

**CAMBRIDGE ELECTRIC LIGHT COMPANY  
d/b/a NSTAR ELECTRIC**

**Testimony of Geoffrey O. Lubbock**

**D.T.E. 02-\_\_**

1 **I. INTRODUCTION**

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

3 A. My name is Geoffrey O. Lubbock. My business address is 800 Boylston Street,  
4 Boston, Massachusetts 02199.

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

6 A. I am employed by NSTAR Electric & Gas Corporation (“NSTAR E&G”) as Vice  
7 President, Financial Strategic Planning & Policy. In my current position, I am  
8 responsible for a broad range of regulatory and financial planning responsibilities.

9 **Q. Please describe your education and professional background.**

10 A. I have a Bachelor and Master of Arts from Cambridge University and a Masters  
11 Degree in Business from the London Graduate School of Business. I joined  
12 Boston Edison Company (“Boston Edison”) in 1988 as Manager of Revenue  
13 Requirements. In 1991, I became Manager of Revenue Requirements and  
14 Financial Planning. In 1993, I became Manager of Energy Research Planning and  
15 Forecasting. In 1995, I became Manager of Corporate Service Commitments and  
16 in 1997, I became Director of Generation Divestiture. I assumed my current  
17 position in July 1998. Prior to Boston Edison, I was with the Cabot Corporation,  
18 Exxon Corporation and Citibank.

1 **Q. Have you previously testified in any formal hearings before regulatory**  
2 **bodies?**

3 A. Yes, on a number of occasions. I testified before the Department of  
4 Telecommunications and Energy (the “Department”) on behalf of Boston Edison  
5 in connection with the approval of its sale of the Pilgrim Nuclear Power Station to  
6 Entergy Nuclear Generation Company in D.T.E. 98-119. I have also testified  
7 before the Department to support Boston Edison’s Restructuring Settlement  
8 Agreement in D.P.U. 96-23 and in connection with approval of the divestiture of  
9 Boston Edison’s fossil generation assets in D.T.E. 97-113.

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

11 A. The purpose of my testimony is: (i) to summarize this filing; (ii) to describe the  
12 divestiture requirements of Chapter 164 of the Acts of 1997 (the “Act”) and  
13 Cambridge Electric Light Company’s (the “Company”) Department-approved  
14 Restructuring Plan; (iii) to describe the history of the Blackstone Station Facility  
15 (“Blackstone Station” or the “Station”) and Harvard’s Right of First Offer  
16 regarding the Station; (iv) to describe how the planned divestiture of Blackstone  
17 Station and related assets (the “Assets,” together with Blackstone Station,  
18 “Blackstone”) through an arms’-length negotiation process maximizes benefits to  
19 customers; and (v) to describe the effect of the proposed divestiture on the  
20 Company’s transition charge.

1 **II. SUMMARY OF FILING**

2 **Q. Please describe the nature of this filing.**

3 A. In this proceeding, the Company is seeking the Department's approval of the sale  
4 of Blackstone to President and Fellows of Harvard College ("Harvard") and  
5 associated ratemaking treatment. The Company proposes to sell Blackstone to  
6 Harvard for \$14.6 million (subject to certain adjustments at closing). If approved,  
7 the sale will allow the Company to maximize the mitigation of its transition costs  
8 that would otherwise be charged to customers.

9 **III. DIVESTITURE REQUIREMENTS**

10 **Q. Please describe the divestiture requirements of the Act.**

11 A. The Act requires that the Company undertake all reasonable steps to mitigate its  
12 transition costs and encourages companies to divest their non-nuclear generating  
13 assets. See G.L. c. 164, § 1G(d)(1). The Company's divestiture of Blackstone  
14 must be shown to be consistent with the Act by demonstrating that the sale  
15 process was equitable and maximized the value of the generation facilities being  
16 sold. Id. at § 1A(b)(1). The Act references two means to divest non-nuclear  
17 generating assets: (1) an auction; or (2) a transfer of generating assets to an  
18 affiliated company at a value determined to be reasonable and appropriate by the  
19 Department, "including but not limited to a value based on the sale value of  
20 comparable plants through prior divestiture actions." Id. at § 1A(b)(2).

