

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

AGREEMENT TO SETTLE PSNH RESTRUCTURING

August 2, 1999

Revised and Conformed in Compliance with

Order No. 23,549

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1

2 **AGREEMENT TO SETTLE PSNH RESTRUCTURING**

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4

5 **I. INTRODUCTION**

6

7 This Settlement Agreement is entered into this 2nd day of August, 1999, (and
8 conformed as of June 23, 2000, to reflect changes and corrections made during hearings
9 before the New Hampshire Public Utilities Commission in Docket No. DE 99-099, the
10 requirements of Chapter 249 of the Session Laws of 2000 and Order No. 23,443 of the New
11 Hampshire Public Utilities Commission) between the Governor of New Hampshire, the
12 Governor’s Office of Energy and Community Services, the Office of the Attorney General,
13 Staff of the New Hampshire Public Utilities Commission, Public Service Company of New
14 Hampshire (“PSNH”) and Northeast Utilities (“NU”) (collectively, the “Parties“). This
15 Agreement is designed to provide a resolution of all major issues pertaining to PSNH in the
16 electric industry restructuring proceeding of the New Hampshire Public Utilities Commission
17 (“PUC”) Docket No. DR 96-150, as well as in the other dockets and pending litigation
18 described in Section XV of this Agreement. Implementation of this Agreement requires the
19 approval of the PUC, as well as passage of securitization legislation by the New Hampshire
20 Legislature. The enactment of Chapter 249 of the Session Laws of 2000 meets this latter
21 requirement. When implemented, this Agreement will result in the restructuring of PSNH in
22 compliance with the competitive market structure objectives of both the Legislature, as set
23 forth in RSA Chapter 374-F, and the PUC, as set forth in Docket No. DR 96-150, as well as
24 the legislation relative to electric rate reduction financing contained in Chapter 289 of the
25 Session Laws of 1999 and Chapter 249 of the Session Laws of 2000.

26

27 The key components of this Agreement include:

28

- 29 • An initial 15.3% average rate reduction for PSNH’s customers, followed by subsequent
30 decreases through the life of this Agreement.

- 31
- 32 • Substantial burden sharing by PSNH in the form of a \$225 million after-tax write-off that
- 33 will reduce Stranded Costs by approximately \$367 million.
- 34
- 35 • Sharing of the risks of Stranded Cost recovery.
- 36
- 37 • Retail choice for all of PSNH's customers.
- 38
- 39 • Resolution of all issues pertaining to the Rate Agreement in a manner that is balanced and
- 40 equitable.
- 41
- 42 • Resolution of the Fuel and Purchased Power Adjustment Clause ("FPPAC") under-
- 43 recovery that will exist as of Competition Day, and elimination of FPPAC in the future.
- 44
- 45 • Rate relief that is sustainable over the long-term.
- 46
- 47 • Refinancing that benefits customers through the issuance of low-cost Rate Reduction
- 48 Bonds in an amount consistent with RSA Chapter 369-B ("securitization").
- 49
- 50 • Provision for low-income assistance and energy conservation programs for PSNH's
- 51 customers.
- 52
- 53 • Transition Service that provides stable and predictable prices for all customers during the
- 54 transition to competition.
- 55
- 56 • Divestiture of PSNH's generating assets and purchased power obligations, including its
- 57 entitlement to power generated at the Seabrook Nuclear Plant under its contract with North
- 58 Atlantic Energy Corporation ("NAEC").
- 59

60 This Agreement is designed to be implemented on Competition Day, which is the first
 61 day of the month following the month in which the conditions contained in Section XVI are
 62 satisfied. Until the earlier of Competition Day or October 1, 2000, PSNH's existing temporary
 63 rates for bundled service, the existing FPPAC rate of 0.383¢/kWh, and the FPPAC BA
 64 amount of 6.281¢/kWh will remain in effect, subject only to adjustment for future changes in
 65 Nuclear Decommissioning Charges and new levels of public policy expenditures ordered by
 66 the PUC after August 2, 1999. If Competition Day has not occurred by October 1, 2000, then
 67 effective October 1, 2000 PSNH shall temporarily reduce its current effective total rates (base
 68 rates plus FPPAC rates) by 5 percent across the board in the same manner as was used to
 69 implement the temporary rate reduction ordered in Docket No. DR 97-059 until either
 70 Competition Day or April 1, 2001, whichever occurs earlier. On Competition Day, PSNH's
 71 rates will be unbundled and retail customers will have the opportunity to choose an energy
 72 supplier. During the first year following Competition Day, this Agreement will result in an
 73 average retail rate of 10.985¢ per kWh for a customer taking Transition Service, broken down
 74 as follows:

75		
76	Transition Service Energy Charge	4.400¢
77	Delivery Charge	2.800
78	Hydro-Quebec Support Payments	0.130
79	Stranded Cost Recovery Charge	3.400
80	System Benefits Charge	0.200
81	Consumption Tax	<u>0.055¢</u>
82	Total	10.985¢/kWh

83
 84 Customers may be able to obtain even lower overall electricity costs by choosing a
 85 Competitive Supplier for energy.

86
 87 The Parties recognize and understand that their mutual undertakings, as expressed in
 88 this Agreement, reflect their efforts to settle the issues raised in Docket No. DR 96-150, settle
 89 all outstanding federal and state proceedings involving PSNH restructuring, and lay to rest
 90 various other areas of dispute between the Parties as provided herein. The Parties agree that

91 their understandings regarding securitization will require enactment of legislation by the New
92 Hampshire Legislature, in addition to the approval of the PUC. Chapter 249 of the Session
93 Laws of 2000 meets the requirement for a legislative enactment.

94
95 The Parties believe the terms of this Agreement reflect a fair resolution of all
96 outstanding disputes that is in the public interest. More specifically, this Agreement is
97 substantially consistent with the restructuring goals set forth in RSA Chapter 374-F and
98 Chapter 289 of the Session Laws of 1999, including, but not limited to, near-term rate relief;
99 retail choice; non-discriminatory open access to the electric system; unbundling of rates;
100 equitable benefits for all customer classes; electricity prices that narrow the rate gap for New
101 Hampshire customers; universal service and energy efficiency commitments; risk sharing by
102 PSNH; a substantial write-off of Stranded Costs; limited Stranded Cost recovery that is
103 appropriate, equitable and balanced; and, issuance of Rate Reduction Bonds that are not an
104 obligation of the State, and that will provide equitable and extraordinary benefits to PSNH's
105 customers in the form of significant rate reductions. In compliance with the requirements of
106 RSA 369-A:1,X(h), PSNH and the New Hampshire Electric Cooperative, Inc. ("NHEC"),
107 have entered into a FERC-approved settlement of all issues.

108 109 110 **II. DEFINITIONS**

111
112 **Acquisition Premium:** The Acquisition Premium referred to in paragraph 2(b) of the Rate
113 Agreement.

114
115 **Agreement:** This Settlement Agreement signed by the Parties on August 2, 1999, including
116 all appendices, and conformed as of June 23, 2000, to reflect changes and corrections made
117 during hearings before the New Hampshire Public Utilities Commission in Docket No. DE
118 99-099, the requirements of Chapter 249 of the Session Laws of 2000 and Order No. 23,443
119 of the New Hampshire Public Utilities Commission.

120

121 **All-In Cost:** The cost of the RRBs, including the coupon rate, any discounts or premiums,
122 ongoing fees, the overcollateralization account, SPSE expenses, any letter of credit costs, but
123 excluding servicing fees.

124

125 **California Code:** The Code of Conduct adopted by the California Public Utilities
126 Commission, as set out in Appendix I and referred to in New Hampshire PUC Order No
127 22,875 issued in Docket No. DR 96-150 dated March 20, 1998.

128

129 **Capacity Transfer Agreements:** The Capacity Transfer Agreements between PSNH and the
130 NU initial system referred to in paragraph 3 of the Rate Agreement.

131

132 **Capital Subaccount:** An account that will belong to the Special Purpose Securitization
133 Entity, and will hold the initial capital contribution to the Special Purpose Securitization
134 Entity and certain related amounts as described in Section XIII(D) of this Agreement.

135

136 **Competition Day:** The date upon which all PSNH retail customers will be able to choose a
137 Competitive Supplier of energy. More specifically, Competition Day is the first day of the
138 month following the month in which the conditions contained in Section XVI are satisfied and
139 shall not be later than October 1, 2000, unless the PUC finds due to circumstances beyond its
140 control that further delay is in the public interest.

141

142 **Competitive Supplier:** An "Electricity Supplier" as defined in RSA 374-F:2,II, who meets
143 all PUC requirements to sell energy to PSNH's customers.

144

145 **Default Service:** The source of electric energy for customers who are not eligible for
146 Transition Service and who are not receiving energy from a Competitive Supplier. Default
147 service is designed to provide a temporary safety net for customers and to assure universal
148 access and system integrity as set forth in RSA 374-F:3,V(c).

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150 **Delivery Charge:** The delivery portion of the unbundled retail distribution bill.

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Demand-Side Management (“DSM”): Programs traditionally designed to reduce or manage customer electricity usage as specified in Section V(E)(2).

Distribution: The portion of PSNH’s delivery system subject to the regulatory jurisdiction of the PUC.

Energy Consumption Tax: The tax specified in RSA 83-E:2.

Energy Efficiency Programs: Programs designed to improve the efficiency of, and thus reduce, customer electricity usage as specified in Section V(E)(2).

Energy Efficiency Working Group (“EEWG”): A collaborative of interested parties in PUC Docket No. DR 96-150 developing energy efficiency recommendations.

Environmental Remediation Expenditures: Costs of remediating the environmental issues at the sites identified in Appendix B.

Environmental Reserve (“ER”): A reserve account established by PSNH on its books to provide for environmental remediation expenditures, as provided in Section V(A).

Exempt Wholesale Generator: Any entity who qualifies for Exempt Wholesale Generator status under §32 of the Public Utility Holding Company Act of 1935.

Failed Auction: An asset auction that results in some or all of the assets either not being bid upon at auction, or being bid at prices less than the minimum prices established or approved by the PUC.

FERC: The Federal Energy Regulatory Commission.

181 **Final Order:** An order issued by the PUC pursuant to RSA-363:17-b on the merits of the
182 Agreement, effective at the expiration of the rehearing period set forth in RSA 541:3, or, if the
183 order is subject to one or more motions for rehearing, effective the date that the PUC acts on
184 the last pending motion for rehearing pursuant to RSA 541:5.

185

186 **Fuel and Purchased Power Adjustment Clause (“FPPAC”):** The Fuel and Purchased
187 Power Adjustment Clause referred to in paragraph 7 of the Rate Agreement.

188

189 **Independent Power Producer (“IPP”) costs:** The costs to PSNH of purchasing energy
190 and/or capacity from PURPA qualifying facilities or LEEPA facilities.

191

192 **Initial Delivery Charge Period:** The first thirty-three months following Competition Day
193 during which delivery rates are set at 2.80 cents per kilowatt-hour, exclusive of Hydro Quebec
194 transmission support payments.

195

196 **Initial Transition Service End Day:** The date occurring nine months after Competition Day.

197

198 **LEEPA:** The Limited Electrical Energy Producers Act, RSA Chapter 362-A.

199

200 **Legislature:** The General Court of the State of New Hampshire.

201

202 **Low-Income Electric Assistance Program:** A statewide payment assistance program
203 designed to enable low-income residential customers to manage and afford essential electricity
204 requirements, as provided in Section V(E)(1).

205

206 **Major Storm Cost Reserve:** An account to be established by PSNH to fund the costs
207 identified in Section V(A).

208

209 **New Hampshire Code of Conduct:** The Code of Conduct to be adopted by the PUC
210 pursuant to Order No. 22,875 issued in Docket No. DR 96-150 dated March 20, 1998, as
211 provided in Section XI of this Agreement.

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Non-Securitized Stranded Costs: The Stranded Costs for which recovery is allowed under Part 3 of the Stranded Cost Recovery Charge as provided in Section V(B)(3) of this Agreement.

Nuclear Decommissioning Charge: The ongoing expenses for nuclear decommissioning for Seabrook, Millstone Unit 3 and Vermont Yankee.

Overcollateralization Subaccount: An account that will belong to the Special Purpose Securitization Entity and will hold the Overcollateralization amount on the RRBs as described in Section XIII(D) of this Agreement.

Parties: The Governor of New Hampshire, the Governor’s Office of Energy and Community Services, the Office of the Attorney General, Staff of the New Hampshire Public Utilities Commission, Public Service Company of New Hampshire and Northeast Utilities.

Present Value: Unless otherwise specified, the net present value that results from applying the Stipulated Rate of Return.

Prudence: The standard of care which qualified utility management would be expected to exercise under the circumstances that existed at the time the decision in question had to be made. In determining whether a decision was prudently made, only those facts known or knowable at the time of the decision can be considered.

PSNH: Public Service Company of New Hampshire.

PUC: The New Hampshire Public Utilities Commission.

Purchased Power Obligation: A commitment created by contract, order or law for PSNH to purchase power from a third party.

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PURPA: The Public Utility Regulatory Policies Act of 1978. Generally, 16 U.S. Code 2601, et seq.

Rate Agreement: The agreement dated November 22, 1989, as amended, executed by and between the Governor and Attorney General of the State of New Hampshire, acting on behalf of the State of New Hampshire, and Northeast Utilities Service Company, acting on behalf of its parent Northeast Utilities. See RSA 362-C:2,I.

Rate Reduction Bonds (“RRBs”): Bonds, notes, certificates of participation or beneficial interest, or other evidences of indebtedness or ownership, issued pursuant to an executed indenture or other agreement of a financing entity, in accordance with New Hampshire law, the proceeds of which are used, directly or indirectly, to recover, finance, or refinance Stranded Costs, and which, directly or indirectly, are secured by evidence of ownership interests in, or are payable from, RRB property.

Recovery End Date: The risk sharing date established in Section V(C) at which recovery by PSNH of its Non-Securitized Stranded Costs ends, even if all such costs have not been recovered. The Recovery End Date may be different for various customer classes.

Reserve Subaccount: An account of the Special Purpose Securitization Entity that will hold any excess collections of RRB Charges beyond the amount needed to make periodic allocations with respect to RRB Costs as described in Section XIII(D) of this Agreement.

Retail Choice: The ability of retail electric customers to choose a Competitive Supplier on or after Competition Day.

RRB Charge: Part 1 of the SCRC, which is dedicated to the payment of the RRBs.

RRB Costs: Principal, interest, credit enhancement costs, fees and expenses with respect to RRBs.

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RRB Property: An irrevocable property right to bill and collect nonbypassable RRB Charges in amounts sufficient to recover the RRB Costs.

Seabrook Power Contract: The agreement between PSNH and North Atlantic Energy Corporation referred to in paragraph 2 of the Rate Agreement.

Service Territory: The geographic area established by the PUC as the retail electric service territory of PSNH, as such territory is depicted on the "Electric Utilities Franchise Areas" map issued by the PUC, dated July 1, 1993, together with any other geographic area in which PSNH actually provided retail electric service on such date.

Sharing Agreement: The agreement referred to in paragraph 4 of the Rate Agreement.

Special Purpose Securitization Entity ("SPSE"): Any special purpose trust, limited liability company, or other entity that is authorized in accordance with the terms of a finance order to issue Rate Reduction Bonds, acquire RRB Property, or both.

Stipulated Rate of Return: A rate of return calculated assuming a return on equity of 8% after tax, an equity ratio of 40%, and the weighted cost of PSNH's non-securitized long-term debt. The Stipulated Rate of Return will be computed as of two dates. The first calculation will occur on Competition Day, and will take into account the reduction in long-term debt costs occasioned by the issuance of the RRBs. The second calculation will occur as of the date of the closing of the sale of all of PSNH's fossil and hydro assets, and will take into account any additional reduction in long-term debt costs occasioned by the proceeds from the sales of those assets.

Stranded Costs: Costs, liabilities, and investments that PSNH would reasonably expect to recover if the existing regulatory structure with retail rates for the bundled provision of electric service continued, but which would likely not be recovered as a result of restructuring

303 of the electric industry that allows retail choice of electricity suppliers unless a specific
304 mechanism for such cost recovery is provided. See RSA 374-F:2,IV.

305

306 **Stranded Cost Recovery Charge (“SCRC”)**: The portion of the unbundled retail delivery
307 service bill that is a non-bypassable charge as provided in RSA Chapter 374-F:3 to recover the
308 portion of PSNH’s Stranded Costs that are allowed by this Agreement. The SCRC includes
309 the RRB Charge, nuclear decommissioning and IPP costs, Non-Securitized Stranded Costs,
310 and other costs and expenses allowed by this Agreement.

311

312 **System Benefits Charge**: A nonbypassable charge authorized by RSA 374-F:3,VI, which is
313 designed to recover the costs of PUC-approved public benefits related to the provision of
314 electricity, including the Low-Income Electric Assistance Program and Energy Efficiency
315 Programs specified in this Agreement.

316

317 **Tariff**: The Electric Delivery Service Tariff pursuant to which PSNH will provide service
318 beginning on Competition Day. In the event of any conflicts between the Tariff and this
319 Agreement, the terms of this Agreement shall control.

320

321 **Transition Service**: Electricity supply to be made available for the time periods set forth in
322 RSA 369-B:3,IV,b,1 to all customers who have not chosen a Competitive Supplier, or who in
323 certain circumstances have left such a supplier. Transition Service is designed to afford
324 customers the option of stable and predictable ceiling prices in accordance with RSA 374-
325 F:3,V(b).

326

327 **Transmission**: The portion of PSNH’s delivery system that is subject to the regulatory
328 jurisdiction of the Federal Energy Regulatory Commission.

329

330 **Triple-A Rating**: A determination by a majority of (a) Duff & Phelps Credit Rating Co.,
331 Fitch Investors Service, L.P., Moody’s Investors Service, and Standard & Poor’s Ratings
332 Services, or (b) the ratings agencies in (a) that actually rate the RRBs at issuance, that the
333 RRBs are entitled to their highest rating.

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335 **True-Up Mechanism:** A periodic adjustment to the RRB Charge, which accounts for any
336 over or under-collections of the RRB Charge.

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339 **III. WRITE-OFF**

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Subsequent to receipt of a Final Order from the PUC approving this Settlement Agreement as submitted by the Parties and upon satisfaction of the conditions contained in Section XVI, PSNH will write off \$225 million after-tax (approximately \$367 million pre-tax as of January 1, 2000). Such write-off shall take place on or before Competition Day. The write-off will be first taken against the Seabrook Deferred Return and the Acquisition Premium in a manner that will maximize benefits for customers. In addition to the write-off described above, PSNH will take an additional pre-tax write-off of \$6,200,000 on or before Competition Day resulting from the settlement of issues pertaining to New Hampshire Electric Cooperative, Inc. and will also reduce its Stranded Costs by an additional \$10 million upon the transfer of the following market-based wholesale contracts to an affiliate:

Braintree	Littleton Electric Light & Water Dept.
Burlington Electric Dept.	Littleton, NH
Central Maine Power	Mansfield
Citizens Lehman	Middleton
Citizens System	Reading
Commonwealth Electric	Select Energy
Danvers	Sterling
Fitchburg Gas & Electric	UNITIL
Holyoke Gas & Electric	VT. Marble

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IV. RATE DESIGN

The rate design principles to which the Parties have agreed are as described below.

All classes of customers are to be charged an equal cents per kilowatt-hour amount for the System Benefits Charge and the Energy Consumption Tax (unless modified by a revision to the legislation). Other than the specific items referenced above, PSNH will recover its costs through customer, demand, meter, and usage (kWh) charges, subject to the constraint that any change to rate design will not result in a shifting of costs between the residential class and all other classes. All rate design changes will be performed on a revenue neutral basis. The average rate reduction for each class will be determined in accordance with PUC Order No. 23,443 and Chapter 249 of the Session Laws of 2000.

The average reduction for the limited number of optional rates that are already discounted may be less than the average reduction for the class, or there may be no reduction. If the percent decrease to certain optional rates is lower or if there is no decrease, the decrease to the other rates within the class will be higher in order to ensure that the class receives the overall average percentage decrease as set forth in Appendix A. Because economic development (“ED”) and business retention (“BR”) rates are already discounted, the average rate reduction for ED and BR customers will be less than the average reduction for the class into which ED and BR customers would ordinarily fall.

The rate design will not result in a higher bill for any customer, when comparing the customer’s bill calculated as of the date of this Agreement to that bill calculated as of Competition Day, assuming that customer receives Transition Service. Having committed in this Agreement to address low-income assistance and energy conservation in a more appropriately targeted fashion, PSNH has eliminated the current “humped” design of the standard residential rate, and it has also redesigned its general service rates (Rates G, GV and LG) to provide for a smooth transition for customers who switch from one rate class to another as a result of load changes.

384
385 A table incorporating the foregoing Rate Design principles is contained in Appendix
386 A. PSNH is filing a proposed Tariff implementing these rates with its supporting testimony.
387 The other Parties reserve the right to file testimony supporting or opposing PSNH's proposed
388 rate design and Tariff filing.
389
390

391 **V. INDIVIDUAL RATE COMPONENTS**

392 **A. Delivery Charge**

393 In order to insure that customers will enjoy stable and predictable prices through the
394 transition to competition, PSNH will set the Delivery Charge at an overall average level of
395 2.80 cents per kilowatt-hour for the first thirty-three months following Competition Day (the
396 "Initial Delivery Charge Period"), exclusive of Hydro Quebec transmission support payments,
397 unless adjusted as provided herein. As discussed in Section IV of this Agreement, ("Rate
398 Design"), the Delivery Charge includes customer, demand, meter and usage (kWh) charges.
399 The average Delivery Charge reflects the amount necessary for that class to receive the rate
400 reduction provided by this Agreement, once all other rate design changes have been
401 incorporated and after taking into account all other charges provided for by this Agreement,
402 including the Stranded Cost Recovery Charge.
403

404 No later than thirty-two months following Competition Day, PSNH will file with the
405 PUC proposed new delivery rates, including supporting cost and rate information and pro
406 forma adjustments based on the four most recent calendar quarters for which data are
407 available, for effect after the end of the Initial Delivery Charge Period.
408

409 The new delivery rates shall take into account any revenues received by PSNH for
410 servicing of outstanding RRBs subsequent to the Initial Delivery Charge Period. During the
411 Initial Delivery Charge Period the revenues received from servicing the RRBs will be reserved
412 in a liability account on PSNH's books and refunded with a return at the Stipulated Rate of

413 Return when new delivery rates are determined, over such period as may be ordered by the
414 PUC.

415

416 The new delivery rates will become effective after investigation and hearings. If the
417 new delivery rates are suspended by the PUC, any final rates determined by the PUC will be
418 calculated retrospectively on an aggregate basis beginning as of the end of the Initial Delivery
419 Charge Period, with an appropriate refund or recoupment of costs made prospectively from
420 the effective date of the PUC's order. The 2.80¢ delivery rates proposed for the Initial
421 Delivery Charge Period (exclusive of Hydro Quebec transmission support payments) shall not
422 be considered a precedent for the establishment of the level of rates subsequent to the Initial
423 Delivery Charge Period.

424

425 During the Initial Delivery Charge Period, a Major Storm Cost Reserve ("MSCR")
426 shall be established by PSNH, and shall be funded at a rate of \$3 million per year. Major
427 storm costs shall be charged to the MSCR during that period. A "major storm" shall be
428 defined as any time that either: (a) 10% or more of PSNH's retail customers lose power and
429 there are more than 200 reported troubles, or (b) there are 300 or more reported troubles. As
430 part of the filing for new delivery rates described above, PSNH will report the difference, if
431 any, between the actual costs charged to the MSCR and the funding of the MSCR. During the
432 Initial Delivery Charge Period, PSNH will defer any major storm costs which exceed the
433 funding of the MSCR, and PSNH will recover or refund (with a return or interest at the
434 Stipulated Rate of Return) during the subsequent twelve months (or such other period ordered
435 by the PUC) any difference between the prudent costs properly charged to the MSCR and the
436 amount of funding of the MSCR.

