

**THE STATE OF NEW HAMPSHIRE
BEFORE THE
NEW HAMPSHIRE SITE EVALUATION COMMITTEE
DOCKET NO. 2015-06**

PRE-FILED DIRECT TESTIMONY OF MICHAEL J. AUSERÉ

**IN SUPPORT OF THE
APPLICATION OF NORTHERN PASS TRANSMISSION LLC
AND PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE
D/B/A EVERSOURCE ENERGY
FOR A CERTIFICATE OF SITE AND FACILITY TO CONSTRUCT A NEW
HIGH VOLTAGE TRANSMISSION LINE AND RELATED FACILITIES IN
NEW HAMPSHIRE**

October 16, 2015

1 **Qualifications and Purpose of Testimony**

2 **Q. Please state your name and business address.**

3 A. My name is Michael J. Auseré. My business address is 107 Selden Street, Berlin,
4 CT 06037.

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

6 A. I am the Vice President of Energy Planning & Economics. I am employed by
7 Eversource Energy Service Company (“Eversource Service Company”).¹ Eversource Service
8 Company is a wholly-owned subsidiary of Eversource Energy (“Eversource”),² a public utility
9 holding company system. Eversource Service Company provides centralized services such as
10 accounting, finance, treasury, legal, purchasing and administrative functions to Eversource’s
11 subsidiaries including Northern Pass Transmission LLC (“NPT”). NPT is wholly-owned by
12 Eversource Transmission Ventures, itself a wholly-owned subsidiary of Eversource, which is
13 publicly held public utility holding company and is a single purpose entity formed for the sole
14 purpose of constructing and operating the Northern Pass Transmission Project (“Northern Pass”
15 or the “Project”).

16 **Q. What are your areas of responsibility in this position?**

17 A. My responsibilities include business development, market analysis and project
18 analysis for Eversource and its subsidiaries. I report to the Executive Vice President of
19 Enterprise Energy Strategy & Business Development.

20 **Q. Please describe your employment experience and educational background.**

21 A. Prior to my current position, I was the Vice President of Financial Planning &
22 Analysis at Eversource. I was responsible for corporate financial forecasting, planning and
23 analysis and transaction support for Eversource and its subsidiaries.

24 I came to Eversource in 2009 from Energy Future Holdings (“EFH”) in Dallas,
25 Texas where I served as Vice President of Planning and Analysis for its electric generation and
26 wholesale marketing and trading businesses. Prior to that position, I was Vice President and

¹ On February 2, 2015, Northeast Utilities Service Company commenced doing business as Eversource Energy Service Company. Effective July 1, 2015, Northeast Utilities Service Company changed its name to Eversource Energy Service Company.

² On February 2, 2015, Northeast Utilities and each of its wholly owned utility subsidiaries commenced doing business as Eversource Energy. Effective April 30, 2015, Northeast Utilities changed its name to Eversource Energy.

1 Controller for EFH’s retail and wholesale marketing and trading businesses. Before joining EFH
2 in 2000, I spent eight years with PricewaterhouseCoopers in work that was heavily focused on
3 the energy sector. My assignments included lead manager of the worldwide audit of
4 ExxonMobil.

5 I graduated from the University of Texas at Austin with a Bachelor of Business
6 Administration in Accounting and a Master in Professional Accounting. See my biography at
7 Attachment A.

8 **Q. What is the purpose of your testimony?**

9 A. My testimony will demonstrate that NPT has the financial capability to construct
10 and operate the Project. Attachments B and B-1 are statements of assets and liabilities for
11 Eversource and Public Service Company of New Hampshire d/b/a Eversource (“PSNH”) as
12 required by Site 301.03 (b) (7) and (h) (6). I also describe the decommissioning plan for the
13 Project.

