

Behind the big deal

How was the Eversource divestiture agreement reached and how will it be implemented?

by Bob Sanders
10Share

Published: July 20, 2016

``



Whatever company buys Eversource's New Hampshire power plants, as a result of the utility's recently struck agreement to get out of the generation business, will be acquiring a lot of unknowns if it plans to keep producing electricity. And those unknowns could amount to hundreds of millions of dollars in added costs.

But that's the nature of the generation business these days, when you don't have ratepayers backing you up.

At the center of the unknowns are Eversource's two coal-burning plants – Merrimack Station in Bow and Schiller Station in Portsmouth. The new owner of those plants would inherit environmental permitting and cleanup issues that could surpass \$200 million to address.

Then again, those costs could be recovered in a few years, for just being available to generate power. And they will be available until at least May 2020, though the future of coal plants is dubious these days. Plans at three coal plants in Massachusetts call for switching to solar, gas and perhaps wind.

The sale of New Hampshire's last coal plants and other generating assets was approved by the NH Utilities Commission in late June. It was part of a grand bargain that brought together the utility, state agencies, lawmakers from both parties, environmentalists, a key union and Eversource's competitors.

But how was the deal approved? What are the issues going forward? And what might become of the plants?

Behind the decision

Despite the broad-based nature of the settlement, it wasn't all sweetness and light during negotiations at the PUC.

The New England Power Generators Association and the Retail Energy Supply Association complained that, at the same time Eversource was divesting from all of its tangible generation assets (power plants in Bow, Newington and Portsmouth, plus nine hydroelectric dams), it was investing in two major projects to bring energy into the state: Northern Pass, which would transmit electricity generated by Hydro-Quebec, and Access Northeast, which would bring natural gas extracted by fracking to New England, earmarked for power generation.

"Unfortunately, the prospect of additional rate-base entitlements borne by ratepayers runs counter to the very essence of what we sought to achieve through divestiture pursuant to the Settlement Agreement," said the groups in an October 2015 filing.

The filing was specifically referring to getting more information about the then ongoing negotiations over a power purchase agreement between Eversource and Hydro-Quebec.

The two reached a deal this past June. The 20-year agreement provides Eversource with 100 megawatts of energy, about 10 percent of the capacity of the 1,090 MW transmission line. The

power was purchased for an undisclosed price. That led Don Kreis, the PUC's consumer advocate, to criticize the deal for the same reason – lack of information to allow consumers to weigh in on the risk they would be taking.

“There is nothing wrong with investing in transmission,” said Kreis. “But what Eversource doesn't need is putting their finger back in the world of energy supply, messing around with fuel and putting that in stranded costs.”

Kreis was particularly concerned that ratepayers might be on the hook for a long-term contract to buy natural gas through the Access Northeast pipeline. Dan Dolan, president of NEPGA, chimed in with that same criticism, saying that the utility would essentially be picking winners and losers by picking one source of electricity over another.

Eversource spokesperson Martin Murray defended both deals. Northern Pass alone, he said, would result in \$1 billion of savings to customers over

EVERSOURCE ASSETS	ESTIMATED SALE PRICE	CAPACITY
MERRIMACK STATION	\$10 MILLION	439 MEGAWATTS
NEWINGTON STATION	\$90 MILLION	400 MEGAWATTS
SCHILLER STATION	\$5 MILLION	150 MEGAWATTS
HYDROELECTRIC PLANTS	\$120 MILLION	69 MEGAWATTS

Source: PSNH Generation Asset and PPA Valuation Report, March 2014

the course of a decade, most of it by lowering electric costs generally. The power purchase agreement is particularly beneficial, not so much for the price negotiated, but the renewable energy credits generated for large Northeastern states. (Most of these states have not recognized foreign hydropower as renewable, but Murray insists that they will.)

Nevertheless, both NEPGA and the Office of Consumer Advocate said they support the divestiture deal.

“It's awful exciting that we are finally going to get to see what restructuring looks like,” Kreis said. “My fondest wish is that Eversource truly focus on a dynamic distribution platform for their customers, and not be a vertically integrated utility.”

Details of the deal

It seems hard to criticize the deal itself. There was concern voiced that New Hampshire ratepayers would be paying for all but \$25 million of the cost of the \$415 million mercury scrubber installed at Merrimack Station, but most parties agreed that settling this question was cheaper than litigating it, especially with the hope of ratepayers not being on the hook for something like that again.