437

438 PSNH has established an Environmental Reserve ("ER") on its books of account. The
439 ER is for expenditures associated with the sites specified in Appendix B and is expected to
440 amount to \$11.5 million as of January 1, 2000, with the amount to be adjusted as may be
441 necessary to reflect any reasonable and prudent adjustments made to such books of account
442 between the filing date of this Agreement and Competition Day. During the Initial Delivery
443 Charge Period, PSNH will charge its actual environmental remediation expenditures for the

444 specifically identified sites to the ER. Subsequent to the Initial Delivery Charge Period,
445 PSNH will recover or refund (with a return or interest at the Stipulated Rate of Return) any
446 difference over a period not to exceed three years, subject to a prudence finding for the costs
447 charged thereto.

448

449 Because the average Delivery Charge of 2.80 cents per kilowatt-hour does not recover
450 any Environmental Remediation Expenditures, during the Initial Delivery Charge Period
451 PSNH will defer for future recovery environmental expenses for any new site that is identified
452 or for any increase to estimated remediation costs for any existing sites. As part of the filing
453 for new delivery rates, PSNH will propose recovery of any such deferrals. The PUC shall
454 grant recovery of such costs that it determines to be prudent. If the PUC grants recovery, such
455 deferrals shall be amortized as they are recovered through the new Delivery Charge. Any
456 actual Environmental Remediation Expenditures will decrease the ER.

457

458 During the Initial Delivery Charge Period, the Delivery Charge shall, upon request by
459 PSNH or on a motion by the PUC, be adjusted to fully recover any changes in PSNH's costs
460 that the PUC determines have resulted from the imposition or modification of any tax,
461 program, service, or accounting change resulting from an order by any regulatory agency or by
462 the enactment or revision of any law, or in the case of accounting changes, by the Financial
463 Accounting Standards Board ("FASB") or the Emerging Issues Task Force ("EITF"). Any
464 such adjustment of the Delivery Charge during the first 24 months following Competition Day
465 shall be applied as an equal change in the cost per kWh for all rate classes to which such
466 adjustment applies.

467

468 The Delivery Charge of 2.80 cents per kilowatt-hour during the Initial Delivery Charge
469 Period (exclusive of Hydro Quebec transmission support payments) will only apply to PSNH's
470 customer, demand, meter, and usage (kWh) charges. Changes to other fees and service
471 charges (e.g., late payment charges, service connection charges, line extension charges, and
472 fees for services provided to energy suppliers) will continue to be subject to PUC approval.

473

474 In order to achieve the Delivery Charge specified above, the Parties agree that a ten-
475 year extension for depreciation lives is appropriate for PSNH's Transmission and Distribution
476 assets. The Parties hereby support PSNH's request to make such an adjustment to the
477 depreciation lives. When and if approved by the PUC, PSNH will make corresponding
478 adjustments to the book lives of the affected assets.

479
480 PSNH will fund PUC expenses during the Initial Delivery Charge Period that are
481 necessary to monitor Agreement compliance, to assure that Transmission and Distribution
482 system quality and reliability are maintained, to assure that PSNH has prudently sold the
483 output of its generating assets and entitlements prior to divestiture, to assure that allocators
484 utilized to assess charges among affiliates are proper and timely, and for other matters deemed
485 necessary by the PUC. If the cost to PSNH of such funding exceeds the historical special
486 assessment of \$350,000 per year, PSNH may recover the incremental amount through an
487 increase to the Delivery Charge during the Initial Delivery Charge Period, pursuant to the
488 provisions of this section allowing the Delivery Charge to be adjusted for changes in costs
489 resulting from the imposition or modification of any tax, program, service or accounting
490 change.

491
492 Revenue received by PSNH from the provision of wheeling service across PSNH's
493 Transmission system or the Transmission system of its affiliates (except for revenues received
494 for usage of the Hydro Quebec line) will continue to be credited on a pro-rata basis against
495 Delivery Charge revenue requirements. Revenue received by PSNH from the provision of
496 wheeling service across PSNH's Distribution facilities will also be credited against Delivery
497 Charge revenue requirements. Such credit shall not affect the level of the Delivery Charge
498 during the Initial Delivery Charge Period.

499
500 In addition to the 2.8¢/kWh Delivery Charge, PSNH will be allowed to recover Hydro
501 Quebec transmission support payments. The cost of such transmission support payments shall
502 be included on customer bills as an increase of 0.13¢/kWh in the Delivery Charge above the
503 otherwise effective 2.8¢/kWh rate during the Initial Delivery Charge Period. The offsetting
504 credits for all revenues received for usage of the line shall be credited to Part 3 Stranded Costs

505 pursuant to Section V.B.3 of this Agreement. Subsequent to the Initial Delivery Charge
506 Period, the level of Hydro Quebec transmission support payment charges and related revenues
507 included in rates shall be determined by the PUC as part of the normal ratemaking process.

508 **B. Stranded Cost Recovery Charge**

509 The Stranded Cost Recovery Charge (“SCRC”) will be a non-bypassable charge as
510 provided in RSA 374-F:3 and RSA 369-B:4, IV to recover the portion of PSNH’s Stranded
511 Costs as well as other specified costs and expenses that are allowed by this Agreement.
512 Stranded costs to be recovered through the SCRC will consist of securitized assets and Non-
513 Securitized Stranded Costs, and the net of ongoing expenses and/or revenue requirements
514 (including decommissioning costs) for any generating unit, entitlement or obligation that has
515 not been sold or otherwise divested as of Competition Day. The SCRC will recover the
516 amortization of the assets and the ongoing expenses, and will be reconciled with a return
517 applied at the Stipulated Rate of Return to any overrecoveries or underrecoveries of costs,
518 subject to the provisions of Section V(C), (“Risk Sharing”), except with respect to the RRB
519 Charge, for which reconciliations shall be calculated in accordance with the True-Up
520 Mechanism described in Section XIII. Appendix C shows the estimated balance of the assets
521 as of July 1, 2000, and Appendix D provides an illustrative amortization schedule for the
522 assets. Appendices C and D will be updated as required to reflect additional amortization of
523 and/or prudent capital additions to the listed assets as of Competition Day.

524
525 For the purpose of establishing the SCRC, Stranded Costs will be divided into three
526 parts, as described below. Part 1 will be the RRB Charge, and is the source of payment for
527 Rate Reduction Bonds. Therefore, the right to receive all collections in respect of the Part 1
528 charge will be sold to the Special Purpose Securitization Entity (see Section XIII). Part 1 is
529 expected to be billed until the expected maturity date, which is 12 years from the date of
530 issuance of RRBs, but, in certain circumstances described herein, may be billed until the legal
531 maturity date of the RRBs as described more fully below. Part 2 will continue for as long as
532 there are Stranded Cost expense components in that part for which PSNH is responsible for
533 payment. Part 3 contains other miscellaneous Stranded Costs, and recovery of Part 3 Stranded
534 Costs by PSNH is time bounded and full recovery of such costs is not guaranteed to PSNH.

535
536 The SCRC shall be a non-bypassable charge pursuant to RSA 374-F:3 and RSA
537 Chapter 369-B. All currently existing opportunities shall be continued for retail customers to
538 generate or acquire electricity for their own use, other than through retail electric service,
539 without an exit fee. The SCRC contained in Delivery Service Rate B of PSNH's tariff is just
540 and reasonable, and does not create a charge similar to or have the same effect as an exit fee.
541 In the event of the municipalization of a portion of PSNH's Service Territory, the PUC shall,
542 in matters over which the Federal Energy Regulatory Commission does not have jurisdiction,
543 or has jurisdiction but chooses to grant jurisdiction to the state, determine, to a just and
544 reasonable extent, the consequential damages such as stranded investment in generation,
545 storage, or supply arrangements resulting from the purchase of plant and property from PSNH
546 and RRB costs, and shall establish an appropriate recovery mechanism for such damages. Any
547 such damages shall be established, and shall be allocated between the RRB charge and other
548 rates and charges, in a just and reasonable manner. Any municipality shall be allowed to
549 initiate or continue the process of establishment, acquisition and expansion of plants
550 according to RSA Chapter 38 as it exists upon the date of this Agreement, as well as the
551 provisions of Chapter 249 of the Session Laws of 2000.

552
553 1. Part 1 - Securitized Assets

- 554 • Part 1 of the SCRC (the "RRB Charge") consists of the amounts required to recover RRB
555 Costs as more fully described in Section XIII. The proceeds from securitization may be
556 applied to the following assets: The difference between North Atlantic Energy
557 Corporation's book value of Seabrook, determined as of Competition Day, and \$100
558 million. This amount will be paid by PSNH to NAEC on or before Competition Day to
559 buy down the value of the Seabrook Power Contract. This contract buy-down is subject to
560 all required regulatory and lender approvals.
- 561 • The book value of Millstone Unit 3 as of the date that PSNH begins to separately account
562 for its ownership of that unit pursuant to Section VIII(I) of this Agreement.
- 563 • Necessary and prudent costs associated with issuance of and closing on the securitization
564 financing and any premiums associated with the retirement of debt and preferred stock

565 from these proceeds up to a maximum of \$15 million, such amount to include the first
566 \$700,000 of the costs of the office of the State Treasurer related to reviewing and issuing
567 the RRBs.

- 568 • A portion of the Acquisition Premium and FAS 109 costs related thereto, which shall be
569 measured as the difference between the proceeds of the RRBs and the total of the
570 preceding Part 1 costs.

571
572 The net book value of the assets that comprise Stranded Costs as of Competition Day
573 shall form the basis of the amounts to be recovered. Those values as of the end of each month
574 for calendar years 2000 and 2001, will be agreed to by the Parties and expeditiously filed with
575 the PUC. The values shall be used to determine the levels of Part 1 and Part 3, with the
576 exception that any prudent capital additions or retirements at Seabrook and Millstone Unit 3
577 shall be added or subtracted from the stated amount.

578
579 The Part 1 charge will be a discrete and segregated charge in order to meet the
580 requirements for the targeted Triple-A Rated securitization. Therefore, all Part 1 collections
581 will be allocated and remitted to the Special Purpose Securitization Entity (described below in
582 Section XIII). Cash collections of Part 2 and Part 3 will not be made available to make
583 payments on Rate Reduction Bonds. Section XIII(D) of this Agreement discusses the
584 relationship between Part 1 collections and Parts 2 and 3 of the SCRC.

585

586 2. Part 2 - Nuclear Decommissioning Costs, IPP Costs and Going Forward Costs

587 Part 2 of the SCRC will initially recover ongoing expenses for nuclear
588 decommissioning (for Seabrook, Millstone Unit 3 and Vermont Yankee) and for IPP costs.
589 After the earlier of the Recovery End Date or the date that Non-Securitized Stranded Costs are
590 fully amortized, Part 2 will also be credited with a return on the accumulated deferred income
591 taxes at the Stipulated Rate of Return To the extent that PSNH is unable to divest any asset,
592 entitlement, or obligation, and the PUC has not exercised its authority to divest under Section
593 VIII(L), after the earlier of the Recovery End Date or the date that the Non-Securitized
594 Stranded Costs are fully amortized, such going forward costs related to those assets,

595 entitlements, or obligations shall thereafter become Part 2 costs with continued recovery.
596 Such costs shall exclude any previously deferred amounts. The Part 2 amount to be recovered
597 through the SCRC each month will be the expenses incurred by PSNH for the items listed
598 above, less associated revenues and the revenue from the sale of the IPP power on the
599 wholesale market, adjusted by the prudent costs incurred by PSNH to mitigate these IPP costs
600 via buyouts, buydowns, or other methods. Pursuant to Chapter 249 of the Session Laws of
601 2000, PSNH shall be allowed to retain up to 20 percent of the savings resulting from such
602 buyouts, buydowns, or other methods of mitigating IPP costs, subject to order of the PUC.
603

604 In the event that there is insufficient SCRC revenue to meet both Part 1 and Part 2
605 SCRC requirements, the unrecovered Part 2 amounts will be deferred for future Part 2
606 recovery with a return at the Stipulated Rate of Return.
607

608 3. Part 3 - Non-Securitized Stranded Costs

609 Part 3 of the SCRC will be Non-Securitized Stranded Costs not otherwise included in
610 Parts 1 or 2, above, offset by a return on related accumulated deferred income taxes. Non-
611 Securitized Stranded Costs will be recovered through the SCRC in accordance with the time
612 frame specified in the Risk Sharing provision set forth below. Non-Securitized Stranded
613 Costs to be recovered will be the following:
614

- 615 • Any remaining amount of the Acquisition Premium on PSNH's books as of Competition
616 Day that has not been securitized.
- 617 • FAS 109 costs on PSNH's books as of Competition Day related to the non-securitized
618 portion of the Acquisition Premium.
- 619 • The value of unrecovered obligations for retired nuclear power plants (Connecticut
620 Yankee, Maine Yankee and Yankee Rowe) on PSNH's books as of Competition Day.
- 621 • The balance on PSNH's books as of Competition Day of deferred costs associated with
622 Independent Power Producers.
- 623 • The balance on PSNH's books as of Competition Day of deferred retail FPPAC costs.

- 624 • The value of the Vermont Yankee contract buyout payment.
625 • Necessary and prudent unamortized loss on reacquired debt and other costs associated
626 with the accelerated payoff of PSNH and/or NAEC debt, exclusive of any amounts
627 included in Part 1.

628
629 The balance of the Non-Securitized Stranded Costs will be reduced by the following
630 amounts:

- 631
- 632 • The net proceeds (sale price less book value less prudent sales expenses and all associated
633 taxes not otherwise provided for in this Agreement) from the sales of PSNH's fossil and
634 hydro assets as of the date that each sale closes. (If the sale price is less than the book
635 value, the balance of the Non-Securitized Stranded Costs will be increased by the residual
636 balance of the fossil and hydro assets after subtracting the net proceeds received from the
637 sales of the assets.)
 - 638 • The net proceeds from the sale of NAEC's ownership interest in the Seabrook Nuclear
639 Plant. (If the sale price is less than the book value, the balance of the Non-Securitized
640 Stranded Costs will be increased by the residual balance after subtracting the net proceeds
641 received from the sale of NAEC's ownership interest.)
 - 642 • \$10 million upon transfer of PSNH's market-based wholesale contracts to an affiliate as
643 described in Section III, the "Write-Off" section of this Agreement.
 - 644 • Any net payment received by PSNH resulting from the termination of any wholesale
645 requirements contract other than the Amended Partial Requirements Agreement with the
646 New Hampshire Electric Cooperative, Inc.
 - 647 • The present value of the incremental payments for the All-In Cost of Rate Reduction
648 Bonds if that cost exceeds the interest rate guarantee made by PSNH (i.e., 6.25% if the
649 Rate Reduction Bonds are issued on or before December 31, 1999; 7.25% if the Rate
650 Reduction Bonds are issued during the time period of January 1, 2000 through and
651 including June 30, 2000). If the Rate Reduction Bonds are issued on or after July 1, 2000,
652 or if such Bonds do not achieve a Triple-A Rating, this provision does not apply.

- 653 • During the Initial Delivery Charge Period, all proceeds received from PSNH's entitlement
654 to the Hydro Quebec transmission line.

655
656 The Part 3 amount recovered through the SCRC each month for Non-Securitized
657 Stranded Costs will be equal to the amount of Non-Securitized Stranded Costs amortized each
658 month (assuming a seven year amortization schedule), plus a return on the balance (net of
659 related accumulated deferred income taxes) of the Non-Securitized Stranded Costs, plus any
660 underrecovery or any accelerated amortization as described in Section V(B)(4), the Rate
661 Calculation and Reconciliation section below, subject to the provisions of Section V(C) (Risk
662 Sharing). The return applied to the balance of the Non-Securitized Stranded Costs will be the
663 Stipulated Rate of Return. Other expenses and obligations recovered through or credited to
664 Part 3 of the SCRC will be the following:

- 665
- 666 • The revenue requirement associated with any generating asset, entitlement, and purchased
667 power obligation (other than Part 2 costs related to nuclear decommissioning or IPP's)
668 prior to the divestiture of such asset, entitlement or obligation.
 - 669 • The difference between the expense incurred for the purchase of power to supply
670 Transition Service and the revenue received from customers for Transition Service.
671 However, PSNH shall absorb the first \$7,000,000 of any such difference during the 12
672 months following the Initial Transition Service End Day.
 - 673 • Any positive difference between the expense incurred for the purchase of power to supply
674 Default Service and the revenue received from customers for such service.
 - 675 • Return on the accumulated deferred income taxes associated with the securitized assets at
676 a rate equal to the Stipulated Rate of Return.

677

678 Other expenses and obligations will be reduced by the revenue from the sale of power
679 from any generating asset, entitlement or purchased power obligation (other than IPP's) prior
680 to the divestiture of such asset, entitlement or obligation.

681

682 Part 3 of the SCRC will cease as of the earlier of (a) the Recovery End Date described
683 in Section V(C), the Risk Sharing section of this Agreement, or (b) the date that the Non-

684 Securitized Stranded Costs are fully amortized. However, to the extent that PSNH is unable
685 to divest any asset, entitlement or obligation and the PUC has not exercised its authority to
686 divest under Section VIII(L), after the earlier of (a) or (b) above any such going forward costs
687 related to those assets, entitlements, or obligations shall thereafter become Part 2 costs with
688 continued recovery. Such costs shall exclude any previously deferred amounts. In addition, at
689 the earlier of (a) or (b) above, the accumulated deferred income taxes associated with the
690 securitized assets and a return thereon, will become Part 2 credits.

691

692 4. Rate Calculation and Reconciliation

693

694 a. Prior to Recovery End Date

695

696 The overall average level of the SCRC will be 3.40 cents per kilowatt-hour for the
697 period from Competition Day until the earlier of the date that the Non-Securitized Stranded
698 Costs are fully amortized or the Recovery End Date described in Section V(C), the Risk
699 Sharing section of this Agreement. During that time, PSNH will compare the amount to be
700 recovered through Parts 1, 2 and 3 of the SCRC during each six-month period with the
701 revenue received from the billing of the SCRC. If the Part 3 amounts to be recovered exceed
702 the amount of revenue received through the billing of the SCRC, the difference will be
703 deferred with a return for possible future recovery as a Part 3 amount during the next six-
704 month period. The return will equal the Stipulated Rate of Return. In no event shall such Part
705 3 deferral extend beyond the Recovery End Date. If the Part 3 amounts to be recovered are
706 less than the amount of revenue received through the billing of the SCRC, the difference will
707 be used to accelerate the amortization of the Non-Securitized Stranded Costs, thereby
708 shortening the recovery period for such assets. Nothing described in this paragraph will affect
709 the RRB Charge or its True-Up Mechanism.

710

711 As described in Section XIII, "Securitization of Stranded Costs," the RRB Charge may
712 be increased or decreased pursuant to its True-Up Mechanism; however, the total average
713 SCRC will be 3.40 cents/kWh prior to the earlier of the Recovery End Date or the date when

714 the Non-Securitized Stranded Costs have been fully amortized. Thus, prior to such date, any
715 increase in the RRB Charge will result in a decrease in recovery of Part 3. To the extent such
716 increase in the RRB Charge is greater than the amount to be collected via Part 3, recovery of
717 Part 2 will also be reduced, such that the total average SCRC remains 3.40 cents/kWh. To the
718 extent recovery of Part 1 is decreased pursuant to the True-Up Mechanism prior to the
719 Recovery End Date, recovery of Part 3 will increase such that the total average SCRC remains
720 3.40 cents/kWh.

721
722 b. Upon Recovery End Date

723
724 Upon the Recovery End Date any remaining Part 3 Non-Securitized Stranded Cost
725 balances shall be written off.

726
727 c. After the Recovery End Date

728
729 After the earlier of the Recovery End Date or the date that the Non-Securitized
730 Stranded Costs are fully amortized, the SCRC will no longer be capped at 3.40¢/kWh, but is
731 expected to drop significantly, thus providing additional customer savings. Thereafter, any
732 increases or decreases in Part 1 pursuant to the True-Up Mechanism will result in
733 corresponding increases or decreases in the SCRC charged to customers.

734
735 After the earlier of the Recovery End Date or the date that the Non-Securitized
736 Stranded Costs are fully amortized, PSNH will calculate Part 2 to be billed upon PUC
737 approval during each prospective six-month period. Any difference between the amounts to
738 be recovered through Part 2 during any six-month period and the revenue received through the
739 application of Part 2 during that period will be refunded or recovered with a return during the
740 subsequent six-month period by reducing or increasing Part 2 for the subsequent six-month
741 period. The return will be the Stipulated Rate of Return.

742

743 C. Risk Sharing

744
745 The recovery of Non-Securitized Stranded Costs in Part 3 of the SCRC described
746 above shall be subject to the following risk sharing provision. Specifically, PSNH shall forego
747 the right to recover all such Non-Securitized Stranded Costs that remain unrecovered as of the
748 Recovery End Date. The Recovery End Date will initially be October 31, 2007, but shall be
749 revised within 30 days following the closing on the sale of all fossil/hydro assets described in
750 Section VIII (“Divestiture”) by the following durations:

751
752 1) The Recovery End Date shall be 20 days earlier for each month beyond July 1,
753 2000 that Competition Day occurs.

754
755 2) For purposes of computing the Stranded Cost Recovery Charge in this Agreement,
756 the Parties have assumed that \$360 million will be the net proceeds realized from the sale of
757 the fossil and hydro assets at auction. After the latter of the fossil or hydro asset sales, the
758 Recovery End Date shall be adjusted to be 30 days earlier for every \$10 million by which the
759 net sale proceeds of the fossil and hydro assets exceeds \$360 million, or made later by 30
760 days for every \$10 million by which the net sale proceeds of the fossil/hydro assets is less than
761 \$360 million. An adjustment of less than 30 days will be made on a pro-rata basis for residual
762 increments, or decrements, less than \$10 million.

763
764 3) For purposes of computing the Stranded Cost Recovery Charge, the Parties have
765 assigned a 7.25% All-In Cost to the RRBs. If the Rate Reduction Bonds are issued prior to
766 July 1, 2000, and achieve a Triple-A Rating, the Recovery End Date shall be 20 days earlier
767 for each 25 basis points (0.25 percentage points) by which the All-In Cost of the Rate
768 Reduction Bonds is less than 7.25%.

769
770 4) The Recovery End Date shall be adjusted for Transition Service pricing in two
771 groups: one for residential, General Delivery Service Rate G and outdoor lighting customers
772 and the second for all other customers, as follows:

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a) During the period from Competition Day through the Initial Transition Service End Day, the Recovery End Date for the two customer groups shall be adjusted separately, based upon each group's kWh consumption of Transition Service. The residential, General Delivery Service Rate G and outdoor lighting customers' Recovery End Date shall be 30 days earlier for every \$5.5 million of incremental revenue received from that group, such incremental revenue to be determined by multiplying that group's total kWh of Transition Service consumption for the period by 0.4 cents/kWh. The Recovery End Date for all other customers shall be 30 days earlier for every \$4.5 million of incremental revenue received from that group, such incremental revenue to be determined by multiplying that group's total kWh of Transition Service consumption for the period by 0.4 cents/kWh. For each group, an adjustment of less than 30 days will be made on a pro-rata basis for residual increments of less than the amounts specified above.

b) During the first twelve-month period following the Initial Transition Service End Day, the Recovery End Date applicable to residential, General Delivery Service Rate G and outdoor lighting customers shall be 20 days later for every 0.1 cents/kWh that the actual weighted average cost of Transition Service exceeds the price of Transition Service for these customers by more than 0.2 cents/kWh. During the second twelve-month period following the Initial Transition Service End Day, the Recovery End Date applicable to residential, General Delivery Service Rate G and outdoor lighting customers shall be 20 days later for every 0.1 cents/kWh that the actual weighted average cost of Transition Service exceeds the price of Transition Service for these customers.

