



The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

D.P.U. 20-61

August 31, 2020

Petition of Massachusetts Electric Company, d/b/a National Grid, for authorization and approval (1) to issue long-term debt in the principal amount of up to \$1.1 billion, pursuant to G.L. c. 164, § 14; (2) for an exemption from the competitive solicitation and advertising requirements of G.L. c. 164, § 15; and (3) for an exemption from the par value requirements of G.L. c. 164, § 15A.

D.P.U. 20-62

Petition of New England Power Company, d/b/a National Grid, for authorization and approval (1) to issue long-term debt in the principal amount of up to \$1.1 billion, pursuant to G.L. c. 164, § 14; (2) for an exemption from the competitive solicitation and advertising requirements of G.L. c. 164, § 15; and (3) for an exemption from the par value requirements of G.L. c. 164, § 15A.

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I. INTRODUCTION

On June 1, 2020, Massachusetts Electric Company (“MECo”) and New England Power Company (“NEP”), each doing business as National Grid (together “Companies” or “National Grid”),¹ filed individual petitions with the Department of Public Utilities (“Department”) pursuant to G.L. c. 164, § 14, requesting authorization and approval to each issue long-term debt securities, from time to time on or before three years from the date of the Department’s final Order, in an aggregate amount not to exceed \$1.1 billion. Each company also seeks exemptions from the competitive solicitation and advertising requirements of G.L. c. 164, § 15, and the par value requirement of G.L. c. 164, § 15A. The Department docketed the matters as D.P.U. 20-61 and D.P.U. 20-62, respectively.²

On June 18, 2020, the Attorney General of the Commonwealth of Massachusetts (“Attorney General”) filed separate notices of intervention in both dockets pursuant to G.L. c. 12, § 11E(a), and was recognized as a full party to each proceeding. Pursuant to notices duly issued, the Department held joint public and evidentiary hearings for the dockets on July 15, 2020. The evidentiary record in D.P.U. 20-61 consists of MECo’s initial filing, responses to 39 information requests, and responses to five record requests. The evidentiary record in D.P.U. 20-62 consists of NEP’s initial filing, responses to 39 information requests, and responses to five record requests. The Companies sponsored the testimony of the same

¹ MECo and NEP are subsidiaries of National Grid USA, and wholly-owned indirect subsidiaries of National Grid plc.

² These cases are not consolidated and remain separate proceedings.

witness in support of their petitions: Jonathan Cohen, director of treasury business partnering, National Grid USA Service Company. On July 29, 2020, the Companies submitted initial briefs, and the Attorney General submitted a letter in lieu of an initial brief.³ On August 5, 2020, the Companies submitted reply briefs, and the Attorney General submitted a letter in lieu of a reply brief.

II. DESCRIPTION OF THE PROPOSED FINANCINGS

A. Massachusetts Electric Company

1. Long-Term Debt

MECo requests Department approval to issue long-term debt in an aggregate principal amount not to exceed \$1.1 billion during the three-year period following the date of the Department's final Order (Exh. MECo-JC-1, at 2; MECo Petition, ¶¶ 4(a), 12).⁴ MECo also proposes to enter into evidences of indebtedness and related instruments in connection with the proposed debt issuance, including, but not limited to, loan agreements, indentures, supplemental indentures, promissory notes, debentures, credit agreements, participation agreements, underwriting or similar agreements, bond purchase agreements, remarketing agreements, and security agreements (Exh. MECo-JC-1, at 3; MECo Petition, ¶ 4(b)).

³ The Attorney General filed a single letter for both dockets, referenced as "Attorney General Letter" in this Order. Each company submitted an initial brief in its respective docket.

⁴ For ease of reference, all D.P.U. 20-61 exhibits are those identified with "MECo" and all D.P.U. 20-62 exhibits are those identified with "NEP."

MECo states that the purpose of the proposed long-term debt financing is to accomplish one or more of the following: (1) to refinance short-term debt with long-term debt; (2) to finance MECo's capital needs; (3) for construction of utility plant and properties; (4) for reimbursement of MECo's treasury; and (5) for other general corporate purposes (Exh. MECo-JC-1, at 2, 5; MECo Petition, ¶¶ 4(a), 12).

MECo states that its immediate financing need is the issuance of approximately \$300 million of long-term debt and an equity contribution of \$80 million to refinance any short-term debt (Exh. MECo-JC-1, at 4). MECo adds that it also needs to finance investments in new utility plant, anticipating that its annual capital spending will range from approximately \$299 million in the fiscal year ending March 31, 2021, to \$311 million annually through March 31, 2024 (Exh. MECo-JC-1, at 5). In addition, MECo maintains that it may need to issue new debt sooner than anticipated due to the impact of the COVID-19 pandemic on MECo's cash flow (Exh. MECo-JC-1, at 12; MECo Petition, ¶ 12). MECo states that, while the full effects of the pandemic have yet to be assessed, due to suspended debt collections and customer termination activities, MECo anticipates a rise in negative cashflows over an extended period, thereby increasing its funding requirements (Exh. MECo-JC-1, at 12; MECo Petition, ¶ 12).

MECo requests flexibility in the terms of the proposed long-term debt to address its financing needs under a range of potential scenarios (Exh. MECo-JC-1, at 5, 9-10). As proposed, the long-term debt would have maturity rates ranging from greater than one year to 30 years from the date of issuance (Exh. MECo-JC-1, at 7-8; MECo Petition, ¶ 5). In

addition, MECo proposes to issue the debt at either an adjustable or fixed interest rate that would vary based on a designated market index and not exceed seven percent per annum (Exh. MECo-JC-1, at 7-8; MECo Petition, ¶¶ 5, 12(B)). Further, MECo seeks the flexibility to issue the debt internally to an affiliate or through third parties, with or without the assistance of investment bankers, and via public offerings registered with the Securities and Exchange Commission (“SEC”), Rule 144A private offerings,⁵ or the private placement market⁶ (Exh. JC-1, at 8, 10; MECo Petition, ¶¶ 5, 12(B)). MECo adds that these securities may be sold in one or more offerings through one or more of the following methods:

(1) competitive bidding; (2) negotiation with underwriters; (3) negotiation directly with investors, through one or more agents; (4) to one or more agents as principal for resale to investors, in private or public offerings; or (5) in connection with the establishment of loan facilities with a bank or syndicate of banks (Exh. MECo-JC-1, at 9; MECo Petition, ¶ 12(B)).

In addition to traditional bonds, MECo requests authorization to issue green bonds (Exh. MECo-JC-1, at 7-9; MECo Petition, ¶ 5). MECo states that green bonds are effectively the same as traditional bonds, but the proceeds are used for eligible green projects

⁵ Rule 144A is a rule promulgated by the SEC under the Securities Act of 1933 (“Securities Act”). This rule modifies a two-year holding period requirement on privately placed securities to permit qualified institutional buyers to trade these securities among themselves. 17 C.F.R. § 230.144A.

