 Generation Assets related capital and maintenance expenditures for the period
8 ending with the sale of the Generation Assets. PSNH shall update the plan
9 annually. PSNH shall not increase or decrease expenditures by more than 20%
10 from the plan as filed, without prior Commission approval.

11 Also during this period, the capacity and energy provided by these assets and
12 agreements will be used to supply PSNH's energy service customers or sold in the
13 market. PSNH's generating assets assumed a capacity supply obligation in the
14 most recent forward capacity auction held in February 2015. This obligates
15 PSNH (or the new owner) to provide capacity from these assets during the
16 "delivery period" of June 2018 through May of 2019. PSNH or the new owner
17 could attempt to sell this obligation in a subsequent auction or through a bilateral
18 arrangement, but there is no guarantee of the ability to transfer the obligation, nor
19 the cost that would be incurred to transfer the obligation. The next annual auction
20 will be held in February, 2016 for the June 2019 through May 2020 delivery
21 period. Consistent with the Agreement, PSNH is planning to submit its
22 generating assets in this auction to preserve the value of those assets. If these
23 assets assume a capacity obligation, they will be committed to supplying capacity
24 during the 2019 – 2020 timeframe unless the obligation from these assets is
25 transferred as described above. The revenues and costs for this capacity will be
26 credited to customers as part of the Company's energy service rate until the
27 Generation Assets are divested.

1 Furthermore, during this period, PSNH will preserve the Generating Assets
2 flexibility in terms of its contracting strategy by executing short term fuel and rail
3 contracts if, and as necessary.

4 **Q. Are there other activities that will be taken between now and the time of**
5 **Commission approval of the Agreement?**

6 A. Yes, during this period, all land to be sold as part of the Generation Asset Auction
7 will be assessed by a registered licensed professional engineering company. An
8 ASTM Phase 1 Environmental Site Assessment (ASTM ESA) will be completed
9 at each of the Generation Assets to assess their environmental conditions. The
10 purpose of the ASTM ESA is to identify recognized environmental conditions at
11 each site. The environmental professional that PSNH will hire to perform the
12 ASTM ESA will inspect each site under the ASTM Standard rules, interview the
13 plant manager and environmental specialists at PSNH, review all available
14 environmental documentation and historical records for each site and finally
15 review the geologic conditions of the sites.

16 PSNH believes that the Generation Assets properties are in reasonably good
17 environmental condition and typical for long-term power generating stations.
18 Environmental assessments have been completed at these facilities for a variety of
19 state or local project needs. We believe the ASTM ESA will provide important
20 relevant environmental data needed for the Generation Asset Auction.

21 **BUYER OBLIGATIONS**

22 **Q. Please discuss some of the requirements that PSNH may place on the**
23 **Buyer(s) of the Generation Assets.**

24 A. In general, it is expected that the Buyer(s) will take ownership and responsibility
25 for all facets of the Generation Assets' future operation, including employment of

1 those individuals working to manage, operate, maintain and support the facilities
2 at the time of financial closing. The Buyer(s) will be required to enter into
3 agreements with PSNH for operation of and access to shared or common
4 facilities. The Buyer(s) will be required not adversely impact the PSNH
5 Electrical System.

6 Additionally, PSNH expects the Key Terms of Sale to address the following:

- 7 • Asset Boundaries and Cross Easements
- 8 • Interconnection and Operation Agreement
- 9 • Environmental Issues
- 10 • Real Property Interests
- 11 • Interim Period Operations
- 12 • Transmission Access
- 13 • Local Area Support

14 These requirements will be developed in parallel with this regulatory proceeding,
15 so that should the Commission approve the Agreement, PSNH would be able to
16 commence divestiture activities expediently.

17 Ultimately, the final Purchase and Sales Agreement will set forth and control the
18 obligations of both the seller (PSNH) and the buyer(s) of the Generation Assets.

