



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

**DE 17-124**

**PUBLIC SERVICE COMPANY OF NEW HAMPSHIRE**

**d/b/a EVERSOURCE ENERGY**

**Sale of Generating Facilities**

**REPORT OF THE AUCTION ADVISOR**

**October 12, 2017**

**I. INTRODUCTION**

This report is being filed by J.P. Morgan Securities LLC (“J.P. Morgan”) in connection with the sale (the “Sale”) of the remaining generation assets and other related properties (the “Portfolio”) held by Public Service Company of New Hampshire d/b/a Eversource Energy (“PSNH”, “Eversource”, or the “Company”). The Portfolio includes approximately 1,200 megawatts (“MW”) of energy production capacity located primarily in New Hampshire, with one asset partly in Vermont and another in Maine, comprising coal, oil, gas, biomass and hydro generation assets.

The Sale is being conducted pursuant to Commission Order 25,920 by J.P. Morgan in its capacity as Auction Advisor to the Commission. This divestiture process resulted from implementing legislation enacted by the New Hampshire legislature, including, inter alia, RSA Chapter 374-F, “Electric Utility Restructuring;” RSA 369-B, “Electric Rate Reduction Financing;” 2014 N.H. Laws, Chapter 310, “An Act relative to the divestiture of PSNH assets;”

and 2015 N.H. Laws, Chapter 221, “An act relative to electric rate reduction financing.” Pursuant to such legislation, the NHPUC reviewed the “2015 PSNH Restructuring and Rate Stabilization Agreement” (the “Settlement Agreement”) as amended by the Amendment to Settlement, and the Partial Litigation Settlement (the “Litigation Settlement”) and approved these Settlements on July 1, 2016, in its Order No. 25,920. The Commission approved the auction process on November 10, 2016 in its Order No. 25,967 (the “Auction Design Order”).

J.P. Morgan was retained by the Commission as its exclusive Auction Advisor pursuant to an Engagement Agreement between J.P. Morgan and the Commission that was approved by the Governor and the Executive Council on September 7, 2016, which sets forth the terms by which the sale would be conducted in one or a series of transactions (each, a “Transaction”). The Commission approved the auction design and process recommended by J.P. Morgan with certain modifications in its Auction Design Order. The NHPUC chose certain staff representatives (the “Commission Staff”) to oversee the Auction. J.P. Morgan worked closely with the Commission Staff throughout the Auction and apprised the Commission Staff fully of all Auction activities.

The Portfolio of assets included in the Auction consists of approximately 1,200 megawatts of energy production capacity primarily located in New Hampshire comprising coal-fired, oil and natural gas-fired and biomass-fired generation assets (the “Thermal Assets”) as well as hydro generation assets (the “Hydro Assets”). The Thermal Assets total 1,130.1 MW of capacity and the Hydro Assets consist of 68.2 MW of capacity for an overall total of 1,198.3 MW of capacity included in the Auction. PSNH’s minority ownership interest of 3.1433 percent in W. F. Wyman Unit 4, located in Yarmouth, Maine, was sold outside of the Auction process as permitted by the Settlement Agreement. The Commission approved the sale of Eversource’s

interest in W.F. Wyman Station – Unit 4 to FPL Energy Wyman IV LLC, in its Order No. 26,060 dated September 27, 2017.

The Thermal Assets are comprised of Newington, Merrimack, Schiller, Lost Nation and White Lake. Newington station is located on an approximately 69.2-acre site along the western bank of the Piscataqua River in Newington, NH. The facility has a total output capacity of 400 MW and is comprised of one utility boiler, two auxiliary boilers and one emergency generator. Newington burns both oil and natural gas and is the largest single unit in the PSNH fleet.

Merrimack station is located along the Merrimack River in Bow, NH. Merrimack has two coal-fired steam units and two kerosene-fueled combustion turbine units for a total of 482 MW. The two coal-fired units serve intermediate load and the two combustion turbine units mainly serve a peaking role, operating during periods of highest seasonal peak demand or when generation is needed quickly to maintain electrical system stability.

