

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888**

IN RE: The Narragansett Electric Company :
 d/b/a National Grid, Application for : Docket No. D-17-36
 Authority to Issue Long-Term Debt :

REPORT AND ORDER

On September 8, 2017, the Narragansett Electric Company, d/b/a/ National Grid (“National Grid,” or “Company”) filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking Division authorization to issue and sell one or more series and/or issues of new long-term debt.¹ The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s *Rules of Practice and Procedure*.

According to the application, National Grid specifically seeks Division authorization to:

(a) issue, from time to time, new long term debt not to exceed an aggregate principal amount of \$925 million outstanding at any one time through the period ending three years after the Division approves the Company’s application in this case (“New Debt”), with an option for a two-year extension provided that the Company demonstrates that the purpose of

¹ National Grid Exhibit 1.

the issuances continues to serve a legitimate utility purpose. The purpose of the New Debt is to accomplish one or more of the following: (i) refinancing short-term debt with long-term debt; (ii) to finance the Company's capital needs; (iii) to construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company's capitalization and consisting of taxable bonds, medium or long-range notes, revolving credit loans, and term or bank loans and similar securities; and

(b) enter into evidences of indebtedness and related instruments in connection with New Debt, including, but not limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit agreements, participation agreements, underwriting or similar agreements, bond purchase agreements, remarketing agreements, security agreements and instruments insurance agreements, or their equivalent, and amendments, restatements, modifications, or supplements thereto (collectively, the "Instruments"). The terms of each Instrument will be substantially similar to the terms for comparable transactions available in the credit market, at the time of New Debt issuance, to companies having a credit rating substantially equivalent to the Company's credit rating.²

The owners of New Debt issued to or through third parties may have the right to tender the New Debt for the purchase upon specified notice periods. The New Debt may be subject to redemption at the option of the

² National Grid Exhibit 1, pp. 1-3.

Company in accordance with the terms of the applicable agreement and otherwise as required by such agreement.

The application further provides the following information and requests regarding the proposed issuance and/or sale of long-term debt:

- To ensure adequate flexibility in meeting market conditions at the time of issuance, the Company requests authorization to issue New Debt as unsecured debt, taxable or tax-exempt debt, bonds, medium- or long-term notes, revolving credit loans, or similar securities or some combination thereof. The New Debt will have a term exceeding one year and maturity dates will not exceed 30 years from the date of issuance with either an adjustable interest rate or a fixed interest rate not exceeding an effective rate of seven percent per annum (unless an order of the Division is issued approving a higher rate). Further, the New Debt may be issued internally to an affiliate or through third parties, in public offerings, private placements, or Rule 144(a) transactions, and with or without investment bankers.

- As of March 31, 2017, the Company has approximately \$843.3 million of long-term debt and \$125.7 million of short-term debt outstanding. The Company may refinance the short-term debt with New Debt depending upon market conditions and the terms of such debt.

- In determining the timing and amount of issuance of the New Debt, the Company intends to maintain a ratio of total long-term debt to total capitalization (excluding goodwill) of approximately 47 to 50 percent.

- Because of volatility in the debt markets, it is in the public interest that the Company have the flexibility to choose the timing of and to select purchasers of the long term debt securities on the basis of standards and criteria that in management's judgment will result in benefits to the Company and its customers, including, but not limited to, the terms and interest rate. Because the precise terms of the proposed New Debt issuances are not known at this time, the Company seeks a waiver of the Division's Rules of Practice and Procedure 14 (a) (1) (ii), (iii) and (iv) to the extent that it would require the Company to provide investment memoranda, prospectuses, information or registration statements or other documents to describe the transactions or potential funding sources.

- The Company requests that the actual costs and expenses of issuing New Debt be deferred and amortized over the life of the New Debt.³

- The Company requests that it be given the flexibility to adjust the face value of New Debt Instruments to reflect the final pricing of the security, including a discount to the face value of a particular security.

- The Company currently plans to begin issuing New Debt in the first half of calendar year 2018. The Company requests that the Division act on this Application expeditiously to enable the Company to plan the issuance of New Debt in accordance with its current schedule.