5) The provisions of this paragraph shall only apply after the Initial Transition Service End Day. In the case of the output of nuclear and IPP entitlements, the Recovery End Date shall be adjusted for the difference between the wholesale market prices estimated for purposes of this Agreement and (a) the actual wholesale price for the sale of output of such entitlements prior to the closing of the sale of all fossil/hydro assets that are intended to be sold at auction and (b) a proxy for the actual wholesale price for the sale of the output of such entitlements after the closing of the sale of the fossil/hydro assets. For nuclear and IPP

804 entitlements, the proxy wholesale price shall be determined based on the average price
 805 realized from the sale (under the RFP process approved by the Connecticut Department of
 806 Public Utility Control) of the output of The Connecticut Light and Power Company's and
 807 Western Massachusetts Electric Company's shares of Millstone 2, Millstone 3 and Seabrook,
 808 adjusted for differences in capacity factors. After the Initial Delivery Charge Period, the proxy
 809 prices will be escalated by 3% per year. The Recovery End Date will be adjusted for these
 810 factors as follows:

811

812 a) The Recovery End Date shall be 30 days earlier for every \$10 million by which
 813 the sum of the (a) actual revenue obtained for the period following the Initial Transition
 814 Service End Day and before the closing of both the fossil and hydro asset sales and (b)
 815 projected revenue, after such closing and as defined below, received from the sale of power
 816 from PSNH's Independent Power Producer ("IPP") entitlements for the period following the
 817 Initial Transition Service End Day and ending on October 31, 2007 exceeds the estimated
 818 revenue, or made later by 30 days for every \$10 million by which the sum of such actual and
 819 projected revenue is less than the estimated revenue. The estimated revenue shall be
 820 computed as \$171,272,000 plus the product of \$98,700 times the number of days following
 821 the Initial Transition Service End Day and ending on December 31, 2002. An adjustment of
 822 less than 30 days will be made on a pro-rata basis for residual increments of less than \$10
 823 million. The projected revenue from the sale of power from IPP entitlements shall be
 824 computed using the proxy wholesale market prices described above, and, in order to translate
 825 the proxy wholesale price into a cents per kilowatt-hour number, an annual IPP capacity factor
 826 of 95%, and the yearly megawatt-hour values listed below. The values for the years 2001 or
 827 2002, as applicable, shall be pro-rated for the actual period following the Initial Transition
 828 Service End Day through the end of that calendar year.

829

830	<u>Year</u>	<u>MWh</u>
831	2001	1,126,000
832	2002	1,126,000
833	2003	1,119,000

834	2004	1,122,000	
835	2005	1,095,000	
836	2006	964,000	
837	2007	608,300	Through Oct. 31, 2007

838

839 b) The Recovery End Date shall be 30 days earlier for every \$10 million by which
840 the sum of the (a) actual revenue obtained following the Initial Transition Service End Day
841 and before the closing of both the fossil and hydro asset sales and (b) projected revenue
842 received from the sale of power from PSNH's Seabrook Power Contract entitlement for the
843 period following the Initial Transition Service End Day and ending on December 31, 2003
844 exceeds the estimated revenue, or made later by 30 days for every \$10 million by which the
845 sum of such actual and projected revenue is less than the estimated revenue. The estimated
846 revenue shall be computed as \$107,488,000 plus the product of \$263,400 times the number of
847 days beginning after the Initial Transition Service End Day and ending on December 31, 2002.
848 An adjustment of less than 30 days will be made on a pro-rata basis for residual increments of
849 less than \$10 million. The projected revenue from the sale of power from PSNH's Seabrook
850 entitlement shall be computed using the proxy wholesale market prices described above, an
851 annual Seabrook capacity factor of 82%, and the yearly megawatt-hour values listed below.
852 The value for the years 2001 or 2002, as applicable, shall be pro-rated for the actual period
853 following the Initial Transition Service End Day through the end of that calendar year.

854

855	<u>Year</u>	<u>MWh</u>
856	2001	2,851,000
857	2002	2,852,000
858	2003	3,154,000

859

860 6) The Recovery End Date shall be 30 days earlier (or later) for each \$50 million by
861 which the amount of RRBs issued by PSNH pursuant hereto exceeds (or is less than) \$575
862 million.

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D. Energy Charges

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On and after Competition Day, except for Transition Service and Default Service obligations established by this Agreement and obligations to purchase power from IPPs, PSNH will no longer have any obligation to build, provide, plan for, or buy energy, capacity, or other generation related services for its retail customers. Following Competition Day, three options will be available to customers for energy service: a Competitive Supplier of the customer's choice, Transition Service, or Default Service. Transition Service will be available for the time periods set forth in RSA Chapter 369-B for those customers who have not chosen a Competitive Supplier, or as otherwise provided below, thus providing stable and predictable prices during the transition to a fully competitive market. Default Service will provide a safety net and assure universal access for customers who are not receiving energy from a Competitive Supplier and who are not eligible for Transition Service.

878

1. Competitive Energy Service

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On and after Competition Day, customers may be able to obtain even greater rate reductions by choosing from among authorized Competitive Suppliers.

883

2. Transition Service

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Transition Service will be available for the time periods set forth in RSA Chapter 369-B for those customers who have not chosen a Competitive Supplier, or as otherwise provided below, thus providing stable and predictable prices during the transition to a fully competitive market. Transition Service will be secured in accordance with the requirements of RSA 369-B, with the costs of administering such acquisition to be considered an administrative cost of Transition Service. Provisions under this Agreement regarding the sale of output into the market from PSNH's generating plants, power purchase obligations and entitlements are subject to the use of such power to provide Transition and Default Service in accordance with

893 the provisions of RSA Chapter 369-B. All authorized energy suppliers, as limited by RSA
894 Chapter 369-B, will be permitted to bid to provide Transition Service. The possibility of
895 dividing the Transition Service market among the energy suppliers with the lowest bids will
896 be considered after bid receipt and analysis, in which case a subsequent round of bidding, at
897 the discretion of the PUC, may be used to assess its benefits. Transition Service shall be
898 procured in such time blocks as shall prove efficient and effective after analysis of the bids is
899 made. PSNH will offer branding to the successful bidder(s), including use of name
900 identification on bills or bill inserts.

901
902 The retail price of Transition Service will be as set forth in RSA Chapter 369-B. If the
903 price obtained through competitive bids is higher than the Transition Service price, the excess
904 will be deferred and collected through the non-securitized portion of the SCRC, subject to the
905 limitation on recovery of any such deferral as set forth in RSA Chapter 369-B, and the
906 Recovery End Date shall be adjusted pursuant to Section V(C)(4).

907
908 Customers will be free to terminate Transition Service as of the end of any billing
909 cycle to purchase from a Competitive Supplier in the market, without cost or penalty. PSNH
910 shall be notified of such change by the Competitive Supplier pursuant to the terms of PSNH's
911 Tariff. PSNH will make customers aware of their right to terminate Transition Service by
912 prominently displaying a message to that effect on each customer's bill.

913
914 An election to terminate Transition Service by customers served under Tariff rates GV,
915 LG or B will be final. After an election to terminate, such customers will qualify for Default
916 Service, but not Transition Service. Remaining customers who choose to terminate Transition
917 Service will be allowed to return to Transition Service at any time during the first year
918 following Competition Day. Low-Income customers (as defined in Section V(E)(1), the Low-
919 Income Electric Assistance Program section of this Agreement) will be allowed to return to
920 Transition Service at any time during the Transition Service period. At the end of the
921 Transition Service period at least 75 percent of customers who have not selected a
922 Competitive Supplier will be assigned to one of the entities that have provided transition
923 power and that qualifies as a Competitive Supplier. These assignments will be based on the

924 ratio of transition power provided by each such supplier who is a Competitive Supplier during
925 the period. Any Transition Service customer subject to such assignment shall be notified in
926 advance of the assignment in a form and manner determined by the PUC. Any customers not
927 so assigned to such an entity that has provided transition power shall be randomly assigned to
928 other Competitive Suppliers pursuant to RSA 369-B:3, IV,b,(1),(B),(ii). The administrative
929 cost of acquiring, billing and managing Transition Service will be recovered through the
930 Delivery Charge for all customers.

931 932 3. Default Service

933
934 Electricity is an essential service, and there is a risk in a competitive market that some
935 customers will find themselves unable to secure a Competitive Supplier or they may
936 temporarily be between suppliers. To assure universal service and system integrity, Default
937 Service will be available to customers who are not receiving energy from a Competitive
938 Supplier and who are not eligible for Transition Service. Default Service shall be acquired in
939 accordance with RSA Chapter 369-B for the period of time that Transition Service is available
940 to any customer class; thereafter, auctions to procure service for subsequent periods will be
941 conducted at such times and on such terms and conditions as the PUC may require. Default
942 Service shall be provided pursuant to terms and conditions established by the PUC. The
943 administrative cost to acquire, bill and manage Default Service will be recovered as provided
944 by statute. The price of Default Service shall be the weighted average of all successful bids.
945 However, during the period when Transition Service is available, in no event shall the price of
946 Default Service to the customer be less than the Transition Service prices, unless otherwise
947 ordered by the PUC, and any differential will be used to defray Non-Securitized Stranded
948 Costs as provided in Part 3 of the SCRC.

949 950 **E. System Benefits and Energy Consumption Tax**

951
952 The System Benefits Charge will be a cents per kilowatt-hour charge designed to fund
953 PUC-approved public benefit programs, including but not necessarily limited to the Low-

954 Income Electric Assistance Program and the Energy Efficiency Programs specified below.
955 The initial System Benefits Charge will be 0.2¢/kWh as required by RSA Chapter 369-B. The
956 accounting for the System Benefits Charge by PSNH shall be subject to the approval of the
957 PUC and RSA 374-F:3,VI and 374-F:4,VIII(b), as applicable. The System Benefits Charge
958 shall be applied equally to all classes of customers and to all kilowatt-hours billed to
959 customers taking delivery service from PSNH. The Energy Consumption Tax shall be the
960 amount specified by RSA 83-E:2.

961 1. The Low-Income Electric Assistance Program

962 The Parties recognize that electric service is essential, and that programs and
963 mechanisms that enable low-income residential customers to manage and afford essential
964 electricity requirements will be necessary, in accordance with RSA 374-F:3,V(a). To
965 accomplish this, PSNH agrees to implement a “percentage of income” payment program on
966 Competition Day, consistent with the statewide low-income Electric Assistance Program
967 proposed by the Low-Income Working Group and approved by the PUC during oral
968 deliberations on May 10, 1999, as part of Docket No. DR 96-150.

970
971 The Low-Income Electric Assistance Program shall provide service to low-income
972 residential customers on the basis of an affordable percentage of the customer's income.
973 Individuals or families whose annual income is less than 150% of the federal poverty level
974 shall be eligible for the low-income program, subject to funding limitations and such
975 eligibility requirements as may be established under the PUC-approved guidelines of the Low-
976 Income Working Group. This program will be funded by a charge assessed uniformly on all
977 kilowatt-hours billed by PSNH as part of the System Benefits Charge.

978
979 If it appears that the statewide Low-Income Electric Assistance Program will not be
980 ready for implementation by Competition Day, PSNH shall file with the PUC, and seek
981 approval for an interim low-income program or discount rate to be in place from Competition
982 Day until the implementation of the statewide program. The interim low-income program or
983 rate will take effect on Competition Day or upon such other date as may be specified by the

984 PUC. This interim low-income program or rate shall provide aggregate rate relief to low-
985 income customers that is reasonably equivalent to the percentage of income payment program
986 described above.

987 2. Energy Efficiency Programs

988
989 The Parties recognize that cost-effective energy conservation measures are an
990 important means to reduce energy usage and, in conjunction with lower rates, to reduce
991 customers' energy bills. Consistent with the legislative directive at RSA 374-F:3,X that
992 restructuring should include utility-sponsored energy efficiency programs targeting cost-
993 effective opportunities which may otherwise be lost due to market barriers, the Parties
994 understand that the PUC will decide the appropriate level of future funding for energy
995 efficiency, informed by recommendations of the Energy Efficiency Working Group
996 ("EEWG"). PSNH agrees to support increased energy efficiency program budgets in the
997 EEWG and before the PUC, consistent with the System Benefits Charge.

998
999 Prior to Competition Day, PSNH will spend amounts ordered by the PUC for energy
1000 efficiency and DSM programs, as established in Docket No. DR 98-174 (the 1999 PSNH
1001 Conservation and Load Management proceeding) and in any subsequent proceeding. If, prior
1002 to Competition Day, the PUC has rendered a decision on the recommendations of the EEWG,
1003 the Energy Efficiency Program portion of the System Benefits Charge implemented on
1004 Competition Day shall reflect the results of that decision. Any changes in the authorized
1005 expenditures covered by this paragraph shall be subject to the rate adjustment provisions for
1006 public policy changes set forth in Section V(F)(1) of this Agreement.

1007

1008 **F. Other Rate Issues**

1009 1. Changes in Nuclear Decommissioning and Public Policy Charges

1010

1011 Prior to Competition Day, any interested person may petition the PUC to adjust
1012 PSNH's bundled rates to reflect changes in the Nuclear Decommissioning Charge made after

1013 August 2, 1999 and/or any new level of public policy expenditures ordered by the PUC after
1014 August 2, 1999. The other Parties to this Agreement agree to support any such substantiated
1015 petition for an increase or decrease by PSNH.

1016 2. Fuel and Purchased Power Adjustment Clause (“FPPAC”)

1017
1018 The FPPAC rate will be frozen at the currently effective amount of 0.383¢/kWh and an
1019 FPPAC BA amount of 6.281¢/kWh until Competition Day, except as provided for special
1020 contracts in Section VII. On Competition Day, the FPPAC will be eliminated. Any
1021 unrecovered FPPAC balances as determined by the PUC (including deferred FPPAC charges)
1022 will be eligible for recovery as allowed under Part 3 of the SCRC. Inasmuch as the write-off
1023 that PSNH has taken under this Agreement reflects adjustments to historical FPPAC balances,
1024 the recovery of PSNH’s FPPAC balance as of August 2, 1999 shall not be subject to a
1025 prudence determination. However, the recovery of any FPPAC accruals that occur after
1026 August 2, 1999 shall be subject to the prudence standard of this Agreement.

1027

1028 3. Sharing Agreement.

1029

1030 The Sharing Agreement and the Capacity Transfer Agreements between PSNH and the
1031 NU initial system will be terminated, effective as of December 31, 1999, with no financial
1032 compensation due either party, except for capacity and transmission payments for November
1033 and December, 1999, which are estimated to be \$8.4 million, and final reconciliation as
1034 determined pursuant to FERC contract requirements for amounts due with respect to
1035 entitlements or transactions occurring before this termination date.

1036 4. The Rate Agreement and the Seabrook Power Contract.

1037

1038 As a condition precedent to Competition Day, NU must have obtained the consent of
1039 the New Hampshire Attorney General, and all other necessary regulatory and lender approvals,
1040 to cancel the November 22, 1989 Rate Agreement between NU and the State and the
1041 November 22, 1989 Seabrook Power Contract between PSNH and NAEC. The Attorney

1042 General hereby consents to such cancellations, contingent on implementation of this
1043 Agreement.

1044

1045 **G. Avoided Costs for IPPs**

1046

1047 PSNH's responsibilities and avoided cost rates on and after Competition Day for short-
1048 term purchases of IPP power pursuant to the federal Public Utility Regulatory Policies Act and
1049 the New Hampshire Limited Electrical Energy Producers Act shall be equal to the market
1050 price for sales into the ISO-New England power exchange, adjusted for line losses, wheeling
1051 costs, and administrative costs. This Agreement is not intended to impair existing rate orders
1052 or contracts.

1053

1054 **H. Termination of Pilot Program**

1055

1056 To allow PSNH to prepare for the implementation of this Agreement, PSNH's
1057 participation in the New Hampshire Retail Competition Pilot Program (Docket No. DR 95-
1058 250) shall terminate as of pilot customer meter readings during the month following receipt of
1059 a Final Order.

1060

1061

1062 **VI. TRANSMISSION AND DISTRIBUTION ISSUES**

1063 **A. Classification of transmission and distribution facilities**

1064

1065 PSNH has functionally classified its Transmission and Distribution using a similar
1066 method to that proposed by PSNH in PUC Docket No. DR97-059. The proposed allocations
1067 are subject to PUC approval. The Parties agree that the allocations satisfy the FERC 7 Factor
1068 Test. The line of demarcation between Transmission and Distribution is at the high side of the
1069 facilities that interconnect with facilities rated 69 kV and above and that step-down to
1070 facilities rated at or below 34.5 kV. Following PUC approval, PSNH shall file and the Parties
1071 shall support a notification of such reclassification with FERC.

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To the maximum extent allowed by federal law, non-discriminatory, open access to PSNH's transmission system shall be available to customers, electricity suppliers, marketers, aggregators, and municipal electric utilities, with charges based only on rates set by federal regulations, plus the actual cost of service for any services not subject to federal price regulation plus, for retail customers, applicable stranded cost recovery charges, RRB charges, systems benefit charges, and taxes.

B. White Lake Power Plant

Pursuant to RSA 374-F:3,III, the White Lake Combustion Turbine plant will be retained by PSNH, and run as needed to maintain reliability and stability on PSNH's electrical delivery system. Any energy produced by this plant and the capacity represented by this plant will be sold on the wholesale market or sold to the New England Independent System Operator ("ISO") at the ISO market clearing prices in a prudent manner designed to maximize net revenues. The cost and revenue associated with this plant shall be reflected in the determination of PSNH's Delivery Charge.

In the event the White Lake power plant is rendered inoperable, the Parties agree that PSNH shall have the right, subject to PUC approval, to either repair or replace the unit with another unit of similar capabilities or seek to modify, upgrade or construct new facilities on the PSNH Transmission and Distribution system in order to maintain system integrity, if prudent and consistent with least-cost planning principles. PSNH may, at its discretion, initiate a request for the siting of a new merchant generator in this geographical area to support the reliability needs of the PSNH's electrical system.

1098 **VII. SPECIAL CONTRACT, ECONOMIC DEVELOPMENT AND BUSINESS**
1099 **RETENTION CUSTOMERS**

1100

1101 As of Competition Day, PSNH will no longer be a retail energy supplier. Accordingly,
1102 it will be necessary as of that date to modify the special contracts it has with certain customers
1103 for the supply of electric energy. To accomplish this end, all customers served under special
1104 contracts in existence as of Competition Day may elect one of the following three options.
1105 Customers will be informed by PSNH of their option rights at least 60 days prior to
1106 Competition Day. To the extent practicable, Economic Development and Business Retention
1107 customers shall have the same options.

1108

1109 Option 1. The customer may retain the special contract. The prices will be
1110 dictated by the special contract, and the customer will receive energy under Transition Service
1111 and thereafter Default Service with no additional payments for energy. If the customer's
1112 special contract refers to the terms "FPPAC" and "FPPAC BA," those terms will equal the
1113 values established in Order No 23,139 in Docket No. DR 98-139 of 0.383 cents per kilowatt-
1114 hour for FPPAC and 4.955 cents per kilowatt-hour for FPPAC BA. All electrical power must
1115 be delivered through the PSNH meter except for any self-generation or co-generation currently
1116 permitted under terms of the customer's special contract; or

1117

1118 Option 2. The customer may have the special contract partially unbundled.
1119 The energy charges under the contract will be reduced by 4.4 cents per kilowatt-hour. The
1120 customer may contract with and receive power from any Competitive Supplier for the
1121 remaining term of the special contract. All other provisions of the special contract shall
1122 remain in effect except for the provision for PSNH as sole supplier. All electrical power must
1123 be delivered through the PSNH meter except for any self-generation or co-generation currently
1124 permitted under the terms of the customer's special contract. Once this Option 2 is elected,
1125 the customer may not return to Option 1; or

1126

1127 Option 3. Provided there is a termination or cancellation clause in the special
1128 contract, the customer may at any time cancel the remainder of the special contract and pay

1129 whatever termination charges are provided in the contract. Upon termination the customer
1130 will receive market energy and take other services under tariffed rates, as any other similarly
1131 situated customer. The proceeds of all termination charge payments will be used to offset
1132 Stranded Costs.

1133

1134 If a special contract customer makes no election on or before Competition Day, Option
1135 1, above, will be the terms under which the customer will be served. Upon termination by the
1136 expiration of the special contract term or by the exercise of any termination provision of the
1137 special contract, the customer will receive market energy and take other services under Tariff
1138 rates.

1139

1140 A portion of the revenue received from special contract, ED and BR customers will
1141 contribute to the payment of Rate Reduction Bonds. Such portion shall be calculated in a
1142 manner similar to the determination of RRB cost recovery for Tariff customers. Any revenue
1143 from those customers in excess of the sum of the RRB Charge, the System Benefits Charge,
1144 the Energy Consumption Tax, the overall average Delivery Charge, and the Transition Service
1145 charge (if applicable) shall be applied to the recovery of Parts 2 and 3 of the SCRC.

1146

1147

1148 **VIII. DIVESTITURE**

1149 **A. General**

1150 PSNH will divest itself of its power generation assets and power purchase agreements
1151 as a result of this Agreement. This divestiture will take place through several processes
1152 including the sale of its existing power generation facilities at auction. This is in keeping with
1153 other divestitures that have been accomplished throughout New England as restructuring has
1154 taken place. The goals of the asset auctions are to maximize the net proceeds realized from
1155 the sale in order to mitigate Stranded Costs, to provide a market-based determination of
1156 Stranded Costs, and to help establish a competitive energy market, while at the same time
1157 providing certain employee protections as set forth herein.

1158

1159 It is likely that a time lag will exist between Competition Day, when customers are free
1160 to choose their own Competitive Supplier, and the actual closing on the sale of any or all of
1161 the power generation assets and power purchase agreements. During this period, the power
1162 produced by these assets and obtained from the power purchase agreements will be used to
1163 provide Transition Service and/or Default Service pursuant to RSA Chapter 369-B or sold in
1164 the marketplace in accordance with Section IX, the “Marketing of Energy” section of this
1165 Agreement.

1166

1167 The sale of generating assets will be administered by the PUC pursuant to RSA
1168 Chapter 369-B.

1169

1170 **B. Timing and Details of the Fossil/Hydro Auctions**

1171 Unless otherwise directed by the PUC, the fossil and hydro auction processes will
1172 consist of an initial non-binding bid phase (“First Round”) during which time interested
1173 parties may bid for the entire portfolio or specified subsets. In the First Round, interested
1174 parties will be given access to the data room, invited to ask preliminary questions, and conduct
1175 initial due diligence. Following the First Round, a group of the most qualified bidders will be
1176 selected and offered the opportunity to participate in the Second Round of bidding. During
1177 the Second Round, these bidders will be given the opportunity to conduct detailed due
1178 diligence, ask detailed questions, participate in management interviews, visit the principal
1179 sites and submit binding bids. At the time of the initiation of the Second Round of bidding, the
1180 selected participants will be advised as to any mandatory groupings of the assets, on which
1181 they will be required to bid. The decision to group assets for final bidding will be based upon
1182 the results of the First Round of bids and other information that is known immediately prior to
1183 the Second Round.

1184

1185 As described in Section VIII(E) of this Agreement, municipalities which have
1186 expressed interest in purchasing hydroelectric generating assets, and which have not reached

1187 satisfactory terms with PSNH to purchase such assets in private sales outside the auction
1188 process, will be included in the Second Round bidding process.

1189
1190 Following receipt of the binding Second Round bids, PSNH may, with PUC oversight,
1191 elect to conduct an additional round of bidding, in real-time, including selected finalists, to
1192 further improve the prices that will be realized by PSNH and to improve the terms and
1193 conditions of the sale.

1194
1195 Pursuant to RSA Chapter 369-B, affiliates or subsidiaries of NU and Consolidated
1196 Edison, Inc. may not bid on PSNH's generating assets. A secure internet web site will be used
1197 to provide data room information and transaction documents related to the sale to interested
1198 parties and a designated financial advisor will serve as the intermediary for all
1199 communications between bidders and PSNH throughout the bidding process.

1200
1201 The divestiture of PSNH's fossil assets shall be separated from the sale of its hydro
1202 assets. The divestiture of the fossil assets shall occur first and the sale of the hydro assets
1203 shall occur between six months and one year following Competition Day to accommodate the
1204 special timing needs of municipalities. PSNH acknowledges that the conduct of the auction is
1205 subject to administration by the PUC, and that the personnel designated by the PUC to assist
1206 in such administration will have the right and opportunity to inquire and consult with PSNH
1207 on any aspect of the auction process, on a timely basis.

1208

1209 **C. Facility Descriptions**

1210

1211 The PSNH fossil/hydro generating assets to be divested via auction are described in
1212 Appendix G.

1213

1214 **D. Approvals**

1215

1216 The following approvals have been identified as being required prior to the closing of
1217 any sale resulting from the fossil and hydro auctions or other sale process:

1218 1. Federal

1219 Federal approvals will be required from FERC for the transfer to the buyer of any
1220 jurisdictional facilities, the jurisdictional hydroelectric projects and FERC licenses, and the
1221 Interconnection and Operation Agreement.

1222

1223 Securities and Exchange Commission (“SEC”) approval will be required because
1224 PSNH is a wholly-owned subsidiary of Northeast Utilities, a registered holding company
1225 under the Public Utility Company Holding Company Act of 1935..