14 **Q. What is the basis for your position?**

15 A. NPT’s financial capability to construct, operate and decommission the NPT Line
16 in continuing compliance with the terms and conditions of a certificate issued by the Site
17 Evaluation Committee is based on (1) the financial strength of NPT’s parent, Eversource, and
18 Eversource’s experience financing, constructing, and operating transmission facilities in New
19 England; (2) the contract NPT executed with Hydro Renewable Energy Inc. (“HRE”), i.e., the
20 Transmission Service Agreement (“TSA”) approved by the Federal Energy Regulatory
21 Commission (“FERC”); and, (3) the financial strength of HRE’s parent, Hydro-Québec (“HQ”).

22 **Q. Please describe NPT.**

23 A. As shown in Attachment C, the Eversource organization chart, NPT is a direct,
24 wholly owned subsidiary of Eversource Energy Transmission Ventures, Inc. (“EETV”), which is
25 in turn a direct, wholly-owned subsidiary of Eversource. EETV was formed as a holding
26 company to own transmission related businesses that are not owned by Eversource’s state
27 regulated utility subsidiaries. NPT was formed as a single purpose entity to construct, own and
28 operate the NPT Line. NPT’s principal place of business is New Hampshire. The financial
29 strength of Eversource, which operates New England’s largest energy delivery system, assures
30 that adequate funds will be available to NPT for construction of the NPT Line.

1 **Q. Please describe HRE.**

2 A. HRE is a single-purpose entity that is an indirect, wholly-owned subsidiary of
3 HQ. HRE and NPT are counter-parties to the TSA, which is described below.

4 **Q. Please describe the TSA.**

5 A. The TSA is a bilateral, cost-based, FERC approved, transmission service
6 agreement pursuant to which NPT will provide firm transmission service to HRE over the NPT
7 Line in exchange for payment of NPT's costs for developing, constructing, operating and
8 maintaining the Project. HQ (or a subsidiary of HQ) will have the opportunity to recover its
9 transmission payments through sales of electricity into the New England market. The essential
10 elements of the arrangement between NPT and HRE contemplate that: (1) NPT will construct,
11 finance, and own Northern Pass; (2) NPT will provide firm transmission service to HRE over
12 Northern Pass,, which will permit HQ (or a subsidiary of HQ) to sell power into New England;
13 and (3) HRE will pay NPT for firm transmission service pursuant to a FERC-approved, cost-
14 based formula rate that will enable NPT to recover the costs of development and construction
15 plus a return on investment over a period of 40 years. Attachment D provides an illustration of
16 the participants and the cash flow of the TSA.

17 The TSA was approved by FERC on February 11, 2011, in Docket No. ER11-
18 2377. Amendments to the TSA were accepted by FERC on January 13, 2014, in Docket No.
19 ER14-597. FERC had previously determined, in Docket No. EL09-20, that the structure of the
20 transaction as a participant-funded, cost-based transmission project is consistent with long-
21 standing open access policies. The cash flows under the TSA will provide NPT the financial
22 capability to operate the Project over its useful life, the ability to collect all of its costs in a timely
23 manner from a reliable counter-party, and the ability to decommission the Project when it is
24 retired from service.³

³ Eversource and H.Q. Energy Services (U.S.) Inc. intend to respond to a Clean Energy Request for Proposals (RFP) sponsored by the states of Massachusetts, Connecticut, and Rhode Island, which is expected to be released in 2015. If the project is selected, some costs may be passed through to customers in the three states. Eversource anticipates that the TSA would be amended as necessary to reflect a successful bid.

1 **Eversource**

2 **Q. Please provide an overview of Eversource.**

3 A. Eversource is a public utility holding company subject to regulation by Federal
4 Energy Regulatory Commission (“FERC”) under the Public Utility Holding Company Act of
5 2005. Eversource engages in the energy delivery business through the following regulated
6 wholly-owned utility subsidiaries:⁴ The Connecticut Light and Power Company (“CL&P”);
7 NSTAR Electric Company (“NSTAR Electric”); PSNH, Western Massachusetts Electric
8 Company (“WMECO”); NSTAR Gas Company (“NSTAR Gas”); and Yankee Gas Services
9 Company (“Yankee Gas”). Eversource’s regulated subsidiaries have combined electric and
10 natural gas customers of over 3.6 million⁵ in Massachusetts, Connecticut and New Hampshire.
11 While Eversource’s regulated subsidiaries own both transmission and distribution assets,
12 Eversource manages the transmission and distribution segments as separate businesses.
13 Attachment E is a map of the Eversource service territories.