1 **EMPLOYEE OVERVIEW AND EMPLOYEE PROTECTIONS**

2 **Q. Please provide a general overview of the Generation Assets' workforce.**

3 A. The Generation Assets' workforce consists of approximately 280 employees.
4 About 165 are bargaining unit employees and the remainder or 115 are non-
5 bargaining unit employees. In addition, there are a small number of Eversource
6 Energy Service Company employees whose duties are primarily related to the
7 support of the Generation Assets. Union employees are represented by the
8 International Brotherhood of Electrical Workers (IBEW) Local 1837.

9 **Q. Please provide a general overview of issues concerning the employees of the**
10 **Generation Assets (Generation Employees).**

11 A. New Hampshire law requires that all employees affected by the divestiture or
12 retirement of any or all of PSNH's generation assets shall be provided with
13 employee protections. RSA 369-B:3-b, "Employee Protections," was added
14 during the 2014 Legislative session as part of 2014 N.H. Laws, Chapter 310.
15 During the 2015 Legislative session, Senate Bill 221 amended this statute to read
16 as follows:

17 In the event of divestiture or retirement of any or all of PSNH's
18 generation assets, employee protections no less than those set forth
19 in the then-current collective bargaining agreement shall be
20 provided to affected employees.

21 Senate Bill 221 (which is attached to the Settlement Agreement as Appendix A)
22 was passed by the Legislature and is awaiting signature by the Governor.

23 As part of the plan to divest of its Generation Assets, the Law and the Agreement
24 references certain commitments to both its represented and non-represented
25 employees. PSNH is a party to a Collective Bargaining Agreement ("CBA") with

1 IBEW Local 1837 in New Hampshire. The Buyer(s) will be required to assume
2 PSNH's obligations under the IBEW-PSNH Generation CBA as modified by the
3 "Memorandum of Agreement Extending Current CBA Upon Divestiture by
4 PSNH of any Generating Asset" (Appendix B to the Settlement Agreement) at the
5 closing of the Generation Asset Auction. The Law and Agreement set forth the
6 minimum employee protections that any employee affected by the divestiture or
7 retirement of PSNH's generation assets is entitled to.

8 **Q. Please discuss the employee protections set forth in the CBA governing**
9 **PSNH's represented Generation Employees.**

10 A. PSNH has completed negotiations with IBEW Local 1837 which represents the
11 bargaining unit employees serving the Generation Assets. These agreements are
12 documented in a Collective Bargaining Agreement which was effective June 1,
13 2013 with an expiration date of May 31, 2017 as supplemented by a
14 Memorandum of Agreement dated May 20, 2015. Amongst other things, that May
15 2015, Memorandum of Agreement extends the CBA two years beyond the date of
16 sale and sets forth specific employee protection benefits. Wages and benefits for
17 the two year extension period are not specified at this time; however, it is noted
18 that the represented employees will be entitled to be same annual wage
19 adjustments and benefits in the extended period as established by any succeeding
20 CBA between PSNH and the IBEW Local 1837 Utility Group. Examples of the
21 employee protections contained in the current CBA include:

22 a. Notification to Union on Staffing Expectations

23 Best efforts will be made to have the buyer(s) provide staffing plans at least
24 120 days prior to financial closing.

25 If the new owner does not intend to retain or hire all of the employees at a
26 particular site, management will attempt to obtain the new owner's agreement

1 to offer jobs in each classification according to the provisions outlined in the
2 Collective Bargaining Agreement.

3 b. Service Recognition

4 The Buyer will agree that it will recognize an employee's service with
5 PSNH/NU/Eversource for purposes of qualifying for benefits described in the
6 NH Generation/IBEW Memorandum of Agreement within the Buyer
7 programs and plans including those established to provide benefits described
8 in the Collective Bargaining Agreement.