1226

1227 The pre-merger notification requirements of the Hart-Scott-Rodino Act will require
1228 PSNH and the buyer to file notification regarding the intended sale.

1229

1230 2. State

1231

1232 In addition to approvals required from the PUC, the following State approvals will also
1233 be required:

1234

1235 Approval will be required by the Connecticut Department of Public Utility Control
1236 under Conn. Gen. Stat. §16-43 for the sale of any utility asset by PSNH.

1237

1238 Approval will be required by the Vermont Public Service Board under Vt. Stat. tit. 30,
1239 §109 for the sale of PSNH’s generating plant located in Canaan, Vermont.

1240

1241 Approval may be required from the Maine Public Utilities Commission under Me.
1242 Rev. Stat. tit. 35-A, §1101 for the sale of PSNH’s minority interest in the Wyman 4 generating
1243 station located in Maine.

1244
1245 Approvals and appropriate findings from New Hampshire, Massachusetts and
1246 Connecticut regulators under section 32(c) of the Public Utility Holding Company Act of 1935
1247 will be required.
1248

1249 3. Other
1250

1251 The asset sales may require prior consent of certain lenders under PSNH's existing
1252 credit agreements. In addition, the sales may require additional regulatory approvals that will
1253 be based on the identity and regulatory requirements applicable to the selected buyer(s) of the
1254 divested assets. PSNH will diligently seek to obtain all necessary approvals.
1255

1256 **E. Municipal Interest in Purchasing Hydroelectric Generating Assets**
1257

1258 Prior to the commencement of the hydro asset auction, PSNH may enter into
1259 agreements for the sale of hydroelectric generating assets to any interested municipality,
1260 subject to PUC administration and approval. Any such assets sold in this manner will be
1261 excluded from the hydro auction. If no such agreements are reached, all interested
1262 municipalities will be able to participate in the auction process, subject to the same
1263 confidentiality, financial qualification and other requirements that will be imposed on non-
1264 municipal participants in the auction. A municipality may also petition the PUC for a
1265 valuation of a hydroelectric generating asset pursuant to Chapter 249, Section 5 of the Session
1266 Laws of 2000.
1267

1268 It will be necessary that any arrangements with municipalities for purchase of a
1269 hydroelectric asset satisfy the following requirements:
1270

1271 1. In order to be considered, the proposal from the municipality must conform to the
1272 following offer criteria:

1273

1274 (a) the offer must be for a specific purchase price, not subject to qualification (except
1275 ratification under the provisions of RSA 38:13), and payable in full at closing.

1276

1277 (b) the offer must clearly demonstrate the existence of adequate funding in place, or
1278 binding commitment to provide such funding at closing, sufficient to pay the price in full at
1279 closing.

1280

1281 (c) the offer must be to purchase the same hydroelectric generating asset, adjacent
1282 lands, grant the same employment protections and benefits and other requirements as PSNH is
1283 proposing to establish in the fossil and hydro auctions.

1284

1285 (d) the offer must not contain any major contingencies other than (i) approval of the
1286 price term by the PUC, and (ii) for FERC licensed facilities, approval by FERC of the transfer
1287 of the hydro license to the buyer.

1288

1289 2. PSNH will have the absolute right to reject any offer which does not promise to
1290 meet or exceed the price which PSNH could reasonably anticipate receiving for the asset if the
1291 asset were to be sold as part of the auction process.

1292

1293

1294 **F. Hydro Quebec**

1295

1296 The purchase and sale of electricity from Hydro-Quebec (“HQ”) is part of a series of
1297 agreements among HQ and certain New England utilities (collectively, the “HQ Participants”)
1298 governing the interconnection and sale of energy between NEPOOL and the HQ power
1299 systems. PSNH is a HQ Participant.

1300

1301 The purchase and sale between the HQ Participants and HQ is governed by the
1302 following agreements:

1303

1304 1. HQ Phase II Energy Contract or Firm Energy Contract

1305

1306 This contract, dated October 14, 1985, requires NEPOOL members to purchase 7,000
1307 GWh of energy from HQ each year through August 2000. In the event that this allotment has
1308 not been fulfilled, the contract may be extended until August 2004 to allow NEPOOL
1309 members to meet their energy purchase obligation. This contract enables PSNH to buy firm
1310 energy utilizing its entitlement in the transmission facility through August 2000. Based on
1311 PSNH's firm transmission facility entitlements, its purchase entitlement under this agreement
1312 is on average 140 MW. Purchases of energy through this entitlement are based on the
1313 Average Fossil Fuel Cost index, which has reflected regional energy market values.

1314

1315 2. HQ Energy Banking Agreement

1316

1317 This agreement, executed on March 21, 1983, allows NEPOOL participants to deliver
1318 energy to HQ in periods of low NEPOOL incremental cost and receive it back (less any
1319 losses) in periods of high incremental cost. The energy banking agreement expires in October
1320 2001.

1321

1322 3. HQ Support Agreements

1323

1324 The participating New England utilities, including PSNH, also share in the cost of
1325 service associated with the New England HQ transmission facilities, as specified in the HQ
1326 support agreements. The agreements to which PSNH is a party include: (1) Terminal Facility
1327 Support Agreement; (2) Vermont Transmission Line Support Agreement; (3) New Hampshire
1328 DC Facilities Support Agreement; (4) Massachusetts DC Facilities Support Agreement; and
1329 (5) New England Power AC Facilities Support Agreements. The first two agreements were
1330 executed on December 1981 and are scheduled to terminate on the same date as Phase II
1331 support agreements. The remaining three agreements were executed on June 1, 1985, extend

1332 30 years from the date of initial payments, and are scheduled to terminate on October 31,
1333 2019. These agreements may be extended for an additional 20 years beyond the scheduled
1334 termination date. The annual cost of these support payments is approximately \$10 million for
1335 PSNH. Because support payments are based on cost of service, they may fluctuate from year
1336 to year.

1337

1338 **G. Wyman Unit 4**

1339

1340 PSNH may sell its ownership interest in Wyman Unit 4, located in Yarmouth, Maine,
1341 outside of the auction process. Should there not be an executed purchase and sales agreement
1342 for the sale of PSNH's ownership interest in Wyman Unit 4 prior to there being a Final Order
1343 approving this Agreement, then that ownership interest will be included in the fossil asset
1344 auction.

1345

1346 **H. Other Potential Generation Sites**

1347

1348 PSNH has identified three parcels of land that may have significant potential for use as
1349 generation sites. These sites have been previously disclosed within PSNH's 1996 Long-Range
1350 Plans for Bulk Power Supply Facilities filings. These sites are the Rollins Farm site in
1351 Newington, NH; the "Ball Field" adjacent to Merrimack Station in Bow, NH; and the Garvins
1352 Falls Road site in Concord, NH.

1353

1354 PSNH will develop a sales strategy for soliciting interest and selling these properties
1355 no later than 30 days following the selection of a winning bidder or bidders in the later of the
1356 fossil and hydro asset auctions. The sales strategy will include a determination of the highest
1357 and best use for the properties, which will determine the maximized values and identify the
1358 appropriate target markets for these properties. The City of Concord shall be able to provide
1359 input in the development of the auction criteria for the Garvins Falls Road site. At the time
1360 that the sales process begins, PSNH will identify prospective purchasers, including all

1361 potential bidders in the initial solicitation of interest in the fossil and hydro auctions, as well
1362 as other parties who indicate an interest in these properties.

1363
1364 For parcels of land that are accounted for below-the-line as of April 19, 2000, PSNH
1365 shall apply 50% of the amount by which the net proceeds exceed the net book value as a credit
1366 against Stranded Costs and may retain the balance of such amount for the benefit of its
1367 shareholder. For any parcels of land that are accounted for above-the-line, 100% of the net
1368 proceeds shall be used as a credit against Stranded Costs.

1369

1370 **I. Millstone 3**

1371

1372 On or before Competition Day PSNH will separately account for its 2.8475%
1373 ownership share of Millstone 3 such that the costs and revenues of such ownership do not
1374 impact PSNH's retail customers. The amount of PSNH's net book investment in Millstone 3
1375 immediately prior to such separate accounting will be eligible for securitization, the cost of
1376 which will be recoverable from PSNH's customers via Part 1 of the SCRC. If PSNH's share
1377 of Millstone 3 is sold or auctioned after such separate accounting, any net proceeds may be
1378 paid as a dividend to PSNH's shareholder and PSNH's customers shall have no claim to any
1379 such proceeds.

1380

1381 Subsequent to such separate accounting, PSNH shall continue to be responsible for
1382 funding its pro rata share of the site-specific decommissioning cost estimate, calculated on the
1383 basis of fully funding the decommissioning trust by December 31, 2026. PSNH may enter
1384 into a contract to provide for the payment of these nuclear decommissioning costs, with full
1385 recovery of the costs of that contract being provided from PSNH's customers via Part 2 of the
1386 SCRC. PSNH's obligation thereunder may be assignable to any future owner of such share of
1387 Millstone 3. PSNH's customers shall have no responsibility for increases in decommissioning
1388 funding above the amount calculated based upon the foregoing payment schedule at
1389 Competition Day.

1390

1391 If for any reason the separate accounting for PSNH's share of Millstone 3 is delayed
1392 beyond Competition Day, beginning on Competition Day and continuing until such time as
1393 PSNH's ownership share of Millstone 3 is so transferred, its output will be sold into the
1394 market pursuant to Section IX and all net proceeds will be applied to Stranded Costs.
1395

1396 **J. Vermont Yankee**

1397
1398 PSNH is a 4.0% shareholder and sponsor company of the Vermont Yankee Nuclear
1399 Power Corporation ("Vermont Yankee"), a Vermont corporation that owns and operates a
1400 nuclear generating unit ("Unit") having a net capability of approximately 510 megawatts
1401 electric, at a site in Vernon, Vermont. Pursuant to a Power Contract dated as of February 1,
1402 1968, as amended, and an Additional Power Contract, dated as of February 1, 1984, each of
1403 which have been approved by the Federal Energy Regulatory Commission, PSNH is entitled
1404 to its pro rata share of the net capacity and electrical output during the Unit's operating life
1405 and is obligated to pay its respective entitlement percentage of Vermont Yankee's cost of
1406 service, including future decommissioning costs.
1407

1408 PSNH, in conjunction with the other sponsor companies, is seeking to cause Vermont
1409 Yankee to sell via private negotiations the Unit and related assets, including the
1410 decommissioning trust. The terms of any such sale will be set forth in a definitive agreement
1411 that provides for a closing that is subject to receipt of all required regulatory approvals,
1412 including that of the PUC. In such a transaction, PSNH may be obligated to prefund or fund
1413 its share of the future decommissioning costs of the Unit, with full recovery of such
1414 decommissioning costs from PSNH's customers via Part 2 of the SCRC. PSNH agrees to
1415 exercise reasonable efforts to negotiate the buyout or buydown of any contractual obligations
1416 that survive the sale of the Unit. If approved by the PUC, PSNH shall be entitled to full
1417 recovery of such buyout or buydown payments (exclusive of the decommissioning costs
1418 recoverable under Part 2 of the SCRC) from PSNH's customers via Part 3 of the SCRC.
1419 Further, PSNH agrees to pursue sales terms that limit its responsibility to no more than its pro

1420 rata share of the site-specific decommissioning cost estimate that exists at the time of closing
1421 and that make any future changes to the estimate the express responsibility of the buyer.

1422
1423 Unless otherwise ordered by the PUC, if the above transaction does not close, PSNH
1424 will offer for sale through a public auction process its interest in Vermont Yankee, including
1425 its associated contractual interests and obligations. Any sale pursuant to such auction process
1426 shall be subject to a confidential minimum price condition in an amount that will be
1427 established, in advance, by the PUC and designed to stimulate participation in the auction and
1428 to maximize proceeds. The PUC shall administer the process and approve any resulting
1429 transaction prior to the closing. Such transaction shall also be subject to the receipt of any
1430 other necessary regulatory and lender approvals.

1431
1432 If for any reason PSNH continues to have power entitlements from Vermont Yankee,
1433 beginning on Competition Day and continuing until such time as PSNH's entitlements to
1434 power from Vermont Yankee end, such entitlements will be sold in the marketplace in
1435 accordance with Section IX, the "Marketing of Energy" section of this Agreement.

1436

1437 **K. Seabrook**

1438
1439 PSNH's overmarket obligations under the Seabrook Power Contract with North
1440 Atlantic Energy Corporation ("NAEC") will be securitized and the costs thereof recovered
1441 from PSNH's customers under Part 1 of the SCRC. PSNH will use such proceeds of
1442 securitization to restructure the Seabrook Power Contract effective as of Competition Day,
1443 subject to necessary regulatory approvals, to provide for the buydown of the value of the
1444 Seabrook asset to \$100 million, thereby reducing PSNH's monthly charges under the contract.
1445 NAEC may, subject to PUC approval, apply the restructuring payments it receives from PSNH
1446 to repay capital in a manner designed to most efficiently reduce its costs.

1447
1448 Subsequent to Competition Day, NAEC will seek PUC approval of a definitive plan to
1449 sell via public auction its share of Seabrook, with such sale to occur no later than December

1450 31, 2003. The public auction shall be subject to PUC administration and to the requirements,
1451 if any, of the Seabrook Joint Owners Agreement. NAEC will submit a plan for the sale to the
1452 PUC. The PUC shall determine prior to the auction a confidential minimum bid for this sale,
1453 designed to stimulate participation in the auction and to maximize proceeds. NAEC shall
1454 make all reasonable efforts to include minority ownership shares (including that of The
1455 Connecticut Light and Power Company) in the sale of Seabrook, so that a controlling interest
1456 may be offered. Concurrent auctions, including ones that may be subject to regulatory
1457 oversight other than by the PUC, may be required to aggregate a controlling shares.
1458

1459 Subject to approval of FERC, on Competition Day NAEC will lower its overall ROE
1460 to 7%, but in the event that the PUC either rejects a proposed sale of Seabrook, or fails to act
1461 on such application within 180 days after NAEC's proposed sale application is filed with the
1462 PUC, NAEC's return on equity shall be increased from 7 percent to 150 basis points more than
1463 the average 10-year Treasury bond yield for the preceding 6 months, but not less than 7
1464 percent nor more than 11 percent, and then readjusted accordingly at the end of every 6 month
1465 period. The increase in ROE is only applicable if the failure of the sale is through no fault of
1466 NU or PSNH.
1467

1468 Upon a successful sale of NAEC's share of Seabrook, the existing Seabrook Power
1469 Contract between PSNH and NAEC shall be terminated. However, subsequent to such sale,
1470 PSNH shall continue to be responsible for funding NAEC's former ownership share of
1471 decommissioning liability, calculated on the basis of full funding by December 31, 2015,
1472 using an estimated decommissioning date of 2015 or as otherwise determined by the Nuclear
1473 Decommissioning Finance Committee. PSNH may enter into a new contract to provide for the
1474 payment of Seabrook nuclear decommissioning costs, with full recovery of the costs of that
1475 contract to be recoverable from PSNH's customers via Part 2 of the SCRC. Under no
1476 circumstances will PSNH's customers have any responsibility for increases in
1477 decommissioning funding above the amount calculated based upon the foregoing payment
1478 schedule as of the sale date.
1479

1480 Beginning on Competition Day and continuing until such time as NAEC's ownership
1481 share of Seabrook is sold and the closing on such sale occurs, its output will be sold into the
1482 market pursuant to Section IX and all net proceeds will be applied to Stranded Costs.

1483

1484 **L. Failed Auction**

1485

1486 PSNH will make every reasonable effort to assure that a "failed auction" does not
1487 occur, resulting in some or all of its fossil/hydro generating stations, Seabrook, or Vermont
1488 Yankee not being sold. Steps to minimize the risk of a failed auction include the bundling of
1489 various assets as "must bid" groupings at the commencement of the Second Round of the
1490 auction process, and dedicated marketing of the assets throughout the auction process.

1491

1492 Should assets be left unsold as a result of the auction process, the PUC shall have the
1493 authority to order the divestiture of the asset or obligation. This may be accomplished by
1494 awarding the asset, entitlement, or obligation to the highest bidder; requiring a PSNH affiliate
1495 to pay the minimum auction price in the case of Seabrook or Vermont Yankee; requiring a
1496 PSNH affiliate to pay the net book value for fossil/hydro generating stations; conducting an
1497 absolute auction; or by such other means as the PUC deems appropriate. If there is no final
1498 sale, PSNH will retain the assets, entitlements, or obligations and bid their output into the
1499 market with the net of costs and revenues included in Part 2 of the SCRC after the earlier of
1500 the Recovery End Date or the date that the Non-Securitized Stranded Costs are fully
1501 amortized.

1502

1503

1504 **IX. MARKETING OF ENERGY**

1505 **A. Prudent Operation of PSNH Generating Assets**

1506 Notwithstanding any other provisions of this Agreement, PSNH will be responsible for
1507 prudently operating its fossil/hydro generating assets, and for prudently managing the
1508 generation-related entitlements and purchase obligations in which it retains an interest until
1509 such time as they are sold or transferred to another entity, or a purchase obligation terminates.

1510

1511

B. Marketing of PSNH Power

1512 1. Fossil Steam, Hydroelectric, Internal Combustion and Nuclear Ownership, Entitlements or
1513 Purchase Obligations

1514

1515 Notwithstanding any other provision of this Agreement, PSNH will be responsible for
1516 the prudent marketing of the output of any generating assets, entitlements, or purchase
1517 obligations which it owns or in which it retains an interest. Revenues from these sales will
1518 include the full capacity and energy revenue and the revenue from ancillary services related to
1519 PSNH's generating stations and entitlements, and the revenues from the resale of power
1520 purchased under purchase obligations shall include the full revenue derived from the sale of
1521 energy, capacity or other products. All revenue from these sales shall be used to reduce Non-
1522 Securitized Stranded Costs in the order and manner prescribed in the Stranded Cost Recovery
1523 Charge section of this Agreement.

1524

1525 2. Purchases from Qualifying Facilities ("IPPs") at Short Term Avoided Cost Rates

1526

1527 For so long as PSNH is required to purchase the output from IPPs under short term
1528 avoided cost rates, it shall be deemed prudent for PSNH to sell or bid IPP power into the pool
1529 at the ISO New England market clearing price.

1530

1531 3. Purchases from Qualifying Facilities ("IPPs") under Long-Term Contracts or PUC-
1532 Approved, Long-Term Rate Orders

1533

1534 PSNH will auction its power obtained from IPPs under long-term contracts or under
1535 PUC approved long-term rate orders. Said auctions will be conducted under PUC oversight
1536 and will occur no more often than once every six months. The auctions may include all IPPs
1537 under long-term contracts and long-term rate orders or the auctions may include combinations

1538 thereof. PSNH may establish reasonable minimum bids for said auctions. If the actual bids
1539 submitted in these auctions do not meet or exceed PSNH's minimum bids or, for good reason,
1540 some IPPs are not included in the auction, PSNH may sell the output from these IPPs into the
1541 pool at a price no less than the ISO New England market clearing price until the next
1542 semiannual auction. The PUC retains jurisdiction to determine whether the minimum bid
1543 and/or the decision to exclude certain IPPs from the auction was prudent. Revenues derived
1544 from the marketing of power purchased from IPPs under long-term avoided cost rate orders
1545 and long-term contracts shall be included as a credit to Part 2 of the SCRC.

1546 **C. Procedure for Review of Plant Operation and Marketing of Power**

1547
1548 PSNH shall annually file a report and such other information as the PUC shall require
1549 for review by the PUC supporting PSNH's plant operations and the results of the sale of the
1550 output from PSNH's plants, entitlements and purchase obligations. Such filings shall be made
1551 on a time schedule to be determined by the PUC.

1552

1553

1554 **X. EMPLOYEE PROTECTION**

1555

1556 As part of the plan to divest generating assets, certain commitments have been made to
1557 represented and non-represented employees. PSNH believes that those commitments are
1558 comparable to commitments made by other New England utilities that have divested their
1559 generation. Such commitments have been made to PSNH's fossil/hydro employees and to
1560 North Atlantic Energy Service Corporation's ("NAESCO") nuclear employees.

1561

1562 **A. PSNH Fossil/Hydro Represented Employees**

1563

1564 PSNH is a party to a Collective Bargaining Agreement ("CBA") with the International
1565 Brotherhood of Electrical Workers ("IBEW"), Local 1837 in New Hampshire. The purchaser
1566 will be required to assume PSNH's obligations under the IBEW-PSNH Fossil/Hydro CBA at
1567 the closing of the asset sale. PSNH has also agreed to provide certain employment protections

1568 for non-represented employees, which the purchaser will also be obligated to assume at the
1569 closing. In each case, the employee commitments to be undertaken by the purchaser will also
1570 be binding upon any successor or assigns or any other entity acquirer of the purchaser. Costs
1571 associated with subsequent workforce restructuring activities will be borne solely by the
1572 purchaser.

1573
1574 IBEW Local No. 1837 represents the bargaining unit employees serving fossil/hydro,
1575 including PSNH Fossil/Hydro Engineering and Operations (“FHEO”) Stores and Production
1576 Maintenance. The purchaser will be required to assume and perform the CBA in the form in
1577 place on the closing date. The current agreement with the IBEW local was effective as of
1578 March 21, 1999 and is expected to expire on May 31, 2002. Key provisions of the CBA
1579 include a 3 year wage and benefits package, a memorandum of understanding dated March 12,
1580 1999 regarding the separation of the FHEO agreement from the larger PSNH-wide Retail
1581 Business Group agreement, and an addendum to the agreement covering issues related to the
1582 sale and subsequent transfer of fossil/hydro assets to a purchaser.

1583 **B. NAESCO Represented Employees**

1584
1585 NAEC will require that any purchaser of a controlling interest in the facility provide
1586 certain assurances to employees at the time of closing. Specifically, the buyer will commit to
1587 become a party to and honor the collective bargaining agreement with Local Union Number
1588 555 of the Utility Workers Union of America that is in effect at the time of closing.

1589
1590 Further, NAEC will propose to require that the buyer offer continued employment for
1591 a period of twelve months (except as describe below) following the closing to persons who
1592 were employed in represented positions during the three months prior to the closing. In
1593 addition, NAEC will work with union leadership on other negotiable benefits similar to those
1594 offered to non-represented employees.

1595

C. PSNH and NAESCO Non-Represented Employees

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The purchaser will be required to offer all non-represented fossil/hydro and nuclear employees a minimum of twelve months of employment (except as describe below) following the closing at a level of wages and benefits in the aggregate not less than such employees are receiving immediately prior to the closing. The purchaser will also be required to provide out-placement assistance workshops and tuition reimbursement of up to \$3,000 per employee for job-related education courses or training to non-represented employees whose employment is involuntarily terminated during the six months following the twelve month employment period.

If the employment of non-represented employees is terminated during the first twelve months of employment with the purchaser, for reasons other than cause, those employees shall be entitled to a severance benefit from the purchaser. The severance benefit shall include but not be limited to; out-placement assistance workshops, a lump sum \$3,000 payment for retraining assistance; a one-time payment equal to six months of company contributions for health care for the employee and the employee's family members covered under the Northeast Utilities Service Company group insurance plan at the time of termination; access to an Employee Assistance Program equivalent to that offered to PSNH/NAESCO employees, for a period consistent with the term of the health benefits. Additionally, the purchaser shall provide a cash severance benefit which is the greater of either a) the remainder of pay and benefits due the employee as a result of the minimum one-year employment clause or b) a severance payment calculated at two weeks of straight time pay for each full year of continuous credited service up to a maximum of 52 weeks of pay, with a minimum of 4 weeks pay.