Schiller station is located on approximately 81 acres along the western banks of the Piscataqua River in Portsmouth, NH, adjacent to the Newington station. Schiller's four generating units combine for a total output of 156 MW. The units have the capability of starting up and shutting down daily if needed, except for Unit 5, the biomass boiler, that operates whenever it is available.

The Lost Nation combustion turbine is located on approximately 11.5 acres in the town of Northumberland, in northern New Hampshire and has a nameplate capacity of 18 MW and the White Lake combustion turbine is located in the town of Tamworth, in the middle of New Hampshire, on an approximately 0.5 acre site and has a nameplate capacity of 22.4 MW. Lost Nation and White Lake serve primarily as peaking units, operating during the periods of highest

seasonal peak demand. Additionally, these units are called upon when a quick response is needed for additional generation to maintain electrical system stability.

The Hydro Assets are a large conventional run-of-river hydro system in New England located on Merrimack, Connecticut, Pemigewasset, and Androscoggin Rivers totaling 68.2 MW. These hydroelectric facilities are managed by a single management and support organization with field offices in Berlin, NH, Bristol, NH, and Manchester, NH. The facilities are grouped as follows: (i) the Upper Hydro Group is comprised of Canaan, Gorham, and Smith stations; (ii) the Central Hydro Group is comprised of Ayers Island and Eastman Falls stations; and (iii) the Lower Hydro Group is comprised of Amoskeag, Garvins Falls, Hooksett, and Jackman stations. Each hydroelectric facility is unmanned and is monitored and controlled by supervisory control from PSNH's Manchester electric operations headquarters, which is staffed 24 hours a day, seven days a week.

The principal objectives of the Sale of the Portfolio were to ensure that the Auction: (i) was conducted in accordance with the Auction Design Order; (ii) maximized the total transaction value ("Total Transaction Value") of the Portfolio; (iii) resulted in the sale of the entire Portfolio; and (iv) was consistent with the Settlement Agreement. The Auction conducted by J.P. Morgan and described in detail below and in the accompanying testimony of Neil Davids on behalf of J.P. Morgan achieved each of these principal objectives.

The Auction conducted by J.P. Morgan resulted in two Transactions, which together accounted for the Sale of the entire Portfolio of Eversource's remaining generation assets. Atlas FRM LLC d/b/a Atlas Holdings LLC ("Atlas") and CCI Power Asset Holdings LLC ("CCI PAH") agreed to purchase the Thermal Assets from Eversource (the "Seller") through a newly formed joint venture entity Granite Shore Power LLC ("Granite Shore Power") for \$175 million

subject to certain adjustments pursuant to the terms of the Purchase and Sale Agreement dated October 11, 2017 (“Thermal PSA”) (copy attached to PSNH’s Application), and HSE Hydro NH AC, LLC (“HSE Hydro”) agreed to purchase the Hydro Assets from Eversource for \$83.3 million subject to certain adjustments pursuant to the terms of the Purchase and Sale Agreement dated October 11, 2017 (“Hydro PSA”) (copy attached to PSNH’s Application). The total Sale price for the Portfolio of generation assets is \$258.3 million.

## **II. DESCRIPTION OF THE AUCTION PROCESS**

J.P. Morgan conducted the Auction in accordance with the design, process and protocols approved by the Commission in its Auction Design Order. The Auction was conducted with the oversight of Commission Staff who were apprised fully of all Auction activities to ensure that the Auction was fair, equitable and transparent. The Auction began with an information-gathering stage, during which period J.P. Morgan solicited interest from entities known or believed to be potential bidders based upon their express inbound inquiries, previous public statements, position in the industry, or participation in recent sales of electric generation assets. The process began with an Eversource public announcement of the pending sale to be led by J.P. Morgan. The initial solicitation outreach by J.P. Morgan encompassed a broad array of public and private companies in the energy industry, including existing fossil and hydro plant operators and generating companies. J.P. Morgan contacted 182 potential buyers as part of its broad and comprehensive outreach process for the Auction.