⁶ Securities issued pursuant to Section 4(2) of the Securities Act do not involve any public offering and are thus exempt from the SEC’s registration requirements. See Fitchburg Gas and Electric Light Company, D.P.U. 93-168, at 7 (1993).

including capital investment deemed to have positive environmental benefits (Exh. MECo-JC-1, at 7-8; MECo Petition, ¶ 5). MECo maintains that it would issue green bonds under National Grid plc's green financing framework (Exh. MECo-JC-1, at 8). According to MECo, the two primary advantages of issuing green bonds involve (1) increased investor interest, which could lead to a potential pricing advantage, and (2) good corporate citizenship and an enhanced reputation with investors, including those such as insurance companies and pension funds that earmark funds to be invested in green projects or have an increased interest in green bonds (Exh. MECo-JC-1, at 9).

Finally, MECo anticipates issuing the debt on an unsecured basis (Exh. MECo-JC-1, at 6-7, 10; MECo Petition, ¶ 5). MECo states that its outstanding senior unsecured long-term debt is rated A3 by Moody's Investor Service ("Moody's") and A- by Standard and Poor's Global Ratings ("Standard and Poor's") (Exh. MECo-JC-1, at 6).⁷

2. Exemption from G.L. c. 164, § 15⁸

MECo requests an exemption from G.L. c. 164, § 15 ("Section 15") (Exh. MECo-JC-1, at 9; MECo Petition, ¶ 6). MECo states that it is in the public interest that the purchasers of the long-term debt be selected by MECo on the basis of standards and

⁷ Moody's and Standard and Poor's are providers of credit ratings, research, and risk analysis.

⁸ Section 15 requires a gas or electric company to publicize or invite proposals for proposed debt issuances through newspaper advertisements, unless exempted by the Department through a finding that such an exemption is in the public interest. G.L. c. 164, § 15.

criteria which, in management's judgment, could result in significant benefits to MECo and its customers, including the terms and interest rate (MECo Petition, ¶ 6). MECo also states that the exemption would provide a level of flexibility that allows it to issue debt securities in a timely manner and to take advantage of favorable market conditions when it issues the new long-term debt (Exh. MECo-JC-1, at 5, 9; MECo Petition, ¶ 5). MECo specifies that the benefits of a competitive solicitation process for customers can be duplicated through the negotiated public offering process without the additional cost and time associated with a competitive solicitation process (Exh. MECo-JC-1, at 9). MECo adds that negotiated transactions benefit customers and are more appropriate than competitive bid transactions, especially during periods of fluctuating securities markets (Exh. MECo-JC-1, at 9).

3. Exemption from G.L. c. 164, § 15A⁹

MECo also requests an exemption from G.L. c. 164, § 15A ("Section 15A") (Exhs. MECo-JC-1, at 10; MECo-DPU 2-2; MECo Petition, ¶¶ 6, 8). MECo contends that it is in the public interest for MECo to have the flexibility to adjust the face value of the debt securities to enable it to enter the market quickly to take advantage of prevailing market rates (Exh. MECo-JC-1, at 10; MECo Petition, ¶¶ 7, 8). MECo adds that underwriters may wish to receive their compensation as a discount from the face value of any new long-term debt

⁹ Section 15A prohibits the issuance of long-term debt at less than par value, unless the Department finds that issuing the debt at less than par value is in the public interest. G.L. c. 164, § 15A. Par value or face value is the stated value of the debt security at the time of issuance and is the amount to be paid by the borrower to the security holder at maturity. See, e.g., Evans v. Tillman, 38 S.C. 238, 17 S.E. 49, 53 (1893) (dissenting opinion).

issued (Exh. MECo-JC-1, at 10). MECo also states that each issue will be sold at a price not less than 95 percent or more than 100 percent of its principal amount, exclusive of accrued interest and expenses (Exhs. MECo-JC-1, at 10; MECo Petition, ¶ 12(B)).

B. New England Power Company

1. Long-Term Debt

NEP requests Department approval to issue long-term debt in an aggregate principal amount not to exceed \$1.1 billion during the three-year period following the date of the Department's final Order (Exh. NEP-JC-1, at 2; NEP Petition, ¶¶ 4(a), 12). NEP also proposes to enter into evidences of indebtedness and related instruments in connection with the proposed debt issuance, including, but not limited to, loan agreements, indentures, supplemental indentures, promissory notes, debentures, credit agreements, participation agreements, underwriting or similar agreements, bond purchase agreements, remarketing agreements, and security agreements (Exh. NEP-JC-1, at 3; NEP Petition, ¶ 4(b)).

NEP states that the purpose of the proposed long-term debt financing is to accomplish one or more of the following: (1) to refinance short-term debt with long-term debt; (2) to finance NEP's capital needs; (3) for construction of utility plant and properties; (4) for reimbursement of NEP's treasury; (5) to fund maturing debt; and (6) for other general corporate purposes (Exh. NEP-JC-1, at 2; NEP Petition, ¶ 4(a)).

NEP states that it needs to fund approximately \$186.5 million of bonds due to mature November 1, 2020, and \$106.1 million of bonds that are due to mature October 1, 2022 (Exh. NEP-JC-1, at 5; NEP Petition, ¶ 3). NEP adds that it also needs to finance

investments in new utility plant, anticipating that its annual capital spending will range from approximately \$355 million in the fiscal year ending March 31, 2021, to as much as \$450 million annually through March 31, 2024 (Exh. NEP-JC-1, at 5). In addition, NEP maintains that it may be advantageous to issue new debt sooner than anticipated due to the impact of the COVID-19 pandemic on markets as well as potential increases on the benchmark interest rates on long-term debt as the Federal Reserve begins to normalize its monetary policy with the gradual recovery of the economy from the impacts of the pandemic (Exh. NEP-JC-1, at 6-7; NEP Petition, ¶ 12).

NEP requests flexibility in the terms of the proposed long-term debt to address its financing needs under a range of potential scenarios (Exh. NEP-JC-1, at 5, 9-10). The long-term debt would have maturity rates ranging from greater than one year to 30 years from the date of issuance (Exh. NEP-JC-1, at 7; NEP Petition, ¶ 5). In addition, NEP proposes to issue the debt at either an adjustable or fixed interest rate that would vary based on a designated market index and not exceed seven percent per annum (Exh. NEP-JC-1, at 7-8; NEP Petition, ¶¶ 5, 12(B)). Further, NEP seeks the flexibility to issue the debt internally to an affiliate or through third parties, with or without the assistance of investment bankers, and via SEC-registered public offerings, SEC Rule 144A private offerings, or the private placement market (Exh. NEP-JC-1, at 9-10; NEP Petition, ¶¶ 5, 12(B)). NEP adds that these securities may be sold in one or more offerings through one or more of the following methods: (1) competitive bidding; (2) negotiation with underwriters; (3) negotiation directly with investors, through one or more agents; (4) to one or more agents

as principal for resale to investors, in private or public offerings; or (5) in connection with the establishment of loan facilities with a bank or syndicate of banks (Exh. NEP-JC-1, at 9; NEP Petition, ¶ 12(B)).