14 Eversource’s electric distribution segment consists of the distribution businesses of
15 CL&P, NSTAR Electric, PSNH and WMECO, which are engaged in the distribution of
16 electricity to retail customers in Connecticut, eastern Massachusetts, New Hampshire and
17 western Massachusetts, respectively, plus the regulated electric generation businesses of PSNH
18 and WMECO. Eversource’s natural gas distribution segment consists of the distribution
19 businesses of NSTAR Gas and Yankee Gas, which are engaged in the distribution of natural gas
20 to retail customers in eastern Massachusetts and Connecticut, respectively. CL&P, NSTAR
21 Electric, PSNH and WMECO each owns and maintains transmission facilities that are part of an
22 interstate power transmission grid over which electricity is transmitted throughout New England.
23 These transmission facilities comprise Eversource’s electric transmission business.

24 Eversource is ranked number 359 on the 2014 Fortune 500 list of largest U.S. companies
25 with an equity market capitalization of approximately \$16 billion.⁶ Eversource’s equity trades
26 on the New York Stock Exchange. Eversource has over \$7.5 billion of outstanding publicly
27 traded long-term debt. Eversource, with an A (stable) corporate credit rating from S&P, has the

⁴ On February 2, 2015, Eversource’s wholly-owned utility subsidiaries commenced doing business as Eversource Energy.

⁵ Eversource 2014 Form 10-K, Selected Consolidated Sales Statistics, page 27.

⁶ At September 30, 2015, Eversource’s closing price was \$50.62 with 317 million shares outstanding.

1 strongest S&P credit rating among the 53 shareholder-owned electric utility companies in the
2 United States. Over the last three years Eversource had internally generated approximately \$4.5
3 billion in cash flows from operations.⁷ As indicated in the Eversource Consolidated Financial
4 Data included in Attachment F, Eversource is a large, stable and profitable enterprise.

5 **Q. Please describe Eversource's experience in financing energy infrastructure.**

6 A. Eversource has a proven track record of financing large energy projects. As of
7 June 30, 2015, the net book value of the property, plant and equipment associated with all of
8 Eversource's business segments was \$19.1 billion.⁸ During the three years ended December 31,
9 2014, Eversource invested over \$4.5 billion⁹ in new energy infrastructure. With respect to
10 Eversource's transmission segment, the total assets were over \$7.6 billion¹⁰ as of December 31,
11 2014. Over the three years ended December 31, 2014, Eversource invested over \$2.0 billion¹¹ in
12 transmission related assets. As indicated in Attachment G, Eversource financed its investments
13 in new energy infrastructure with a combination of internally generated cash flows and debt.

14 **Q. Please describe Eversource's future plans to develop new energy**
15 **infrastructure.**

16 A. For the four years ending December 31, 2018, Eversource plans to invest \$8.4
17 billion¹² in new energy infrastructure. As indicated in Attachment H, Eversource plans to invest
18 \$3.9 billion in electric transmission infrastructure, including the Project. Eversource plans to
19 finance these new investments with internally generated cash and new debt issuances. It does
20 not anticipate issuing new common stock.

21 **Q. What are Eversource's corporate credit ratings?**

22 A. Eversource is rated by the three major credit rating agencies. As indicated in
23 Attachment I, Eversource has an investment grade rating and a stable long-term outlook from
24 each of the agencies. On April 23, 2015, S&P raised the corporate credit ratings of Northeast
25 Utilities (now Eversource) from an A- (positive outlook) to an A (stable outlook) making
26 Eversource the highest S&P-rated company among the 53 shareholder-owned electric utility

⁷ Eversource 2014 Form 10-K, page 67 – sum of 2012-2014 Net Cash Flows Provided by Operating Activities.

