



**STATE OF RHODE ISLAND**  
**OFFICE OF THE ATTORNEY GENERAL**

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*Peter F. Neronha*  
*Attorney General*

April 26, 2023

*Via Electronic Mail*

Luly Massaro,  
Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888

**RE: Docket No. D-22-18**  
**Rhode Island Energy Application for Issuance of New Long-Term Debt**

Dear Ms. Massaro:

On behalf of the Division of Public Utilities and Carriers, please accept for filing the attached memorandum from William F. Watson of Econalytics, LLC, that provides the Advocacy Section's comments regarding the above reference docket.

Thank you for your attention to this submission.

Very truly yours,

*/s/ Gregory S. Schultz*

Gregory S. Schultz  
Special Assistant Attorney General  
On behalf of the Division of Public Utilities and Carriers

Enclosure

cc: D-22-18 Service List  
Linda George, Esq., Division Administrator  
John Spirito, Esq., Division Deputy Administrator  
Christy Hetherington, Esq., Division Chief Legal Counsel  
Paul Roberti, Esq., Division Chief Economic and Policy Analyst

TO: Luly Massaro, Division Clerk  
Division of Public Utilities and Carriers

FROM: William F. Watson  
Econalytics, LLC

DATE: April 26, 2023

SUBJECT: Docket D-22-18, Rhode Island Energy's Application for Issuance of New Long-Term Debt – Advocacy Section's Comments in Support of Settlement Agreement

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## SUMMARY

On December 22, 2022, The Narragansett Electric Company, d/b/a Rhode Island Energy ("RIE" or "the Company") filed an application with the State of Rhode Island Division of Public Utilities and Carriers ("Division") in which it states that it is seeking authorization to issue and sell new long-term debt ("LTD") payable more than twelve (12) months from issuance, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17. This application was made to replace existing authorization to issue certain LTD given pursuant to Docket No. D-19-17 which expired on March 31, 2023. I have been engaged by the Advocacy Section of the Division to assist in the review of RIE's application in this docket. The review process eventually resulted in a Settlement Agreement between the Advocacy Section and RIE. I provide the following comments in support of the Settlement.

In its application, the Company seeks authority to issue and sell new LTD in aggregate principal amount of up to \$1.2 billion at any one time outstanding through the period ending June 30, 2026. Included in the Company's application are the following features and requests:

- Issue LTD that is either secured or unsecured,
- Issue LTD that will mature not less than one year and not more than forty (40) years from the date of issuance with either a variable or a fixed interest rate,
- Reference to commitments made by the Company in Docket D-21-09: Petition of PPL Corporation, PPL Rhode Island: Holdings, LLC, National Grid USA, and The Narragansett Electric Company for Authority to Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC, and Related Approvals,
- Request for waiver of the Division's Rules of Practice and Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4),
- Use of the proceeds of the issue and sale of such new LTD, including, without limitation (i) to repay short-term debt; (ii) to finance the Company's ongoing capital needs; (iii) to refinance long-term debt; and (iv) for other general corporate purposes,
- Use of such other financing and security and interest rate liability management or hedging agreements or instruments as may be reasonably necessary in the view of the Company in connection with the issuance of LTD.

## **PROCEDURAL HISTORY**

The Advocacy Section began its review and analysis of the filing on January 10, 2023. The Advocacy Section issued two sets of Data Requests to which the Company responded on February 8, 2023 (Set 1) and February 23, 2023 (Set 2). Also, the Company and Advocacy Section participated in two conference calls on February 4, 2023 and March 2, 2023 in which concerns were raised and addressed by the Company. On April 7, 2023, a final conference call was held to address a draft proposal for settlement.

## **KEY ISSUES**

Prudent issuance and use of LTD is an integral part of the operation of a corporation and is of significant economic importance in achieving efficient operation in a capital-intensive corporation like Rhode Island Energy. There is, however, some tension when weighing the interests of the ratepayers on whom the burden of the costs of issuing and repaying debt is placed, and the Company stockholders and bondholders who benefit from the efficient use of debt. This tension raises concerns. These concerns have been voiced and addressed through the means delineated in the Procedural History above. They are addressed in more detail below.

## **ISSUING SECURED VERSUS UNSECURED DEBT**

The Company has indicated that it seeks authority to issue LTD as either secured or unsecured, recognizing that issuing unsecured debt carries a premium that the Company estimates is in the range of 15 to 20 basis points under normal market circumstances. The Company included in its application an analysis of its perceived benefits and costs of issuing secured versus unsecured debt as required by the commitment made in Docket D-21-09, which related to PPL's acquisition of The Narragansett Electric Company. The Company concluded that the costs outweighed the benefits so that the case for issuance of secured debt is not compelling and that it is likely to continue to issue unsecured debt in the future. This position has been underscored in subsequent conversations with the Company.