In addition to traditional bonds, NEP requests authorization to issue green bonds (Exh. NEP-JC-1, at 7-9; NEP Petition, ¶ 5). NEP states that green bonds are effectively the same as traditional bonds, but the proceeds are used for eligible green projects including capital investments deemed to have positive environmental benefits (Exh. NEP-JC-1, at 7-9; NEP Petition, ¶ 5). NEP maintains that it would issue green bonds under National Grid plc's green financing framework (Exh. NEP-JC-1, at 8). According to NEP, the two primary advantages of issuing green bonds involve (1) increased investor interest, which could lead to a potential pricing advantage and (2) good corporate citizenship and an enhanced reputation with investors, including those such as insurance companies and pension funds that earmark funds to be invested in green projects or have an increased interest in green bonds (Exh. NEP-JC-1, at 9).

Finally, NEP anticipates issuing the debt on an unsecured basis (Exh. NEP-JC-1, at 7, 10; NEP Petition, ¶ 5). NEP states that its outstanding senior unsecured long-term debt is rated A3 by Moody's and A- by Standard and Poor's (Exh. NEP-JC-1, at 6).

2. Exemption from G.L. c. 164, § 15

NEP requests an exemption from Section 15 (Exh. NEP-JC-1, at 9; NEP Petition, ¶ 6). NEP states that it is in the public interest that the purchasers of the long-term debt be selected by NEP on the basis of standards and criteria which, in management's

judgment, could result in significant benefits to NEP and its customers, including the terms and interest rate (NEP Petition, ¶ 6). NEP also states that the exemption would provide a level of flexibility that allows it to issue debt securities in a timely manner and to take advantage of favorable market conditions when it issues the new long-term debt (Exh. NEP-JC-1, at 6; NEP Petition, ¶ 5). NEP specifies that the benefits of a competitive solicitation process for customers can be duplicated through the negotiated public offering process without the additional cost and time associated with a competitive solicitation process (Exh. NEP-JC-1, at 9). NEP adds that negotiated transactions benefit customers and are more appropriate than competitive bid transactions, especially during periods of fluctuating securities markets (Exh. NEP-JC-1, at 9).

3. Exemption from G.L. c. 164, § 15A

NEP also requests an exemption from Section 15A (Exhs. NEP-JC-1, at 10; NEP-DPU 2-2; NEP Petition, ¶¶ 6, 8). NEP contends that it is in the public interest for NEP to have the flexibility to adjust the face value of the debt securities to enable it to enter the market quickly to take advantage of prevailing market rates (Exh. NEP-JC-1, at 10; NEP Petition, ¶¶ 6, 8). NEP adds that underwriters may wish to receive their compensation as a discount from the face value of any new long-term debt issued (Exh. NEP-JC-1, at 10). NEP also states that each issue will be sold at a price not less than 95 percent or more than 100 percent of its principal amount, exclusive of accrued interest and expenses (Exh. NEP-JC-1, at 10; NEP Petition, ¶ 12(B)).

III. PLANT AND CAPITAL STRUCTURES¹⁰

A. Massachusetts Electric Company

As of December 31, 2019, MECo reported a net plant balance of \$3,313,430,000, consisting of \$6,142,451,000 in gross utility plant, less \$1,952,409,000 in accumulated depreciation and amortization, \$1,075,000 in asset retirement obligations (“AROs”) and \$798,000 in depreciation AROs, \$1,008,244,000 in goodwill, and \$202,289,000 in construction work in progress (“CWIP”), plus pro forma net utility plant less associated depreciation amounts through September 2020, totaling \$131,910,000¹¹ (Exh. MECo-JC-2).

MECo reported a total adjusted capitalization of \$2,207,316,000 consisting of \$1,300,000,000¹² in long-term debt, \$905,058,000 in total adjusted common equity, and \$2,259,000 in preferred stock (Exh. MECo-JC-2). MECo’s total adjusted common equity balance consists of \$59,953,000 in common stock and \$845,105,000 in other paid-in capital (“OPIC”) (Exh. MECo-JC-2). MECo’s total adjusted common equity balance excludes \$1,008,244,000 in goodwill from OPIC, \$856,049,000 in retained earnings, and \$226,000 in accumulated other comprehensive income (Exh. MECo-JC-2). MECo calculated that its net

¹⁰ Any minor discrepancies in the adjustment amounts across exhibits appear to be due to rounding by each company.

¹¹ \$258,695,000 - \$126,785,000 = \$131,910,000 (Exh. MECo-JC-2).

¹² MECo identifies \$1,298,229,000 in long-term debt as of December 31, 2019, then includes \$1,771,000 in debt-issuance expenses, to arrive at \$1,300,000,000 in long-term debt (Exh. MECo-JC-2).

utility plant as of December 31, 2019, exceeded its total capitalization after adjustments by \$1,106,114,000 (Exh. MECo-JC-2).

During the proceeding, the Department requested that MECo provide updated net plant test calculations based on its most recently audited numbers (Exh. MECo-DPU 1-13; RR-MECo-DPU-5). In response, as of March 31, 2020, MECo reported a net plant balance of \$3,323,297,000, consisting of \$6,208,997,000 in gross utility plant, less \$1,968,939,000 in accumulated depreciation and amortization, \$1,075,000 AROs and \$803,000 in depreciation AROs, \$1,008,244,000 in goodwill, and \$219,652,000 in CWIP, plus pro forma net utility plant less associated depreciation amounts through September 2020, totaling \$91,755,000¹³ (Exh. MECo-DPU 1-13, Att.; RR-MECo-DPU-5).

MECo reported a total adjusted capitalization of \$2,207,316,000 consisting of \$1,300,000,000 in long-term debt, \$905,058,000 in total adjusted common equity, and \$2,259,000 in preferred stock (Exh. MECo-DPU 1-13, Att.). MECo's total adjusted common equity balance consists of \$59,953,000 in common stock and \$845,105,000 in OPIC (Exh. MECo-DPU 1-13, Att.). MECo's total adjusted common equity balance excludes \$1,008,244,000 in goodwill from OPIC, \$869,518,000 in retained earnings, and \$279,000 in accumulated other comprehensive income (Exh. MECo-DPU 1-13, Att.). MECo calculated that its net utility plant as of March 31, 2020, exceeded its total capitalization after adjustments by \$1,115,980,000 (Exh. MECo-DPU 1-13, Att.).

¹³ \$177,465,000 - \$85,710,000 = \$91,755,000 (Exh. MECo-DPU 1-13, Att. at 1).

B. New England Power Company

As of December 31, 2019, NEP reported a net plant balance of \$2,695,516,000, consisting of \$3,433,111,000 in gross utility plant, less \$590,833,000 in accumulated depreciation and amortization, \$26,218,000 in plant held for future use, \$337,614,000 in goodwill and \$18,271,000 identified as the removal of goodwill from accumulated depreciation, and \$126,343,000 in CWIP, plus pro forma net utility plant less associated depreciation amounts through September 2020, totaling \$198,799,000¹⁴ (Exhs. NEP-JC-2; NEP-DPU 1-12).