1 The Department has previously approved the Company's Restructuring Plan,  
2 finding, among other things, that the Company is committed to the maximum  
3 mitigation of its transition costs, "principally by auctioning off their PPAs and  
4 generating plants" in compliance with the Act. Canal Electric Company,  
5 Cambridge Electric Light Company, Commonwealth Electric Company,  
6 D.P.U./D.T.E. 97-111, at 64 (1998). In this case, Blackstone Station is unique  
7 among the Company's assets in that it is and has been subject to a Right of First  
8 Offer held by Harvard. The Right of First Offer, entered into well before industry  
9 restructuring (February 5, 1993), restricted the Company from selling or agreeing  
10 to sell Blackstone Station, or its steam operations, or both, without first offering in  
11 writing to convey such assets to Harvard. Accordingly, the Company's options to  
12 sell Blackstone Station through a general auction were constrained by the Right of  
13 First Offer.

14 As described infra, the Company's arms'-length negotiation with Harvard has  
15 resulted in a price for Blackstone that is equivalent to the highest price per  
16 kilowatt ("kW") of capacity for any generation sold in New England since the  
17 advent of retail access in Massachusetts (March 1, 1998). Accordingly, the  
18 Company has met the Act's requirement for divestiture in that a high and  
19 reasonable price was achieved that maximizes the asset's value, especially as  
20 compared to the value of other generation assets sold through prior divestitures.  
21 The Company presents the results of its arms'-length negotiation for review and is

1 requesting that the Department approve the transaction as in compliance with the  
2 Act. In D.T.E. 99-90-C at 11, the Department directed the Company to conclude  
3 its negotiations with Harvard as soon as possible, and the Company has worked  
4 diligently to do so.

5 **IV. BACKGROUND OF BLACKSTONE STATION AND HARVARD'S**  
6 **RIGHT OF FIRST OFFER**

7 **Q. Please describe the history of Blackstone Station and its current customers.**

8 A. Facilities at the Blackstone site have produced steam and/or electric generation  
9 since the turn of last century; however, the current facilities have produced steam  
10 and electricity since about 1930. Blackstone's primary use today is to produce  
11 steam for resale by NSTAR Steam Corporation ("NSTAR Steam"). NSTAR  
12 Steam has two major customers: Harvard and Genzyme Corporation  
13 ("Genzyme"). Harvard and Genzyme purchase steam from Blackstone pursuant  
14 to separate agreements with NSTAR Steam (the "Harvard Steam Contract" and  
15 the "Genzyme Steam Contract," together, the "Steam Contracts").

16 **Q. How have the Company's retail electricity customers benefited from the**  
17 **Company's ownership of Blackstone Station?**

18 A. Historically, the cost of service of Blackstone Station was shared between  
19 electricity and steam production. The Company's customers were responsible for  
20 electricity-related production costs at Blackstone, while customers of NSTAR  
21 Steam paid for steam production-related costs. The allocation of these costs has  
22 been in accordance with the Department's approval in past rate cases. However,

1 the Company's customers received 100 percent of the benefit of the Station's past  
2 electricity production. Therefore, the Company's customers have received all of  
3 the benefit from the electric operation of Blackstone, while bearing only a portion  
4 of the Station's total costs. Accordingly, Blackstone's cogeneration of energy has  
5 inured to the benefit of the Company's electricity customers.

6 **Q. Please describe the origins of the Right of First Offer for Blackstone granted**  
7 **to Harvard by the Company.**

8 A. In early 1993, Harvard and COM/Energy Steam Company, the predecessor to  
9 NSTAR Steam, entered into negotiations regarding a potential extension of an  
10 Agreement for Steam Service, which set forth the terms under which  
11 COM/Energy Steam Company (now NSTAR Steam) would deliver and sell steam  
12 to Harvard. The steam sold and delivered to Harvard provides the sole means for  
13 heating Harvard's Cambridge and Allston campuses. Given the critical role  
14 Blackstone played in heating the campus, Harvard approached the Company and  
15 COM/Energy Steam Company and suggested that a long-term steam service  
16 agreement was critical to Harvard and that such an arrangement would be possible  
17 only if Harvard's concerns over long-term steam security were addressed.  
18 Accordingly, discussions with Harvard ensued, leading to the negotiation of the  
19 Right of First Offer (Exh. GOL-2), which controlled the Company's rights to sell  
20 or agree to sell the land, buildings and improvements constituting Blackstone  
21 Station (the "Premises"), or the steam operations of Blackstone Station (the

1 “Steam Operations”), or both, without first offering in writing to Harvard to  
2 convey the Premises or the steam operations to Harvard.