J.P. Morgan prepared a Confidential Information Memorandum (the “CIM”) describing the Assets in detail, which is attached hereto as Confidential Attachment A. J.P. Morgan also contracted for the preparation of a confidential independent market analysis and a confidential independent engineering analysis. To be eligible to participate in the Auction process and to

receive access to confidential materials, potential bidders were required to submit qualifications that demonstrated their ability to purchase and operate the generating facilities, and then sign a confidentiality agreement prepared by Eversource. From the broad array of potential bidders that were contacted by J.P. Morgan, 40 submitted qualifications and 38 executed a confidentiality agreement.

Potential bidders agreed in their individual confidentiality agreements with Eversource to direct all communications about the Auction, requests for information, requests for meetings or discussions about questions or procedures, and any and all other inquiries and communications directly to the Auction Advisor, and further not to contact the Commission, the Commission Staff, or the Seller of the Assets regarding the Auction except for regulatory filings with the Commission or other regulatory bodies that didn't involve confidential information. During Round 2 of the Auction, J.P. Morgan assigned each potential bidder a code name to shield that bidder's identity and made it clear to bidders that J.P. Morgan would handle all contacts to preserve the confidentiality of the bidder identities and the integrity of the Auction.

J.P. Morgan also proposed timing and design changes that were approved by the Commission to facilitate the participation in the Auction of municipalities that hosted hydro facilities such as Smith Hydro in Berlin, Gorham Hydro in Gorham, and Ayers Island Hydro in Bristol and New Hampton. Pursuant to the Settlement Agreement, host municipalities were allowed to submit final bids in Round 2 without submitting non-binding proposals in Round 1. The amended auction process approved by the Commission also allowed municipalities, once they signed confidentiality agreements, accelerated access to the electronic data room for their respective hydro facilities, and gave them access to the CIM, the independent market analysis and the independent engineering analysis for their respective hydro assets as soon as they were

available. Also, the auction schedule was extended by several months, and provided that the CIM would be circulated to all interested municipalities earlier in the auction process to afford the municipalities more time to review the detailed information about the hydro assets and evaluate the auction process. Municipalities were not required to submit preliminary non-binding bids in Round 1, but had the option of giving J.P. Morgan an indication of value for their respective hosted local hydro facilities. Municipalities electing to submit indications of value could then receive feedback from J.P. Morgan on their proposal relative to other Round 1 bids on their hosted facilities. Further, in order to address municipal needs for specific price allocation to their respective hydro facilities, the amended auction design requested that all Round 1 and Round 2 bidders allocate bid value among any hydro facilities included in their bids.

J.P. Morgan provided the CIM and certain third party engineering and market analyses of the Eversource portfolio of thermal and hydro generating facilities offered for sale to potential qualified bidders and interested municipalities that executed a confidentiality agreement. J.P. Morgan also distributed indicative bid instructions (“Indicative Bid Instructions”) attached hereto as Confidential Attachment B, to qualified potential bidders and municipalities which were allowed to submit non-binding indicative bids on single facilities or groups of facilities (including the entire portfolio) in Round 1 of the Auction. J.P. Morgan received 25 Round 1 indicative bids, comprised of 11 for the total portfolio and 14 for one or more assets. After the Round 1 bids were received, J.P. Morgan conducted an analysis of the indicative bids and summarized the proposals (“Indicative Bids Summary”) attached hereto as Confidential Attachment C. J.P. Morgan consulted with and sought input from Eversource with oversight from Commission Staff on the counterparties to be included in Round 2 in which those potential bidders would be given the opportunity to conduct detailed due diligence on the facilities.

After J.P. Morgan's review, 16 potential bidders were selected for Round 2 and received access to the "electronic data room" that was set up for the Auction. This electronic data room contained the documents that were compiled for the sale process including detailed operational, financial and other due diligence information on each of the facilities. Round 2 bidders were also provided the opportunity to visit the facilities in person (accompanied by Eversource and J.P. Morgan, with an observer from Commission Staff), and received a comprehensive business, operational, and financial presentation from Eversource management on those facilities. J.P. Morgan also invited bidders to submit confidential questions regarding the Assets. Bidders asked more than 1,950 due diligence questions. J.P. Morgan coordinated with PSNH to provide answers to each and every question to the bidders who submitted the particular question.