NEP reported a total adjusted capitalization of \$1,557,117,000 consisting of \$503,640,000¹⁵ in long-term debt, \$1,052,365,000 in total adjusted common equity, and \$1,112,000 in preferred stock (Exh. NEP-JC-2). NEP's total adjusted common equity balance consists of \$72,398,000 in common stock and \$979,967,000 in OPIC (Exh. NEP-JC-2). NEP's total adjusted common equity balance excludes \$337,614,000 in goodwill from OPIC, \$116,137,000 in retained earnings, and \$281,000 in accumulated other comprehensive income (Exh. NEP-JC-2). NEP calculated that its net utility plant as of December 31, 2019, exceeded its total capitalization after adjustments by \$1,138,399,000 (Exh. NEP-JC-2).

¹⁴ \$251,791,000 - \$52,992,000 = \$198,799,000 (Exh. NEP-JC-2).

¹⁵ NEP identifies \$690,090,000 in long-term debt as of December 31, 2019, reduced by \$186,450,000 for long-term debt scheduled to mature in November 2020 (Exh. NEP-JC-2; RR-NEP-DPU-5, Att.; NEP Petition, ¶ 3).

During the proceeding, the Department requested that NEP provide updated net plant test calculations based on its most recent audited numbers (Exh. NEP-DPU 1-13; RR-NEP-DPU-5). In response, as of March 31, 2020, NEP reported a total net plant balance of \$2,692,243,000, consisting of \$3,487,870,000 in gross utility plant, less \$607,425,000 in accumulated depreciation and amortization, \$26,218,000 in plant held for future use, \$337,614,000 in goodwill and \$18,271,000 identified as the removal of goodwill from accumulated depreciation, and \$136,049,000 in CWIP, plus pro forma net utility plant less associated depreciation amounts through September 2020, totaling \$157,360,000¹⁶ (Exh. NEP-DPU 1-13, Att.; RR-NEP-DPU-5).

NEP reported a total adjusted capitalization of \$1,784,627,000 consisting of \$606,150,000¹⁷ in long-term debt, \$1,177,365,000 in total adjusted common equity, and \$1,112,000 in preferred stock (Exh. NEP-DPU 1-13, Att.). NEP's total adjusted common equity balance consists of \$72,398,000 in common stock and \$1,104,967,000 in OPIC (Exh. NEP-DPU 1-13, Att.). NEP's total adjusted common equity balance excludes \$337,614,000 in goodwill from OPIC, \$156,752,000 in retained earnings, and \$276,000 in accumulated other comprehensive income (Exh. NEP-DPU 1-13, Att.). NEP calculated that

¹⁶ $\$193,679,000 - \$36,319,000 = \$157,360,000$ (Exh. NEP-DPU 1-13, Att. at 1).

¹⁷ NEP identifies \$790,112,000 in long-term debt as of March 31, 2020, increased by \$2,488,000 to account for debt issuance expenses, then reduced by \$186,450,000 for long-term debt scheduled to mature in November 2020 (Exh. NEP-DPU 1-13, Att.; RR-NEP-DPU-5, Att.; NEP Petition, ¶ 3). NEP's long-term debt total as of March 31, 2020, also includes \$100,000,000 of additional long-term debt issued on that same date (Exh. NEP-JC-2; NEP Petition, ¶ 3).

its net utility plant as of March 31, 2020, exceeded its total capitalization after adjustments by \$907,617,000 (Exh. NEP-DPU 1-13, Att.).

IV. STANDARD OF REVIEW

A. Standard of Review

1. Issuance of Stock and Long-Term Debt

To approve the issuance of stock, bonds, coupon notes, or other types of long-term indebtedness by a gas or electric company, the Department must determine that the proposed issuance meets two tests.¹⁸ First, the Department must assess whether the proposed issuance is reasonably necessary for the purpose for which such issuance of securities has been authorized. G.L. c. 164, § 14; Fitchburg Gas and Electric Light Company v. Department of Public Utilities, 395 Mass. 836, 841-842 (1985) (“Fitchburg II”), citing Fitchburg Gas and Electric Light Company v. Department of Public Utilities, 394 Mass. 671, 678 (1985) (“Fitchburg I”). The Supreme Judicial Court has found that, for the purposes of G.L. c. 164, § 14, reasonably necessary means “reasonably necessary for the accomplishment of some purpose having to do with the obligations of the company to the public and its ability to carry out those obligations with the greatest possible efficiency.” Fitchburg II at 842, citing Lowell Gas Light Company v. Department of Public Utilities, 319 Mass. 46, 52 (1946) (“Lowell Gas”). In cases where no issue has been raised about the reasonableness of management decisions regarding the requested financing, the Department

¹⁸ Long term refers to periods of more than one year from the date of issuance. G.L. c. 164, § 14.

limits its G.L. c. 164, § 14 review to a determination of reasonableness of the company's proposed use of the proceeds of a securities issuance. Colonial Gas Company, D.P.U. 90-50, at 6-7 (1990); Canal Electric Company, et al., D.P.U. 84-152, at 20 (1985). The burden of proving that an issuance is reasonably necessary rests with the company proposing the issuance, and the Department's authority to review a proposed issuance is not limited to a perfunctory review. Fitchburg I at 678; Fitchburg II at 842; Lowell Gas at 52.

Second, the Department must determine whether the company meets the net plant test. Milford Water Company, D.P.U. 91-257, at 5 (1992); Edgartown Water Company, D.P.U. 90-274, at 5-7 (1990); Barnstable Water Company, D.P.U. 90-273, at 6-8 (1990); Colonial Gas Company, D.P.U. 84-96, at 5-8 (1984).¹⁹ Regarding the net plant test, a company is required to present evidence that its net utility plant is equal to or in excess of its total capitalization. Aquarion Water Company of Massachusetts, D.P.U. 11-55, at 12, 28-29 (2011); D.P.U. 90-50, at 4-5. For purposes of this test, net utility plant is derived from utility plant in service less accumulated depreciation and excluding the following:

- (1) contributions in aid of construction; (2) construction work in progress; and (3) goodwill.

¹⁹ The net plant test is derived from G.L. c. 164, § 16, which provides the Department with authority to protect against an impairment of capital. Childs v. Krey, 199 Mass. 352, 356 (1908). Thus, when the Department approves a securities issuance under G.L. c. 164, § 14, we require a demonstration that the fair structural value of the plant and land exceeds the company's outstanding stock and long-term debt. D.P.U. 84-96, at 5. When the value of such plant and land is less than the value of the company's outstanding stock and long-term debt, the Department may prescribe conditions and requirements to make good within a reasonable time the impairment of the capital stock. G.L. c. 164, § 16.