3 **Q. How did the Harvard Steam Contract and the Right of First Offer benefit**  
4 **Harvard?**

5 A. The Harvard Steam Contract provided Harvard the needed assurance that a long-  
6 term, economical and reliable supply of steam would be available to its campuses  
7 and that Harvard would have an opportunity to buy the facility before it could be  
8 sold to a third party.

9 **Q. How did the Harvard Steam Contract and the Right of First Offer benefit**  
10 **the Company’s customers?**

11 A. For COM/Energy Steam Company and the Company, the agreements ensured that  
12 a favorable, long-term steam agreement with Harvard was in place, which would  
13 permit the costs associated with Blackstone Station to continue to be shared in a  
14 manner that was beneficial to the Company’s customers. Thus, based on these  
15 material benefits, the Right of First Offer and the Steam Contract were executed.

16 **Q. Why was the Right of First Offer relevant in the Company’s consideration of**  
17 **options to divest Blackstone?**

18 A. In considering the best means to divest and maximize the value of Blackstone, the  
19 Right of First Offer demonstrated that Harvard had an obvious vested interest in  
20 the ownership of Blackstone and its steam supply, and thus, that it would likely  
21 pay more than other potential buyers. Moreover, the Company believed that, to  
22 the extent that the Company attempted to sell Blackstone to a buyer other than

1 Harvard, Harvard would likely attempt to block such a sale because of the  
2 importance to Harvard of having a reliable source of steam for its facilities. This  
3 made a more traditional bidding process less desirable because its results would  
4 be significantly delayed or jeopardized by the presence of the Right of First Offer.  
5 Accordingly, the Company determined that Harvard's need for the steam from  
6 Blackstone would cause Harvard to place a higher value on Blackstone than other  
7 potential buyers, and thus, the Company chose to negotiate with Harvard, rather  
8 than pursue other options to divest the facility, such as an auction.

9 **V. THE DIVESTITURE PROCESS**

10 **Q. Please summarize the process used in the Company's divestiture of**  
11 **Blackstone.**

12 A. The Company has participated in arms'-length negotiations with Harvard on  
13 various occasions since 1998 to sell Blackstone, under terms and conditions  
14 designed to maximize its value for the Company's customers. The net proceeds  
15 garnered from the divestiture process will be directed to reduce the amount of  
16 transition costs that the Company's customers will have to pay. In fact, Harvard,  
17 as a major electricity customer of the Company, benefits from the selling price.

18 Harvard has signed the appropriate agreements, which provide for the transfer of  
19 ownership, conditioned on state approvals, of the applicable assets at a price of  
20 \$14.6 million. The process was carefully planned and designed to maximize the  
21 value of Blackstone, to achieve the greatest mitigation of transition charges for the



1 Company's customers and to be consistent with the Company's restructuring plan  
2 approved in D.P.U./D.T.E. 97-111.

3 **Q. Why didn't the Company divest Blackstone Station in 1998 along with its**  
4 **former fossil-fueled generation assets?**

5 A. The Company considered divesting Blackstone Station in conjunction with the  
6 auction of its fossil-fueled generating facilities in 1998. However, generation at  
7 the station was very small at 16 MW when compared to the rest of the fossil fleet  
8 (approximately 984 MW). The unit was aged and the opportunity to re-power the  
9 site was limited because of its location and lack of access to gas. Thus, as a  
10 generating plant, it had limited value. In addition, as described above, the steam  
11 production from the plant had a different value to Harvard because it was its sole  
12 source of heat to the campus, which gave it a crucial role to Harvard. To proceed  
13 with an auction of Blackstone with the Company's other facilities may have risked  
14 the outcome of that outstanding auction (which produced approximately \$462  
15 million for customers), delayed its results and/or prompted disputes with Harvard.