1622 **D. Retirement Benefits for Represented and Non-Represented Employees of**
1623 **PSNH or NAESCO**
1624

1625 1. Pension
1626

1627 The purchaser will be obligated to provide a defined benefit plan that provides at least
1628 a minimum level of pension benefits to any of the PSNH/NAESCO employees who are
1629 employed by the purchaser as of the closing and subsequently leave employment with the
1630 purchaser or subsequent purchasers. The minimum level of pension benefits that the
1631 purchaser will be obligated to provide will be calculated using the pension benefit formula
1632 applicable to the employee under the PSNH/NAESCO plans as of the closing. The
1633 purchaser's obligation with regards to this pension benefit will be calculated as the difference
1634 between (a) the employee's total pension benefit as calculated utilizing the pension benefit
1635 under PSNH's/NAESCO's plan applicable to the employee as of the closing, the employee's
1636 final average earnings (as so defined in such plan) with purchaser, and the employee's total
1637 years of service with PSNH and/or NAESCO and the purchaser and, (b) the pension benefit
1638 the employee receives from PSNH or NAESCO, (or any successor or assign). The
1639 PSNH/NAESCO portion of the employee's pension benefit will be calculated by
1640 PSNH/NAESCO as of the closing, based upon the pension benefit formula, years of credited
1641 service and final average earnings applicable to the employee as of the closing.
1642

1643 2. Pension Rule 85
1644

1645 Effective January 1, 2000, PSNH and NAESCO employees are eligible to receive full
1646 pension benefits beginning at age 55 if they have combined age and years of service totaling at
1647 least 85 (the "Rule of 85").
1648

1649 3. Pension Plan Modification
1650

1651 Any employee who is age 50 to 54 on the date of the announcement of the winning
1652 bidder(s) and whose age plus credited years of service equals or exceeds 65 years and who is

1653 subsequently involuntarily separated from employment by the purchaser, will be eligible for
 1654 the following additional retirement benefits: 1) retiree life insurance equivalent to that
 1655 provided to NU system retirees, beginning at separation; 2) continuation of health care
 1656 benefits at COBRA rates until age 55, after which retiree health care benefits and
 1657 contributions apply; and 3) the option to begin pension payments before age 55.

1658

1659 An employee eligible to begin receiving pension benefits before age 55 will be entitled
 1660 to receive the following percentages of the total pension benefit to which the employee would
 1661 be entitled at or after age 55:

1662

1663 Employee Benefits Eligibility

1664	Age when benefits begin	Percent of accrued age 65 benefit
1665	55	75%
1666	54	71%
1667	53	67%
1668	52	63%
1669	51	59%
1670	50	55%

1671

1672 4. Pension Benefits - General

1673

1674 The pension benefit must be guaranteed and protected from forfeiture to the same
 1675 extent as any ERISA retirement plan benefit. If such benefit should be subject to Social
 1676 Security or Medicare taxes that do not apply to ERISA retirement plan benefits, such benefits
 1677 will be grossed up to offset any additional tax liability to the employee.

1678

1679 5. Vesting and Years of Credited Service

1680

1681 The purchaser will apply each employee's prior service with the NU system companies
1682 and service recognition/credited service which was recognized by NU towards any eligibility,
1683 vesting or other waiting period requirements under the purchaser's employee benefit plans
1684 (including, but not limited to, pension benefits, life insurance, health care benefits, and
1685 vacation and sick time), will waive any pre-existing medical condition provisions under the
1686 purchaser's health care plans in which the employees participate, and will give the employees
1687 credit for any moneys paid toward the annual deductible under such plans as of the closing.
1688 All employees who are vested in the NU plans as of the closing shall be vested as of the
1689 closing in the purchaser's plans.

1690 **E. Fossil/Hydro and Nuclear Employees generally**

1691

1692 PSNH and NAESCO will consider offering an early retirement program to all eligible
1693 fossil/hydro and nuclear personnel. The cost of this program will be the responsibility of
1694 PSNH.

1695

1696 **F. PSNH Retail Business Group (T&D Company) commitments to Union
1697 Workers**

1698

1699 PSNH will honor all existing collective bargaining agreements for non-fossil/hydro
1700 employees, including T&D employees.

1701

1702

1703 **XI. CODE OF CONDUCT**

1704

1705 In PUC Order No 22,875 issued in Docket No. DR 96-150 dated March 20, 1998, the
1706 PUC permitted retail-marketing companies affiliated with jurisdictional utilities to compete
1707 for retail customers in their affiliated distribution utility's Service Territory, subject to an

1708 appropriate Code of Conduct to protect against anti-competitive behavior. In that same order,
1709 the PUC stated that, prior to the final implementation of a Code of Conduct, the equivalent
1710 Code of Conduct enacted in California should govern. The California Code is set out in
1711 Appendix I. PSNH agrees to abide by the California Code, as interpreted by the “New
1712 Hampshire Affiliate Transaction Rules Applicable to PSNH and NU” attached hereto as
1713 Appendix H until such time as the PUC adopts a New Hampshire Code of Conduct. The
1714 Parties will recommend that the Code of Conduct to be adopted by the PUC address issues
1715 such as, but not limited to, physical separation, restrictions on common management or
1716 directors, contractual or financial relationships and preferential treatment.

1717
1718 Regardless of the final PUC order implementing a New Hampshire Code of Conduct,
1719 PSNH agrees: that it will not use its utility status to favor any affiliated companies, that any
1720 customer and/or marketing data provided to any affiliated company will be simultaneously
1721 provided to all other Competitive Suppliers, that its generating and marketing affiliates will
1722 not share office space or personnel, that its marketing affiliates will not use the name Public
1723 Service of New Hampshire or any similar name, that its affiliates may not otherwise trade on
1724 the name or status of PSNH in marketing efforts, that its affiliates' books and accounts will be
1725 open to inspection by the PUC in accordance with the provisions of paragraph 11 of Appendix
1726 H of this Agreement, and that it and NU will cooperate to establish market power
1727 measurements and benchmarks that will be effective to monitor how the ISO-NE power
1728 marketplace is operating. The Parties agree to recommend that resolution of disputes under
1729 any market power provisions adopted by the PUC should be performed in a manner consistent
1730 with the arbitration procedures now in place under the Telecommunications Act of 1996.

1731

1732

1733 **XII. EXEMPT WHOLESALE GENERATOR STATUS**

1734

1735 Should any entity to whom PSNH sells its generating assets be qualified to seek
1736 Exempt Wholesale Generator status under §32 of the Public Utility Holding Company Act of
1737 1935 and other federal law, rules and regulations, the Parties agree that they will support the
1738 purchaser's efforts to obtain any necessary approvals and findings from the PUC.

1739

1740

1741 **XIII. SECURITIZATION OF STRANDED COSTS**1742 **A. Role of Securitization in Settlement**

1743 The Parties recognize that securitization is a useful tool for lowering customers' bills
1744 and maximizing customer benefits. The issuance of RRBs will allow PSNH to reduce its cost
1745 of capital, thereby significantly reducing rates for customers. Securitization is expected to
1746 account for a material portion of the 15.3% average rate reduction that will be achieved when
1747 this Agreement is implemented. The Parties acknowledge that securitization of Stranded
1748 Costs is a pivotal element of the settlement, and that passage of acceptable legislation and the
1749 successful completion of the proposed bond issue are conditions to implementing this
1750 Agreement.

1751 **B. Legislation**

1752 Securitization of Stranded Costs may be considered by the PUC under Chapter 289 of
1753 the Session Laws of 1999, section 3 and Chapter 249 of the Session Laws of 2000. The
1754 Parties hereby commit to make all reasonable efforts to issue the RRBs as expeditiously as
1755 possible.

1756

1757 Such legislation authorizes, among other things, the creation by the PUC of an
1758 irrevocable property right to bill and collect nonbypassable RRB Charges in amounts
1759 sufficient to recover RRB Costs associated with the RRBs. Such irrevocable property right
1760 will be referred to as "RRB Property."

1761

1762 Pursuant to RSA Chapter 369-B, the State of New Hampshire has pledged, contracted,
1763 and agreed that neither the State nor any agency thereof, including the PUC, will limit or alter
1764 the RRB Charge, securitized Stranded Costs, RRB Property, or the finance order and all rights
1765 thereunder, until the RRBs and any interest, fees and expenses associated therewith are fully
1766 discharged, unless adequate provision is made for the protection of the owners or holders.
1767 The legislation also provides that RRB Property may be sold in a true sale transaction to a

1768 SPSE in order to facilitate the issuance of RRBs and directs the PUC to adjust the RRB
1769 Charges periodically in order to ensure the timely recovery of RRB Costs (see the description
1770 of the True-Up Mechanism herein).

1771
1772 The RRB Charges will be non-bypassable pursuant to RSA 374-F:3 and RSA Chapter
1773 369-B, and as provided in Section V(B).

1774

1775 **C. PUC Order**

1776 Securitization will require the prior approval by the PUC in the form of a finance order
1777 which includes the transaction description, certain findings, orders and approvals. PSNH will
1778 request findings that will maximize the likelihood of achieving a Triple-A Rating on the RRBs
1779 and the marketability of the RRB issuance.

1780

1781 The PUC will be requested, among other things, to: (i) approve the issuance of RRBs
1782 in an amount consistent with RSA Chapter 369-B, (ii) approve the organization and
1783 capitalization of the SPSE to which the RRB Property will be sold, (iii) establish the RRB
1784 Property and the RRB Charge, (iv) provide for the periodic adjustment of the RRB Charge via
1785 the True-Up Mechanism described herein, (v) approve the general structure and terms of the
1786 RRBs (as summarized below), (vi) approve the servicing of the RRB Charge by PSNH, as
1787 provided in Section XIII.D.3, as the initial servicer for the RRB Property (the “Servicer”), or
1788 any successor Servicer, under a servicing agreement (the “Servicing Agreement”) and (vii)
1789 declare the finance order irrevocable pursuant to the legislation.

1790

1791 **D. RRB Transaction Overview**

1792

1793 The finance order sought by PSNH will, among other things, require approval of the
1794 following aspects of the RRB transaction, finding that they are consistent with achieving the
1795 highest rating and therefore the lowest cost on the RRBs.

1796

1797 1. Sale of RRB Property

1798

1799 a. PSNH will form a bankruptcy-remote, wholly owned SPSE.

1800

1801 b. PSNH will capitalize the SPSE in an amount anticipated to be at least 0.50% of the
1802 initial principal balance of RRBs. These funds will be deposited in the Capital Subaccount
1803 (see Section XIII(D)(5)(b)). This capitalization is required in order that PSNH may treat the
1804 RRB issuance by the SPSE as debt for tax purposes.

1805

1806 c. An overcollateralization subaccount will be established up to the level required to
1807 achieve the highest credit rating. The amount will be finalized prior to the issuance of the
1808 RRBs and will depend primarily on rating agency requirements and tax considerations.
1809 Collections of RRB Charges with respect to overcollateralization will be deposited in the
1810 Overcollateralization Subaccount such that the amount therein will accumulate over time in
1811 accordance with a schedule set forth at issuance (see Section XIII(D)(5)(c)).

1812

1813 d. PSNH will sell the RRB Property to the SPSE in a transaction which will be
1814 intended and treated as a legal true sale and absolute transfer to the SPSE. A true sale of RRB
1815 Property to a bankruptcy-remote SPSE provides that, in the event of a PSNH bankruptcy, the
1816 RRB Property owned by the SPSE will not become a part of the PSNH bankruptcy estate and
1817 PSNH creditors will have no recourse to the RRB Property or RRB Charges.

1818 2. Issuance of RRBs

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a. The SPSE will issue RRBs in one or more series, each of which may be offered in one or more classes having a different principal amount, term, interest rate and amortization schedule, and reasonably consistent with the forecast amortization schedule contained in Appendix D. To the extent allowed by the PUC in the financing order, the form, term, interest rate (whether fixed or variable), repayment schedule, classes, number and determination of credit ratings and other characteristics of RRBs will be determined at the time of pricing based on then-current market conditions, in order to achieve the all-in lowest cost financing possible. Under certain circumstances, the RRBs may be subject to call provisions and may be refinanced through a subsequent issuance of RRBs to the extent such refinancing would result in a lower interest cost associated with the RRBs refinanced. At least 3 business days in advance of RRB issuance, PSNH will make an informational filing with the PUC consisting of an "Issuance Advice Letter" setting forth the final terms of the RRBs.

b. RRBs will be non-recourse to PSNH and its assets and will not be secured by a pledge of the general credit, full faith or taxing power of the State of New Hampshire or any agency or subdivision of the State of New Hampshire.

c. The targeted rating on the RRBs will be Triple-A.

d. The RRB Charge is anticipated to be billed until the expected maturity date of the RRBs, which is 12 years from their date of issuance. However, to the extent the RRBs have not been fully amortized by such date, the RRB Charge may continue to be billed until the RRBs are fully amortized and all costs related thereto have been paid; provided, however, that in no event will the RRB Charge be billed beyond the legal maturity date of the RRBs which will not be longer than 14 years from their date of issuance.

e. RRBs will be secured by all of the assets of the SPSE, including without limitation (i) the RRB Property, (ii) the rights of the SPSE under all transaction documents such as the purchase agreement by which the SPSE acquires all rights in the RRB Property (and including

1849 any swap agreements in place with respect to floating rate RRBs), (iii) the Servicing
1850 Agreement by which PSNH, or any successor servicer, acts as Servicer for the RRB Property,
1851 (iv) the Collection Account (as summarized below), (v) certain investment earnings on
1852 amounts held by the SPSE and (vi) the capital of the SPSE.

1853

1854 f. RRBs will be repaid through the collection of the RRB Charge as described in
1855 Section V(B).

1856

1857 g. The RRB Charges will be non-bypassable as provided in Section V(B).

1858

1859 3. Servicing of RRBs

1860

1861 a. On behalf of the SPSE, PSNH will initially act as the Servicer for the RRB
1862 Property, and PSNH, or any successor Servicer, will be responsible for calculating, billing,
1863 collecting, and remitting the RRB Charge.

1864

1865 b. In consideration for its servicing responsibilities, PSNH or any successor Servicer
1866 will receive a periodic servicing fee which will be recovered through the RRB Charge. In the
1867 event of a failure of any customer to pay the RRB Charge, PSNH, as Servicer, or any utility
1868 successor to PSNH, is authorized to disconnect service to such customer to the same extent
1869 that a public utility may, under applicable law and regulations, disconnect service to a
1870 customer who fails to pay any charge. If PSNH is replaced as Servicer due to its imprudence,
1871 the PUC may consider such lost periodic servicing fees when determining new delivery rates.

1872

1873 c. In the event that the PUC decides to allow billing, collection, and remittance of
1874 RRB Charges by a third party supplier within the PSNH Service Territory, such authorization
1875 must be consistent with the rating agencies' requirements necessary for the RRBs to receive
1876 and maintain the targeted Triple-A Rating.

1877

1878 d. PSNH or any successor Servicer will periodically remit (as frequently as required
1879 by the rating agencies) collections of RRB Charges to the SPSE. The SPSE will use the RRB

1880 Charge remittances to make payments of interest, principal, fees and expenses on the RRBs
1881 and to fund certain credit enhancement reserves (the application of such remittances is
1882 described further herein). PSNH may be required to obtain a letter of credit or other credit
1883 enhancement to protect against any cash collection losses resulting from the temporary
1884 commingling of funds.

1885
1886 e. Depending upon the capability of PSNH's systems at the time of issuance, PSNH
1887 may utilize some type of estimation methodology to determine the amount of RRB Charges to
1888 remit to the SPSE; provided, however, that PSNH will remain liable to remit the amount of
1889 RRB Charges that it actually collects.

1890

1891 4. RRB Charge

1892

1893 a. The RRB Charge will be established at levels intended to provide for the full
1894 recovery of RRB Costs, based upon assumptions including sales forecasts, payment and
1895 charge-off patterns, and lags between SCRC billing and collection by the Servicer.

1896

1897 b. So that the RRB Charge may recover interest payments on the RRBs, it will be
1898 calculated to reflect the coupon on the RRBs as determined by market conditions at the time
1899 of issuance. If the RRBs are Triple-A Rated and are issued prior to December 31, 1999, the
1900 coupon rate on the RRBs will be determined by market conditions at the time of pricing, but
1901 PSNH guarantees an All-In Cost of 6.25%. If the RRBs are Triple-A Rated and are issued
1902 between January 1, 2000 and July 1, 2000, the coupon rate on the RRBs will be determined by
1903 market conditions at the time of pricing but PSNH guarantees an All-In Cost of 7.25%, (see
1904 Section V(B)(3) above).

1905

1906 c. The RRB Charge will be billed so long as RRBs are outstanding, but in no event
1907 after the legal final maturity.

1908

1909 5. Credit Enhancement; Overcollateralization and True-Up Mechanism

1910

1911 a. In order for the RRBs to receive a Triple-A rating, the exposure to losses due to,
1912 among other things, shortfalls in projected sales of energy, longer-than-expected delays in bill
1913 collections, and higher-than-estimated uncollectable accounts must be minimized. This will
1914 be accomplished with various forms of credit enhancement described in the finance order,
1915 including the various components of the Collection Account and the True-Up Mechanism
1916 described below.

1917

1918 b. The RRB Charge collections will be deposited into an interest bearing Collection
1919 Account, which will consist of a General Subaccount (which will hold the collections with
1920 respect to principal, interest, fees, and expenses) and at least three other interest bearing
1921 subaccounts: the Overcollateralization Subaccount (which will hold collections with respect to
1922 Overcollateralization (see Section XIII(D)(1)(c)), the Capital Subaccount (which will hold
1923 PSNH's initial capital contribution to the SPSE) and the Reserve Subaccount (which will hold
1924 any excess collections of RRB Charge as described below). RRB Charge collections in excess
1925 of scheduled payments of interest, principal, fees and expenses on RRBs will be allocated to:
1926 (i) the Capital Subaccount to the extent the amount therein has been reduced to below the
1927 initial capital contribution, (ii) the Overcollateralization Subaccount up to the required level
1928 set forth for such date at issuance by the rating agencies and (iii) the Reserve Subaccount any
1929 remaining amounts. To the extent that RRB Charges are insufficient to make scheduled
1930 payments of interest, principal, fees and expenses on RRBs during any period, the accounts
1931 will be drawn upon in the following order (i) the Reserve Subaccount, (ii) the
1932 Overcollateralization Subaccount and (iii) the Capital Subaccount.

1933

1934 c. The RRB Charge will be calculated (both initially and as a result of the True-Up
1935 Mechanism) to recover an amount in excess of the amounts needed to make payments of
1936 principal, interest, fees and expenses on RRBs (such excess, "Overcollateralization"). The
1937 actual amount of Overcollateralization required to achieve the highest credit rating will be
1938 finalized prior to the issuance of the RRBs and will depend primarily on rating agency
1939 requirements and tax considerations. The Overcollateralization will be collected over time

1940 and deposited to the Overcollateralization Subaccount such that the amount therein will
1941 accumulate over time in accordance with a schedule set forth at issuance.

1942
1943 d. The RRB Charge will be adjusted up or down pursuant to the True-Up Mechanism
1944 in accordance with the specific methodology described in the finance order. At the times
1945 specified in the order and as approved by the PUC, an RRB Charge adjustment will be
1946 requested such that, during the period for which that RRB Charge will be billed, RRB Charge
1947 collections will be sufficient to: (i) pay principal and interest on the RRBs in accordance with
1948 the expected amortization schedule, (ii) pay fees and expenses related to RRBs, (iii) maintain
1949 the Overcollateralization Subaccount balance at the required levels and (iv) restore the capital
1950 contribution to the Capital Subaccount to the extent it has been drawn upon to make payments
1951 on RRBs, and (v) reduce the balance in the Reserve Subaccount to zero. When PSNH
1952 anticipates that the Recovery End Date will occur in six months, it may, at its option, initiate
1953 monthly True-Up Mechanism reconciliations. Similarly, during the twelve months prior to the
1954 expected maturity date and thereafter until the legal maturity date, PSNH may, at its option,
1955 initiate quarterly or monthly True-Up Mechanism reconciliations. When the RRBs are paid
1956 off, any balances in the Overcollateralization and Reserve will be used to reduce the Part 2
1957 Stranded Costs.

1958

1959 **E. Use of Proceeds**

1960

1961 The SPSE will transfer the proceeds it received from the issuance of the RRBs to
1962 PSNH as consideration for the RRB Property. PSNH may use the proceeds of securitization
1963 in such manner as the PUC shall approve in the finance order.

1964 **F. State Oversight**

1965

1966 The New Hampshire State Treasurer, or other State official designated by the State
1967 Treasurer, shall have oversight over the terms and conditions of the RRB issue, including but
1968 not limited to tax aspects and such other arrangements to which the Parties may mutually

1969 agree, to assure that PSNH exercises fiscal prudence, and achieves the lowest overall cost for
1970 the RRBs.

1971

1972

1973 **XIV. OTHER PSNH COMMITMENTS**

1974 **A. Bankruptcy of NU or Other Affiliates**

1975

1976 PSNH and NU agree to take all possible steps to insure that the State, acting on behalf
1977 of PSNH's customers, will be entitled to participate as a party in any bankruptcy of NU,
1978 PSNH or any current or future affiliate during the term in which any Rate Reduction Bonds
1979 remain outstanding.

1980

B. Dividend

1981

1982 Except for the issuance of a dividend pursuant to 2000 N.H. Laws 249:8, PSNH agrees
1983 that it will not make dividend payments to its parent, NU, until the earliest of the date that the
1984 write-off associated with this Agreement has been taken; or the date that this Agreement is
1985 either terminated pursuant to Section XVI or disapproved by the PUC.

1986

1987 **C. Sale of PSNH or NU**

1988

1989 If PSNH's T&D assets are sold within five years of Competition Day, for a premium
1990 above 1.5 times the net book value of those assets, less liabilities and obligations assumed by
1991 the purchaser ("Excess Premium"), 1/3 of the Excess Premium will be credited to Non-
1992 Securitized Stranded Costs. If NU itself is acquired or otherwise sold or merged during that
1993 same time period, it agrees that notwithstanding any contrary provision of law, the merger,
1994 acquisition or sale shall be subject to the jurisdiction of the PUC under RSA Chapters 369,
1995 374, 378 or other relevant provisions, and that the merger, acquisition or sale shall be
1996 approved only if it be shown to be in the public interest. A merger of NU that is subject to this
1997 section shall not include acquisitions by NU of other entities.

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XV. PROCEEDINGS TO BE TERMINATED UPON IMPLEMENTATION OF SETTLEMENT

A. Federal Court Litigation

On Competition Day, PSNH agrees to dismiss with prejudice the suit it brought in Federal District Court on the issuance by the PUC of its February 28, 1997 Final Plan for restructuring (D.N.H. 97-97/ D.R.I. 97-121). Due to the fact that there are other utility plaintiffs involved in the litigation, the Parties understand that the case may not be dismissed in its entirety.

B. Public Utilities Commission Proceedings

PSNH has sought to stay the following proceedings during the pendency of the approval process for this Agreement, and those proceedings shall be dismissed with prejudice upon PUC approval and adoption of legislation authorizing implementation of the Agreement.

1. DR 96-148

This proceeding was brought by the PUC to determine whether PSNH had used its 'best efforts' to negotiate with IPPs.

2. DR 96-149

This proceeding was brought by the PUC to investigate whether FERC's "light loading" rules applied to PSNH's purchases from IPPs.

3. DR 96-424

This proceeding was brought to explore whether a commercial customer should be able to self generate without any obligation to support system costs.

2027 4. DR 97-014 and DR 98-014

2028 These proceedings were brought to consider PSNH's recovery of fuel and purchased
2029 power expenses.

2030

2031 5. DR 97-059

2032 This proceeding was brought to determine new base rates for PSNH.

2033

2034 6. DE 97-167

2035 This proceeding was brought to investigate whether PSNH should have joined the suit
2036 brought by other utilities against NU to recover losses alleged to have resulted from NU's
2037 management of Millstone 3.

2038

2039 7. DF 97-185

2040 This proceeding was brought to allow the PUC to conduct a management audit of
2041 PSNH in relation to the ongoing rate case.

2042

2043 8. DR 98-006 and DR 98-071

2044 These proceedings were brought to evaluate the Least Cost Integrated Resource Plan
2045 ("LCIRP") filing by PSNH.

2046

2047 9. DSF 99-066 and DE 00-092

2048 These proceedings were brought to complete the annual reviews of PSNH's proposed
2049 bulk power projects.

2050

2051

2052 **XVI. CONDITIONS FOR IMPLEMENTING THE SETTLEMENT**

2053

2054 All conditions set forth in this section must be met to the satisfaction of all Parties as a
2055 condition precedent to implementation of this Agreement, and the Parties hereby agree to take
2056 all reasonable measures to ensure fulfillment of these conditions. The failure of any of these

2057 conditions to be fulfilled will result in termination of the Agreement, subject to the provisions
2058 of Section XVII(D).

2059

2060 A. The PUC must approve this Agreement by a Final Order, without condition or
2061 modification, unless otherwise agreed to by the Parties as provided in Section XVII(D).

