

**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-19-17
 Authority to Issue Long-Term Debt :

REPORT AND ORDER

On July 10, 2019, 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*. Subsequently, on December 13, 2019, National Grid filed an “Amended Application” *infra*.²

National Grid’s Initial Application

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 \$850 million outstanding at any one time through the period ending March 31, 2023 (“New Debt”). The purpose of the

¹ National Grid Exhibit 1.

² National Grid Exhibit 2.

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 and 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.³

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

³ National Grid Exhibit 1, pp. 1-3.

accordance with the terms of the applicable agreement and otherwise as required by such agreement.⁴

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 six and a half 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, 2019, the Company has approximately \$1.2 billion of long-term debt and \$45.9 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.

⁴ Id., p. 3.

- 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 815-RICR-00-00-1.14(A)(1)(a)(2), (3) and (4) 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.⁵

- 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 as early as the last half of calendar year 2019. The Company requests that the Division

⁵ Exhibit B to National Grid Exhibit 1 contains the Company's current estimate of the costs and expenses of issuing New Debt.

act on this Application expeditiously to enable the Company to plan the issuance of New Debt in accordance with its current schedule. The Company sought a final order by October 15, 2019.

- Exhibit C to the Company's application comprises the actual balance sheet of the Company at March 31, 2018.⁶

National Grid also proffered the pre-filed testimony of Mr. Jonathan Cohen, the Company's Director of US Treasury, Planning, and Strategy, in support of its application filing.⁷

Request to Delay Public Hearing

The Division delayed scheduling a hearing on National Grid's application filing at the request of the parties. The parties requested the delay in order to facilitate discovery and settlement discussions. This request was granted by the Division. After the parties indicated that they had reached a settlement in the case (on December 3, 2019), the Division scheduled and conducted a public hearing on December 17, 2019.

National Grid's Amended Application

On December 3, 2019, the Company filed an amended application (and statement) with the Division. Through this amended application, the Company seeks to increase its initial borrowing request from \$850 million to \$900 million. Concomitant with the several months of time that had elapsed during discovery and settlement discussions, the amended application also

⁶ National Grid Exhibit 1, pp. 3-5.

⁷ National Grid Exhibit 1, "Exhibit A."

contained revisions to some of the projected dates and deadlines that were contained in the original application.

The Amended Application also contained supplemental pre-filed direct testimony from Mr. Jonathan Cohen. Mr. Cohen explained the reasons behind the Company's request to increase its borrowing authorization request from \$850 million to \$900 million and why the Company had included an option to issue the debt as secured or unsecured.⁸

Settlement Agreement

Also, on December 3, 2019, the Company and the Division's Advocacy Section submitted an executed "Settlement Agreement" in this docket. That agreement has been attached to this Report and Order and is hereby incorporated by reference.⁹

In response to the application and settlement agreement filings, the Division conducted a duly noticed public hearing on December 17, 2019.¹⁰ 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 Wold, Esq.

⁸ Id., Exhibit A.

⁹ Joint Exhibit 1.

¹⁰ A hearing on the initial application was delayed, at the request of the parties, in order to facilitate discovery and settlement discussions. The December 17, 2019 hearing was scheduled and conducted after the parties indicated that they had reached a settlement agreement.

Advocacy Section's Recommendation

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.¹¹ Mr. Kahal's business address is 1108 Pheasant Xing, Charlottesville, VA 22901.

At the outset of his pre-filed direct testimony, and in response to the Company's initial application filing, Mr. Kahal acknowledged that the Company is requesting to issue up to \$850 million of new long-term debt over approximately the next three years with terms ranging from 1 to 30 years. He noted that the Company is seeking to issue debt that could carry either fixed or variable interest rates with allowable interest rates up to a ceiling of 6.5 percent unless the Division issues a waiver to this ceiling interest rate.¹² He also noted that the Application indicates a wide range of potential issuance methods, including competitive bidding versus private placement with competitive negotiations and that these debt issuances could take the form of a number of possible instruments. Mr. Kahal additionally observed that unlike in previous applications, in this case the Company does not request authority to make use of hedging instruments to reduce risk and/or lower debt costs.¹³ Lastly, Mr. Kahal pointed out that the Company

¹¹ Advocacy Section Exhibit 1.

¹² Id., p. 4.