16 Based on this, the Company chose to continue to negotiate with Harvard to divest  
17 Blackstone while keeping in abeyance a contingency plan for a separate auction of  
18 Blackstone in case the value offered by Harvard was not satisfactory.

19 **Q. Why is the Company satisfied that it has maximized the value of Blackstone**  
20 **Station?**

21 A. Since 1998, several studies have been performed that evaluated the value of  
22 Blackstone Station and the Blackstone site generally. These studies have included

1 various assumptions regarding the use of the Blackstone site, from continued  
2 operation of Blackstone Station as a steam generating facility to redevelopment of  
3 the Blackstone site with either residential or commercial uses other than for  
4 generating steam. Depending on the assumptions used and the timing of the  
5 study, the value of Blackstone ranged from approximately \$3 million to over \$30  
6 million. However, to put these studies in some perspective, the studies were  
7 performed at various times since 1998 and none included full environmental  
8 remediation costs in their assumptions. Further, the value of electric generation  
9 assets generally has depressed significantly since 1998. Accordingly, obtaining a  
10 purchase price for Blackstone of \$14.6 million falls comfortably within the  
11 various valuations of Blackstone performed over the last few years. Moreover,  
12 despite the drop-off in the electricity markets, as discussed below, the purchase  
13 price obtained nonetheless is equivalent to the highest value obtained thus far for  
14 electric generation on a per-kW basis.

15 **Q. How can one determine whether the Company maximized the value of**  
16 **Blackstone Station?**

17 A. The Act recommends that generating plants not sold at auction be valued by  
18 comparing their sale price to the “sale value of comparable plants through prior  
19 divestiture actions,” with a minimum price no lower than “the highest price per  
20 kilowattage of capacity for any capacity sold in New England, as determined by  
21 the Department...” *Id.* at § 1A(b)(2). To date, the highest reported price per kW  
22 of capacity for plant sales in New England is \$911 per kW in the divestiture of

1 certain hydro-electric generating assets in Maine. Indeed, the Attorney General  
2 recommended to the Department in the Company's recent transition cost  
3 reconciliation proceeding (D.T.E. 99-90) that the Company be directed to credit  
4 its transition charge with revenue equal to the residual value credit that would be  
5 applied had the Company sold Blackstone Station at the same time as its other  
6 plants and obtained \$14.6 million, or \$911 per kW. In comparison, as a result of  
7 the Company's arm's-length negotiation with Harvard, Harvard has agreed to pay  
8 \$14.6 million for Blackstone, which is the equivalent of approximately \$911 per  
9 kW. Accordingly, by comparing the various analyses of the value of Blackstone  
10 and the price of other generating facilities sold in New England, it is clear that the  
11 Company has maximized the value of Blackstone Station, consistent with the Act.

12 **Q. Could the Company have proceeded to an auction of Blackstone directly**  
13 **without first attempting to negotiate a sale with Harvard?**

14 A. No, it would not have been practical or appropriate to do so. Given the Right of  
15 First Offer and Harvard's obvious heightened interest in Blackstone, it was clear  
16 to the Company that any such auction would have proceeded at significant risk of  
17 challenge from Harvard, ultimately leading to disputes, delays, additional costs to  
18 customers and, at a minimum, clouding the prospects of a successful divestiture  
19 through an auction. Further, I am advised by my attorneys that, despite a  
20 provision in the Right of First Offer setting forth that the Company could auction  
21 the entire Blackstone site without triggering Harvard's prior refusal rights,  
22 Harvard would likely assert legal and factual questions as to whether the

1           divestiture of Blackstone in these circumstances would qualify under that  
2           provision. Moreover, in light of the unique location of the Blackstone facility and  
3           its central role in meeting Harvard's steam requirements, it was obvious that  
4           Harvard would place the highest value on owning Blackstone. For these reasons,  
5           it made little sense from both a practical and legal perspective to auction the  
6           Blackstone facility without exhausting negotiations with Harvard.