2062

2063 B. PSNH and NAEC must receive approval from the appropriate lenders pursuant to
2064 existing credit agreements.

2065

2066 C. Legislation must be enacted allowing the securitization of assets and the issuance
2067 of Rate Reduction Bonds in a manner fully consistent with the terms of this Agreement. This
2068 condition has been met by the enactment of Chapter 249 of the Session Laws of 2000.

2069

2070 D. PSNH must close on the issuance of the Rate Reduction Bonds.

2071

2072 E. PSNH must have entered into agreements to sell power from any remaining
2073 entitlements; or there must be an arrangement in place for PSNH to sell such entitlements into
2074 the wholesale market.

2075

2076 F. All necessary final approvals, without condition or modification, for other
2077 jurisdictional matters must be obtained, as required, from the Federal Energy Regulatory
2078 Commission, the Securities and Exchange Commission, the Nuclear Regulatory Commission,
2079 and the Connecticut Department of Public Utility Control.

2080

2081

2082 **XVII. MISCELLANEOUS**

2083 **A. Applicable Law**

2084 This Agreement shall be governed by the laws of the State of New Hampshire. The
2085 Parties agree that any disputes regarding this Agreement will be subject to the jurisdiction of
2086 the PUC and the appellate jurisdiction of the New Hampshire Supreme Court.

2087 **B. Successors and Assigns**

2088 The rights conferred and obligations imposed on the Parties to this Agreement shall be
2089 binding on or inure to the benefit of their successors in interest or assignees as if such
2090 successor or assignee was itself a Signatory hereto.

2091 **C. Entire Agreement**

2092 This Agreement contains the entire agreement among the Parties respecting the subject
2093 matter herein and supersedes all prior agreements and understandings between them, including
2094 the Memorandum of Understanding among the Parties dated June 14, 1999. The agreements
2095 contained herein are interdependent and not severable, and they shall not be binding upon, or
2096 deemed to represent positions of, the Parties if they are not approved in full and without
2097 modification or condition by the Commission subject to subsection D of this section, below.

2098 **D. General Provisions**

2099 If the PUC does not approve this Agreement in its entirety and without modification or
2100 condition, the Parties shall have an opportunity to amend or terminate this Agreement. If
2101 terminated, this Agreement shall be deemed withdrawn and shall not constitute a part of the
2102 record in any proceeding or be used for any purpose.

2103
2104 This Agreement is the product of settlement negotiations. The content of those
2105 negotiations shall be privileged and all offers of settlement shall be without prejudice to the
2106 position of any party or participant presenting such offer.

2107
2108 Acceptance of this Agreement by the PUC shall not be deemed to restrain the PUC's
2109 exercise of its authority to promulgate future orders, regulations or rules which resolve similar
2110 matters affecting other parties in a different fashion.

2111
2112 The PUC's approval of this Agreement shall endure so long as necessary to fulfill the
2113 express objectives of this Agreement to the extent indicated in Chapter 249 of the Laws of
2114 2000.

2115

2116 The approvals contemplated by this Agreement shall not be construed as requiring the
2117 PUC to relinquish its authority to develop new policies and issue orders or to initiate
2118 investigations when it deems such actions are in the public good.

2119
2120 As described below, this Settlement Agreement does not affect the jurisdiction of the
2121 PUC. To the extent that there is a dispute among parties in Docket No. DR 96-150 regarding
2122 the jurisdiction of the PUC and the FERC over the determination and recovery of Stranded
2123 Costs caused by state-mandated retail access policies, the Parties intend that nothing in this
2124 Settlement Agreement should resolve that dispute, affect the authority of either regulatory
2125 body over this issue, or limit the ability of the Parties to raise arguments or defenses relating to
2126 this jurisdictional issue. Notwithstanding any other provision of this Agreement, no provision
2127 herein shall be deemed to determine this jurisdictional issue. Accordingly, the Parties view
2128 this Agreement as a negotiated resolution of the issues presented by the restructuring of PSNH
2129 in the context of the PUC's electric utility restructuring proceeding.

2130
2131 The Parties agree to support this Agreement before the PUC and in any related legal
2132 proceedings or legislative inquiries or hearings, and to take all such action as is necessary to
2133 secure approval and implementation of the provisions of this Agreement.

Signed this 2nd day of August, 1999

_____/s/_____
 Jeanne Shaheen
 Governor of the State of New Hampshire
 State House
 Concord, NH 03301

_____/s/_____
 Michael G. Morris
 Chairman, President and Chief Executive
 Officer
 Northeast Utilities
 107 Selden Street
 Berlin, CT 06037

_____/s/_____
 Philip T. McLaughlin
 Attorney General
 of the State of New Hampshire
 33 Capitol Street
 Concord, NH 03301

_____/s/_____
 William T. Frain, Jr.
 President and Chief Operating Officer
 Public Service Company of New Hampshire
 1000 Elm Street
 P.O. Box 330
 Manchester, NH 03105

_____/s/_____
 Thomas B. Getz
 Executive Director and Secretary
 New Hampshire Public Utilities Commission
 8 Old Suncook Road
 Concord, NH 03301

_____/s/_____
 Deborah J. Schachter
 Director
 Governor's Office of Energy and Community
 Services
 57 Regional Drive
 Concord, NH 03301

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APPENDIX A - SUMMARY OF PROPOSED RATES**APPENDIX A - SUMMARY OF PROPOSED RATES****Public Service Company of New Hampshire
Current and Target Revenue by Class**

Rate Class	Billed KWH Sales (1)	Total Revenue		Revenue, ¢/kWh		Percentage Decrease
		Current Rates (2)	Target (3)	Current Rates	Target	
Residential Service	2,294,071,493	\$ 333,425,361	\$ 276,917,370	14.534	12.071	16.9%
General Service	1,421,780,341	182,776,854	156,452,709	12.855	11.004	14.4%
Primary General Service	1,219,154,700	133,906,224	115,563,674	10.984	9.479	13.7%
Large General Service	559,072,437	57,205,610	50,299,747	10.232	8.997	12.1%
Outdoor Lighting Service	<u>40,858,107</u>	<u>10,553,509</u>	<u>8,780,816</u>	<u>25.830</u>	<u>21.491</u>	<u>16.8%</u>
Total Retail	5,534,937,078	\$ 717,867,558	\$ 608,014,316	12.970	10.985	15.3%

Note: all amounts are based on the 9/98 test year as proformed, excluding special pricing.

- (1) Sales for the Outdoor Lighting class have been recalculated based on the new kWh amounts shown in the Delivery Service Tariff.
(2) Represents revenues for the 9/98 test year, proformed to the level of Tariff 38 (temporary) base rates with an FPPAC rate of 0.383 ¢/kWh.
(3) Includes a Transition Service energy charge of 4.400 ¢/kWh.

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APPENDIX B - ENVIRONMENTAL RESERVE FUND IDENTIFIED SITES

2141

2142 Messer Street former Manufactured Gas Plant ("MGP") (Laconia, NH)

2143 Keene former MGP (Keene, NH)

2144 Nashua former MGP (Nashua, NH)

2145 Dover former MGP (Dover, NH)

2146 Franklin former MGP (Franklin, NH)

2147 Calcutt Landfill (Dover, NH)

2148 Coakley Landfill Superfund Site (Greenland & North Hampton, NH)

2149 Port Refinery Superfund Site (Ryebrook, NY)

2150 Portland - Bangor Disposal Site (Portland, ME)

2151 Manchester Steam former Generating Plant (Manchester, NH)

2152 Cocheco former Generating Plant (Dover, NH)

2153 Seabrook Station former Landfill (Hampton, NH)

2154

APPENDIX C - ESTIMATED BALANCE OF THE ASSETS AS OF JUNE 30, 2000

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APPENDIX C - ESTIMATED BALANCE OF THE STRANDABLE ASSETS AS OF JUNE 30, 2000

(Millions of Dollars)

	06/30/00 Book <u>Balance</u>	06/30/00 Market <u>Value</u>	06/30/00 Strandable <u>Assets</u>	2000 <u>Written-Off</u>	06/30/00 <u>Securitized</u>	<u>Amortized</u>	Amort. <u>Years</u>
Seabrook Over-Market Generation Assets	\$ 594	\$ 100	\$ 494	\$ -	\$ 494	\$ -	12
MP3 Over-Market Generation assets	82	-	82	-	64	18	12
Fossil Over-Market Generation assets (12/00)	178	290	(112)	-	-	(112)	11.5
Hydro Over-Market Generation assets (12/01)	24	70	(46)	-	-	(46)	10.5
Seabrook Deferred Return - NAEC	90	-	90	90	-	-	
Seabrook Deferred Return - PSNH	15	-	15	15	-	-	
Acquisition Premiums	310	-	310	162	-	148	12
Acquisition Premiums - F109	185	-	185	97	-	88	12
Unrecovered Obligation - YAEC, CY,MY	50	-	50	-	-	50	8
Deferred SPP Costs	102	-	102	-	-	102	12
Deferred FPPAC Costs	107	-	107	-	-	107	12
Deferred VY Contract Termination Payments	-	(9)	9	-	-	9	12
Market Value of Wholesale Power Contracts	-	10	(10)	-	-	(10)	12
Reserves for NHEC Settlement	(24)	-	(24)	-	-	(24)	12
Deferred NOx Allowance Credits (12/00)	(5)	-	(5)	-	-	(5)	11.25
Unamortized Loss on Reacq. Debt (6/00)	3	-	23	3	15	5	12
Unamortized Loss on Reacq. Debt (12/00)	-	-	11	-	-	11	11.5
Unamortized Loss on Reacq. Debt (12/01)	-	-	3	-	-	3	10.5
Total Assets	<u>\$ 1,711</u>	<u>\$ 461</u>	<u>\$ 1,284</u>	<u>\$ 366</u>	<u>\$ 573</u>	<u>\$ 345</u>	

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APPENDIX D - FORECAST AMORTIZATION SCHEDULE FOR STRANDABLE ASSETS

		(Thousands of Dollars)														
		Year Ending 12/31:														
		06/30/2000	7/00-12/00	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	Total
Seabrook Over-Market Generation Assets	Securitized	-	13,170	27,813	29,897	32,138	34,547	37,137	39,920	42,913	46,130	49,588	53,305	57,300	30,242	494,099
MP-3 Over-Market Generation Assets	Securitized	-	1,703	3,597	3,867	4,156	4,468	4,803	5,163	5,550	5,966	6,413	6,894	7,411	3,911	63,901
	Amortized	-	762	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	1,524	762	18,285
Fossil Over-Market Generation Assets (12/00)		-	-	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(9,781)	(4,891)	(112,487)
Hydro Over-Market Generation Assets (12/01)		-	-	-	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(4,401)	(2,200)	(46,209)
Seabrook Deferred Return - NAEC	Written-off	89,892	-	-	-	-	-	-	-	-	-	-	-	-	-	89,892
Seabrook Deferred Return - PSNH	Written-off	15,169	-	-	-	-	-	-	-	-	-	-	-	-	-	15,169
Acquisition Premiums	Written-off	161,963	-	-	-	-	-	-	-	-	-	-	-	-	-	161,963
	Amortized	-	6,178	12,356	12,356	12,356	12,356	12,356	12,356	12,356	12,356	12,356	12,356	12,356	6,178	148,269
Acquisition Premiums - F109	Written-off	96,788	-	-	-	-	-	-	-	-	-	-	-	-	-	96,788
	Amortized	-	3,692	7,384	7,384	7,384	7,384	7,384	7,384	7,384	7,384	7,384	7,384	7,384	3,692	88,603
Unrecovered Obligation - YAEC, CY, MY		-	3,538	7,048	6,901	6,718	6,700	6,229	5,992	4,850	2,440	-	-	-	-	50,416
Deferred DOE Assessment		-	9	18	18	18	18	18	18	18	18	18	18	18	9	215
Deferred SPP Costs -		-	4,240	8,481	8,481	8,481	8,481	8,481	8,481	8,481	8,481	8,481	8,481	8,481	4,240	101,771
Deferred FPPAC Costs		-	4,458	8,917	8,917	8,917	8,917	8,917	8,917	8,917	8,917	8,917	8,917	8,917	4,458	107,000
VY Contract Termination Payment		-	392	783	783	783	783	783	783	783	783	783	783	783	392	9,400
Market Value of Wholesale Power Contracts		-	(417)	(833)	(833)	(833)	(833)	(833)	(833)	(833)	(833)	(833)	(833)	(833)	(417)	(10,000)
Reserves for NHEC Settlement		-	(1,008)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(2,017)	(1,008)	(24,200)
Deferred NOx Allowance Credits		-	-	(391)	(391)	(391)	(391)	(391)	(391)	(391)	(391)	(391)	(391)	(391)	(196)	(4,500)
Unamort. Loss on Reacq. Debt - Exist		-	124	249	249	249	249	249	249	249	249	249	249	249	124	2,982
Unamort. Loss on Reacq. Debt - 6/00		-	90	181	181	181	181	181	181	181	181	181	181	181	90	2,167
Unamort. Loss on Reacq. Debt - 12/00		-	-	953	953	953	953	953	953	953	953	953	953	953	476	10,955
Unamort. Loss on Reacq. Debt - 12/01		-	-	-	248	248	248	248	248	248	248	248	248	248	124	2,604
Financing Costs - 6/00	Written-off	2,599	-	-	-	-	-	-	-	-	-	-	-	-	-	2,599
	Securitized	-	400	844	908	976	1,049	1,127	1,212	1,303	1,400	1,505	1,618	1,740	918	15,000
	Total	366,411	37,332	67,123	65,240	67,656	70,432	72,964	75,955	78,284	79,604	81,174	85,485	90,118	46,905	1,284,682
Total Write-Off		366,411	-	-	-	-	-	-	-	-	-	-	-	-	-	366,411
Total Securitized		-	15,273	32,254	34,671	37,270	40,064	43,067	46,295	49,766	53,496	57,506	61,817	66,450	35,071	573,000
Total Amortization		-	22,059	34,869	30,569	30,386	30,368	29,897	29,660	28,518	26,108	23,668	23,668	23,668	11,834	345,271
	Total	366,411	37,332	67,123	65,240	67,656	70,432	72,964	75,955	78,284	79,604	81,174	85,485	90,118	46,905	1,284,682
Balance of Total Stranded Assets		918,271	880,940	813,817	748,577	680,921	610,489	537,525	461,570	383,286	303,682	222,508	137,023	46,905		
Securitization:		06/30/2000	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	
Total Payment		35,816	71,631	71,631	71,631	71,631	71,631	71,631	71,631	71,631	71,631	71,631	71,631	71,631	35,816	
Interest Payment (at 7.25%)		20,543	39,377	36,960	34,361	31,567	28,564	25,336	21,865	18,135	14,125	9,814	5,181	745		
Principal Payment		15,273	32,254	34,671	37,270	40,064	43,067	46,295	49,766	53,496	57,506	61,817	66,450	35,071		
Principal Balance EOY		573,000	557,727	525,473	490,802	453,532	413,468	370,401	324,106	274,340	220,844	163,338	101,521	35,071	-	

2159 **APPENDIX E - TRANSITION SERVICE / DEFAULT SERVICE PROTOCOL**

2160

2161 Transition Service and Default Service shall be procured in accordance with the provisions of

2162 RSA Chapter 369-B.

2163 **APPENDIX F - FOSSIL/HYDRO ASSET AUCTION**

2164

2165

2166 **ILLUSTRATIVE TIMELINE AND SEQUENCE OF EVENTS FOR FOSSIL/HYDRO**2167 **ASSET AUCTION:**

Week	
Beginning	Action
4-Jan-00	Receive PUC approval of Agreement
10	Revise Descriptive Memorandum (DM) to conform to PUC approval
17	
24	Finalize revisions to DM
3-Feb-00	PUC Appeal Period concludes
7-Feb-00	
14	Launch Auction with press release, invitations to bid - Round 1 begins
21	
28	Distribution of DM's complete
6-Mar-00	Schedule Data Room visits (if needed), respond to bidder questions
13	Schedule Data Room visits (if needed), respond to bidder questions
20	Schedule Data Room visits (if needed), respond to bidder questions
27	Respond to Bidder Questions
3-Apr-00	Indicative bids due
10	Evaluate bids and select Round 2 participants
17	Round 2 Bidders notified and scheduled
24	Site visits and management presentations
1-May-00	Site visits and management presentations

8	Site visits and management presentations
15	Site visits and management presentations
22	Site visits and management presentations
29	Site visits and management presentations
5-Jun-00	Site visits and management presentations
12	
19	
26	Final bids due
3-Jul-00	Bids reviewed and winners selected
10	Asset Purchase Negotiations conducted
17	Winners announced
24	
31	Start state and federal regulatory approval process

Prior to 12/31/2000 Complete Financial Closing on all transactions

PSNH reserves the right after consultation with the Commission, to alter or modify this schedule as necessary, before or during the auction process to best satisfy the goals of the auction.

**APPENDIX G - DESCRIPTION OF PSNH FOSSIL/HYDRO ASSETS TO BE
DIVESTED VIA AUCTION**

1. Thermal Facilities:

a. Merrimack Station

Merrimack Station is located south of the Garvins Falls Hydroelectric Project, along the Merrimack River in Bow, New Hampshire.

Merrimack Station Generating Facilities:

Unit	Load role	Fuel	Seasonal claimed capability (winter) (MW)	Year installed
Unit 1	Base load	Coal	122.3	1960
Unit 2	Base load	Coal	353.5	1968
CT-1	Peaking	Jet	21.1	1968
CT-2	Peaking	Jet	21.1	1969
Total			518.0	

Merrimack Station is PSNH's prime base load facility with combined generating capacity from the two coal-fired steam units and two jet fuel-fired Combustion Turbine units of 518.0 MW. The two coal-fired units are operated by personnel onsite 24 hours a day, seven days a week. While the units operate in the base load role most of the time, they can be reduced in load during off-peak hours. With this capability, these units can provide capacity, energy and reserve products transacted at the ISO New England power markets.

2190 The two combustion turbine units mainly serve a peaking role, operating during periods of
 2191 highest seasonal peak demand or when generation is needed quickly to maintain electrical
 2192 system stability. These units typically serve the capacity and reserve markets, and not the
 2193 energy market. In addition to these units, the Merrimack site includes numerous
 2194 outbuildings, including the Coal Unloading System and Coal Crusher House, office and
 2195 storage facilities, as well as a fly ash disposal area.

2196

2197 **b. Newington Station**

2198

2199 Newington Station is located on a site of more than 50 acres Thermal Facility, along
 2200 the banks of the Piscataqua River in Newington, New Hampshire. The Newington and the
 2201 Schiller Station are within a quarter mile of each other, separated by a public road that ends at
 2202 the Schiller plant. The marine terminal and the bulk fuel oil storage, and oil transfer lines for
 2203 Newington Station are located on the Schiller site.

2204

2205 Newington Station Generating Facilities

2206

Unit	Load role	Fuel	Seasonal claimed capacity (winter) (MW)	Year installed
Unit 1	Intermediate	Oil and gas	415.0	1974

2207

2208 Newington Station is PSNH's prime intermediate load facility, operating as required
 2209 by the ISO to meet base, intermediate or peaking demand requirements. It is the largest
 2210 single unit in the fossil/hydro system with capability of 415.0 maximum net MW.

2211

2212 Newington Station can burn a variety of fossil fuels including oil and natural gas
 2213 making it adaptable to changing fuel markets.

2214

2215 **c. Schiller Station**

2216

2217 The Schiller Station Thermal Plant is located east of the Newington Thermal Facility,
 2218 on the southerly shore of the Piscataqua River in Portsmouth, New Hampshire. All of the #6
 2219 oil and coal for Schiller Station, all of the #6 oil for Newington Station, and ocean
 2220 transported coal for Merrimack Station is received by ship or barge at the main dock at
 2221 Schiller Station.

2222

2223 Schiller Station Generating Facilities

2224

Unit	Load role	Fuel	Seasonal claimed capability (winter) (MW)	Year installed
Unit 4	Base/intermediate	Coal or oil	48.0	1952
Unit 5	Base/intermediate	Coal or oil	49.6	1955
Unit 6	Base/intermediate	Coal or oil	49.0	1957
CT-1	Peaking	Jet or gas	18.0	1970
Total			164.6	

2225

2226 Schiller's steam units have historically served a base load or intermediate load role for
 2227 NEPOOL. The units have the capability of starting up and shutting down daily if needed, but
 2228 as experienced in 1997, can also effectively serve in the base load role. Schiller's low cost of
 2229 fuel and deep water docks make it an attractive site for generation.

2230

2231 Completed in 1949, Schiller Station is PSNH's third largest generating plant. The
 2232 four generating units combine for a total output of 164.6 net MW. Units 4 and 5 were
 2233 originally designed to burn coal, and did so for the first six months of their operation. Both
 2234 were then converted to burn oil as the primary fuel. Unit 6 was designed to burn oil
 2235 originally.

2236

2237 In 1984, Units 4,5 and 6 were converted to coal. Now all three units can burn coal
 2238 and/or oil as boiler fuel, making them adaptable to changing fuel markets. In addition to the
 2239 steam units, Schiller also has a separate combustion turbine (CT-1) capable of producing 18
 2240 net MW. CT-1 is a jet engine capable of burning either A V Jet Kero II or natural gas.

2241

2242 **2. Hydro Facilities:**

2243

2244 **a. Smith Station**

2245

2246 Smith Station is located on the Androscoggin River in Berlin, Coos County, New
 2247 Hampshire near the confluence of the Dead River and the Androscoggin River. The Station
 2248 operates one unit with a rated capacity of 14.2 MW.

2249

2250 Smith Station Generating Facilities

2251

Station	Load role	Seasonal claimed capability (MW)	Units	Year last unit installed
Smith	Run-of-river	14.2	1	1948

2252

2253 The project operates in a run-of-river mode. High capacity factors are achieved at
 2254 Smith Station due to large upstream reservoirs which maintain consistent water flows to the
 2255 station throughout the year. Pond level is maintained within a narrow band by using a float
 2256 control mechanism to control generator output.

2257

2258 **b. Gorham Station**

2259

2260 Gorham Station is located on the Androscoggin River in the Town of Gorham, Coos
 2261 County, New Hampshire, near the confluence of the Peabody River and the Androscoggin
 2262 River. The unmanned Station operates four units with an aggregate rated capacity of 2.1
 2263 MW.

2264

2265 Gorham Station Generating Facilities

2266

Station	Load role	Seasonal claimed capability (MW)	Units	Year last unit installed
Gorham	Run-of-river	2.1	4	1923

2267

2268 This run-of-river plant operates automatically as a base load station generating power

2269 from any combination of its units to match river flows. Gorham benefits from the same

2270 reservoir system that supplies water to the upstream Smith Station. Gorham Station consists

2271 of a dam and adjacent canal gatehouse, a power canal and a four-unit powerhouse. Limited

2272 ponding capability exists. Gorham Station employs an automatic pond level control system

2273 to maximize generator output and maintain pond level within a narrow band.

2274

2275 **c. Androscoggin Reservoir Company (ARCO)**

2276

2277 Smith and Gorham Stations on the Androscoggin River receive headwater benefits

2278 from the Union Water Power Company (UWPCO) and ARCO. PSNH is a 12.5 percent

2279 owner in ARCO and PSNH's ownership share in ARCO will be transferred to the Buyer with

2280 the purchase of the Upper Hydro Group Hydroelectric Facilities. PSNH has no ownership

2281 share in UWPCO, which has been transferred in ownership to FPL Group as a result of FPL's

2282 purchase of assets from Central Maine Power.

2283

2284 ARCO was created in order to develop an additional storage reservoir for the

2285 Androscoggin Reservoir system, the Aziscohos Lake in Maine. UWPCO serves as operator

2286 for ARCO as well as the Union Water Power storage sites, managing river flows to maximize

2287 utilization of the water for electrical generation downstream.

2288

2289 Through this managed operation of headwater, PSNH facilities at Smith and Gorham
 2290 are targeted to receive a minimum flow of 1,550 cfs throughout the year, except in rare
 2291 circumstances during exceptionally dry weather.

2292

2293 **d. Canaan Station**

2294

2295 Canaan Station is located on the northern Connecticut River in the towns of Canaan,
 2296 Vermont and Stewartstown , (West Stewartstown Village) New Hampshire. It is located 10
 2297 miles below the large Murphy Dam at Lake Francis and 82 miles above Moore Dam, at river
 2298 mile 370. The plant was built in 1927 and operates one unit with a rated capacity of 1.1 MW.