Following the due diligence phase, a draft Purchase and Sale Agreement developed by Eversource and its outside counsel Balch & Bingham LLP, together with various schedules thereto (collectively, the "Draft PSA") was distributed to Round 2 bidders. J.P. Morgan also distributed final bid instructions ("Final Bid Instructions") attached hereto as Confidential Attachment D, to Round 2 bidders which invited bidders to submit final bids together with specific information, including all of the following:

- Proposed cash purchase price for the Portfolio or specific Assets;
- Details of the Portfolio, package of Assets or individual Asset to be acquired;
- An allocation of bid value among the Assets included in the bids;
- A detailed description of the bidder's financial and operational qualifications to purchase and operate the generating assets;
- Confirmation there was no financing contingency to their proposal, and evidence of the availability of funds to pay the aggregate purchase price in cash;

- Evidence that the bidder had obtained all necessary internal corporate approvals to enter into and consummate the Sale; and
- A statement of acceptance of the employee protection obligations and of the then-current collective bargaining agreement specified in the Draft PSA.

J.P. Morgan received 7 final bids, 3 for the entire portfolio and 4 for one or more assets. J.P. Morgan reviewed and evaluated the bids according to criteria that were established by the Commission in its Auction Design Order. In particular, J.P. Morgan evaluated bids to determine which bids would maximize the Total Transaction Value of the Portfolio while, if possible, avoiding a “failed auction” scenario where one or more of the assets remained unsold. An additional objective was to ensure that the transaction would close in a timely manner.

J.P. Morgan evaluated bids based upon an assessment of each bidder’s financial, operational, safety and other qualifications, the value of its final bid, and its willingness to accept the material terms of the transaction as reflected in Draft PSA that was distributed to bidders. J.P. Morgan analyzed and prepared a summary of the final bids (“Final Bids Summary”), attached hereto as Confidential Attachment E. Each bidder’s proposed commercial terms and conditions were also reviewed by Eversource and J.P. Morgan with Commission Staff oversight. Based on its review and evaluation of the final bids received as well as its general industry experience and expertise, and after consulting with and seeking input from Eversource with oversight from Commission Staff, J.P. Morgan selected the combination of leading bids that would maximize the Total Transaction Value of the Portfolio and result in the sale of all Assets included in the Portfolio.

Upon receipt of final bids, J.P. Morgan promptly sought certain clarifications from all bidders that submitted a final proposal and PSA to ensure all bid terms and conditions were

understood. The most important bid clarification questions were aimed to ensure that J.P. Morgan had clarity on value on a plant-by-plant basis (if not included in the bids) as well as an understanding of bidder flexibility to entertain a transaction for a subset of the portfolio. J.P. Morgan subsequently contacted 5 bidders to commence post-bid negotiations. As part of these negotiations, J.P. Morgan provided feedback to each of the bidders on their respective proposals and afforded each of the bidders an opportunity to update their proposals with respect to both key contract terms and value.

After these negotiations were completed and based on the criteria described above, J.P. Morgan recommended moving forward with two bidders – a thermal-only and a hydro-only bid (the “Selected Bidders”). The Total Transaction Value of the two bids selected exceeded both that of any other combination of individual thermal and hydro bids, as well as any final bid received for the full portfolio. J.P. Morgan also notified other bidders that their proposals were not selected. Once the winning bidders were selected by J.P. Morgan, Balch & Bingham, Eversource and J.P. Morgan with Commission Staff oversight began detailed negotiations with the Selected Bidders on the legal terms of the proposed revisions to the Draft PSA in an attempt to improve the terms for the Seller and limit risk for Eversource and customers.