Environmentalists got \$5 million for a new clean energy fund to promote renewables and energy efficiencies. Workers got job protection. Ratepayers got a two-year moratorium on rate increases. Local taxpayers were to be paid the difference of the tax due based on the assessment and what the properties are actually sold for.

Indeed, the strongest arguments against the deal were put forward by PUC staff who were not part of the negotiated settlement.

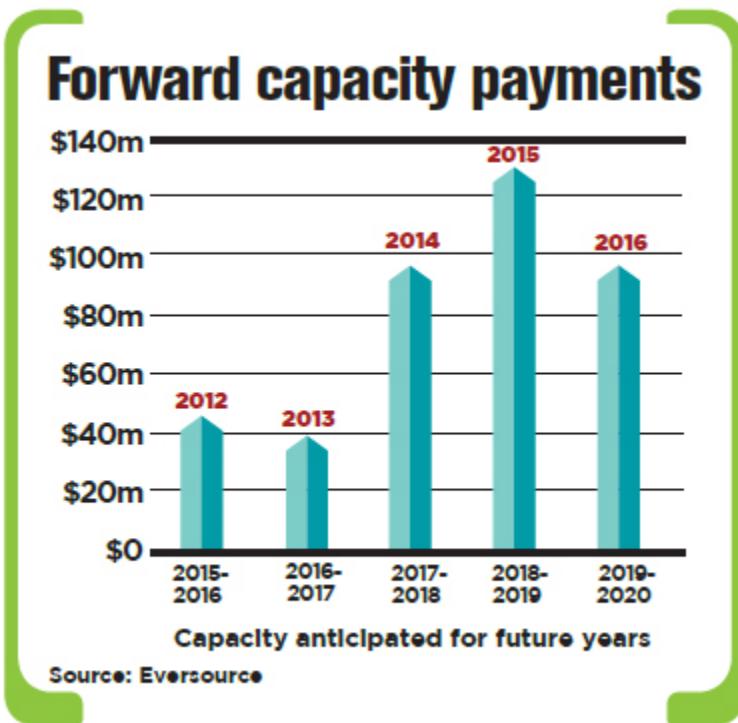
One of their consultants – Michael D. Cannata Jr., who works for Innovative Alternatives Inc., a Deerfield firm – said that the saving predictions were way off. Instead of the deal resulting in savings of \$379 million, as predicted, it would cost ratepayers \$678 million, he said.

Cannata justified this billion-dollar swing by criticizing a variety of assumptions and calculations, ranging from the price of gas and securitization bond prices to the estimated sale price of the assets and the amount of forward capacity payments.

But Eric Chung, Eversource’s director of revenue requirements, countered that it was Cannata who is wrong. For one, he did not account for the fixed costs of operating the plant, which are about \$300 million more over the three-year period than the revenue generated.

Chung also criticized Cannata for dismissing the concern that holding onto those fixed assets could result in the utility’s “death spiral.” Fixed costs push up rates, causing customers to migrate to other providers, he said, leaving an unsustainable burden for those left behind.

Cannata had claimed that migration was leveling off, echoing what Eversource had said in the pass. But in Chung’s argument, Eversource was echoing the concerns of its former critics.



Finally, Chung argued, the agreement was not just an economic decision that could be evaluated strictly in terms of customer’s savings.

“I remind the commission that a policy decision has been made by the legislature that New Hampshire is to expedite the completion of restructuring with the sale of PSNH’s generating facilities,” he said.

In the end, the commission didn’t alter the agreement, though it settled on a more projected modest savings of \$165 million over five years. Still, the commissioners noted, “We cannot predict the future, and we cannot guarantee that the projected savings and economic development promised by divestiture and securitization will actually occur.” But by backing such a diverse group of interested parties, “we implement the legislature’s long-standing policy goal of restructuring the state’s electric industry to one of full and fair competition.”

Value of the plants

Under the settlement, Eversource will sell its generation assets in an auction overseen by the PUC. It has already retained the law firm of Sheehan Phinney Bass + Green to oversee the process of hiring a firm that will run the auction. With that company’s input, some key decisions will be made. Perhaps the most important will be whether to sell off all the assets as one or piecemeal.

However, the 439-megawatt coal plant at Merrimack Station and the two coal/oil and one wood-burning plant at Schiller Station (150 megawatts) present problems. Theoretically, the generation assets are worth about \$225 million – a far cry from the \$1.74 billion listed in Eversource’s last quarterly financial statement. Needless to say, some assets would be more attractive than others. The nine hydro plants, which account for nearly 70 megawatts, are expected to sell easily, though there is the complication that Trans Canada is trying to sell off its New Hampshire hydro plants as well. The 400-megawatt gas-fired plant in Newington is desirable as well.