³ Exhibit B to National Grid Exhibit 1 contains the Company's current estimate of the costs and expenses of issuing New Debt.

- Exhibit C to the Company’s application comprises the actual balance sheet of the Company at March 31, 2017.⁴

- National Grid also proffered the pre-filed testimony of Mr. Charles V. DeRosa, the Company’s Vice President and Treasurer, in support of its application filing.⁵

In response to the application filing, the Division conducted a duly noticed public hearing on February 15, 2018.⁶ The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For National Grid: Jennifer Brooks Hutchinson, Esq.

For the Division’s
Advocacy Section
 (“Advocacy Section”): Leo J. Wold, Esq.
Assistant Attorney General

Settlement Agreement

On February 5, 2018, the Company and the Division’s Advocacy Section submitted an executed “Settlement Agreement” in this docket.⁷ That agreement has been attached to this Report and Order, and is hereby incorporated by reference.

⁴ National Grid Exhibit 1, pp. 3-5.

⁵ National Grid Exhibit 1, “Exhibit A.”

⁶ A hearing on the instant application was delayed, at the request of the parties, in order to facilitate discovery and settlement discussions. The February 15, 2018 hearing was scheduled and conducted after the parties indicated that they had reached a settlement agreement, infra.

⁷ Joint Exhibit 1.

Advocacy Section's Position

In addition to the executed Settlement Agreement, the Advocacy Section also proffered the pre-filed testimony of Matthew I. Kahal, a consultant and expert witness specializing in utility ratemaking and policy issues.⁸ Mr. Kahal's business address is 1108 Pheasant Xing, Charlottesville, VA 22901.

Mr. Kahal testified that after he conducted an initial review of National Grid's application filing, he prepared a set of data requests to obtain further information and to explore certain issues. He related that after he had an opportunity to review the Company's discovery responses, he developed "an issues list of concerns," which led to a telephonically conducted technical conference and subsequent discussions between members of the Company and the Division's Advocacy Section staff. Mr. Kahal testified that these discussions culminated in the Settlement Agreement now before the Division for approval.⁹

Mr. Kahal related that before reaching an agreement with the Company, he had several concerns with the Company's application. Specifically, he noted that National Grid's application requests authority to issue \$925 million over the next three years, with an option for a two-year extension, but does not provide a planned schedule for doing so. Mr. Kahal observed that the application also requests authority for a very wide range of

⁸ Advocacy Section Exhibit 1.

⁹ Id., p. 5.

types of debt that would be issued, methods of issuance and debt structure, and that the application requests authority to incur interest rates as high as 7 percent. Regarding this lack of specificity, while Mr. Kahal agrees that the Company needs some flexibility to respond to the “dynamic nature of financial markets,” he believed that the request “needed to be clarified and to some degree narrowed.”¹⁰ Mr. Kahal testified that the Settlement Agreement “adequately and appropriately balances the Company’s need for flexibility with the Division’s need for specificity and oversight.”¹¹

Mr. Kahal next discussed the flexibility that the Company is seeking with regard to how it will conduct the planned debt issuance(s) and the characteristics of the bonds to be issued. He explained that during the discovery phase of this case the Company provided the following information:

- The Company presently expects to issue the new debt as unsecured. This appears to be based on its determination that interest cost savings from issuing secured debt would be relatively small, and might be offset from administrative, legal and other costs of secured debt.
- While the original request for issuance authority covers a three-year term (with a potential two-year extension), the Company intends (if feasible) to complete the up to \$250 million issuance by the end of this year and quite possibly by summer 2018.
- The Company expects the issuance to take place in the form of private placements rather than public issuances. The private placement market in recent

¹⁰ Id., pp. 5-6.

¹¹ Id., p. 6.

years has been both robust and attractive and this will help to minimize costs of issuance while enhancing flexibility.

