

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

IN RE: The Narragansett Electric Company d/b/a :
 Rhode Island Energy :
 Application for Authority to Incur Debt : Docket No. D-22-18

REPORT AND ORDER

On December 22, 2022, The Narragansett Electric Company d/b/a Rhode Island Energy (“RI Energy” or “Company”), 280 Melrose Street, Providence, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking approval to issue, at any time, new long-term debt in an aggregate principal amount \$1,200,000,000 at any one time outstanding through the period of June 30, 2026 (“New Long-Term Debt”). The proceeds from the New Long-Term Debt would be used for one or more of the following purposes: (i) to repay short-term debt; (ii) to finance the Company’s ongoing capital needs; (iii) to refinance long-term debt; and (iv) other general corporate purposes. 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.¹

RI Energy’s Initial Application

According to the application, RI Energy specifically seeks Division authorization to:

¹ RI Energy Exhibit 1.

(a) Issue, at any time and from time to time, new long-term debt in an aggregate principal amount of up to \$1.2 billion at any one time outstanding through the period ending June 30, 2026 (“New Long-Term Debt”). The proceeds from the New Long-Term Debt shall be used for one or more of the following purposes: (i) to repay short-term debt; (ii) to finance the Company’s ongoing capital needs; (iii) to refinance long-term debt; and (vi) other general corporate purposes. The New Long-Term Debt shall include secured or unsecured, taxable or tax-exempt bonds, medium or long-term notes, revolving credit loans (in each case, to the extent not issued, conducted or permitted under separate authorization, including but not limited to the Company’s request for authority in Docket No. 22-13 to join a revolving credit facility), 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”),²

(c) issue New Long-Term Debt 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 that will depend on market conditions at the time of issuance. Such variable interest rate issuances may include a rate structure comprising a suitable market index, designated at the time of each such issuance, plus a credit spread, both components of which would depend upon

² Id.

the tenor of the proposed issuance, the current credit rating of the Company, competitive market conditions and other factors. By way of example, a variable interest rate may be based upon an index constituting the applicable interest rate per annum of U.S. Treasury debt of a comparable maturity (or intermediate put date) period, plus a credit spread based upon the credit rating of the Company and market conditions, as discussed in more detail in Exhibit A. The New Long-Term Debt may include certain put, call or other similar provisions. Further, the New Long-Term Debt may be issued to an affiliate or third-party investors, in public offerings, private placements, or private offerings exempt under the Securities Act of 1933 (the “1933 Act”), including issuance to qualified institutional buyers in reliance on Rule 144A under the 1933 Act (“Rule 144A”) or to non-U.S. persons in reliance on Regulation S under the 1933 Act (“Reg. S”). Each of these issues may be executed with or without investment bankers. Further, to limit the Company’s exposure to interest rate fluctuations in connection with the New Long-Term Debt, the Company may enter into arrangements with one or more financial institutions or with PPL Corporation, its indirect parent, that will provide interest rate protection in the form of interest rate liability management and hedging instruments. Such instruments may include interest rate swaps, caps, collars or similar agreements.³

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

- Due to potential uncertainty and volatility in the debt capital markets, the Company seeks the flexibility to choose the timing of and structure of the New Long-Term Debt based on standards and criteria that in the Company’s judgment will result in cost effective financing to the Company, including, but

³ Id.

not limited to, secured or unsecured debt, fixed or variable interest rate, and offering mechanism, such as public registered or private nonregistered offerings. Since the precise terms of the proposed New Long-Term Debt 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 such rules would require the Company to provide investment memoranda, prospectuses, information or registration statements or other documents to describe the transactions or potential funding sources.

- As of September 30, 2022, the Company has approximately \$1.5 billion of long-term debt and no short-term debt outstanding.

- In connection with and support of its request for its authority to issue New Long-Term Debt, the Company notes and acknowledges its commitments to (a) maintain a common equity ratio of at least forty-eight percent (48%) for a five (5) year period (from May 25, 2022) and (b) continue to exclude goodwill from its rate making capital structure (subject to the right to request waiver or modification), and intends to comply with each as set forth in the Statement of Existing and Additional Commitments dated December 11 and 12, 2021 and incorporated by reference into the Division's Report and Order in Docket No. D-21-09.

- The Company requests that the actual costs and expenses of issuing New Long-Term Debt including, but not limited to (a) costs, gains and losses from interest rate liability management and (b) costs or expenses relating to a transition to public, registered or secured debt structures, be deferred and amortized over the life of the New Long-Term Debt.