7   **VI. DESCRIPTION OF THE ASSET PURCHASE AGREEMENTS**

8   **Q. Please describe the specific transactions in this divestiture.**

9   A. There are four agreements involved in this divestiture. They are: (1) a Purchase  
10   and Sale Agreement between the Company and Harvard (the "PSA") (Exhibit  
11   GOL-3);<sup>1</sup> (2) a Steam Asset Purchase and Sales Agreement between NSTAR  
12   Steam and Harvard (the "Steam Asset Agreement") (Exh. GOL-4); (3) a Lease  
13   Agreement (Exh. GOL-5) (the "Lease Agreement"); and (4) an Operating  
14   Agreement between NSTAR Steam and Harvard (the "Operating Agreement")  
15   (Exh. GOL-6). In addition, a services agreement between NSTAR Steam and  
16   NSTAR E&G has been executed that reflects certain employee-related terms from  
17   the Operating Agreement (Exh. GOL-7) (the "Services Agreement"). Copies of  
18   these documents are attached and described below.

---

<sup>1</sup> The attached PSA includes the First Amendment to Purchase and Sale Agreement, dated October 30, 2002, which extended the Inspection Period from October 30, 2002 to November 8, 2002.

1 **Q. Please describe the terms of the PSA.**

2 A. The Company is selling the following Blackstone Station assets to Harvard via the  
3 PSA: (1) all real property described in Schedule 1 of the PSA, subject to all  
4 easements and other appurtenant rights of the Company therein; (2) all Inventory  
5 (as defined by the PSA), machinery, fixtures, furniture, furnishings, equipment,  
6 tools, spare parts, consumables and other tangible personal property located on the  
7 Real Property (as defined by the PSA) or used in connection therewith to produce  
8 electricity, steam or both; (3) all rights with respect to leasehold interests and  
9 rights thereunder (listed in Schedule 3 of the PSA) relating to the Real Property  
10 and/or the Blackstone generating facility (the "Leases") (unless Harvard elects to  
11 have the Company terminate certain of the Leases prior to closing); (4) all  
12 certificates, licenses, grants of location, permits, approvals, consents, orders,  
13 exemptions, decisions and other actions of a Governmental Authority (as defined  
14 by the PSA) relating to the Blackstone site, to the extent they are assignable or  
15 will pass to Harvard by operation of law; (5) all rights of the Company under the  
16 contracts, agreements, and personal property leases relating to the operation of the  
17 Generating Facility listed in Schedule 5 of the PSA (the "Contracts") (unless  
18 Harvard elects to have the Company terminate certain of the Contracts prior to the  
19 closing); (6) all books and records relating to the design, construction, licensing,  
20 maintenance or operation of the Generation Facility (excluding the Company's  
21 financial records and books of account); and (7) all rights of the Company to the

1 name "Blackstone Station" (Exh. GOL-3, at 1-2).

2 **Q. Please describe the Blackstone Steam Asset Agreement.**

3 A. In addition to the Company's sale of certain Blackstone assets to Harvard,  
4 NSTAR Steam is selling certain Blackstone assets to Harvard, as follows: (1) the  
5 steam lines in Western Avenue servicing properties in Allston, Massachusetts and  
6 those steam lines necessary to fulfill NSTAR Steam's obligations to Harvard and  
7 Genzyme under its Steam Contracts, together with all easements and other  
8 appurtenant rights of NSTAR Steam therein (the "Steam Lines"); (2) all rights  
9 with respect to leasehold interests and rights thereunder relating to the Steam  
10 Lines (listed in Schedule 3 of the Steam Asset Agreement) (the "Steam Asset  
11 Leases") (unless Harvard elects to have NSTAR Steam terminate certain of the  
12 Steam Asset Leases prior to closing); (3) all certificates, licenses, grants of  
13 location, permits, approvals, consents, orders, exemptions, decisions and other  
14 actions of a Governmental Authority (as defined by the Steam Asset Agreement),  
15 relating to the Steam Lines, to the extent they are assignable or will pass to  
16 Harvard by operation of law; (4) all rights of NSTAR Steam under the contracts,  
17 agreements, and personal property leases relating to the operation of the Steam  
18 Lines listed in Schedule 5 of the Steam Asset Agreement (the "Steam Asset  
19 Contracts") (unless Harvard elects to have NSTAR Steam terminate certain of the  
20 Steam Asset Contracts prior to the closing); (5) all books and records relating to  
21 the design, construction, licensing, maintenance or operation of the Steam Lines

1 (excluding NSTAR Steam's financial records and books of account); (6) all rights  
2 of NSTAR Steam to the name "Blackstone Station;" and (7) all unexpired  
3 warranties, if any, from third parties with respect to the Steam Lines (Exh.  
4 GOL-4, at 1-2).