D.P.U. 11-55, at 12, 28-29; Southern Union Company, D.T.E. 01-32, at 10-11 (2001); D.P.U. 84-96, at 5, 7-8. The Department's definition of total capitalization is, for purposes of this test, the sum of long-term debt, preferred stock, common stock, and premiums on common stock outstanding. D.P.U. 11-55, at 28-29; D.P.U. 84-96, at 5.²⁰

Where issues concerning the prudence of a company's capital financing have not been raised or adjudicated in a proceeding, the Department's decision does not represent a determination that any specific project is economically beneficial to the company or to its customers. Boston Gas Company, D.P.U. 95-66, at 7 (1995). Further, the Department's approval of a securities issuance in a G.L. c. 164, § 14, proceeding may not in any way be construed as a ruling on the appropriate ratemaking treatment to be accorded any costs associated with the proposed financing. D.P.U. 95-66, at 7.

2. Exemption from G.L. c. 164, §§ 15 & 15A

Pursuant to G.L. c. 164, § 15, a gas or electric company offering long-term bonds or notes in excess of \$1,000,000 in face amount payable at periods of more than five years after the date thereof must invite purchase proposals through newspaper advertisements. The Department may grant an exemption from this advertising requirement if the Department finds, after a public hearing, that an exemption is in the public interest. G.L. c. 164, § 15.

²⁰ For purposes of the net plant test, the Department excludes retained earnings from the calculation of total capitalization. D.P.U. 11-55, at 28 n.29; Southern Union Company, D.T.E. 04-36, at 9-10 (2004). In addition, premiums on common stock are treated as common stock. Western Massachusetts Electric Company, D.P.U. 09-50, at 16 (2010), citing D.T.E. 04-36, at 9 n.5.

The Department has found it in the public interest to grant an exemption from the advertising requirement where there has been a measure of competition in private placement. The Berkshire Gas Company, D.P.U. 89-12, at 11 (1989); Eastern Edison Company, D.P.U. 88-127, at 11-12 (1988); Western Massachusetts Electric Company, D.P.U. 88-32, at 5 (1988). The Department also has found that it is in the public interest to grant a company an exemption from the advertising requirement when a measure of flexibility is necessary for a company to enter the bond market in a timely manner. D.P.U. 88-32, at 5. Nonetheless, G.L. c. 164, § 15, requires advertising as the general rule, and waiver cannot be automatic, but must be justified whenever requested. Bay State Gas Company, D.T.E. 02-73, at 14 (2003).

Pursuant to G.L. c. 164, § 15A, a gas or electric company is required to sell long-term bonds, debentures, notes, or other evidence of indebtedness at no less than the par value or face amount unless such sale at less than par value is found by the Department to be in the public interest.²¹ The Department has found that it is in the public interest to grant an exemption from the par value requirement where market conditions make it difficult for a company to price a particular issue at par value and simultaneously offer an acceptable interest rate to prospective buyers. Bay State Gas Company, D.P.U. 91-25, at 9 (1991). The Department also has found that it is in the public interest to authorize the issuance of

²¹ Par value or face value is the stated value of the debt security at the time of issuance and is the amount to be paid by the borrower to the security holder at maturity. See, e.g., Evans v. Tillman, 38 S.C. 238, 17 S.E. 49, 53 (1893) (dissenting opinion).

debt securities below par value where this technique offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates, particularly if this benefits the company's ratepayers in the form of lower interest rates and a lower cost of capital. Boston Gas Company, D.P.U. 92-127, at 8 (1992); Boston Edison Company, D.P.U. 91-47, at 1213 (1991); D.P.U. 91-25, at 9. If the Department authorizes a company to issue debt securities at less than par value, the Department may establish the method by which the company is required to amortize any discount. G.L. c. 164, § 15A; D.P.U. 92-127, at 8; D.P.U. 91-47, at 15.²²

V. POSITIONS OF THE PARTIES

A. Attorney General

The Attorney General requests that the Department implement three requirements if the Companies' petitions are approved. First, the Attorney General requests that the Department require each company to capture, preserve, and report a screenshot of relevant Bloomberg activity on the day that the Companies decide to issue any debt (Attorney General Letter at 1-2). Specifically, the Attorney General requests that each company capture a screenshot of Bloomberg data on U.S. Treasury yields and the reported spread above U.S. Treasury rates paid on utility bonds of duration and credit rating similar to National Grid on the day that each company elects to issue new debt (Attorney General Letter at 2). Pointing to National Grid's representation that there is typically a period of days after

²² The discount is the difference between the par value of a bond, note, or other debt security and the actual issue price when the actual issue price is less than par value.

issuance and potential secondary market activity before it can ascertain the actual cost of debt, the Attorney General observes that the market yield on U.S. Treasury debt and the credit spread change over time, and, thus, the actual rate on the debt may be higher or lower than the spread indicated on the date of issuance (Attorney General Letter at 2). The Attorney General argues that if National Grid does not include a screenshot of Bloomberg activity on the date that the debt issues, then the Department and the Attorney General will not have any other way to independently verify the market rate for that date or to evaluate why the actual rate varies from the information on that date (Attorney General Letter at 2).

The Attorney General next requests that the Department (1) prohibit the issuance of green bonds if the cost exceeds conventional financing or (2) make clear that the Companies cannot recover from ratepayers the debt costs for green bonds that exceed the cost of conventional bonds (Attorney General Letter at 1, 3, citing NSTAR Electric Company, D.P.U. 18-127 (2019) at 20). As support for her position, the Attorney General states that the Department requires utilities to provide least-cost service to customers (Attorney General Letter at 3, citing Investigation into Rate Structures That Promote Efficient Deployment of Demand Resources, D.P.U. 07-50, at 5 (2008); Electric Industry Restructuring, D.P.U. 95-30, at 6 (1995); Incentive Regulation, D.P.U. 94-158, at 3 (1995); Integrated Resource Planning, D.P.U. 94-162, at 51-52 (1995); Mergers and Acquisitions, D.P.U. 93-167-A at 4 (1994)).

Finally, the Attorney General requests that the Department direct the Companies to give reasonable preference to debt issuances of longer duration, 30 years rather than

10 years, given the short-term average life of each company's portfolio of outstanding debt (Attorney General Letter at 1, 3). The Attorney General asserts that a principal tenet of finance is that longer-lived assets can be supported by longer-duration borrowings and that, although each company's average service lives for plant-in-service is in excess of 40 years, the average duration of each company's embedded outstanding long-term debt is significantly less than 40 years (Attorney General Letter at 3, citing Exhs. MECo-AG 1-17; NEP-AG 1-17; Tr. at 29-30, 37-38). Further, the Attorney General argues that, while the Companies stated they would look to issue 30-year bonds and acknowledged the value of 30-year debt placements, the Companies suggested that they would issue two tranches of 10-year debt, thus reducing each company's average term of debt from 21.97 to 17.59 years for MECo and 16.29 to 13.28 years for NEP (Attorney General Letter at 3, citing Exhs. MECo-AG 1-12; MECo-AG 1-17; MECo-AG 1-18; NEP-AG 1-12; NEP-AG 1-17; NEP-AG 1-18; Tr. at 38-39, 41). The Attorney General observes that the current credit markets display historically low interest rates and borrowing costs (Attorney General Letter at 3). As a result, the Attorney General urges the Department to require the Companies to exploit this situation and increase their average term durations consistent with the responsibility to obtain the lowest overall costs in the long run (Attorney General Letter at 3-4).