¹³ Id.

is also seeking a waiver of a requirement in Division Rules concerning the submission of certain debt issuance-related documents; this waiver request is due to the fact that the exact form of the debt issuances is not known at this time and that such a waiver will enhance the Company's financing flexibility.¹⁴

Mr. Kahal next testified that when the Division inquired about whether the Company would be using the proposed new debt for refunding to lower the Company's overall cost of debt, the Division learned that the Company's "high cost of outstanding debt has 'make whole' provisions that would require compensating debt holders for the above-market value of the debt upon early redemption." Mr. Kahal related that this high cost debt, with coupon interest rates of about 7 to 10 percent, is the legacy Providence Gas mortgage bonds, which Mr. Kahal explained have been properly allocated entirely to the Company's gas distribution utility operations. He identified this high-cost legacy debt as a small percentage of the Company's total debt (less than \$30 million) and related that almost all of it will mature over the next two to three years.¹⁵

Mr. Kahal next 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

¹⁴ Id.

¹⁵ Id., p. 5.

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, which he stated he is now sponsoring and supporting.¹⁶

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 \$850 million over the next three years but offered no planned schedule for the issuances. Mr. Kahal also had concerns with the request “for a very wide range of debt structures, features, instruments and methods of issue” and the request for authority “to incur interest rates as high as 6.5 percent as compared to current long-term debt market interest rates of about 3 to 4 percent.”¹⁷ After discussing these initial concerns, Mr. Kahal testified that he believes the Settlement Agreement “adequately and appropriately balances the Company’s legitimate need for flexibility with the Division’s need for specificity, oversight and customer protection.”¹⁸

Mr. Kahal testified that the Company’s current debt filing is similar to the Company’s last two filings, made in 2012 (\$250 million) and 2017 (\$730 million). Those cases also resulted in settlement agreements. Mr. Kahal

¹⁶ *Id.*, pp. 5-6.

¹⁷ *Id.*, p. 6.

¹⁸ *Id.*

related that like in this case, those approved settlements included an array of provisions providing for utility consumer protections and reservations of rights for the Division in exchange for more flexibility for the Company to tailor the debt instruments and issuances to its ongoing needs and market conditions.¹⁹

In a further comparison, Mr. Kahal explained why the instant debt service plan is larger than the last debt plan in 2017. He related that a substantial amount of the Company's outstanding long-term debt must be redeemed in the Spring of 2020, including a \$250 million senior note and a \$10 million first mortgage bond. In addition to needing funds to redeem these obligations, Mr. Kahal related that the Company also needs to pay down some short-term balances and fund capital expansion.²⁰ Mr. Kahal testified that over the next three years, the Company anticipates capital expenditures of nearly \$1 billion for electric distribution, electric transmission and gas distribution utility service. Mr. Kahal testified that this proposed debt issuance will also ensure that the Company is able to maintain its target capital structure ratios of approximately 50 percent debt and 50 percent equity.²¹ Mr. Kahal also clarified that the initial application for \$850 includes \$380 million of unused debt issuance authority left over from the Division's previous authorization in Division Docket No. D-17-36.²²

¹⁹ Id., p. 7.

²⁰ Id.

²¹

²² Id., p. 7.

In response to the Company's requested flexibility in issuing debt, Mr. Kahal observed that the Company's specific debt issuance plans "has been quite general."²³ However, Mr. Kahal took comfort in the fact that the filing suggests that the Company would continue its past practice of issuing senior unsecured notes through private placements. He also noted that the Company has provided its projected "Sources and Uses of Funds" statement for the next three years that shows expected annual debt issuance amounts, debt redemptions, equity funding and capital expenditures.²⁴

Mr. Kahal also agreed with the Company's rationale to engage in a large long-term debt issuance to reduce its short-term debt. He related that this practice is common for utilities looking to temporarily fund construction spending with short-term debt, and then replace that short-term debt with permanent capital such as long-term debt and new equity capital.²⁵ However, Mr. Kahal testified that such planning will not eliminate the need for short-term debt financing. He explained that over time, the Company would continue to use varying levels of short-term debt to fund ongoing construction and for other purposes. He opined that this type of short-term, followed by long-term, financing is not unusual.²⁶

Mr. Kahal next offered a description of the Settlement Agreement and the reasons why he supports it. He began by explaining that the Settlement

²³ Id., p. 8.

²⁴ Id.

²⁵ Id., pp. 8-9.

²⁶ Id., p. 9.

Agreement authorizes new debt issuances of up to \$900 million for the time period extending through March 2023.²⁷ Mr. Kahal also described the several changes that the Company has incorporated into its amended Application. First, he pointed out that the Company's original application sought authority to borrow \$850 million; he acknowledged that the increase of \$50 million is to provide the funds for early redemption of the legacy Providence Gas Company first mortgage bonds, if the Company finds that doing so is advantageous. Second, the original application did not specifically authorize the issuance of secured debt, only unsecured debt. Mr. Kahal testified that the Settlement Agreement allows for secured debt and, in fact, "obligates the Company to consider issuing some or all of the New Long-Term Debt in that form."²⁸ Third, unlike past applications from the Company, the Application in this case did not provide for the potential use of hedging instruments. Mr. Kahal related that the Settlement Agreement provides the Company "the option of using hedging instruments if it deemed such usage to be warranted."²⁹

Mr. Kahal next offered testimony on why he believes it may be advantageous to provide the Company with the option of issuing secured as compared to unsecured debt. He related that despite the Company's past preference for issuing unsecured debt, issuing secured debt "could translate

²⁷ Id., p. 10.