2299

2300 Canaan Station Generating Facilities

2301

Station	Load role	Seasonal claimed capability (MW)	Units	Year last unit installed
Canaan	Run-of-river	1.1	1	1927

2302

2303 The unmanned Station is operated as a run-of-river plant and is operated
 2304 automatically as a base load unit. The original unit is still in service. Pond level is
 2305 maintained within a narrow band by using a float control mechanism to control generation.

2306

2307 **e. Ayers Island Station**

2308

2309 Ayers Island Station is located on the Pemigewasset River approximately 12 miles
 2310 upstream from the U.S. Army Corps of Engineers' Franklin Falls Flood Control Dam in the
 2311 Towns of Bristol, Bridgewater, Ashland and New Hampton, New Hampshire. Small land
 2312 rights associated with the station are in the towns of Ashland and Bridgewater. The station
 2313 operates three units with an aggregate rated capacity of 9.08 MW. The plant was originally
 2314 constructed in 1924 and redeveloped in 1931.

2315

2316 Ayers Island Station Generating Facilities

2317

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Ayers Island	Run-of-river	9.1	3	1931

2318

2319 Ayers Island Station operates as a run-of-river facility with a daily ponding capability.

2320 Pond level is maintained within a narrow band by using a float control mechanism to control

2321 generator output, automatically.

2322

2323 **f. Eastman Falls Station**

2324

2325 Eastman Falls Station is on the Pemigewasset River in Franklin, New Hampshire.

2326 The station operates two units with an aggregate rated capacity of 6.5 MW. The project was

2327 originally constructed in 1901 and redeveloped in 1937 and 1983.

2328

2329 Eastman Falls Stations Generating Facilities

2330

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Eastman Falls	Run-of-river	6.5	2	1983

2331

2332 Eastman Falls Station is operated as an unmanned run-of-the-river plant in times of

2333 higher water flow and as a daily peaking facility at other times taking advantage of upstream

2334 storage capability at Ayers Island. Pond level is maintained within a narrow band by using a

2335 float control mechanism to control generator output.

2336

2337 **g. Amoskeag Station**

2338

2339 Amoskeag Station is the southernmost of the three sites comprising the Merrimack
 2340 River Project. The station is located on the Merrimack River in Manchester, New
 2341 Hampshire, downstream from Hooksett Station. Amoskeag operates three units with an
 2342 aggregate rated capacity of 17.5 MW.

2343

2344 Amoskeag Station Generating Facilities

2345

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Amoskeag	Run-of-river	17.5	3	1924

2346

2347 Amoskeag Station is operated as a run-of-the river plant in times of higher water flow
 2348 and as a daily peaking facility at other times. Pond level is maintained automatically within a
 2349 narrow band by using a float control mechanism to control generator output.

2350

2351 **h. Hooksett Station**

2352

2353 Hooksett Station is located on the east side of the Merrimack River in Hooksett, New
 2354 Hampshire, downstream from the Garvins Falls Station and Merrimack Station, and upstream
 2355 from Amoskeag Station. The Station operates one unit with a rated capacity of 1.9 MW.

2356

2357 Hooksett Station Generating Facilities

2358

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Hooksett	Run-of-river	1.9	1	1927

2359

2360 The Hooksett Station is an automated site and is operated as a run-of the-river facility.
 2361 In addition to providing power to the NEPOOL transmission grid, Hooksett provides a
 2362 reservoir from which water is taken for condenser cooling at Merrimack Station located a few
 2363 miles upstream.

2364

2365 **i. Garvins Falls Station**

2366

2367 Garvins Falls is located on the Merrimack River in Bow, New Hampshire. The
 2368 Station operates four units with an aggregate rated capacity of 12.1 MW.

2369

2370 Garvins Falls Station Generating Facilities

2371

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Garvins Falls	Run-of-river	12.1	4	1981

2372

2373 The discharge capability of the headgate structure is sufficient to operate all four units
 2374 at full load. For high flows, the units are operated so as to utilize as much of the available
 2375 water as possible. During times of moderate and low flows, operation is scheduled to obtain
 2376 the maximum on-peak energy based on available head and relative overall unit efficiency.
 2377 The newly installed Units 1 and 2 are operated for as long as possible to take advantage of
 2378 their greater efficiency, while Units 3 and 4 are operated at times of higher flow.

2379

2380 **j. Jackman Station**

2381

2382 Jackman Station consists of a dam, located on Franklin Pierce Lake, and a penstock,
 2383 surge tank and powerhouse, located in Hillsborough, New Hampshire. The lake and project
 2384 are fed from the North Branch of the Contoocook River. This project is not subject to FERC
 2385 jurisdiction because it is not classified as a navigable waterway. The Station was constructed
 2386 in 1926 and operates one turbine with a rated capacity of 3.6 MW.

2387

2388 Jackman Station Generating Facilities

2389

Station	Load role	Seasonal claimed capability (winter) (MW)	Units	Year last unit installed
Jackman	Run-of-river	3.6	1	1926

2390

2391 Jackman Station is operated in an essentially run-of-river mode, automatically by a
2392 float or pond level control mechanism at the dam. The Station operates as a base load unit
2393 whenever adequate water flows are available.

2394

2395 **3. Remote Combustion Turbines:**

2396

2397 **Lost Nation Combustion Turbine**

2398

2399 The Lost Nation Combustion Turbine is located in the town of Northumberland, in northern
2400 New Hampshire. Lost Nation serves primarily as a peaking unit, operating during the periods
2401 of highest seasonal peak demand. Additionally this unit is called upon when a quick
2402 response is needed for additional generation to maintain electrical system stability. While
2403 capable of providing several NEPOOL products, the unit typically serves the capacity and
2404 reserve markets, but not the energy market.

2405

2406 Lost Nation CT Generating Facilities

2407

Station	Load role	Fuel	Seasonal claimed capability (winter) (MW)	Units	Year installed
Lost Nation	Peaking	Oil	19.1	1	1969

2408

2409 **APPENDIX H - New Hampshire Affiliate Transaction Rules Applicable to**
2410 **PSNH and NU**

2411
2412
2413
2414 **Introduction:**
2415

2416 Northeast Utilities (“NU”) is a registered holding company system which provides
2417 centralized services to its affiliated companies. NU believes that these integrated, centralized
2418 services increase efficiency through economies of scale which translate to lower prices to all
2419 customers and are particularly significant for NU because of the relative size of the NU
2420 system.
2421

2422 The Commission has not yet undertaken a rulemaking to establish final rules
2423 regarding affiliate separation and codes of conduct for New Hampshire utility companies.
2424 However, the Commission indicated in Order No. 22,875 in Docket No. DR 96-150, that
2425 utilities should operate in the interim period prior to adoption of final rules in accordance
2426 with the California Affiliate Transaction Rules. The California Affiliate Transaction Rules
2427 are attached as Appendix I hereto. Based upon an analysis of these rules and the
2428 interpretation provided below, the Parties, as an element of the settlement of which this
2429 document is a part, agree that NU will comply with the California rules in this interim period.
2430 The Parties agree to the interpretation provided below as an integral element of this
2431 Settlement Agreement.
2432

2433 **Specific Provisions:**
2434

2435 PSNH and NU’s unregulated competitive marketing affiliates agree to abide by the
2436 following provisions regarding separation of activities and services in accordance with the
2437 California Affiliate Transaction Rules.
2438

2439 1. NU will maintain distinct corporations with separate books and records, for its
2440 distribution operations and its competitive marketing activities. PSNH shall not share
2441 employees, facilities, space or services with NU’s unregulated competitive marketing
2442 affiliates, except as allowed herein. PSNH will not provide services to NU’s unregulated
2443 competitive marketing affiliates unless it also provides the same on a comparable basis to all
2444 competitors pursuant to a tariff on file with the Commission.
2445

2446 2. NU will continue to maintain its management services company, Northeast Utilities
2447 Service Company (“NUSCO”) providing shared services to its various affiliates as they
2448 require and in accordance with the regulations of the Securities and Exchange Commission
2449 (“SEC”) pursuant to the Public Utility Holding Company Act of 1935. SEC regulations
2450 require NUSCO to charge affiliates for services at cost in accordance with SEC approved

2451 allocation procedures. Resulting costs charged to the distribution companies by NUSCO will
2452 continue to be subject to review and verification by the Commission in accordance with its
2453 authority over regulated retail utility rates and operations.

2454

2455 3. NUSCO will continue to provide corporate services on a shared basis in the areas of
2456 accounting, billing, financial, administrative, regulatory, legal, information technology,
2457 communication and executive services.

2458

2459 4. NU's unregulated competitive marketing affiliates will hire its own employees to conduct
2460 competitive sales and marketing, including customer service, and will not utilize employees
2461 of NUSCO for such activities.

2462

2463 5. NU's unregulated competitive marketing affiliates staff may utilize shared corporate
2464 facilities of NUSCO along with other NUSCO personnel, but will be physically separated
2465 from PSNH and NUSCO staff engaged in customer service, customer account management
2466 and similar functions for PSNH. (For purposes of these provisions, physically separate shall
2467 be defined as being located on a separate floor of NU's facilities.)

2468

2469 6. NU's unregulated competitive marketing affiliates staff may use the same computer and
2470 telephone networks as other NUSCO and distribution company staff; but will not have access
2471 to the proprietary customer information of NU's distribution companies, such as customer
2472 databases or other competitively sensitive information, unless such information has been
2473 made available previously to nonaffiliated suppliers. Password protection for sensitive
2474 information will be maintained to ensure confidentiality.

2475

2476 7. Power procurement functions for the distribution company are limited to the selection of
2477 suppliers and administration of Transition and Default Service in accordance with the
2478 provisions of the Settlement Agreement and the requirements of the Commission. In
2479 addition, NU has in place a code of conduct approved by the Federal Energy Regulatory
2480 Commission ("FERC") governing the restrictions on sharing of information between
2481 affiliates involved in wholesale power transactions. This FERC-approved code of conduct,
2482 and the filing of open access wholesale transmission tariffs, were prerequisites to FERC's
2483 approval of tariffs for market-based wholesale rates filed by the NU companies.

2484

2485 8. NUSCO will ensure that its provision of services in accordance with the above provisions
2486 does not allow for any preferences to be given to NU's unregulated competitive marketing
2487 affiliates or to allow other activities proscribed under the rules to occur.

2488

2489 9. NU will conduct formal training for all employees relative to the need for internal barriers
2490 to information sharing in advance of Competition Day.

2491

2492 10. None of NU's unregulated competitive marketing affiliates will use the name "Public
2493 Service of New Hampshire" or any similar name, nor may such affiliates otherwise trade on
2494 the name or status of PSNH in marketing efforts.

2495

2496 11. The books and accounts of NU's unregulated competitive marketing affiliates which
2497 conduct business in the New Hampshire competitive electric market will be open to
2498 inspection by the Commission. The NU affiliate providing such books and accounts may
2499 seek to have them declared "Trade Secrets" pursuant to RSA Chapter 350B and
2500 "confidential, commercial, or financial information" pursuant to RSA Chapter 91A, and thus
2501 be accorded confidential treatment by the Commission and exempted from disclosure
2502 pursuant to these laws and Rule Puc 204.04(a)(4). The decision to provide confidential
2503 treatment will be subject to the ongoing jurisdiction of the PUC.

2504

2505 **APPENDIX I - THE CALIFORNIA AFFILIATE TRANSACTION RULES**

2506

2507

California Affiliate Transaction Rules

2508

2509

2510 **I. Definitions**

2511

Unless the context otherwise requires, the following definitions govern the construction of these Rules:

2512

2513

2514

- A. "Affiliate" means any person, corporation, utility, partnership, or other entity 5 per cent or more of whose outstanding securities are owned, controlled, or held with power to vote, directly or indirectly either by a utility or any of its subsidiaries, or by that utility's controlling corporation and/or any of its subsidiaries as well as any company in which the utility, its controlling corporation, or any of the utility's affiliates exert substantial control over the operation of the company and/or indirectly have substantial financial interests in the company exercised through means other than ownership. For purposes of these Rules, "substantial control" includes, but is not limited to, the possession, directly or indirectly and whether acting alone or in conjunction with others, of the authority to direct or cause the direction of the management or policies of a company. A direct or indirect voting interest of 5% or more by the utility in an entity's company creates a rebuttable presumption of control.

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For purposes of this Rule, "affiliate" shall include the utility's parent or holding company, or any company which directly or indirectly owns, controls, or holds the power to vote 10% or more of the outstanding voting securities of a utility (holding company), to the extent the holding company is engaged in the provision of products or services as set out in Rule II B. However, in its compliance plan filed pursuant to Rule VI, the utility shall demonstrate both the specific mechanism and procedures that the utility and holding company have in place to assure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules. Examples include but are not limited to specific mechanisms and procedures to assure the Commission that the utility will not use the holding company or another utility affiliate not covered by these Rules as a vehicle to (1) disseminate information transferred to them by the utility to an affiliate covered by these Rules in contravention of these Rules, (2) provide services to its affiliates covered by these Rules in contravention of these Rules or (3) to transfer employees to its affiliates covered by these Rules in contravention of these Rules. In the compliance plan, a corporate officer from the utility and holding company shall verify the adequacy of these specific mechanisms and procedures to ensure that the utility is not utilizing the holding company or any of its affiliates not covered by these Rules as a conduit to circumvent any of these Rules.

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Regulated subsidiaries of a utility, defined as subsidiaries of a utility, the revenues and expenses of which are subject to regulation by the Commission and are included by the Commission in establishing rates for the utility, are not included within the definition of affiliate. However, these Rules apply to all interactions any regulated subsidiary has

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- 2551 with other affiliated entities covered by these rules.
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- 2553 B. “Commission” means the California Public Utilities Commission or its succeeding state
 2554 regulatory body.
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- 2556 C. “Customer” means any person or corporation, as defined in Sections 204, 205 and 206 of
 2557 the California Public Utilities Code, that is the ultimate consumer of goods and services.
 2558
- 2559 D. “Customer Information” means non-public information and data specific to a utility
 2560 customer which the utility acquired or developed in the course of its provision of utility
 2561 services.
 2562
- 2563 E. “FERC” means the Federal Energy Regulatory Commission.
 2564
- 2565 F. “Fully Loaded Cost” means the direct cost of good or service plus all applicable indirect
 2566 charges and overheads.
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- 2568 G. “Utility” means any public utility subject to the jurisdiction of the Commission as an
 2569 Electrical Corporation or Gas Corporation, as defined in California Public Utilities Code
 2570 Sections 218 and 222.
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2572 II. Applicability

- 2573 A. These Rules shall apply to California public utility gas corporations and California
 2574 public utility electrical corporations, subject to regulation by the California Public
 2575 Utilities Commission.
 2576
- 2577 B. For purposes of a combined gas and electric utility, these Rules apply to all utility
 2578 transactions with affiliates engaging in the provision of a product that uses gas or
 2579 electricity or the provision of services that relate to the use of gas or electricity, unless
 2580 specifically exempted below. For purposes of an electric utility, these Rules apply to all
 2581 utility transactions with affiliates engaging in the provision of a product that uses
 2582 electricity or the provision of services that relate to the use of electricity. For purposes
 2583 of a gas utility, these Rules apply to all utility transactions with affiliates engaging in the
 2584 provision of a product that uses gas or the provision of services that relate to the use of
 2585 gas.
 2586
- 2587 C. These Rules apply to transactions between a Commission-regulated utility and another
 2588 affiliated utility, unless specifically modified by the Commission in addressing a separate
 2589 application to merge or otherwise conduct joint ventures related to regulated services.
 2590
- 2591 D. These rules do not apply to the exchange of operating information, including the
 2592 disclosure of customer information to its FERC-regulated affiliate to the extent such
 2593 information is required by the affiliate to schedule and confirm nominations for the
 2594 interstate transportation of natural gas, between a utility and its FERC-regulated affiliate,
 2595 to the extent that the affiliate operates an interstate natural gas pipeline.
 2596
- 2597 E. **Existing Rules:** Existing Commission rules for each utility and its parent holding
 2598 company shall continue to apply except to the extent they conflict with these Rules. In

2599 such cases, these Rules shall supersede prior rules and guidelines, provided that nothing
 2600 herein shall preclude (1) the Commission from adopting other utility-specific guidelines;
 2601 or (2) a utility or its parent holding company from adopting other utility-specific
 2602 guidelines, with advance Commission approval.

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 2604 F. **Civil Relief:** These Rules shall not preclude or stay any form of civil relief, or rights or
 2605 defenses thereto, that may be available under state or federal law.

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 2607 G. **Exemption (Advice Letter):** A Commission-jurisdictional utility may be exempted
 2608 from these Rules if it files an advice letter with the Commission requesting exemption.
 2609 The utility shall file the advice letter within 30 days after the effective date of this
 2610 decision adopting these Rules and shall serve it on all parties to this proceeding. In the
 2611 advice letter filing, the utility shall:

- 2612 1. Attest that no affiliate of the utility provides services as defined by Rule II B above;
 2613 and
- 2614 2. Attest that if an affiliate is subsequently created which provides services as defined
 2615 by Rule II B above, then the utility shall:
 - 2616 a. Notify the Commission, at least 30 days before the affiliate begins to provide
 2617 services as defined by Rule II B above, that such an affiliate has been created;
 2618 notification shall be accomplished by means of a letter to the Executive Director,
 2619 served on all parties to this proceeding; and
 - 2620 b. Agree in this notice to comply with the Rules in their entirety.

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 2622 H. **Limited Exemption (Application):** A California utility which is also a multi-state
 2623 utility and subject to the jurisdiction of other state regulatory commissions, may file an
 2624 application, served on all parties to this proceeding, requesting a limited exemption from
 2625 these Rules or a part thereof, for transactions between the utility solely in its capacity
 2626 serving its jurisdictional areas wholly outside of California, and its affiliates. The
 2627 applicant has the burden of proof.

2628
 2629 A. These Rules should be interpreted broadly, to effectuate our stated objectives of
 2630 fostering competition and protecting consumer interests. If any provision of these Rules,
 2631 or the application thereof to any person, company, or circumstance, is held invalid, the
 2632 remainder of the Rules, or the application of such provision to other persons, companies,
 2633 or circumstances, shall not be affected thereby.

2634 III. Nondiscrimination

2635 A. **No Preferential Treatment Regarding Services Provided by the Utility:** Unless
 2636 otherwise authorized by the Commission or the FERC, or permitted by these Rules, a
 2637 utility shall not:

- 2638 1. represent that, as a result of the affiliation with the utility, its affiliates or customers
 2639 of its affiliates will receive any different treatment by the utility than the treatment
 2640 the utility provides to other, unaffiliated companies or their customers; or

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- 2647 2. provide its affiliates, or customers of its affiliates, any preference (including but not
 2648 limited to terms and conditions, pricing, or timing) over non-affiliated suppliers or
 2649 their customers in the provision of services provided by the utility.
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- 2651 **B. Affiliate Transactions:** Transactions between a utility and its affiliates shall be limited
 2652 to tariffed products and services, the sale or purchase of goods, property, products or
 2653 services made generally available by the utility or affiliate to all market participants
 2654 through an open, competitive bidding process, or as provided for in Sections V D and V
 2655 E (joint purchases and corporate support) and Section VII (new products and services)
 2656 below, provided the transactions provided for in Section VII comply with all of the other
 2657 adopted Rules.
 2658
- 2659 **C. Provision of Supply, Capacity, Services or Information:** Except as provided for in
 2660 Sections V D, V E, and VII, provided the transactions provided for in Section VII
 2661 comply with all of the other adopted Rules, a utility shall provide access to utility
 2662 information, services, and unused capacity or supply on the same terms for all similarly
 2663 situated market participants. If a utility provides supply, capacity, services, or
 2664 information to its affiliate(s), it shall contemporaneously make the offering available to
 2665 all similarly situated market participants, which include all competitors serving the same
 2666 market as the utility's affiliates.
 2667
- 2668 1. **Offering of Discounts:** Except when made generally available by the utility through
 2669 an open, competitive bidding process, if a utility offers a discount or waives all or
 2670 any part of any other charge or fee to its affiliates, or offers a discount or waiver for
 2671 a transaction in which its affiliates are involved, the utility shall contemporaneously
 2672 make such discount or waiver available to all similarly situated market participants.
 2673 The utilities should not use the "similarly situated" qualification to create such a
 2674 unique discount arrangement with their affiliates such that no competitor could be
 2675 considered similarly situated. All competitors serving the same market as the
 2676 utility's affiliates should be offered the same discount as the discount received by the
 2677 affiliates. A utility shall document the cost differential underlying the discount to its
 2678 affiliates in the affiliate discount report described in Rule III F 7 below.
 2679
- 2680 2. **Tariff Discretion:** If a tariff provision allows for discretion in its application, a
 2681 utility shall apply that tariff provision in the same manner to its affiliates and other
 2682 market participants and their respective customers.
 2683
- 2684 3. **No Tariff Discretion:** If a utility has no discretion in the application of a tariff
 2685 provision, the utility shall strictly enforce that tariff provision.
 2686
- 2687 4. **Processing Requests for Services Provided by the Utility:** A utility shall process
 2688 requests for similar services provided by the utility in the same manner and within
 2689 the same time for its affiliates and for all other market participants and their
 2690 respective customers.
 2691
- 2692 **C. Tying of Services Provided by a Utility Prohibited:** A utility shall not condition or
 2693 otherwise tie the provision of any services provided by the utility, nor the availability of
 2694 discounts of rates or other charges or fees, rebates, or waivers of terms and conditions of

2695 any services provided by the utility, to the taking of any goods or services from its
2696 affiliates.

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2698 **D. No Assignment of Customers:** A utility shall not assign customers to which it currently
2699 provides services to any of its affiliates, whether by default, direct assignment, option or
2700 by any other means, unless that means is equally available to all competitors.

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2702 **E. Business Development and Customer Relations:** Except as otherwise provided by
2703 these Rules, a utility shall not:

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2705 1. provide leads to its affiliates;

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2707 2. solicit business on behalf of its affiliates;

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2709 3. acquire information on behalf of or to provide to its affiliates;

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2711 4. share market analysis reports or any other types of proprietary or non-publicly
2712 available reports, including but not limited to market, forecast, planning or strategic
2713 reports, with its affiliates;

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2715 5. request authorization from its customers to pass on customer information exclusively
2716 to its affiliates;

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2718 6. give the appearance that the utility speaks on behalf of its affiliates or that the
2719 customer will receive preferential treatment as a consequence of conducting business
2720 with the affiliates; or

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2722 7. give any appearance that the affiliate speaks on behalf of the utility.

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2724 **F. Affiliate Discount Reports:** If a utility provides its affiliates a discount, rebate, or other
2725 waiver of any charge or fee associated with services provided by the utility, the utility
2726 shall, within 24 hours of the time at which the service provided by the utility is so
2727 provided, post a notice on its electronic bulletin board providing the following
2728 information:

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2730 1. the name of the affiliate involved in the transaction;

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2732 2. the rate charged;

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2734 3. the maximum rate;

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2736 4. the time period for which the discount or waiver applies;

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2738 5. the quantities involved in the transaction;

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2740 6. the delivery points involved in the transaction;

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2742 7. any conditions or requirements applicable to the discount or waiver, and a
2743 documentation of the cost differential underlying the discount as required in Rule III

2744 B 2 above; and

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2746 8. procedures by which a nonaffiliated entity may request a comparable offer.

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2748 A utility that provides an affiliate a discounted rate, rebate, or other waiver of a charge or fee
2749 associated with services provided by the utility shall maintain, for each billing period, the following
2750 information:

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2752 9. the name of the entity being provided services provided by the utility in the
2753 transaction;

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2755 10. the affiliate's role in the transaction (i.e., shipper, marketer, supplier, seller);

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2757 11. the duration of the discount or waiver;

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2759 12. the maximum rate;

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2761 13. the rate or fee actually charged during the billing period; and

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2763 14. the quantity of products or services scheduled at the discounted rate during the
2764 billing period for each delivery point.

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2766 All records maintained pursuant to this provision shall also conform to FERC rules where applicable.

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2768 IV. Disclosure and Information

2769 **A. Customer Information:** A utility shall provide customer information to its affiliates
2770 and unaffiliated entities on a strictly non-discriminatory basis, and only with prior
2771 affirmative customer written consent.