- The Company currently anticipates issuing New Long-Term Debt requested under this Application as early as the second quarter of 2023. (It is noted that the Company's existing authorization to issue certain long-term debt

pursuant to Docket No. D-19-17 expires March 31, 2023, under which existing authorization the Company retains the ability to issue approximately \$300 million in additional long-term debt.) In order to maintain the ability to timely access capital markets, including any preparatory planning, the Company respectfully requests that the Division act on this Application as expeditiously as possible and issue a final order by March 31, 2023, or as soon as otherwise practicable in advance of the existing authority's termination.

- Exhibit C of the Company's application comprises the actual balance sheet of the Company at September 30, 2022. Exhibit D of Company's application is a present and pro forma capital structure, showing the effects of the requested New Long-Term Debt Issuances. Exhibit E of Company's application provides a chart of certain historical long-term interest rates.⁴

RI Energy also proffered the pre-filed testimony of Mr. Tadd Henninger, Vice President – Finance and Treasurer of PPL Corporation and its subsidiaries, in support of its application filing.⁵

Settlement Agreement

Also, on April 26, 2023, 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.⁶

In response to the application and settlement filings, the Division conducted a duly noticed public hearing on April, 27, 2023. The hearing was conducted in the Division's hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

4 Id.

5 RI Energy Exhibit 1, "Exhibit A."

6 RI Energy Exhibit 4.

For Rhode Island Energy: Adam M. Ramos, Esq.
Jennifer Brooks Hutchinson, Esq.

For the Division's Advocacy Section: Gregory Schultz, Esq.
Special Assistant Attorney General

Advocacy Section's Recommendation

In addition to the executed Settlement Agreement, the Advocacy Section also proffered the pre-filed testimony of William F. Watson, a consultant and expert witness specializing in utility ratemaking and policy issues. Mr. Watson appeared before the Division to sponsor and authenticate a position memorandum. Mr. Watson's memorandum focused on tension and concerns that arise 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. His memorandum also addressed the potential impact on Rhode Island ratepayers.⁷

After providing a summary of RI Energy's application and procedural history in the instant matter, Mr. Watson began by describing the key issues before the Division. Mr. Watson opined that prudent issuance and use of long-term debt 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. He related that some tension exists 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.⁸

Mr. Watson next discussed the issuance of secured versus unsecured debt. He stated that the Company indicated that it seeks authority to issue long-

⁷ Advocacy Section Exhibit 1.

⁸ Id. at 1-2.

term debt 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. He commented that 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.⁹

He stated that 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. Mr. Watson stated that 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. He observed that 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).¹⁰

Mr. Watson remarked that 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. The Advocacy

⁹ Id. at 2.

¹⁰ Id.

Section also recognized the right of the Division to a review of costs incurred with regard to long-term debt 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.¹¹

Mr. Watson's memorandum next addressed the 40-year term of the debt. He remarked that the Company has requested authority to issue long-term debt up to a 40-year term. While the Company has stated that 40-year term long-term debt has been included in recent years in some issues of corporate debt, this is not the usual practice. He opined 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. He stated that 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. Mr. Watson observed that point 2 in the Settlement Agreement limits Company long-term debt to a term no greater than 30 years unless prior approval is received by the Division.¹²

In his memorandum, Mr. Watson went on to discuss RI Energy's commitments from Docket D-21-09. He stated that 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

¹¹ Id at 2-3.

¹² Id. at 3.

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. He explained that this is a commitment that the Company is bound to abide by, and it has provided evidence that it plans will do so. Abiding by the Company financing plan with its proposed issuances of long-term debt seems to keep this commitment and offer an avenue to an efficient capital structure. Mr. Watson also noted that the Advocacy Section had no objection to the Company's request for a waiver of Division Rule 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4).¹³

Mr. Watson went on to comment on liability management and hedging agreements as they relate to long-term Debt. He indicated that these instruments are a means of insuring against and managing interest rate risks. He stated that 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.

Regarding the use of the long-term debt proceeds, Mr. Watson noted that the Company's proposal to use the proceeds 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

¹³ Id.

guardrails for ratepayers.¹⁴

In his final remarks, Mr. Watson noted that 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. He stated that the Advocacy Section believes that the settlement agreement achieves this balance and recommends the approval of the Settlement Agreement.¹⁵

Findings

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 RI Energy's application, as modified by the Settlement Agreement, accepted and approved herein, to be reasonable and in the best interest of RI Energy and its ratepayers. The Division additionally finds that RI Energy 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

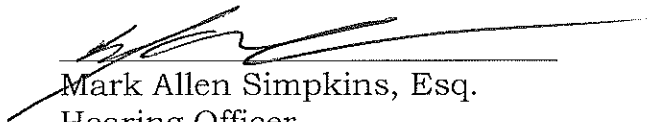
¹⁴ Id. at 4.