B. Companies

1. Legitimate Utility Purpose

MECo and NEP argue that they have satisfied the legitimate utility purpose test under G.L. c. 164, § 14 (MECo Initial Brief at 9-13; NEP Initial Brief at 9-13). In particular, the Companies argue that they propose to issue long-term debt and use the proceeds (1) to refinance short-term debt with long-term debt, (2) to finance their capital needs, (3) for construction of utility plant and properties, (4) for reimbursement of the treasuries, (5) for other general corporate purposes, and (6) for NEP only, to fund maturing debt, and the Companies assert that the Department has found each of these reasons to be a legitimate utility purpose as contemplated by G.L. c. 164, § 14 (MECo Initial Brief at 10-11 (citations omitted); NEP Initial Brief at 10-12 (citations omitted)). Further, MECo and NEP maintain that the issuance of green bonds is designed to achieve a legitimate utility purpose (MECo Initial Brief at 12, citing Exh. MECo-JC-1, at 7-8; MECo Petition, ¶ 5; NEP Initial Brief at 12, citing Exh. NEP-JC-1, at 7-8; NEP Petition, ¶ 5). The Companies state that the issuance of green bonds would have the same characteristics of traditional bonds, but the use of the proceeds would be for eligible green projects, including MECo and NEP capital investments deemed to have positive environmental and/or climate benefits (MECo Initial Brief at 3, 12, citing Exh. MECo-JC-1, at 7-8; MECo Petition, ¶ 5; NEP Initial Brief at 3, 12, citing Exh. NEP-JC-1, at 7-8; NEP Petition, ¶ 5). Accordingly, the Companies assert that the proposed issuances of long-term debt securities of up to \$1.1 billion aggregate principal for each company, under either traditional or green bond issuances, constitute

legitimate utility purposes consistent with Department precedent and in accordance with the Companies' obligations under G.L. c. 164, § 14 (MECo Initial Brief at 12-13, citing Exhs. MECo-JC-1, at 5, 9; MECo-DPU 1-2; MECo Petition at 6-7; NEP Initial Brief at 13, citing Exhs. NEP-JC-1, at 5, 9; NEP-DPU 1-2; NEP Petition at 6-7).

2. Net Plant Test

MECo and NEP also argue that they have demonstrated that the proposed financings meet the net utility plant test required under G.L. c. 164, § 16 (MECo Initial Brief at 9, 13-15; NEP Initial Brief at 9, 13-15). Specifically, the Companies argue that their net utility plants (original cost of capitalizable plant, less accumulated depreciation, contributions-in aid-of-construction ("CIAC"), CWIP, and goodwill) individually equal or exceed their respective total capitalizations (the sum of each company's long-term debt and preferred and common stock outstanding) and will continue to do so following the proposed issuances (MECo Initial Brief at 13 (citations omitted); NEP Initial Brief at 13, citing New England Power Company, D.P.U. 16-171, at 8 (2017); Boston Gas Company/Colonial Gas Company, D.P.U. 17-36/D.P.U. 17-37, at 15-16 (2017); Massachusetts Electric Company, D.P.U. 15-144, at 7 (2016); D.P.U. 11-55, at 12, 28-29; D.T.E. 01-32, at 10-11). The Companies observe that the Attorney General does not oppose MECo's or NEP's request for approval to each issue long-term debt in principal amounts not to exceed \$1.1 billion (MECo Reply Brief at 1; NEP Reply Brief at 1).

MECo and NEP also state that they each pro-formed their net plant balances through September 30, 2020, to reflect their requests for an expedited order by September 1, 2020,

by accounting for the gradual increases in utility plant and depreciation over time (MECo Initial Brief at 14; NEP Initial Brief at 14). Further, the Companies argue that, although the net plant tests performed in response to requests from the Department and the Attorney General produced slightly different results, their initial filing numbers are a better indication of each company's estimated excess of net utility plant over total capitalization (MECo Initial Brief at 14-15, citing Exhs. MECO-JC-2; MECO-DPU 1-12; MECO-DPU 1-13; MECO-DPU 1-13 (Supp.); RR-MECO-DPU-5; NEP Brief at 14-15, citing Exhs. NEP-JC-2; NEP-DPU 1-12; NEP-DPU 1-13; NEP-DPU 1-13 (Supp.); RR-NEP-DPU-5). MECO and NEP assert that the initial filing net plant test documentation appropriately considers the increase of utility plant and depreciation, and, for NEP, the upcoming \$186.5 million debt maturity (MECo Initial Brief at 15, citing Exh. MECO-JC-2; NEP Initial Brief at 15, citing Exh. NEP-JC-2).

Accordingly, the Companies argue that they have demonstrated that MECO and NEP both have a sufficient balance of total capitalizable plant against which to each issue up to \$1.1 billion and, thus, their proposed issuances meet the net plant test required under G.L. c. 164, § 16 (MECo Initial Brief at 15, citing Exhs. MECO-JC-2; MECO-DPU 1-1; NEP Brief at 15, citing Exhs. NEP-JC-2; NEP-DPU 1-1).

3. Maximum Rate

The Companies maintain that their proposals for flexibility to issue new long-term debt with interest payable at either a fixed or variable interest rate, as determined by market conditions, but not exceeding a maximum interest rate of seven percent per annum, are

reasonable and consistent with Department-approved pricing methods (MECo Initial Brief at 15, 16-17, citing Exhs. MECo-JC-1, at 6; MECo-DPU 1-7; MECo Petition, ¶¶ 5, 6, B (additional citations omitted); NEP Initial Brief at 15, 16-17, citing Exhs. NEP-JC-1, at 6; NEP-DPU 1-7; NEP Petition, ¶¶ 5, 6, B; D.P.U. 17-36/D.P.U. 17-37, at 34; D.P.U. 16-171, at 21; NSTAR Electric Company, D.P.U. 13-133, at 27-28 (2013); Massachusetts Electric Company, D.T.E. 04-51, at 13-14 (2004); Boston Edison Company, D.T.E. 03-129, at 16-18 (2004); The Berkshire Gas Company, D.T.E. 03-89, at 26 (2004); Boston Edison Company, D.P.U. 89-44, at 4-5 (1989)). The Companies also maintain that they will take market distortions into consideration and consistent with the method previously approved by the Department in determining the maximum interest rate (MECo Initial Brief at 17, citing Tr. at 25-27; NEP Initial Brief at 17, citing Tr. at 25-27).