Leaving coal behind

Three Massachusetts coal-burning power plants were recently shut down or soon will be. Here’s what will become of them:



- Salem Harbor Station, Salem: a 738-megawatt coal plant that was retired in 2014. A new \$1 billion 674 MW “quick start” gas plant is currently under construction at the site, to open in June 2017 .The plant was purchased in 2012 by Footprint Power, which specializes in retrofitting old coal plants.



- Mt. Tom Coal, Holyoke: a 145 MW coal plant that was closed in 2014. Construction is underway on a 1,700-panel 5 MW solar farm – one of the largest in Massachusetts – with plans to launch in January 2017. The owner is Engie Gas & LNG LLC, an international energy company that owns numerous natural gas and renewable facilities, including biomass plants in Bethlehem and Tamworth in New Hampshire.



- Brayton Point, Somerset: a 1,040 MW coal plant scheduled to shut down in June 2017. Houston-based Dynegy Inc. acquired the plant from Energy Capitals Partner along with nine other plants for \$3.45 billion. Dynegy hasn't yet revealed plans about what it will do at Brayton but a study released by Synapse Energy Economics, an environmental consulting firm, recommends turning it into a transmission point for a 2,000 MW offshore wind-power site, costing \$20 million, as opposed to spending \$1.3 billion to convert all of it to natural gas.

In other parts of the country, coal plants put up for sale have been a boondoggle. Montana Power tried to bundle its coal plants with its hydro plants, but NorthWestern Energy would only pay \$400 million for the package, although offered \$900 million for the hydro plants alone, implying that the coal plants were a half-billion dollar liability.

No one is saying that Eversource plants are worthless, but an estimate developed for the PUC last year put the price of Merrimack Station at \$10 million. The company had previously put the book value at \$500 million. The town of Bow assessed the value at \$82.5 million in 2012, a figure Eversource is challenging in court as too high.

The coal plants do have one thing going for them, even if they operate at a loss: forward capacity payments. That's the amount that ISO-NE, the agency that runs the New England power grid, agrees to pay every February to a generator for a commitment to sell power three years down the road, if needed during crunch time, when it's very hot or very cold.

During the last five annual auctions, for instance, ISO-NE has agreed to pay Eversource almost \$400 million for its capacity, about half for its plants at Merrimack and Schiller.

Environmental costs

Then there are the environmental costs. In Merrimack Station's case, it's over a 20-year-old water discharge permit that has been held up, among other things, because a draft permit insisted that a cooling tower, which could cost as much as \$158 million, be constructed according to an environmental study conducted for the PUC.

Currently, the plant uses water from the Merrimack River to cool the plant after it generates steam, and it discharges the heated water back into the river. During August, the water temperature rises to a maximum of almost 100 degrees and threatens marine life, according to the U.S. Environmental Protection Agency.

Eversource maintains the EPA is misinterpreting the data. Based on its own numbers, the August daily high averages just above 90 degrees, indicating the towers are not needed.

The dispute has caused a further delay in what Mark Kresowik, the eastern region deputy director of the Sierra Club's Beyond Coal campaign, calls the "most outdated discharger for a coal plant in the U.S.A. Without the answers, the buyer doesn't know what risk they are getting into."

"We want the EPA to take action," said Catherine Corkery, director of the New Hampshire chapter of the Sierra Club. "We need some clarity to understand the future of those coal plants."

But the EPA won't get to it until after October, at the earliest, and more likely not until 2017, according to Damien Houlihan, regional chief of the agency's Industrial Permits Section. By that time, there's a good chance the auction will be over.

The plants at Schiller and Newington are even further back in queue, with draft permits not even issued yet.

People from both sides doubt that EPA will mandate a cooling tower at these facilities, but, if it did, it would cost another \$267 million, according to that same study. Eversource spokesperson Martin Murray dismissed that estimate as an improbable "worst case scenario."

There's another environmental problem at Schiller Station. Back in the 1950s, mercury was used rather than water to generate gases to push the turbine. That practice ended more than a half century ago, and the mercury has been drained from the old facility. But the facility is still there, and the cost to clean it up – according to the PUC order – ranges between \$20 million and \$30 million. Unlike the permit issues, it's unclear who will undertake that task.

This article appears in the [July 22 2016](#) issue of [New Hampshire Business Review](#)

Did you like what you read here? [Subscribe to New Hampshire Business Review](#) »