The Company's case for continuing to issue unsecured debt rests heavily upon the assumption of obligations to existing bondholders so that going forward, the debt that they currently hold is not subordinated to secured debt under terms of indenture needed to secure new debt. The Advocacy Section recognizes that subordination may have some negative impact on existing bondholders, but that given the many factors that impact the market value of bonds, this one factor may lack dominance. In response to Data Request AS 1-9, the Company indicated that it has no legal obligation to compensate existing bondholders for any claims for any perceived or real lost value as a result of subordination. Further, there is solid evidence that existing bondholders experienced a significant gain in bond value since the acquisition of Narragansett Electric by PPL (Company response to AS 1-13).

Nevertheless, the Advocacy Section acknowledges that the Company has superior knowledge of its investor base and has an advantage in assessing the impact of issuing secured versus unsecured debt. We also recognize the right of the Division to a review of costs incurred with

regard to LTD issuance in the Company's general rate applications as an avenue to address any concerns about undue rate burdens placed on ratepayers due to imprudently incurred expenses.

#### **40-YEAR TERM OF DEBT**

The Company has requested authority to issue LTD up to a 40-year term. While the Company has stated that 40-year term LTD has been included in recent years in some issues of corporate debt, this is not the usual practice. Two issues weigh against a blanket approval of this request. First, historically low interest rates in the immediate past may have made longer term debt issues more attractive during this time of lower interest rates, but the more recent interest rate markets have been reflective of the impact of higher inflation rates on debt costs. It is doubtful, under these circumstances, that extended periods of continued historically low interest rates are in the foreseeable future, especially through the period ending in June 2026 for which this application seeks approval. Second, there are few utility capital investments that have a depreciable life of over thirty years, requiring financing of similar, longer than 30-year term financing to match capital outlays. Point 2 in the settlement agreement in this docket limits Company LTD to a term no greater than 30 years unless prior approval is received by the Division.

#### **COMMITMENTS FROM DOCKET D-21-09**

One of the commitments that the Company made in Docket D-21-09 was to keep a common equity ratio of at least forty-eight percent (48%) for a five (5) year period from the closing date (May 25, 2022) of PPL's acquisition of The Narragansett Electric Company. The Advocacy Section recognizes that there is an optimal capital structure in terms of cost effectiveness and that this can vary over time. That said, this is a commitment that the Company is bound to abide by, and it has provided evidence<sup>1</sup> that it plans will do so. Abiding by the Company financing plan with its proposed issuances of LTD seems to keep this commitment and offer an avenue to an efficient capital structure.

#### **WAIVER OF RULE 815-RICR-00-00-1.14(A)(1)(a)(2),(3), AND (4)**

The Division's Rules of Practice and Procedure require the filing of certain documents and information with the application seeking authority to issue and sell LTD. The timing of this application does not allow for definitive documents as a part of this application and given the volatility of the market, the Advocacy Section does not object to this waiver as included in Point 7 of the settlement agreement and notes that it has also been granted in prior orders authorizing LTD issuance. For example, the Order in Docket D-19-17 also included this waiver.

#### **LIABILITY MANAGEMENT AND HEDGING AGREEMENTS**

These instruments are a means of insuring against and managing interest rate risks. It is the Advocacy Section's understanding that the interests of the Company and ratepayers is generally aligned in this matter, and that the Company should be allowed to use these instruments to the advantage of ratepayers based on its perception at the time that these instruments are put into place, with restrictions as delineated in Point 5 of the settlement agreement.

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<sup>1</sup> Prefiled Testimony of Tadd Henninger page 8, line 20, through page 9 line 3.

## **USE OF LTD PROCEEDS**

The Company's proposal to use the proceeds from LTD for the first three stated purposes: (i) to repay short-term debt; (ii) to finance the Company's ongoing capital needs; and (iii) to refinance long-term debt; is reasonable. The fourth stated use, (iv) for other general corporate purposes, is overly vague. The inclusions of the restrictive language in Point 1 of the settlement agreement, "Proceeds from the New Long-term Debt Issuances will not be used for making investments in unregulated activities or making long-term loans to affiliates" provides sufficient guardrails for ratepayers.

## **POTENTIAL IMPACT ON RHODE ISLAND RATEPAYERS**

The use of proceeds from the issuance of long-term debt, when optimally combined with other forms of capital, provides sources of funds for gas and electric distribution utilities to carry out their responsibilities to provide service to their ratepayers. While there are tensions between the utility stockholders and ratepayers, proper regulation of the utility works to assure these tensions are kept in balance. The Advocacy Section believes that the settlement agreement achieves this balance and recommends the approval of the the settlement agreement.