In determining the proposed maximum interest rates, the Companies state that they reviewed present utility bond yields, the Federal Reserve's future outlook to increase interest rates, recent analyst interest rate forecast, comparable credit spreads, and accounting for uncertain and volatile markets (MECo Initial Brief at 15, citing Exh. MECo-JC-1, at 6-7; Tr. at 23-24; NEP Initial Brief at 15, citing Exh. NEP-JC-1, at 6-7; Tr. at 23-24). The Companies argue that the requested financing authorization, therefore, includes a maximum interest rate that is necessary to provide flexibility in order for MECo and NEP to address changing market conditions and potentially volatile markets arising in the time period between the Department's authorization and the actual issuance (MECo Initial Brief at 15-16, citing Exhs. MECo-JC-1, at 6-7; MECo-AG 1-11; NEP Brief at 15-16, citing

Exhs. NEP-JC-1 at 6-7; NEP-AG 1-11). The Companies further argue that if the format of issuance is open to either a fixed or variable rate, MECo and NEP will make a determination based on the relative value comparison (e.g., if there is a relatively strong investor demand for variable rate debt) (MECo Initial Brief at 16; NEP Initial Brief at 16). The Companies assert that if MECo and NEP seek to raise substantial funds for a longer maturity term, the issuance will typically be at a fixed rate due to the preference of investors, since variable rate debt only tends to be available for shorter maturities up to five years (MECo Initial Brief at 16, citing Exh. MECo-AG 1-11; NEP Initial Brief at 16, citing Exh. NEP-AG 1-11).

As a result, the Companies state that they have demonstrated that they need the flexibility for the proposed issuances subject to conditions prevailing at the time that capital is needed, that the flexibility will enable the Company to appropriately market its securities and manage the costs associated with those issuances and, therefore, the Department should authorize the maximum interest rate of seven percent proposed by the Companies (MECo Initial Brief at 17, citing Exhs. MECo-JC-1, at 9; MECo-JC-4; NEP Initial Brief at 17, citing Exhs. NEP-JC-1, at 9; NEP-JC-3).

4. Duration of Bonds

MECo and NEP oppose the Attorney General's proposed directive to require the Companies "to give reasonable preference to debt issuances of longer duration (30 years) rather than 10-year debt, given the short-term average life of each Company's portfolio of outstanding debt" (MECo Reply Brief at 5, citing Attorney General Letter at 3-4; NEP Reply Brief at 5, citing Attorney General Letter at 3-4). The Companies argue that this proposed

directive would be an unwarranted restriction on management's prerogative to determine the appropriate tenor that would provide the most benefit to customers at a given time (MECo Reply Brief at 5; NEP Reply Brief at 5). Additionally, the Companies argue that the "present trough" and historical lows in long-term interest rates may not continue for the entire three-year period of each company's financing authority, and those factors should not be the basis for arbitrarily limiting the Companies' options over the financing term (MECo Reply Brief at 5; NEP Reply Brief at 5).

MECo and NEP specify that investor demand, relative credit spreads, and U.S. Treasury yields can vary between 10- and 30-year tenors, so it would not be in the public interest to restrict the tenor of debt that either company can issue at a certain point in time (MECo Reply Brief at 5, citing Tr. at 39-42; NEP Reply Brief at 5, citing Tr. at 39-42). MECo and NEP further argue that it may be more attractive to issue either a 10-year or a 30-year bond at certain times, and restricting this flexibility would prevent the Companies from maximizing their advantage to avail themselves of a 10-year transaction when it is relatively more attractive than a longer tenor (MECo Reply Brief at 5; NEP Reply Brief at 5). The Companies submit that their post issuance compliance filings would contain sufficient justification for MECo's and NEP's reasons for selecting the tenor of the issuance, whether for a 10- or 30-year term (MECo Reply Brief at 6; NEP Reply Brief at 5).

5. Exemption from G.L. c. 164, §§ 15 & 15A

MECo and NEP argue that the Department should grant the requested exemptions from the advertising and competitive bidding requirements of Section 15 and par value

requirement of Section 15A, and find that the exemptions are in the public interest (MECo Initial Brief at 18-20; NEP Initial Brief at 18-20). MECo and NEP contend that the Department routinely grants exemptions from Section 15, having found that newspaper advertising is an inefficient way to attract investor interest (MECo Initial Brief at 18 (citations omitted); NEP Initial Brief at 18, citing D.P.U. 17-36/D.P.U. 17-37, at 35; D.P.U. 16-171, at 22; Western Massachusetts Electric Company, D.T.E. 05-9, at 20-21 (2005)). The Companies argue that granting MECo's and NEP's requests for exemption from Section 15 will enable the Companies to issue debt through private placement or private offerings under SEC Rule 144A, resulting in less expensive issuances when compared to either negotiated or public offerings (MECo Initial Brief at 19; NEP Initial Brief at 19). Moreover, NEP asserts that the Department previously found that because NEP is not a publicly traded company, and does not itself make any periodic disclosure filings with the SEC, it would be required to pay significantly higher costs for issuing debt than would a public SEC registrant, which could result in higher costs for NEP's customer (NEP Initial Brief at 18-19, citing D.P.U. 16-171, at 22-23).

The Companies also assert that the Department has routinely found an exemption from the par value requirements of Section 15A to be in the public interest, recognizing that investors rely on, and expect, such discounts as a means to achieve a desired interest rate, and, consequently, offer enhanced flexibility in entering the market quickly to take advantage of the prevailing, market-based interest rate (MECo Initial Brief at 19-20 (citations omitted); NEP Initial Brief at 20, citing D.P.U. 16-171, at 22; D.P.U. 15-144, at 19; D.P.U. 13-133,

at 13, 30; Southern Union Company, D.T.E. 03-64, at 12-14 (2003); D.T.E. 01-32, at 13; Boston Edison Company, D.T.E. 00-62, at 4, 8, 12 (2000); D.P.U. 99-118, at 43). The Companies argue that it is in the public interest to grant them an exemption from the par value requirement because, under current market conditions, it may be difficult for the Companies to price their debt securities at par value at all times and still achieve the lowest interest rate available for such securities (MECo Initial Brief at 21, citing Exh. MECo-JC-1, at 10; NEP Initial Brief at 21, citing Exh. NEP-JC-1, at 10). The Companies maintain that the requested exemption will provide them greater flexibility in structuring the terms for the proposed debt securities so that they can price their securities at the lowest rates available to the Companies for those issuances (MECo Initial Brief at 21, citing Exh. MECo-JC-1, at 10; NEP Initial Brief at 21, citing Exh. NEP-JC-1, at 10).

The Companies observe that the Attorney General does not oppose their requests for exemptions under Sections 15 and 15A (MECo Reply Brief at 1; NEP Reply Brief at 1).

