

Department of Energy Resources Announces Settlement Agreement, Aligning NSTAR-NU Merger with Patrick-Murray Administration's Clean Energy Goals

Filed with DPU, agreement will freeze basic distribution rates for four years, require transparency of utility company finances, and expand utility-sponsored clean energy efforts

BOSTON – Wednesday, February 15, 2012 – The Department of Energy Resources (DOER) and NSTAR today filed with the Department of Public Utilities (DPU) a proposed settlement agreement that stipulates a series of provisions to freeze rates, provide an immediate credit to customers, increase financial transparency and purchase more clean energy as conditions of NSTAR's proposed merger with Connecticut-based Northeast Utilities (NU).

If approved by the DPU, the negotiated settlement would freeze the base distribution rates for four years, benefitting customers of the merging companies – NSTAR Electric, NSTAR Gas and Western Massachusetts Electric Company (an NU subsidiary). It would also provide a one-time customer rate credit of \$21 million for residential customers of the three companies – an amount that equals half of the estimated four-year savings the companies expect to net from the merger.

"I am proud of this agreement, which was negotiated by our Administration in an effort to cap rates and hold utilities accountable to customers," said Governor Deval Patrick. "Thanks to this work, DPU is now set to consider a plan that delivers benefits to customers in the form of lower costs and better service, upholds the utilities' commitment to Massachusetts' communities and devotes unprecedented resources to our clean energy future."

"This is a comprehensive and landmark agreement that brings major benefits to customers both in terms of rates and the environment," said Energy and Environmental Affairs Secretary Richard K. Sullivan Jr. "The Department of Energy Resources has worked collaboratively with the Attorney General's office in the best interest of ratepayers with the overriding need for transparency and protecting jobs in Massachusetts."

To ensure accurate and transparent reporting by the utility, the proposed settlement requires NSTAR Electric to fund and provide to the DPU, the DOER and the Massachusetts Attorney General, a study by an independent accounting firm that includes an audit of the company's annual returns for the four-year period 2012 – 2015, in addition to a comprehensive listing of assets. This assessment must begin no later than 240 days before NSTAR files its next rate case with the DPU.

The proposal would also require the merged entity to purchase an additional 129 megawatts (MW) of clean energy. NSTAR has agreed to enter into a 15-year contract to purchase 27.5 percent of the electricity output from Cape Wind, the offshore wind energy project planned for Nantucket Sound. This independent contract would satisfy the utility's need to meet greenhouse gas reduction goals under the DPU's net public benefit standard for utility mergers, as well as the renewable energy procurement requirement under the Green Communities Act. An actual contract between NSTAR and Cape Wind, in the form of a negotiated power purchase agreement, is not included in the settlement filed with the DPU today, but would be vetted through a separate public process if the settlement is approved. If Cape Wind has not broken ground by 2016, NSTAR has committed to purchasing an equal amount of clean energy from another source.

Other environmental and performance benefits agreed upon by the parties include enhanced energy efficiency measures, solar energy investments, sponsorship of a pilot electric vehicle program, post-merger service commitments,

and phasing out of rate tariffs for standby delivery service, so customers with distributed generation are not required to pay for unused utility delivery service.

“From the start of this proceeding, the Department of Energy Resources has insisted that the proposed merger deliver benefits to customers in the form of reliability and lower costs, and to residents of Massachusetts in the form of expanded renewable energy options, energy efficiency and reduced greenhouse gas emissions,” said DOER Commissioner Mark Sylvia, whose department is an official intervener in the DPU merger proceeding. “Requiring unprecedented transparency of utility finances, we believe this proposed settlement is in the best long-term interests of both utility customers and the Commonwealth as a whole, and we urge the DPU to approve it.”

In filing the settlement agreement, DOER has requested the DPU hold hearings on the proposal and explain its rate structure and resulting benefits. DOER is also asking that, if the DPU is inclined to move favorably on the merger, it do so two business days after a final merger determination by the Connecticut Public Utilities Commission, which is scheduled to rule on the merger on April 2.

The settlement calls for the merged companies to, within 60 days of the merger closing, provide a one-time rate credit of \$21 million divided as follows: \$15 million for NSTAR Electric customers, \$3 million for NSTAR Gas customers, and \$3 million for customers of WMECO.

Other customer benefits included in the proposal include a requirement for NSTAR to demonstrate through December 31, 2015 that its level of service following the merger is comparable to pre-merger service quality benchmarks and that any workforce reductions as a result of the merger “will not be disproportionate to other jurisdictions in which the merged entity conducts operation; nor...diminish compliance with emergency response plans approved by” the DPU.

Under terms of the proposed settlement, if Cape Wind does not commence “physical construction” (i.e., installation of equipment or materials into the seabed) before December 31, 2015, NSTAR can opt to terminate its power purchase contract with the wind farm. If that occurs, NSTAR agrees to solicit contracts no later than June 30, 2016 to purchase an equivalent amount of power (equal to 2 percent of the company’s total load) from new renewable energy resources qualified under the Massachusetts Renewable Energy Portfolio Standard for Class I renewables.

Other clean energy provisions of the proposed settlement agreement call for NSTAR Electric to carry out a public outreach campaign to educate its customers about “the importance of the Commonwealth’s climate change goals in terms of furtherance of renewable power procurement, solar power development, energy efficiency program implementation and other policies encompassed within the Green Communities Act of 2008.”

NSTAR also agrees to take steps to increase its 2012 energy efficiency goals from 544,408 to 555,296 megawatt hours of energy savings or pay a penalty. In addition, under terms of the proposed settlement, NSTAR would issue requests for proposals to purchase 10 megawatts of solar power, and to develop and deploy an electric vehicle pilot program.

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