The final negotiations resulted in two Transactions, which together accounted for the Sale of the entire Portfolio of Eversource’s remaining generation assets. The Auction resulted in the sale of the Thermal Assets by Eversource to Granite Shore Power for \$175 million subject to certain adjustments pursuant to the terms of the Thermal PSA, and the sale of the Hydro Assets by Eversource to HSE Hydro for \$83.3 million subject to certain adjustments pursuant to the terms of the Hydro PSA resulting in the total sale price of \$258.3 million for the total Portfolio of Thermal and Hydro generation assets.

### **III. AUCTION RESULTS**

Atlas and CCI PAH agreed to purchase the Thermal Assets from the Seller through a newly formed joint venture entity Granite Shore Power for \$175 million subject to certain adjustments pursuant to the terms of the Thermal PSA. Headquartered in Greenwich, Connecticut, Atlas and its affiliates own eighteen platform businesses. These companies collectively employ approximately 21,000 associates and operate from more than 220 facilities across the globe. Atlas companies are engaged in a variety of industries, including power generation, aluminum processing, automotive components, building materials and construction, industrial services, paper and packaging and supply chain management. It has successfully executed complex carve-outs of business units from companies such as Alcoa, Covanta Energy, International Paper, Johnson Controls, MeadWestvaco, Neenah Paper, NCR Corporation, ThyssenKrupp, Weyerhaeuser, and Wheelabrator Group. In each transaction, Atlas successfully navigated separation complexities and created high-performance, standalone companies. Atlas owns co-generation units at several of its industrial operations, as well as Greenidge Generation, a 106 MW power generation facility that Atlas converted from coal to natural gas and biomass in 2016. CCI PAH is a Delaware limited liability company experienced in the ownership and operation of electric power generation facilities and is a wholly-owned subsidiary of Castleton Commodities International LLC (“CCI”). CCI is a global commodity merchant with an integrated set of operations consisting of the marketing and merchandising of commodities and the ownership, operations, and development of commodities-related upstream and infrastructure assets. It owns 20 power generation assets comprising approximately 2,000 MWs across the US and Europe. CCI markets a broad range of physical commodities including electric power, natural gas, natural gas liquids, refined products, crude oil, fuel oil, freight, base metals,

petrochemicals, and coal and financial instruments related to commodities. CCI is headquartered in Stamford, Connecticut with offices in Calgary, Canada; Geneva, Switzerland; Houston, Texas; London, United Kingdom; Shanghai, China; Singapore; and Montevideo, Uruguay.

The Thermal PSA provides for the transfer by the Seller of substantially all assets comprising the Thermal Assets including applicable contracts, leases and permits relating to the operation of the generating facilities. The closing must occur by January 1, 2018 or there is a purchase price adjustment if the closing occurs at a later date. The adjustment accounts for a portion of potential capacity revenue earned by the Thermal Assets between January 1, 2018 and the closing date. The adjustment also reflects energy margin attributable to the Thermal Assets between January 1, 2018 and the closing date, inclusive of revenues of Winter Reliability and various corresponding costs. The final bid was not subject to any financing contingencies. With respect to environmental liabilities, the Seller retains all Schiller mercury boiler liability including any remediation required to clean up mercury released during the boiler removal process, including certain other environmental liabilities until 7 years after completion of the ongoing project to remove the former mercury boilers from the site, and retains the first \$25 million of pre-closing environmental liabilities, with obligations expiring 7 years after close. The Seller also retains all pre-closing employee liabilities. Granite Shore Power agreed to operate the Thermal Assets for a minimum of eighteen months from financial close and accepted the employee protections, as required by both N.H. law and the Settlement Agreement.

HSE Hydro agreed to purchase the Hydro Assets from the Seller for \$83.3 million subject to certain adjustments pursuant to the terms of the Hydro PSA. HSE Hydro is a subsidiary of HSE Hydro NH Co-Invest Fund, LP and an affiliate of Hull Street Energy, LLC (“Hull Street Energy”). Hull Street Energy is a private equity firm that acquires, optimizes and grows middle

market power businesses through the application of industry-leading risk management, efficiency enhancements and commodity contract structuring. Hull Street Energy was established by a team with extensive, long-standing expertise in the power industry. They bring to the firm's investments a unique combination of deep technical and commercial knowledge of the electricity industry, and top-tier financial investment expertise. Headquartered in Bethesda, Maryland, the team leverages its decades of experience and unique knowledge of North American electricity infrastructure, including fuel inputs, generation assets, transmission and distribution systems, and electricity demand-side businesses to build value for our investors and stakeholders.