- While final decisions have not been made, the Company initially stated that it does not anticipate the use of hedging instruments (such as a Treasury lock) to hedge (or partially hedge) the interest rate. The Company made use of such a hedging instrument in connection with its 2010 issuances. Nonetheless, the Application leaves this open as a possibility subject to discussions at a later date with the Division.
- The Company expresses concern that market interest rates may increase significantly during the next three years, and it requests authority to incur interest rates on the new debt at cost rates as high as 7 percent without further Division approval.¹²

Mr. Kahal agreed that is it appropriate for the Company to engage in a large long-term debt issuance in order to reduce its short-term debt. He acknowledged that short-term debt is presently very inexpensive, but testified that “it can at times be volatile.” Mr. Kahal cautioned that “while it is appropriate for the Company to employ short-term debt as a financing tool, it should not become chronically over dependent on its use.”¹³

Mr. Kahal opined that the proposed issuance will not eliminate the Company’s need for short-term debt financing in the future. He stated that assuming much of the \$250 million in long-term proceeds are used to extinguish the current short-term debt balance, the Company’s short-term debt would decline to a very low level. However, Mr. Kahal observed that

¹² Id., p. 8.

¹³ Id., p. 9.

“this effect likely would be temporary.” He opined that over time, the Company would continue to use short-term debt to fund ongoing construction and for other purposes.¹⁴

Mr. Kahal next offered a description of the Settlement Agreement and the reasons why he supports it. He began by explaining that the Settlement Agreement authorizes new debt issuances of up to \$730 million, instead of \$925 million, for the purposes specified in the Company’s application. He noted that the proceeds may not be used for unregulated activities or for loans to affiliates.¹⁵

Mr. Kahal testified that the Settlement Agreement reflects that the two-year extension option has been withdrawn, which he explained “reduces the total debt issuance authority needed,” hence the reduction in the debt issuance from \$925 million to \$730 million. Mr. Kahal opined that “three years is a reasonable debt issue authority time horizon...”¹⁶

Mr. Kahal next explained that under the Settlement Agreement the Company is permitted the use of hedging as a tool to protect customers from rising interest rates while the debt issue is pending, but it does not compel its use. He explained that if the Company contemplates doing so, it must consult with the Division’s Advocacy Section before engaging in hedging.¹⁷

¹⁴ Id., p. 9.

¹⁵ Id., p. 11.

¹⁶ Id., p. 11.

¹⁷ Id.

Mr. Kahal next testified that the Settlement Agreement does not accept the 7 percent borrowing rate cap that is contained in the Company's application. Instead, he explains that the Settlement Agreement "limits the maximum interest rate on all New Long-Term Debt Issues to 6.5 percent absent a waiver of this cap from the Division...." Mr. Kahal added that "if the Company anticipates that a debt issue will breach that 6.5 percent, then it must consult with the Division to discuss potential measures or strategies for mitigating the sharp and costly debt cost increase."¹⁸

Mr. Kahal additionally testified that the Settlement Agreement compels the Company to use the debt issue proceeds for utility purposes. He emphasized that National Grid may not lend any such funds on a long-term basis to its corporate affiliates or use the proceeds for non-regulated activities.¹⁹ He noted however, that the agreement does not restrict the Company from full participation in a National Grid utility money pool for short-term borrowings and loans.²⁰

Mr. Kahal also explained that the Settlement Agreement identifies a term of from one to 30 years and in one or multiple tranches for the \$730 million. He also noted that the Company has expressed a preference for a term toward the upper end of that range. Mr. Kahal related that such debt has the advantage of protecting customers from fluctuating and rising debt costs over the coming decades as markets change. Even so, Mr. Kahal noted

¹⁸ Id.

¹⁹ Id.

²⁰ Id.

that the Settlement Agreement provides flexibility to respond to actual market conditions over the next three years and does not specifically require a term of 30 years.²¹

Mr. Kahal next related that under the Settlement Agreement, National Grid may use any of the forms of debt instruments stated in the Application. He noted that the Company presently intends to issue unsecured debt at fixed rates instead of secured debt for the new issues.²² However, Mr. Kahal indicated that despite this flexibility, the Division has reserved its right to challenge the prudence of the Company's unsecured debt issuances in future rate proceedings "if such debt issues are structured in a manner that fails to achieve lowest reasonable cost."²³