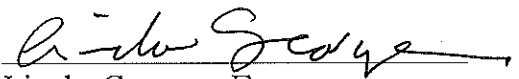
¹⁵ Id.

(24595) ORDERED:

1. That the April 26, 2023 Settlement Agreement, attached and incorporated by reference to this Report and Order, is hereby approved and accepted, in toto.
2. That RI Energy's December 22, 2022 Application, as modified by the Company's Settlement Agreement approved herein, is hereby granted.

DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON JUNE 8, 2023.


Mark Allen Simpkins, Esq.
Hearing Officer

APPROVED: 
Linda George, Esq.
Administrator



STATE OF RHODE ISLAND

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**NOTICE OF AVAILABILITY OF JUDICIAL REVIEW
(PROVIDED PURSUANT TO R.I.G.L. § 42-35-12)**

Please be advised that if you are aggrieved by this final decision (report and order) of the Rhode Island Division of Public Utilities and Carriers (“Division”) you may seek judicial review of the Division’s final decision by filing an appeal with the Rhode Island Superior Court. You have thirty (30) days from the mailing date (or hand delivery date) of the Division’s final decision to file your appeal. The procedures for filing the appeal are set forth in Rhode Island General Laws, Section 42-35-15.

Proceedings for review may be instituted by filing a complaint in the Superior Court of Providence or Kent Counties. Copies of the complaint must be served upon the Division and all other parties of record in your case. You must serve copies of the complaint within ten (10) days after your complaint is filed with the Superior Court.

Please be advised that the filing of a complaint (appeal) with the Superior Court does not itself stay enforcement of the Division’s final decision. You may, however, seek a stay from the Division and/or from the Court.

The judicial review shall be conducted by the Superior Court without a jury and shall be confined to the record. The Court, upon request, shall hear oral argument and receive written briefs.


APPENDIX A

2. The Company may enter into evidence of indebtedness for the New Long-term Debt on the terms set forth in the Company's Application, as modified by this Settlement Agreement.
3. 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. Should the Company seek a maturity date greater than 30 years it shall provide information to the Division to demonstrate that the longer term is more beneficial to ratepayers.
4. The Company is authorized to issue the New Long-term Debt on either a secured or unsecured basis. The Company will inform the Division of any future New Long-Term Debt, including whether any such future New Long-Term Debt is secured or unsecured, as provided for in more detail in Paragraph 7, below.
5. 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.
6. For accounting purposes, the Company and the Advocacy Section 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 Advocacy Section 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.
7. 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, a copy of the executed debt transaction documents, and the final actual underwriting costs within 45 days following the settlement of each such issuance.
8. Any Order by the Division approving these New Long-term Debt Issuance(s) shall not constitute the Division'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.

9. An Order by the Division approving this Settlement Agreement shall not constitute pre-approval of or concurrence by the Division of any specific amount of costs or expenses incurred by the Company for cost recovery or ratemaking purposes.
10. 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 ratepayers.
11. 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.
12. This Settlement Agreement does not alter the Company's obligation to use a prudent mix of capital to finance its utility operations and investments.
13. The Company's authority to issue up to \$1.2 Billion 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 June 30, 2026.
14. All prior discussions and agreements with respect to the subject matter hereof are merged in this Settlement Agreement, which together with the Application, as modified herein, 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.
15. 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 Rhode Island Electric**

By: 

David J. Bonenberger
President

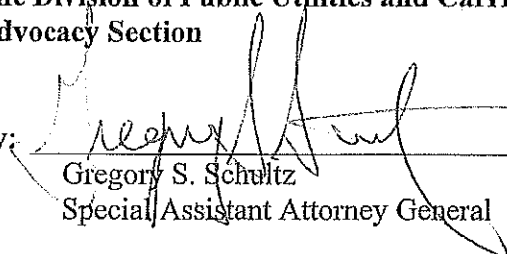
**The Division of Public Utilities and Carriers
Advocacy Section**

By: _____
Gregory S. Schultz
Special Assistant Attorney General

**The Narragansett Electric Company
d/b/a Rhode Island Electric**

By: _____
David J. Bonenberger
President

**The Division of Public Utilities and Carriers
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Gregory S. Schultz
Special Assistant Attorney General