⁸ Eversource June 30, 2015, Form 10-Q, page 1.

⁹ Eversource 2014 Form 10K, page 67 – sum of 2012-2014 Investments in Property, Plant and Equipment.

¹⁰ Ibid, page 136.

¹¹ Ibid, page 34 – sum of 2012-2014 transmission capital expenditures.

¹² Ibid, page 36.

1 companies in the United States.

2 **Q. Do these credit ratings contemplate Eversource's plans to invest \$8.4 billion**
3 **in new energy infrastructure over the next four years?**

4 A. Yes. In their evaluation of Eversource's balance sheet strength, the rating
5 agencies consider Eversource's forecast of expected capital expenditures, including its planned
6 investment in the Project.

7 **Development of Northern Pass**

8 **Q. How much has Eversource invested in the Project to date?**

9 A. Eversource has provided all of NPT's equity and debt financing to date. As of
10 June 30, 2015, NPT has financed its investment in Northern Pass with \$90.5 million of
11 Eversource capital. Of this amount, \$52.9 million was financed through intercompany loans
12 from Eversource and \$37.6 million was financed by equity contributions from Eversource.
13 Including NPT's Retained Earnings of \$13.1 million as of June 30, 2015, the \$90.5 million of
14 debt and equity funding from Eversource has allowed NPT to maintain a capital structure of
15 approximately 50 percent equity and 50 percent debt, which is consistent with the TSA that
16 requires NPT to use commercially reasonable efforts to maintain a capital structure equal to 50
17 percent equity and 50 percent debt from and after the development phase of the Project.
18 Additionally, Eversource, through its indirect wholly-owned New Hampshire real estate
19 subsidiary Renewable Properties, Inc. ("RPI"), has invested \$49.7 million in the acquisition of
20 certain properties where the Project will be constructed.

21 In the aggregate, Eversource has invested \$140.2 million in the Project through June 30,
22 2015, an indication of Eversource's commitment and ability to finance the project. NPT has
23 capitalized costs that relate to planning, developing, permitting and siting the project into a
24 FERC construction work in progress account. Costs incurred to date are for the legal,
25 environmental, engineering and communications efforts for the Department of Energy
26 Presidential Permit, the New Hampshire Site Evaluation Committee Permit, the US Forest
27 Service Permit, the ISO New England Inc. Elective Transmission Upgrade Approval, the Army
28 Corp of Engineers Permit and FERC-related requirements.

Construction of Northern Pass

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Q. What is the total expected cost of Northern Pass?

A. The total expected cost of the Project is approximately \$1.6 billion. Except for the properties acquired by RPI, all of the costs associated with the development and construction of the Project will be incurred by NPT.

Q. How will NPT finance the construction of Northern Pass?

A. As discussed above, the TSA requires NPT to use commercially reasonable efforts to closely maintain a capital structure of 50 percent equity and 50 percent debt. Consequently, NPT expects to fund half of the development and construction cost with equity from Eversource and half with debt.

Q. Please describe the expected source of NPT's debt during construction of the NPT Line.

A. As noted above, Eversource has provided all of NPT's debt via intercompany financings. At this early stage of the project, inter-company loans from Eversource is an efficient approach for NPT to incur debt. NPT is evaluating alternative approaches to borrowing and may continue to fund construction through inter-company loans or borrow directly from third parties. For example, the TSA recognizes the possibility that HQ could enter into a construction loan agreement with NPT.

Q. Will Eversource be able to fund half of the construction of the Project with equity contributions?

A. Yes. As I previously discussed, Eversource and its subsidiaries invested over \$4.5 billion in new energy infrastructure during the three years ended December 31, 2014. Of this amount, \$2.0 billion pertained specifically to electric transmission assets similar to the Project. Eversource funded these investments with its strong cash flows combined with the issuance of long- and short- term debt.

A large portion of the cash flows generated by the operating companies are earnings. Quarterly, each of the operating companies dividend a portion of their earnings to Eversource, the parent company. Eversource uses the cash dividends received from its subsidiaries to pay its expenses, dividends to its shareholders and make new equity contributions into its subsidiaries.