5 **Q. Please describe the Lease Agreement.**

6 A. The Lease Agreement commenced August 1, 2002. Pursuant to its terms, the  
7 Company is leasing to Harvard on a short-term basis certain buildings on the  
8 Blackstone site at 46 Blackstone Street in Cambridge, Massachusetts, for use by  
9 Harvard as office, warehouse or storage space or other activities previously  
10 conducted by the Company (the "Buildings"). The Lease Agreement will expire  
11 upon the earlier of the purchase by Harvard of the Buildings pursuant to the PSA,  
12 or the termination of the PSA, but shall not, in any event, expire later than  
13 June 30, 2003 (Exh. GOL-5, at 2).

14 **Q. Please describe the Operating Agreement.**

15 A. The Operating Agreement provides an orderly transition of the steam operations  
16 from NSTAR Steam to Harvard. Pursuant to the Operating Agreement between  
17 Harvard and NSTAR Steam, after the closing of the sale of Blackstone to  
18 Harvard, NSTAR Steam would continue to perform the obligations of the seller of  
19 steam pursuant to the Steam Contracts (Exh. GOL-6, at § 1.3). NSTAR Steam  
20 would perform these obligations for a period of one year after the closing date,  
21 unless extended by mutual agreement of NSTAR Steam and Harvard (*id.* at § 1.2).

1 During the term of the Operating Agreement, NSTAR Steam is obligated to  
2 operate and maintain the Generating Facility and the Steam Lines (the “Steam  
3 Production Facility”) substantially as operated and maintained to date (id. at  
4 § 1.4).

5 **Q. How does the Operating Agreement address the status of Blackstone’s**  
6 **employees?**

7 A. As part of the Operating Agreement, NSTAR E&G will retain its current role as  
8 employer of the Steam Production Facility employees (identified in Schedule 1 of  
9 the Operating Agreement) (the “Employees”) (id. at § 1.6). If, during the term of  
10 the Operating Agreement, any of the Employees identified in the Operating  
11 Agreement that are employed pursuant to existing Labor Agreements ceases to be  
12 employed in connection with the operation of the Steam Production Facility,  
13 NSTAR Steam and NSTAR E&G will consult with Harvard prior to replacing  
14 such Employee (id.). At the end of the term of the Operating Agreement, Harvard  
15 shall pay to NSTAR Steam \$100,000 for each Employee (or their replacement)  
16 who remains employed by NSTAR E&G at the conclusion of the term and either:  
17 (1) is not offered employment by Harvard (or its agent); or (2) is offered  
18 employment by Harvard, but does not accept such offer (id.).

19 **Q. Please describe the terms of the Services Agreement.**

20 A. As noted previously, the Services Agreement is between NSTAR E&G and  
21 NSTAR Steam. NSTAR E&G is the employer of all of NSTAR’s subsidiary



1 companies' employees, including NSTAR Steam. The Services Agreement  
2 governs NSTAR E&G's obligations to provide employee services in manner  
3 consistent with NSTAR Steam's obligations under the Operating Agreement. In  
4 consideration of NSTAR E&G providing labor services to NSTAR Steam,  
5 NSTAR Steam will pay NSTAR E&G an amount equal to all of the costs of  
6 NSTAR E&G in fulfilling its obligations under the Services Agreement. In  
7 addition, to the extent that NSTAR E&G incurs severance, outplacement or  
8 retraining costs pursuant to NSTAR Steam's performance under the Operating  
9 Agreement, the Services Agreement provides that NSTAR Steam will reimburse  
10 NSTAR E&G for such costs. The Services Agreement will commence as of the  
11 date that Harvard takes legal title to Blackstone, and will continue for a period of  
12 one year, or until the termination of the Operating Agreement, whether such  
13 termination is before or after the one-year period referenced herein.