Mr. Kahal also testified that the Settlement Agreement does not pre-approve or support any cost recovery for costs that the Company will incur associated with the new debt. He related that the Settlement Agreement explicitly states that in approving the New Long-Term Debt Issuance neither the Division or its Advocacy Section necessarily concurs with the Company's capital spending plan, its proposed capital structure in the pending rate case (or in any future rate case) or the valuation of Company assets. Mr. Kahal added that the Settlement Agreement also contains an acknowledgment from the Company of its "affirmative obligation" to undertake the New Long-Term Debt Issuance at lowest reasonable cost, and to employ "a prudent mix of

²¹ Id., pp. 12-13.

²² Id., p. 13.

²³ Id., pp. 13-14.

capital.”²⁴ Mr. Kahal also stated that while this Settlement Agreement does not pre-approve either Commission ratemaking or accounting treatments relating to debt issuances, it does set forth the Division’s Advocacy Section’s opinion that such costs should be eligible for rate recovery, subject to prudence, reasonableness and appropriate allocations.²⁵

Mr. Kahal next testified that the Settlement Agreement also includes a provision that grants the Company’s request for a waiver of the filing requirements contained in Rule 14(1)(ii),(iii) and (iv) of the Division’s *Rules of Practice and Procedure*. Mr. Kahal agreed that in order to respond effectively to market conditions, the Company is not able to prepare and submit the issuance-related documents in advance of undertaking the issuances (as prescribed under the Division’s Rules). Accordingly, he opined that the Company’s request for such a waiver in this case is reasonable. Mr. Kahal testified, however, that the Company will alternatively be required, under the Settlement Agreement, to submit those documents within 45 days of the debt issuance transactions closing, including a statement of final costs. He related that the Settlement Agreement will also require the Company to inform the Division of the basic terms for each issuance within five days of issuance; and to provide the Division with informal advance notification of its intent to issue shortly before such issuance takes place.²⁶

²⁴ *Id.*, p. 14.

²⁵ *Id.*, pp. 14-15.

²⁶ *Id.*, p. 15.

In his concluding comments, Mr. Kahal delineated the following summarized reasons for why he believes the Settlement Agreement is in the public interest:

- It provides the Division with more effective oversight by authorizing approval of \$730 million (instead of \$925 million) of New Long-Term Debt Issues over the next three years and it eliminates the request for a vague two-year extension option, thereby enhancing Division oversight.
- Given today's very favorable debt market conditions, the Company can move ahead promptly with its planned 2018 \$250 million debt issue on a timely basis. In addition and if needed it allows for possible use of hedging measures, if conditions warrant, subject to consultation with the Division Staff.
- It sets the maximum allowable interest rate at 6.5% (subject to Division waiver), instead of the requested 7 percent, and requires a consultative process with Division Staff to discuss mitigation options in the event that interest rates exceed 6.5 percent.
- It provides the Company the waiver that it needs for the advanced filing of documents, while ensuring the Division will be fully informed and receive the required documents on a timely basis.
- It appropriately allows the use of a wide range of debt instruments, but it requires the Company to provide a written explanation in the event (after the initial 2018 debt issue) that it chooses to issue unsecured debt.
- The Settlement Agreement makes clear that any Division order would not provide pre-approval of cost recovery of specific debt expenses or endorsement with any capital structure or capital spending plan. At the same time it affirms the

Company's obligation to issue debt at lowest reasonable cost and employ a prudent mix of capital.²⁷

After listing the aforementioned reasons, Mr. Kahal opined that it would prudent and beneficial for the Company to proceed with a program of New Long-Term Debt Issuances over the next three years up to \$730 million to help fund capital spending and corporate operations and to effectively manage its capital structure. He further opined that the Settlement Agreement is in the public interest and should be approved as filed.²⁸

Findings

Initially, pursuant to the requirements prescribed in Rule 27 (b)(5) of the Division's Rules of Practice and Procedure, the Division finds the Settlement Agreement offered by the parties in this docket to be just, fair and reasonable, in the public interest, and in accordance with Rhode Island law and regulatory policy. As such, the Division has decided to accept the Settlement Agreement offered in this docket.