The Hydro PSA provides for the transfer by the Seller of their ownership shares of substantially all assets comprising the Hydro Assets including applicable contracts, leases and permits relating to the operation of the generation facilities. The final bid was not subject to any financing contingencies. HSE Hydro agreed to assume costs related to all post-closing liabilities, plus costs related to certain pre-closing liabilities in excess of \$8.3 million for five years beyond the closing of the sale. HSE Hydro also agreed to operate the Hydro Assets for a minimum of eighteen months from financial close and accepted the employee protections, as required by both N.H. law and the Settlement Agreement.

#### **IV. COMPLIANCE WITH PRINCIPAL OBJECTIVES**

The principal objectives of the Sale of the Portfolio were to ensure that the Auction: (i) was conducted in accordance with the Auction Design Order; (ii) maximized the Total Transaction Value of the Portfolio; (iii) resulted in the sale of the entire Portfolio; and (iv) was consistent with the Settlement Agreement. As explained in detail below and in the

accompanying testimony of Neil Davids on behalf of J.P. Morgan, the Auction and the proposed Sale of the Thermal Assets and Hydro Assets complied with each of these requirements.

J.P. Morgan conducted the Auction, in close consultation with and subject to Commission Staff oversight, in accordance with the Auction Design Order in order to maximize Total Transaction Value. The Auction was a formal, competitive process that was open to all qualified bidders and the host municipalities. Bidders in the Auction were given complete and non-discriminatory access to data and information. The Auction was structured to obtain the best possible result by identifying willing buyers who offered the highest price for the Assets and the best overall terms and conditions of the Sale. The auction process established by J.P. Morgan resulted in a fair, equitable and transparent process consistent with industry practice and in accordance with the Commission's Auction Design Order.

J.P. Morgan designed and conducted the Auction in accordance with the primary objective of the Settlement Agreement which was to maximize the Total Transaction Value. J.P. Morgan selected the combination of bids for the Thermal and Hydro Assets that maximized the Total Transaction Value of the entire Portfolio. As a result of the competitive auction process, J.P. Morgan maximized the Total Transaction Value of the net proceeds realized from the Sale, which will mitigate stranded costs and benefit all of Eversource's New Hampshire customers.

The Auction conducted by J.P. Morgan resulted in the Sale of the entire Portfolio of the Seller's remaining Thermal and Hydro Assets consisting of approximately 1,200 MW of energy production capacity comprising coal, oil, gas, biomass and hydro generation assets located primarily in New Hampshire with one asset located partly in Vermont and another in Maine.

J.P. Morgan also conducted the Auction in a manner consistent with the Settlement Agreement by proposing and implementing several design and timing measures to accommodate

and facilitate the participation of the host municipalities and to fairly allocate among individual assets the sale price of any hydro assets that were sold as a group. Additionally, Granite Shore Power is qualified to own and operate the Thermal Assets, has agreed to operate the facilities for a minimum of eighteen months from the date of financial closing and has agreed to comply with all the employee protection obligations as required by the Settlement Agreement, and HSE Hydro is qualified to own and operate the Hydro Assets, has agreed to operate the facilities for a minimum of eighteen months from the date of financial closing and has agreed to comply with all the employee protection obligations as required by the Settlement Agreement.

Furthermore, the structure and details of the Auction process established by J.P. Morgan were approved by the Commission and conducted with the oversight of Commission Staff to ensure that the Auction was fair, transparent, effective and maximized Total Transaction Value for ratepayers. For all of the foregoing reasons, the Auction of the Thermal and Hydro Assets has achieved the principal objectives of the Sale, has maximized the Total Transaction Value of the Portfolio and has been conducted in a manner consistent with the public good.