²⁸ Id.

²⁹ Id.

into a materially lower interest rate and therefore savings for customers.”³⁰ Mr. Kahal recognized the Company’s (Mr. Cohen’s) position - that although the interest rate on secured debt would be lower, the net savings would be both “uncertain and small” (the Company estimated interest rate savings at about 0.15 to .20%).³¹ He also acknowledged that the Company associates secured debt with additional legal and administrative expense, potential delays and a loss of operational flexibility.³² However, Mr. Kahal related that the Company was not able to provide any related cost quantification or cost/benefit analysis.³³

Mr. Kahal opined that the decision to issue secured as opposed to unsecured debt remains an open question. He believes that the Company should have the option to exercise a choice, but maintains that notwithstanding the additional costs, the interest rate savings over the life of the debt could be substantial if the Company decides to primarily use secured debt. Mr. Kahal testified that the Settlement Agreement provides the flexibility requested, but under the Settlement Agreement, if the Company decides against using secured debt, the Company “is obligated in its testimony in its next base rate case to provide an explanation supporting its decision.”³⁴

³⁰ Id., p. 11.

³¹ Id.

³² Id., pp. 11-12.

³³ Id., p. 12.

³⁴ Id., pp. 12-13.

Mr. Kahal thereafter discussed the use of hedging instruments. He related that the Settlement Agreement allows for the use of hedging instruments as a tool to protect customers from rising interest rates but does not compel its use. Mr. Kahal mentioned that the Settlement Agreement requires the Company to consult with the Division before engaging in hedging.³⁵

Mr. Kahal next testified that the Settlement Agreement accepts the 6.5 percent borrowing rate cap “absent a written 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 cap, “then it must consult with the Division to discuss potential measures or strategies for mitigating the sharp and costly debt cost increase.”³⁶

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.³⁷ 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.³⁸

³⁵ Id., pp. 13-14.

³⁶ Id., p. 14.

³⁷ Id.

³⁸ Id.

Mr. Kahal next discussed why the Settlement Agreement increased the original debt issue request from \$850 million to \$900 million. He testified that because the Division has agreed to accommodate the possibility of the legacy Providence Gas first mortgage bond early redemption, it is reasonable to increase the debt issuance authority to \$900 million. Mr. Kahal related that this first mortgage bond debt “is very high cost relative to current market interest rates” and that “an effective way to remove this impediment to issuing secured debt would be simply to redeem early the first mortgage bonds prior to issuing the New Long-Term debt.”³⁹ He testified that in order to do this, “it is necessary to increase the total debt issuance authority from \$850 million... to \$900 million to provide additional funds needed to redeem both the debt amount outstanding along with payment to make whole redemption call fees.”⁴⁰

Mr. Kahal next related that under the Settlement Agreement, the Company may use any of the forms of debt instruments stated in the Application plus secured debt which was omitted from the initial Application. He noted that the Company retains the flexibility to issue unsecured debt at fixed rates instead of secured debt for the new issues.⁴¹ However, Mr. Kahal indicated that despite this flexibility, the Division has reserved its right to

³⁹ Id., p. 15.

⁴⁰ Id.

⁴¹ Id., p. 13.

challenge the prudence of the Company's unsecured debt issuances in a future rate proceeding.⁴²

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 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 capital."⁴³ 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.⁴⁴

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 the Division's *Rules of Practice and Procedure*. Mr. Kahal agreed that in order to respond effectively to market conditions,

⁴² *Id.*, pp. 15-16.

⁴³ *Id.*, p. 16.

⁴⁴ *Id.*, pp. 16-17.

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.⁴⁵

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 \$900 million (instead of the requested \$850 million) of New Long-Term Debt Issues over approximately the next three years.
- Given today's very favorable debt market conditions, the Company can move ahead promptly with its planned near-term debt issuances on a timely basis. In addition, and if needed, it allows for the possible use of hedging instruments, if conditions warrant, subject to consultation with the Division Staff.

⁴⁵ Id., p. 17.