Predicated on a careful examination of the record in this matter, the Division finds National Grid's application, as modified by the Settlement Agreement accepted and approved herein, to be reasonable and in the best interest of National Grid and its ratepayers. The Division additionally finds that National Grid has met the requisite burden of proof set forth in R.I.G.L.

²⁷ Id., pp. 15-16.

²⁸ Id., p. 17.

§39-3-15, et seq. and that the proposed application for securities issuance is in the public interest.

Now, therefore, it is

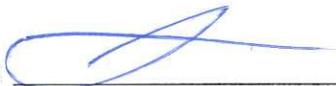
(23032) ORDERED:

1. That the February 5, 2018 Settlement Agreement attached and incorporated by reference to this Report and Order is hereby approved and accepted, in toto.
2. That National Grid's September 8, 2017 application, as modified by the Settlement Agreement approved herein is hereby granted.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON FEBRUARY 19, 2018.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Macky McCleary
Administrator

JOINT EXH. 1
FULL

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF PUBLIC UTILITIES AND CARRIERS

_____)	
Application and Statement by)	
The Narragansett Electric Company)	Docket No. D-17-36
d/b/a National Grid)	
Regarding Issue of New)	
Long-Term Debt)	
_____)	

Settlement Agreement

This Settlement Agreement is entered into this ^{15th} day of February 2018, between The Narragansett Electric Company d/b/a National Grid (the "Company"), and the Rhode Island Division of Public Utilities and Carriers Staff Advocacy Section (the "Division Advocacy Section") (collectively the "Parties").

WHEREAS, on September 8, 2017, the Company filed an Application and Statement with the Rhode Island Division of Public Utilities and Carriers (the "Division") seeking authorization to issue and sell one or more series and/or issues of new long-term debt, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17 ("Application"); and

WHEREAS, the Parties engaged in a series of technical and settlement conferences; and

WHEREAS, the Parties believe this Settlement Agreement is in the best interests of the people of the State of Rhode Island and the customers of the Company;

NOW, THEREFORE, in consideration of the recitals hereto and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, hereby agree as follows:

1. The Company shall be authorized to make issuances of new long-term debt in an amount not to exceed an aggregate principal amount of \$730 million outstanding at any one time for any or all of the purposes set forth in the Company's Application including replenishing internally generated cash funds that were used to fund long-lived capital plant additions and to refund long-term debt, and using those funds to pay dividends and pay down existing short-term debt balances (the "New Long-term Debts Issuances"). Proceeds from the New Long-term Debt Issuances will not be used for

making investments in unregulated activities or making loans to affiliates. The foregoing authorization shall not limit the Company from fully participating in the current and in any future National Grid Money Pool arrangements in which regulated affiliates of the Company also participate, including, without limitation, making short-term loans (i.e., for a term not exceeding one year) in connection with such arrangements.

2. The New Long-term Debt Issuances will be effected in one or more tranches with maturity dates each greater than one year but not to exceed 30 years from the date of issuance.
3. The Company is authorized to issue the New Long-term Debt on either a secured or unsecured basis. In the event the Company elects to issue unsecured debt following the initial New Long-term Debt Issuance expected to be made during calendar year 2018, the Company shall provide an explanation in writing to the Division Advocacy Staff regarding the type of debt issuance and why such unsecured debt is in the best interest of the Company's customers. The Company agrees to provide such explanation prior to making the second New Long-term Debt Issuance or any subsequent New Long-term Debt Issuances executed during the authorization period.
4. The Company may enter into evidence of indebtedness for the New Long-term Debt through any or all of the instruments set forth in the Company's Application.
5. The Company will inform the Division Advocacy Section of its intent to issue in advance of closing. However, such advance notification shall not be a condition precedent to the Company's right to proceed with an issuance otherwise authorized by the Division in this docket.
6. The maximum interest rate for any New Long-term Debt Issuances shall not exceed 6.5 percent absent a written waiver of that cap from the Division. Moreover, if the Company anticipates that the cost rate for any of the New Long-term Debt Issuances is likely to exceed 6.5 percent, the Company shall contact the Division to discuss the matter and possible ways of mitigating the resulting debt cost rate.
7. The Company's use of hedging instruments related to any of the authorized New Long-term Debt Issuances shall be limited to cross currency swaps, interest rate swaps, Treasury locks, forward rate swaps and call provisions. If the Company does make use of a hedging instrument, it shall consult with the Division Advocacy Staff before doing so.