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2773 **B. Non-Customer Specific Non-Public Information:** A utility shall make non-customer
2774 specific non-public information, including but not limited to information about a utility's
2775 natural gas or electricity purchases, sales, or operations or about the utility's gas-related
2776 goods or services, electricity-related goods or services, available to the utility's affiliates
2777 only if the utility makes that information contemporaneously available to all other
2778 service providers on the same terms and conditions, and keeps the information open to
2779 public inspection. Unless otherwise provided by these Rules, a utility continues to be
2780 bound by all Commission-adopted pricing and reporting guidelines for such transactions.
2781 Utilities are also permitted to exchange proprietary information on an exclusive basis
2782 with their affiliates, provided the utility follows all Commission-adopted pricing and
2783 reporting guidelines for such transactions, and it is necessary to exchange this
2784 information in the provision of the corporate support services permitted by Rule V E
2785 below. The affiliate's use of such proprietary information is limited to use in
2786 conjunction with the permitted corporate support services, and is not permitted for any
2787 other use. Nothing in this Rule precludes the exchange of information pursuant to D.97-
2788 10-031.

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2790 **C. Service Provider Information:**

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1. Except upon request by a customer or as otherwise authorized by the Commission, a utility shall not provide its customers with any list of service providers, which includes or identifies the utility's affiliates, regardless of whether such list also includes or identifies the names of unaffiliated entities.
 2. If a customer requests information about any affiliated service provider, the utility shall provide a list of all providers of gas-related, electricity-related, or other utility-related goods and services operating in its service territory, including its affiliates. The Commission shall authorize, by semi-annual utility advice letter filing, and either the utility, the Commission, or a Commission-authorized third party provider shall maintain on file with the Commission a copy of the most updated lists of service providers which have been created to disseminate to a customer upon a customer's request. Any service provider may request that it be included on such list, and, barring Commission direction, the utility shall honor such request. Where maintenance of such list would be unduly burdensome due to the number of service providers, subject to Commission approval by advice letter filing, the utility shall direct the customer to a generally available listing of service providers (e.g., the Yellow Pages). In such cases, no list shall be provided. The list of service providers should make clear that the Commission does not guarantee the financial stability or service quality of the service providers listed by the act of approving this list.

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D. Supplier Information: A utility may provide non-public information and data which has been received from unaffiliated suppliers to its affiliates or non-affiliated entities only if the utility first obtains written affirmative authorization to do so from the supplier. A utility shall not actively solicit the release of such information exclusively to its own affiliate in an effort to keep such information from other unaffiliated entities.

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E. Affiliate-Related Advice or Assistance: Except as otherwise provided in these Rules, a utility shall not offer or provide customers advice or assistance with regard to its affiliates or other service providers.

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F. Record-Keeping: A utility shall maintain contemporaneous records documenting all tariffed and nontariffed transactions with its affiliates, including but not limited to, all waivers of tariff or contract provisions and all discounts. A utility shall maintain such records for a minimum of three years and longer if this Commission or another government agency so requires. The utility shall make such records available for third party review upon 72 hours' notice, or at a time mutually agreeable to the utility and third party.

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If D.97-06-110 is applicable to the information the utility seeks to protect, the utility should follow the procedure set forth in D.97-06-110, except that the utility should serve the third party making the request in a manner that the third party receives the utility's D.97-06-110 request for confidentiality within 24 hours of service.

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G. Maintenance of Affiliate Contracts and Related Bids: A utility shall maintain a record of all contracts and related bids for the provision of work, products or services to and from the utility to its affiliates for no less than a period of three years, and longer if this Commission or another government agency so requires.

- 2841 H. **FERC Reporting Requirements:** To the extent that reporting rules imposed by the
2842 FERC require more detailed information or more expeditious reporting, nothing in these
2843 Rules shall be construed as modifying the FERC rules.
2844

2845 V. Separation

- 2846 A. **Corporate Entities:** A utility and its affiliates shall be separate corporate entities.
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- 2848 B. **Books and Records:** A utility and its affiliates shall keep separate books and records.
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- 2850 1. Utility books and records shall be kept in accordance with applicable Uniform
2851 System of Accounts (USOA) and Generally Accepted Accounting Procedures
2852 (GAAP).
2853
- 2854 2. The books and records of affiliates shall be open for examination by the Commission
2855 and its staff consistent with the provisions of Public Utilities Code Section 314.
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- 2857 C. **Sharing of Plant, Facilities, Equipment or Costs:** A utility shall not share office
2858 space, office equipment, services, and systems with its affiliates, nor shall a utility access
2859 the computer or information systems of its affiliates or allow its affiliates to access its
2860 computer or information systems, except to the extent appropriate to perform shared
2861 corporate support functions permitted under Section V E of these Rules. Physical
2862 separation required by this rule shall be accomplished preferably by having office space
2863 in a separate building, or, in the alternative, through the use of separate elevator banks
2864 and/or security-controlled access. This provision does not preclude a utility from
2865 offering a joint service provided this service is authorized by the Commission and is
2866 available to all non-affiliated service providers on the same terms and conditions (e.g.,
2867 joint billing services pursuant to D.97-05-039).
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- 2869 D. **Joint Purchases:** To the extent not precluded by any other Rule, the utilities and their
2870 affiliates may make joint purchases of good and services, but not those associated with
2871 the traditional utility merchant function. For purpose of these Rules, to the extent that a
2872 utility is engaged in the marketing of the commodity of electricity or natural gas to
2873 customers, as opposed to the marketing of transmission and distribution services, it is
2874 engaging in merchant functions. Examples of permissible joint purchases include joint
2875 purchases of office supplies and telephone services. Examples of joint purchases not
2876 permitted include gas and electric purchasing for resale, purchasing of gas transportation
2877 and storage capacity, purchasing of electric transmission, systems operations, and
2878 marketing. The utility must insure that all joint purchases are priced, reported, and
2879 conducted in a manner that permits clear identification of the utility and affiliate portions
2880 of such purchases, and in accordance with applicable Commission allocation and
2881 reporting rules.
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- 2883 E. **Corporate Support:** As a general principle, a utility, its parent holding company, or a
2884 separate affiliate created solely to perform corporate support services may share with its
2885 affiliates joint corporate oversight, governance, support systems and personnel. Any
2886 shared support shall be priced, reported and conducted in accordance with the Separation
2887 and Information Standards set forth herein, as well as other applicable Commission

2888 pricing and reporting requirements.
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2890 As a general principle, such joint utilization shall not allow or provide a means for the
2891 transfer of confidential information from the utility to the affiliate, create the opportunity
2892 for preferential treatment or unfair competitive advantage, lead to customer confusion, or
2893 create significant opportunities for cross-subsidization of affiliates. In the compliance
2894 plan, a corporate officer from the utility and holding company shall verify the adequacy
2895 of the specific mechanisms and procedures in place to ensure the utility follows the
2896 mandates of this paragraph, and to ensure the utility is not utilizing joint corporate
2897 support services as a conduit to circumvent these Rules.
2898

2899 Examples of services that may be shared include: payroll, taxes, shareholder services,
2900 insurance, financial reporting, financial planning and analysis, corporate accounting,
2901 corporate security, human resources (compensation, benefits, employment policies),
2902 employee records, regulatory affairs, lobbying, legal, and pension management.
2903

2904 Examples of services that may not be shared include: employee recruiting, engineering,
2905 hedging and financial derivatives and arbitrage services, gas and electric purchasing for
2906 resale, purchasing of gas transportation and storage capacity, purchasing of electric
2907 transmission, system operations, and marketing.
2908

2909 **F. Corporate Identification and Advertising:**
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- 2911 1. A utility shall not trade upon, promote, or advertise its affiliate's affiliation with the
2912 utility, nor allow the utility name or logo to be used by the affiliate or in any
2913 material circulated by the affiliate, unless it discloses in plain legible or audible
2914 language, on the first page or at the first point where the utility name or logo
2915 appears that:
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- 2917 a. the affiliate "is not the same company as [i.e. PG&E, Edison, the Gas Company,
2918 etc.], the utility,";
 - 2919 b. the affiliate is not regulated by the California Public Utilities Commission; and
2920
 - 2921 c. "you do not have to buy [the affiliate's] products in order to continue to receive
2922 quality regulated services from the utility."
2923

2924 The application of the name/logo disclaimer is limited to the use of the name or
2925 logo in California.
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- 2928 2. A utility, through action or words, shall not represent that, as a result of the
2929 affiliate's affiliation with the utility, its affiliates will receive any different
2930 treatment than other service providers.
2931
- 2932 3. A utility shall not offer or provide to its affiliates advertising space in utility billing
2933 envelopes or any other form of utility customer written communication unless it
2934 provides access to all other unaffiliated service providers on the same terms and
2935 conditions.
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4. A utility shall not participate in joint advertising or joint marketing with its affiliates. This prohibition means that utilities may not engage in activities which include, but are not limited to the following:
 - a. A utility shall not participate with its affiliates in joint sales calls, through joint call centers or otherwise, or joint proposals (including responses to requests for proposals (RFPs)) to existing or potential customers. At a customer's unsolicited request, a utility may participate, on a nondiscriminatory basis, in non-sales meetings with its affiliates or any other market participant to discuss technical or operational subjects regarding the utility's provision of transportation service to the customer;
 - b. Except as otherwise provided for by these Rules, a utility shall not participate in any joint activity with its affiliates. The term "joint activities" includes, but is not limited to, advertising, sales, marketing, communications and correspondence with any existing or potential customer;
 - c. A utility shall not participate with its affiliates in trade shows, conferences, or other information or marketing events held in California.
 5. A utility shall not share or subsidize costs, fees, or payments with its affiliates associated with research and development activities or investment in advanced technology research.

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G. Employees:

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1. Except as permitted in Section V E (corporate support), a utility and its affiliates shall not jointly employ the same employees. This Rule prohibiting joint employees also applies to Board Directors and corporate officers, except for the following circumstances: In instances when this Rule is applicable to holding companies, any board member or corporate officer may serve on the holding company and with either the utility or affiliate (but not both). Where the utility is a multi-state utility, is not a member of a holding company structure, and assumes the corporate governance functions for the affiliates, the prohibition against any board member or corporate officer of the utility also serving as a board member or corporate officer of an affiliate shall only apply to affiliates that operate within California. In the case of shared directors and officers, a corporate officer from the utility and holding company shall verify in the utility's compliance plan the adequacy of the specific mechanisms and procedures in place to ensure that the utility is not utilizing shared officers and directors as a conduit to circumvent any of these Rules.
 2. All employee movement between a utility and its affiliates shall be consistent with the following provisions:
 - a. A utility shall track and report to the Commission all employee movement between the utility and affiliates. The utility shall report this information annually pursuant to our Affiliate Transaction Reporting Decision, D.93-02-016, 48 CPUC2d 163, 171-172 and 180 (Appendix A, Section I and Section II

- 2985 H.).
- 2986
- 2987 b. Once an employee of a utility becomes an employee of an affiliate, the
- 2988 employee may not return to the utility for a period of one year. This Rule is
- 2989 inapplicable if the affiliate to which the employee transfers goes out of
- 2990 business during the one-year period. In the event that such an employee
- 2991 returns to the utility, such employee cannot be retransferred, reassigned, or
- 2992 otherwise employed by the affiliate for a period of two years. Employees
- 2993 transferring from the utility to the affiliate are expressly prohibited from using
- 2994 information gained from the utility in a discriminatory or exclusive fashion, to
- 2995 the benefit of the affiliate or to the detriment of other unaffiliated service
- 2996 providers.
- 2997
- 2998 c. When an employee of a utility is transferred, assigned, or otherwise employed
- 2999 by the affiliate, the affiliate shall make a one-time payment to the utility in an
- 3000 amount equivalent to 25% of the employee's base annual compensation, unless
- 3001 the utility can demonstrate that some lesser percentage (equal to at least 15%)
- 3002 is appropriate for the class of employee included. All such fees paid to the
- 3003 utility shall be accounted for in a separate memorandum account to track them
- 3004 for future ratemaking treatment (i.e. credited to the Electric Revenue
- 3005 Adjustment Account or the Core and Non-core Gas Fixed Cost Accounts, or
- 3006 other ratemaking treatment, as appropriate), on an annual basis, or as otherwise
- 3007 necessary to ensure that the utility's ratepayers receive the fees. This transfer
- 3008 payment provision will not apply to clerical workers. Nor will it apply to the
- 3009 initial transfer of employees to the utility's holding company to perform
- 3010 corporate support functions or to a separate affiliate performing corporate
- 3011 support functions, provided that that transfer is made during the initial
- 3012 implementation period of these rules or pursuant to a § 851 application or
- 3013 other Commission proceeding. However, the rule will apply to any subsequent
- 3014 transfers or assignments between a utility and its affiliates of all covered
- 3015 employees at a later time.
- 3016
- 3017 d. Any utility employee hired by an affiliate shall not remove or otherwise
- 3018 provide information to the affiliate which the affiliate would otherwise be
- 3019 precluded from having pursuant to these Rules.
- 3020
- 3021 e. A utility shall not make temporary or intermittent assignments, or rotations to
- 3022 its affiliates.
- 3023

3024 **H. Transfer of Goods and Services:** To the extent that these Rules do not prohibit

3025 transfers of goods and services between a utility and its affiliates, all such transfers shall

3026 be subject to the following pricing provisions:

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- 3028 1. Transfers from the utility to its affiliates of goods and services produced, purchased
- 3029 or developed for sale on the open market by the utility will be priced at fair market
- 3030 value. Transfers from an affiliate to the utility of goods and services produced,
- 3031 purchased or developed for sale on the open market by the affiliate shall be priced at
- 3032 no more than fair market value.
- 3033

- 3034 2. For goods or services for which the price is regulated by a state or federal agency,
 3035 that price shall be deemed to be the fair market value, except that in cases where
 3036 more than one state commission regulates the price of goods or services, this
 3037 Commission's pricing provisions govern.
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- 3039 3. Goods and services produced, purchased or developed for sale on the open market by
 3040 the utility will be provided to its affiliates and unaffiliated companies on a
 3041 nondiscriminatory basis, except as otherwise required or permitted by these Rules or
 3042 applicable law.
 3043
- 3044 4. Transfers from the utility to its affiliates of goods and services not produced,
 3045 purchased or developed for sale by the utility will be priced at fully loaded cost plus
 3046 5% of direct labor cost.
 3047
- 3048 5. Transfers from an affiliate to the utility of goods and services not produced,
 3049 purchased or developed for sale by the affiliate will be priced at the lower of fully
 3050 loaded cost or fair market value.
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3052 VI. Regulatory Oversight

- 3053 **A. Compliance Plans:** No later than December 31, 1997, each utility shall file a
 3054 compliance plan demonstrating to the Commission that there are adequate procedures in
 3055 place that will preclude the sharing of information with its affiliates that is prohibited by
 3056 these Rules. The utility should file its compliance plan as an advice letter with the
 3057 Commission's Energy Division and serve it on the parties to this proceeding. The
 3058 utility's compliance plan shall be in effect between the filing and a Commission
 3059 determination of the advice letter. A utility shall file a compliance plan annually
 3060 thereafter by advice letter served on all parties to this proceeding where there is some
 3061 change in the compliance plan (i.e., when a new affiliate has been created, or the utility
 3062 has changed the compliance plan for any other reason).
 3063
- 3064 **B. New Affiliate Compliance Plans:** Upon the creation of a new affiliate which is
 3065 addressed by these Rules, the utility shall immediately notify the Commission of the
 3066 creation of the new affiliate, as well as posting notice on its electronic bulletin board.
 3067 No later than 60 days after the creation of this affiliate, the utility shall file an advice
 3068 letter with the Energy Division of the Commission, served on the parties to this
 3069 proceeding. The advice letter shall demonstrate how the utility will implement these
 3070 Rules with respect to the new affiliate.
 3071
- 3072 **C. Affiliate Audit:** No later than December 31, 1998, and every year thereafter, the utility
 3073 shall have audits prepared by independent auditors that verify that the utility is in
 3074 compliance with the Rules set forth herein. The utilities shall file this audit with the
 3075 Commission's Energy Division beginning no later than December 31, 1998, and serve it
 3076 on all parties to this proceeding. The audits shall be at shareholder expense.
 3077
- 3078 **D. Witness Availability:** Affiliate officers and employees shall be made available to testify
 3079 before the Commission as necessary or required, without subpoena, consistent with the
 3080 provisions of Public Utilities Code Section 314.
 3081

3082 VII. Utility Products and Services

- 3083 A. **General Rule:** Except as provided for in these Rules, new products and services shall
 3084 be offered through affiliates.
 3085
- 3086 B. **Definitions:** The following definitions apply for the purposes of this section (Section
 3087 VII) of these Rules:
 3088
- 3089 1. “Category” refers to a factually similar group of products and services that use the
 3090 same type of utility assets or capacity. For example, “leases of land under utility
 3091 transmission lines” or “use of a utility repair shop for third party equipment repair”
 3092 would each constitute a separate product or service category.
 3093
 - 3094 2. “Existing” products and services are those which a utility is offering on the effective
 3095 date of these Rules.
 3096
 - 3097 3. “Products” include use of property, both real and intellectual, other than those uses
 3098 authorized under General Order 69-C.
 3099
- 3100 1. “Tariff” or “tariffed” refers to rates, terms and conditions of services as approved by
 3101 this Commission or the Federal Energy Regulatory Commission (FERC), whether by
 3102 traditional tariff, approved contract or other such approval process as the
 3103 Commission or the FERC may deem appropriate.
 3104
- 3105 C. **Utility Products and Services:** Except as provided in these Rules, a utility shall not
 3106 offer nontariffed products and services. In no event shall a utility offer natural gas or
 3107 electricity commodity service on a nontariffed basis. A utility may only offer for sale the
 3108 following products and services:
 3109
- 3110 1. Existing products and services offered by the utility pursuant to tariff;
 3111
 - 3112 2. Unbundled versions of existing utility products and services, with the unbundled
 3113 versions being offered on a tariffed basis;
 3114
 - 3115 3. New products and services that are offered on a tariffed basis; and
 3116
 - 3117 4. Products and services which are offered on a nontariffed basis and which meet the
 3118 following conditions:
 3119
- 3120 a. The nontariffed product or service utilizes a portion of a utility asset or capacity;
 3121
 - 3122 b. such asset or capacity has been acquired for the purpose of and is necessary and
 3123 useful in providing tariffed utility services;
 3124
 - 3125 c. the involved portion of such asset or capacity may be used to offer the product or
 3126 service on a nontariffed basis without adversely affecting the cost, quality or
 3127 reliability of tariffed utility products and services;
 3128

- 3129 d. the products and services can be marketed with minimal or no incremental
 3130 capital, minimal or no new forms of liability or business risk being incurred by
 3131 the utility, and minimal or no direct management control; and
 3132
 3133 c. the utility offering is restricted to less than 1% of the number of customers in its
 3134 customer base.
 3135

3136 **D. Conditions Precedent to Offering New Products and Services:** This Rule does not
 3137 represent an endorsement by the Commission of any particular nontariffed utility product
 3138 or service. A utility may offer new nontariffed products and services only if the
 3139 Commission has adopted and the utility has established:
 3140

- 3141 1. A mechanism or accounting standard for allocating costs to each new product or
 3142 service to prevent cross-subsidization between services a utility would continue to
 3143 provide on a tariffed basis and those it would provide on a nontariffed basis;
 3144
 3145 2. A reasonable mechanism for treatment of benefits and revenues derived from
 3146 offering such products and services, except that in the event the Commission has
 3147 already approved a performance-based ratemaking mechanism for the utility and the
 3148 utility seeks a different sharing mechanism, the utility should petition to modify the
 3149 performance-based ratemaking decision if it wishes to alter the sharing mechanism,
 3150 or clearly justify why this procedure is inappropriate, rather than doing so by
 3151 application or other vehicle.
 3152
 3153 3. Periodic reporting requirements regarding pertinent information related to
 3154 nontariffed products and services; and
 3155
 3156 4. Periodic auditing of the costs allocated to and the revenues derived from nontariffed
 3157 products and services.
 3158

3159 **E. Requirement to File an Advice Letter:** Prior to offering a new category of nontariffed
 3160 products or services as set forth in Section VII C above, a utility shall file an advice letter
 3161 in compliance with the following provisions of this paragraph.
 3162

- 3163 1. The advice letter shall:
 3164 a. demonstrate compliance with these rules;
 3165
 3166 b. address the amount of utility assets dedicated to the non-utility venture, in order
 3167 to ensure that a given product or service does not threaten the provision of
 3168 utility service, and show that the new product or service will not result in a
 3169 degradation of cost, quality, or reliability of tariffed goods and services;
 3170
 3171 c. demonstrate that the utility has not received recovery in the Transition Cost
 3172 Proceeding, A.96-08-001, or other applicable Commission proceeding, for the
 3173 portion of the utility asset dedicated to the non-utility venture; and
 3174

- 3175 d. address the potential impact of the new product or service on competition in the
3176 relevant market.
3177
- 3178 2. In the absence of a protest alleging non-compliance with these Rules or any law,
3179 regulation, decision, or Commission policy, or allegations of harm, the utility may
3180 commence offering the product or service 30 days after submission of the advice
3181 letter.
3182
- 3183 3. A protest of an advice letter filed in accordance with this paragraph shall include:
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- 3185 a. An explanation of the specific Rules, or any law, regulation, decision, or
3186 Commission policy the utility will allegedly violate by offering the proposed
3187 product or service, with reasonable factual detail; or
3188
- 3189 b. An explanation of the specific harm the protestant will allegedly suffer.
3190
- 3191 4. If such a protest is filed, the utility may file a motion to dismiss the protest within 5
3192 working days if it believes the protestant has failed to provide the minimum grounds
3193 for protest required above. The protestant has 5 working days to respond to the
3194 motion.
3195
- 3196 1. The intention of the Commission is to make its best reasonable efforts to rule on
3197 such a motion to dismiss promptly. Absent a ruling granting a motion to dismiss, the
3198 utility shall begin offering that category of products and services only after
3199 Commission approval through the normal advice letter process.
3200
- 3201 F. **Existing Offerings:** Unless and until further Commission order to the contrary as a
3202 result of the advice letter filing or otherwise, a utility that is offering tariffed or
3203 nontariffed products and services, as of the effective date of this decision, may continue
3204 to offer such products and services, provided that the utility complies with the cost
3205 allocation and reporting requirements in this rule. No later than January 30, 1998, each
3206 utility shall submit an advice letter describing the existing products and services (both
3207 tariffed and nontariffed) currently being offered by the utility and the number of the
3208 Commission decision or advice letter approving this offering, if any, and requesting
3209 authorization or continuing authorization for the utility's continued provision of this
3210 product or service in compliance with the criteria set forth in Rule VII. This requirement
3211 applies to both existing products and services explicitly approved and not explicitly
3212 approved by the Commission.
3213
- 3214 G. **Section 851 Application:** A utility must continue to comply fully with the provisions of
3215 Public Utilities Code Section 851 when necessary or useful utility property is sold,
3216 leased, assigned, mortgaged, disposed of, or otherwise encumbered as part of a
3217 nontariffed product or service offering by the utility. If an application pursuant to
3218 Section 851 is submitted, the utility need not file a separate advice letter, but shall
3219 include in the application those items which would otherwise appear in the advice letter
3220 as required in this Rule.
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- H. Periodic Reporting of Nontariffed Products and Services:** Any utility offering nontariffed products and services shall file periodic reports with the Commission’s Energy Division twice annually for the first two years following the effective date of these Rules, then annually thereafter unless otherwise directed by the Commission. The utility shall serve periodic reports on the service list of this proceeding. The periodic reports shall contain the following information:
- 1.** A description of each existing or new category of nontariffed products and services and the authority under which it is offered;
 - 2.** A description of the types and quantities of products and services contained within each category (so that, for example, “leases for agricultural nurseries at 15 sites” might be listed under the category “leases of land under utility transmission lines,” although the utility would not be required to provide the details regarding each individual lease);
 - 3.** The costs allocated to and revenues derived from each category; and
 - 4.** Current information on the proportion of relevant utility assets used to offer each category of product and service.
- I. Offering of Nontariffed Products and Services to Affiliates:** Nontariffed products and services which are allowed by this Rule may be offered to utility affiliates only in compliance with all other provisions of these Affiliate Rules. Similarly, this Rule does not prohibit affiliate transactions which are otherwise allowed by all other provisions of these Affiliate Rules.