- It sets the maximum allowable interest rate at 6.5% (subject to Division waiver) 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 for all New Long-Term debt issues.
- It appropriately allows the use of a wide range of debt instruments, but it requires the Company to defend in rate case testimony a decision to issue unsecured long-term debt rather than lower cost secured debt. In that regard, the Company agrees to consider the early redemption of the high cost Providence Gas first mortgage bonds.
- 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 issues more properly considered in rate cases. At the same time, it affirms the Company's obligation to issue debt at lowest reasonable cost and employ a prudent mix of capital.⁴⁶

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 \$900 million to help fund capital spending, redeem maturing debt (and possible early redemption of legacy Providence Gas first mortgage bonds) and corporate operations and to effectively manage its capital structure. He further opined

⁴⁶ Id., p. 18.

that the Settlement Agreement is in the public interest and should be approved as filed.⁴⁷

Findings

Initially, pursuant to the requirements prescribed in Rule 818-RICR-00-00-1.27(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 and approve the Settlement Agreement proffered in this docket.

Predicated on a careful examination of the record in this matter, the Division finds National Grid's application, as modified by its Amended Application and 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. §39-3-15, et seq. and that the proposed application for securities issuance is in the public interest.

Now, therefore, it is

(23746) ORDERED:

1. That the December 3, 2019 Settlement Agreement, attached and incorporated by reference to this Report and Order, is hereby approved and accepted, in toto.

⁴⁷ Id., p. 19.

2. That National Grid's July 10, 2019 Application, as modified by the Company's December 3, 2019 Amended Application and the Settlement Agreement approved herein, is hereby granted.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON DECEMBER 20, 2019.



John Spirito, Jr., Esq.
Hearing Officer

APPROVED: 

Linda George
Acting Administrator

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

Application and Statement by)	
The Narragansett Electric Company)	Docket No. D-19-17
d/b/a National Grid)	
Regarding Issue of New)	
Long-Term Debt)	

Settlement Agreement

This Settlement Agreement is entered into this 27th day of November 2019, 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 July 9, 2019, 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 Company responded to data requests from the Division Advocacy Section and, subsequently, the Parties engaged in a series of technical and settlement conferences; and

WHEREAS, the Company subsequently amended the Application to increase the not to exceed aggregate principal amount from \$850 million to \$900 million outstanding at any one time, and filed the amended Application with the Division on December 3, 2019 simultaneously with this Settlement Agreement; 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 \$900 million outstanding at any one time for any or all of the purposes set forth in the

Company's Application including, without limitation, replenishing internally generated cash funds that were used to fund long-lived capital plant additions and to redeem long-term debt (potentially including the legacy Providence Gas outstanding First Mortgage Bonds), and using those debt issuance proceeds to pay dividends and to 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. The Company will inform the Division Advocacy Staff of any future New Long-Term Debt, including whether any such future New Long-Term Debt is secured or unsecured. In connection with the Company's consideration of the potential issuance of secured debt for some or all of the New Long-Term Debt, the Company also shall consider the early redemption of the outstanding legacy Providence Gas First Mortgage Bonds.
4. The Company agrees and acknowledges that in the event it elects to issue unsecured debt during the authorization period, the Company shall be required to provide a written explanation in prepared testimony of the type of debt issuance and why such unsecured debt was determined at the time to be in the best interest of the Company's customers as part of a pending or future rate proceeding or docket before the Rhode Island Public Utilities Commission. In such a rate proceeding or docket, the Division reserves the right to take any position on the Company's choice of new long-term debt.
5. 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.
6. 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.
7. 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.

8. The Company may make use of hedging instruments related to any of the authorized New Long-term Debt Issuances if deemed necessary and/or appropriate to address market risk or volatility, and such instruments 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.
9. 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), and debt redemption expenses 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.
10. The Company's request for a waiver of the Division's Rules of Practice and Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4) 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.
11. 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.
12. 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.

13. 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.
14. 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.
15. This Settlement Agreement does not alter the Company's obligation to use a prudent mix of capital to finance its utility operations and investments.
16. The Company's authority to issue up to \$900 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 March 31, 2023.
17. 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.
18. 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.

[Signatures appear on the following page]

**The Narragansett Electric Company
d/b/a National Grid**

By: 

Terence M. Sobolewski, President

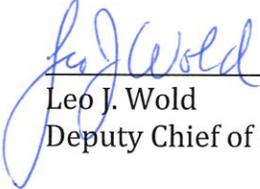
**The Division of Public Utilities and Carriers
Staff Advocacy Section**

By: _____
Leo J. Wold
Deputy Chief of Legal Services

**The Narragansett Electric Company
d/b/a National Grid**

By: _____
Terence M. Sobolewski, President

**The Division of Public Utilities and Carriers
Staff Advocacy Section**

By:  _____
Leo J. Wold
Deputy Chief of Legal Services