8. For accounting purposes, the Company and the Division Advocacy Staff agree to the deferral and amortization of all the reasonable and prudent costs and expenses of the initial New Long-term Debt Issuance(s), including debt discount or premium over the life of this New Long-term Debt. The Division Advocacy Staff recognizes that debt issuance costs, including hedging costs (or credits), should be eligible for rate recovery to the extent such costs are reasonable, prudently-incurred and appropriately allocated to retail gas and electric utility service.
9. The Company's request for a waiver of the Division's Rules of Practice and Procedure 14(1)(ii), (iii), and (iv) shall be granted and the Company shall provide the Division with a statement of the basic terms of each New Long-term Debt Issuance within 5 days following each such debt issue settlement. A copy of the executed debt transaction documents along with a statement of the final actual costs shall be provided to the Division within 45 days following the settlement of each such issuance.
10. Any Order by the Division approving these New Long-term Debt Issuance(s) shall not constitute approval of or the Division's or the Division Advocacy Section's concurrence with:
 - a. The Company's capital spending plan or actual capital expenditures;
 - b. The capital structure proposed by the Company in any pending or future rate proceeding or docket before the Rhode Island Public Utilities Commission ("RIPUC");
 - c. The value of any assets, tangible or intangible, owned or to be owned by the Company.
11. An Order by the Division approving this Settlement Agreement shall not constitute pre-approval of or concurrence by the Division or the Division Advocacy Section of any specific amount of costs or expenses incurred by the Company for cost recovery or ratemaking purposes.
12. The Company retains an obligation to conduct its New Long-term Debt Issuances authorized in this docket at the lowest reasonable cost for the benefit of its retail customers.
13. This Settlement Agreement shall not affect or limit in any way the position and/or authority of the Division or the RIPUC with respect to rates, services, financial policies, accounting or any other matter affecting the Company.
14. This Settlement Agreement does not alter the Company's obligation to use a prudent mix of capital to finance its utility operations and investments.

15. The Company's authority to issue up to \$730 million of New Long-term Debt commences with the issuance of a final, non-appealable written Order from the Division approving this Settlement Agreement and shall expire three years following the date of such final, non-appealable written Order. The Company hereby withdraws its request for a two-year extension option set forth in its September 8, 2017 Application.
16. All prior discussions and agreements with respect to the subject matter hereof are merged in this Settlement Agreement, which alone constitutes the entire agreement between the Parties as to its subject matter. This Settlement Agreement may not be amended, modified or terminated except by a written agreement signed by both Parties, which specifically references this Settlement Agreement. This Settlement Agreement is submitted on the condition that it be approved in its entirety by the Division after hearing, and on the further condition that if the Division does not approve this Settlement Agreement in its entirety, the settlement shall be deemed withdrawn and shall not constitute a part of the record in this proceeding or be used for any purpose, unless all Parties agree to Division modifications.
17. This Settlement Agreement may be signed in counterparts each of which shall be deemed an original and all of which together shall constitute one in the same document.

The Narragansett Electric Company
d/b/a National Grid

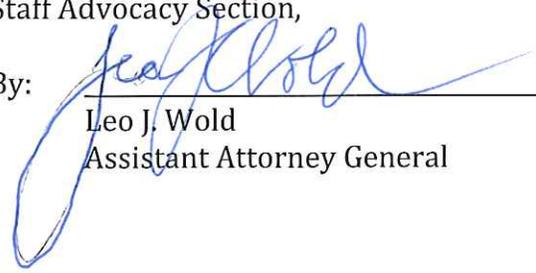
By:



Timothy F. Horan
President & COO

The Division of Public Utilities and Carriers
Staff Advocacy Section,

By:



Leo J. Wold
Assistant Attorney General