1 I believe that Eversource will continue to have strong cash flows and ready access to the capital
2 markets into the foreseeable future.

3 **Q. What insurance will NPT carry?**

4 A. The TSA requires NPT and its construction contractors to carry adequate
5 insurance to provide coverage against liability or damage resulting from the construction or
6 operation of the Project. Types of insurance and coverage amounts will be comparable to other
7 projects of similar size and character currently operated by Eversource companies and consistent
8 with “good utility practices.” All premiums and other costs of property, liability or other
9 insurance obtained by NPT will be recoverable under the formula rate in the TSA.

10 **Operation of Northern Pass**

11 **Q. Please describe NPT’s source of capital once the Project is in-service.**

12 A. Once Northern Pass commences operation, NPT will begin receiving monthly
13 revenue from HRE under the formula rate in the TSA. These revenues will provide ample cash
14 flows to satisfy its obligations to debt and equity investors and meet its working capital needs.
15 During commercial operation of the Project, NPT is obligated by the TSA to use commercially
16 reasonable efforts to maintain the same 50 percent equity and 50 percent debt capital structure
17 that it closely maintained during development and construction. This capital structure and strong
18 cash flows provided under the TSA should enable NPT to obtain an investment grade credit
19 rating that will allow it to access the public bond markets. Additionally, as an Eversource
20 company, NPT will continue to have access to Eversource’s short term borrowing facilities.

21 **Q. How are NPT’s revenues determined under the TSA?**

22 A. Under the TSA, NPT will use a FERC-approved formula rate to calculate HRE’s
23 payment obligations for transmission service over Northern Pass. The formula rate recovers a
24 return on investment plus associated income taxes, depreciation expense, operation and
25 maintenance expenses, administrative and general expenses, municipal tax expense and other
26 expenses associated with the Project. The formula rate calculates costs on a prospective basis
27 and then trues up such projected costs to actual costs in order for NPT to recover the annual
28 revenue requirements associated with the Project.

1 **Decommissioning of Northern Pass**

2 **Q. Please describe the plan to decommission Northern Pass.**

3 A. Section 9.3 of the TSA addresses decommissioning of the Project, which includes
4 “the work required to (a) retire the NPT Line and dismantle the materials, equipment and
5 structures comprising the NPT Line and (b) restore and rehabilitate any land affected by the
6 construction or dismantlement of the NPT Line, in each case, as required by Applicable Law.”
7 NPT will begin to collect the costs of decommissioning over the last sixty months of commercial
8 operation. Six months before the decommissioning payment period begins, NPT will provide a
9 plan to the management committee set up under the TSA, which will include an estimate of
10 decommissioning costs and a description of the scope and frequency of progress reports for
11 monitoring decommissioning. HRE is obligated to pay for decommissioning costs as part of the
12 FERC-approved formula rate.

13 **Hydro-Québec**

14 **Q. Please describe the financial strength of HQ.**

15 A. HQ is Canada’s largest electric utility and is one of the largest power generators
16 and transmission companies in North America. HQ is a crown corporation incorporated under
17 the Hydro-Québec Act and is owned by the province of Québec. HQ has been selling power to
18 the New England energy market for the past several decades. HQ operates in a resilient
19 economy with adequate cash and investment balances, and exceptional access to capital. See
20 Attachment J for HQ’s credit ratings.

21 **Q. What assurances does NPT have that HRE will be able to meet its financial**
22 **obligations under the TSA?**

23 A. The TSA requires HRE’s parent, HQ, to provide NPT a guaranty of HRE’s
24 current and future payment obligations. Once construction begins, the guaranty is required to
25 cover the amount of NPT’s incurred project costs plus earnings and projected decommissioning
26 costs.

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Conclusion

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Q. In your opinion, will NPT have the requisite financial capability to construct and operate the Project?

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A. Yes, NPT currently has and will continue to have the financial capability to construct and operate the Project. NPT also has the financial capability to decommission the Project, if necessary.

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