14 **Q. How do the Company's customers benefit from the provisions of the**  
15 **Operating Agreement and the Services Agreement?**

16 A. In most generation facility divestitures, the divesting utility must pay for employee  
17 severance, outplacement and retraining benefit costs, and thus, such costs are  
18 deducted from the net proceeds that ultimately flow to customers as a result of the  
19 transaction. However, in this case, there will be no such deduction from the net  
20 proceeds. Under the Operating Agreement, Harvard will pay NSTAR Steam  
21 \$100,000 for each Employee that it doesn't retain to offset any such severance,  
22 outplacement or retraining costs. In return, NSTAR Steam has agreed to

1 reimburse NSTAR E&G for any such costs so that these costs will not be borne by  
2 the Company's customers (see Exh. GOL-7). This approach maximizes the  
3 interest of the Employees and the Company's customers. It also provides Harvard  
4 an incentive to retain all such Employees in order to minimize associated  
5 payments to NSTAR Steam. In the case of employees in Local 369, the  
6 employees have the right to "bump back" into other positions at NSTAR E&G.

7 **VII. EFFECT OF THE SALE OF BLACKSTONE ON THE COMPANY'S**  
8 **TRANSITION CHARGE**

9 **Q. Please describe the exhibit relating to the Company's transition cost analysis**  
10 **included as an attachment to your testimony.**

11 A. I have included an exhibit (Exh. GOL-8) that calculates the net benefit flowing to  
12 the Company's customers as a result of the Blackstone sale. This exhibit shows  
13 the sale price of \$14.6 million and deducts from this price the net book value of  
14 the plant that has not already been recovered through the transition charge, as well  
15 as a current estimate for transaction costs.

16 **Q. How does the Company propose to reflect the net proceeds in the Company's**  
17 **Transition Charge?**

18 A. The Company will flow back the net proceeds in the Company's transition charge  
19 as part of the variable component. This will allow the Company to offset the  
20 regulatory deferral balances that the Company has accrued over the past few years.

1 **Q. How did these deferral balances arise?**

2 A. The Company's rates are 15 percent below the Company's rates in effect as of  
3 August 1997, consistent with the rate-cap requirements of the Restructuring Act.  
4 Accordingly, to the extent that the Company incurs costs that would otherwise  
5 cause rates to rise above the rate cap, the Company must defer charging customers  
6 for such costs. Specifically, because the Company's costs for Standard Offer  
7 Service, Default Service and transmission service are above what the Company  
8 now recovers through rates, the Company is accruing deferrals in these accounts.  
9 In addition, the Legislature's continuation of the energy-efficiency surcharge on  
10 customer bills through 2007, which was originally scheduled to end in 2002, acts  
11 as an additional constraint on the Company's ability to reduce deferrals.

12 **Q. What is the impact of the deferral balances?**

13 A. The deferral balances have a negative impact on customers for two reasons. First,  
14 customers must pay carrying charges on the deferral balances. Second, because  
15 deferred costs are collected over time, the customers on whose behalf the  
16 Company incurs costs may not be the same customers who pay for such costs in  
17 the future. Thus, customers benefit when the Company is able to avoid or reduce  
18 deferrals.

1 **Q. Will applying the net proceeds from the sale of Blackstone to the Company's**  
2 **deferrals bring these deferral balances below zero?**

3 A. No. The forecast deferral balance of over \$17 million exceeds the expected net  
4 proceeds from the sale of Blackstone, as does the Company's aggregate deferral  
5 balance at the end of 2003 of approximately \$12 million (see Exhibit GOL-9).  
6 This method of flowback reduces the deferral and is consistent with the  
7 accounting for the sale of non-generating assets.