9 c. Severance Plan

10 Any employee who is (1) terminated by Eversource as a result of generation
11 asset sale or shut-down, (2) is not offered a position with buyer at his/her
12 current location and pay rate, or (3) is hired by, and works for the Buyer of the
13 generation assets and is terminated as a result of a reduction in force or change
14 in operational practices during the term of the existing Collective Bargaining
15 Agreement, (as extended by the Memorandum of
16 Agreement), will be entitled to the following benefits in addition to those
17 termination benefits outlined in Article IX of the CBA:

- 18 ■ Out placement assistance - such as the Lee Hecht Harrison workshop
19 which has been provided to PSNH employees in prior years.
- 20 ■ Severance pay of 52 weeks for employees with between 1 and 26 years of
21 service. Employees with more than 26 years of service will get an
22 additional one week of pay for every additional six months of service.
- 23 ■ Up to \$5,000 in tuition assistance for job/career related educational
24 courses or training programs begun within twelve months from the date of
25 termination and concluded within thirty-six months of that date.
- 26 ■ Health benefits at the Buyer's expense (excluding employee contributions)
27 for a period based on the number of weeks equal to the severance pay with
28 a maximum of one year.

- 1 ▪ Employee Assistance Program counseling for the term of the health
- 2 benefits.
- 3 ▪ In the event of a workforce reduction, volunteers who are eligible for
- 4 retirement will be permitted to take their severance and benefits in
- 5 addition to their normal retirement benefits.

6 d. Benefits

7 Any Buyer of the NH Generation assets will maintain a benefit package that
8 provides the same level of value to the employee as the PSNH portfolio, the
9 coverage to include vacation, health care, holidays, sick leave, and other
10 provisions described in the Collective Bargaining Agreement. Coverage will
11 not be denied as a result of any preexisting medical condition that exists at the
12 time of the transfer of assets.

13 e. Pension

14 As a condition of sale, when employees who are hired by the buyer retire, they
15 will receive a pension benefit from the buyer (or subsequent buyers) which, in
16 combination with their Eversource Energy pension benefit, will provide them
17 with a total pension benefit equal to at least that of the plan they qualified for
18 at the time of the transfer of assets.

19 f. Job/Bid Security

20 If an employee is offered a position with the Buyer at that employee's current
21 location and pay rate, that employee will no longer be eligible for severance
22 benefits under the Eversource plan. However, if, as a result of a reduction in
23 force resulting in a change in operations or staffing levels, the employee is
24 terminated within twelve months of the transfer date, the employee will be
25 given priority consideration for any open position at NH Eversource which
26 has not been filled internally and for which he/she meet the minimum entry
27 level qualifications for a period not to exceed eighteen months from the
28 termination date.

1 g. Successors and Assigns

2 The Agreement shall be binding on any and all successors and assigns of the
3 Buyer, or any other entity acquirer, whether by sale, transfer, merger,
4 acquisition, consolidation or otherwise. The Buyer shall make it a condition
5 of any such transfer that any such successor or assigns or any other entity
6 acquirer shall be bound by the terms of this Agreement.

7 **Q. Are non-represented employees entitled to similar employee protections?**

8 A. Yes. RSA 369-B:3-b requires that employee protections be offered to all affected
9 employees. Consistent with this overarching legal requirement, the Agreement
10 defines “Affected Employees” to include all employees “whose primary
11 employment duties support PSNH’s Generation assets and whose employment is
12 terminated or significantly negatively affected as a direct result of the divestiture
13 of the PSNH’s generating assets”.

14 As a matter of law, RSA 369-B:3-b as amended by SB 221 requires that any non-
15 represented “Affected Employee” is entitled to receive “employee protections no
16 less than those set forth in the then-current collective bargaining agreement”
17 during the term of that CBA. Hence, non-represented employees will be entitled
18 to the employee protections outlined above, except for those which by their nature
19 only apply to Union members (such as seniority rights in the event of a reduction
20 in force).

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

22 A. Yes it does.