8 **Q. Is the use of Blackstone's net proceeds to pay down deferrals consistent with**  
9 **the use of the sales proceeds from other divestitures performed by the**  
10 **Company?**

11 A. Yes. The Company's Department-approved Restructuring Plan allows the  
12 Company to use its proceeds from the sale of its generating assets to offset  
13 transition costs associated with its regulatory assets. See Cambridge Electric  
14 Company, Commonwealth Electric Company and Canal Electric Company,  
15 D.P.U./D.T.E. 97-111, at 61-62 (1998). In this instance, the Company proposes to  
16 use Blackstone's net proceeds to pay down deferrals associated with electric  
17 restructuring-related obligations, including generation-related costs. Previously,  
18 the Department has approved the Company's use of divestiture proceeds from the  
19 Canal generating asset to be used to reduce the variable portion of the transition  
20 charge (e.g., Seabrook and Pilgrim buy downs). See Cambridge Electric Light  
21 Company, Canal Electric Company and Commonwealth Electric Company,  
22 D.T.E. 98-78/83-A at 12-13 (1998) (Canal divestiture and establishment of  
23 Energy Investment Services); Commonwealth Electric Company, D.T.E. 98-

1 119/126, at 71-72 (1999) (Pilgrim buy down); Cambridge Electric Light Company  
2 and Commonwealth Electric Company, D.T.E. 99-89, at 10-11 (2000) (Seabrook  
3 buy down). The Department has also recognized the importance of avoiding the  
4 accrual of high deferrals. See, e.g., Commonwealth Gas Company's Request for  
5 Authorization to Adjust its Gas Adjustment Factor, D.T.E. 01-14, at 5-9 (2001);  
6 Standard Offer Service Fuel Adjustment, D.T.E. 00-66/67/70, at 2-3 (2000).  
7 Moreover, the flowback of the Blackstone proceeds through the variable  
8 component of the transition charge is consistent with the sale of distribution  
9 properties. Since the generation of electricity ceased at Blackstone in 2001 and  
10 the future value of the site is not generation-related, it is especially appropriate to  
11 flowback the proceeds through the variable component.

12 **Q. When does the Company propose to adjust its transition charge to reflect**  
13 **Blackstone-related net proceeds?**

14 A. The transition charge impact from the sale of Blackstone will be reflected in the  
15 Company's next transition cost reconciliation filing.

16 **Q. What are the total savings attributable to the sale of Blackstone to Harvard?**

17 A. Based on a projected December 31, 2002 closing date, the total estimated savings  
18 to the Company's retail customers attributable to the sale of Blackstone are  
19 approximately \$10.5 million (Exh. GOL-8).

1 **Q. Does the Company's analysis support the decision to sell Blackstone to**  
2 **Harvard?**

3 A. Yes, it does. As shown in Exhibit GOL-8, the total Transition Charge savings to  
4 the Company's retail customers are estimated to be approximately \$10.5 million.  
5 Accordingly, the sale of Blackstone to Harvard provides significant savings to the  
6 Company's customers.

7 **VIII. REGULATORY APPROVALS**

8 **Q. Are there any approvals required by the Company or Harvard as part of this**  
9 **divestiture transaction?**

10 A. The PSA specifically requires the Department to approve the transaction as a  
11 condition precedent to the Company's obligation to close (Exh. GOL-3, at  
12 § 13(c)).

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

14 A. Yes, it does.

15 e:\comel\blackstone divestiture\dte filing\lubbock testimony.doc

**Preliminary Calculation of Net Proceeds**

1	Sale Price	\$14.600
2	Net Plant	(3.195)
3	Legal Fees	(0.172)
4	Brokers Fees	(0.219)
5	Misc. selling costs and contingency	<u>(.500)</u>
6	Net Proceeds	<u><u>\$10.514</u></u>

**Exhibit GOL-9**

Cambridge Deferral Summary	2000	2001	2002	2003
CTC	\$2.861	\$(0.580)	\$(1.533)	\$11.655
Default	7.057	9.574	6.018	0.331
Standard offer	7.640	0.001	-	0.000
Transmission	9.980	8.688	12.531	0.627
<b>Total</b>	<b>\$27.538</b>	<b>\$17.683</b>	<b>\$17.016</b>	<b>\$12.612</b>
Blackstone				(10.514)
<b>Net Balance</b>				<b>2.098</b>