6. Compliance Filing Requirements

MECo and NEP do not oppose the directive proposed by the Attorney General that would require each company to provide in their post issuance compliance filings a screenshot from the Bloomberg display terminal taken on the date of issuance showing the U.S. Treasury bond interest rate (MECo Reply Brief at 3; NEP Reply Brief at 3). However, the Companies observe that a Bloomberg screenshot of the credit spread for similarly-rated companies on the same day would not reflect the actual credit spread for the issuance due to a number of factors (MECo Reply Brief at 2-3, citing Tr. at 24-26, 34-36, 47-49; NEP

Reply Brief at 2-3, citing Tr. at 24-26, 34-36 47-49). As a result, the Companies urge the Department to modify the directive to provide not only the Bloomberg screenshot of the U.S. Treasury rate taken on the day of issuance but also permit the filings to include further information that reflects comparable credit spreads to compare against the final cost of issuance (MECo Reply Brief at 3; NEP Reply Brief at 3).

MECo and NEP are also not opposed “in principle” to the directive proposed by the Attorney General that would require the Companies to demonstrate that an issuance of green bonds was the least cost option compared to a traditional bond issuance (MECo Reply Brief at 4, citing Attorney General Letter at 2-3; NEP Reply Brief at 4, citing Attorney General Letter at 2-3). The Companies acknowledge that they have an obligation to manage their capital structure prudently, taking into consideration each company’s capital needs, interest rates, and market conditions (MECo Reply Brief at 4 (citations omitted); NEP Reply Brief at 4, citing D.P.U. 18-127, at 20; D.P.U. 11-55, at 27).

The Companies expect the fees for a green bond issuance to be very similar to a non-green bond issuance, but with additional minimal, administrative costs for auditor or third-party review (MECo Initial Brief at 12, citing Exhs. MECo-AG 1-6, MECo-AG 1-7; Tr. at 31; MECo Reply Brief at 4; NEP Initial Brief at 12, citing Exhs. NEP-AG 1-6, NEP-AG 1-7; Tr. at 31; NEP Reply Brief at 4). The Companies maintain that neither would issue a green bond if the total costs at the time of issuance exceed the costs of a traditional SEC Rule 144A issuance (MECo Reply Brief at 4, citing Tr. at 32-33; NEP Reply Brief at 4, citing Tr. at 32-33). MECo and NEP also maintain that there may be circumstances

warranting issuance of a green bond even if it is more expensive than a conventional SEC Rule 144A issuance, because the green bond issuance could produce advantages over the long-term (MECo Reply Brief at 4, citing Exh. MECo-AG 1-8; Tr. at 33; NEP Reply Brief at 4, citing Exh. NEP-AG 1-8; Tr. at 33). As a result, to demonstrate that the savings from a green bond issuance would exceed the minimal additional administrative costs for auditor review, MECo and NEP propose revising this directive to be consistent with the Department's ruling in D.P.U. 18-127 (MECo Reply Brief at 4-5; NEP Reply Brief at 4-5). Specifically, the Companies urge the Department to instead require that MECo and NEP provide their underwriters' estimation of the savings associated with the green bond issuances compared to a traditional bond, as well as an itemized listing of issuance expenses including attestation costs (MECo Reply Brief at 5, citing D.P.U. 18-127, at 20; NEP Reply Brief at 5, citing D.P.U. 18-127, at 20).

VI. ANALYSIS AND FINDINGS

A. Issuance of Long-Term Debt

1. Reasonable Necessity of Issuance

The Companies each propose to issue and sell one or more long-term debt securities, in aggregate principal amounts not to exceed \$1.1 billion for the following purposes:

- (1) refinancing short-term debt; (2) financing capital needs; (3) constructing utility plant and properties; (4) reimbursing the treasury; (5) funding maturing debt (NEP only); and
- (6) implementing other general corporate purposes, including, but not limited to, the

restructuring of each company's capitalization (Exhs. MECo-JC-1, at 5, MECo-DPU 1-1, MECo-DPU 1-2; NEP- JC-1, at 2-3; NEP-DPU 1-1; NEP-DPU 1-2).

The Department has found that issuing long-term debt securities to pay down short-term debt and refinance long-term debt is a legitimate utility purpose under G.L. c. 164, § 14. D.P.U. 15-144, at 11; Blackstone Gas Company, D.T.E. 03-65, at 4 (2003); Western Massachusetts Electric Company, D.T.E. 02-49, at 10 (2003); New England Power Company, D.P.U. 95-101, at 11 (1995). The Department has also found that issuing securities to fund general working capital requirements is a legitimate utility purpose. D.P.U. 15-144, at 12; Cambridge Electric Light Company, D.P.U. 96-91, at 7 (1996); Eastern Edison Company, D.P.U. 93-24, at 8, 12 (1993); Commonwealth Electric Company, D.P.U. 92-268, at 6, 8 (1993). Additionally, the Department has found that the expansion or replacement of utility plant is a legitimate utility purpose. NSTAR Gas Company, D.P.U. 15-01, at 9 (2015); Aquaria LLC, D.T.E. 04-76, at 35-36 (2005); Nantucket Electric Company/Massachusetts Electric Company, D.T.E. 04-74, at 16-18 (2004); Dover Water Company, D.T.E. 04-05, at 8 (2004). Further, the Department has found that reimbursement of the treasury for the purposes of cash working capital is a legitimate utility purpose. D.P.U. 15-144, at 11; Southern Union Company, D.T.E. 04-36, at 6-7 (2004); D.T.E. 03-89, at 18-19; D.P.U. 96-91, at 7; D.P.U. 93-24, at 8, 12; D.P.U. 92-268, at 6, 8. Likewise, the Department has found that issuing securities to refinance maturing long-term debt or where it is economically attractive to refinance is a legitimate utility purpose. Bay State Gas Company, D.P.U. 13-129, at 2, 9-10 (2013); Boston Gas

Company/Colonial Gas Company, D.P.U. 11-78/11-79, at 20-21 (2011); NSTAR Electric Company, D.P.U. 08-124, at 5, 13 (2009); D.T.E. 04-74, at 18; D.T.E. 04-51, at 11; D.T.E. 03-129, at 14; D.T.E. 03-89, at 5, 19. Also, the Department has found that maintaining a balanced capital structure is a legitimate utility purpose. D.P.U. 15-144, at 11-12; D.P.U. 11-78/11-79, at 20-21; Massachusetts Electric Company, D.P.U. 09-41, at 12-13 (2009); D.T.E. 04-36, at 7-8; Southern Union Company, D.T.E. 03-3, at 18 (2003); Bay State Gas Company, D.P.U. 93-14, at 14 (1993); D.P.U. 90-50, at 6.

MECo and NEP each request authorization for the flexibility to issue green bonds, in addition to other types of long-term debt securities (Exhs. MECo-JC-1, at 7; NEP-JC-1, at 7). The Companies maintain that green bonds have the same characteristics as traditional bonds, but the use of the proceeds would be to finance or refinance, in whole or in part, the Companies' eligible green projects, including capital investment deemed to have positive environmental and/or climate benefits (Exhs. MECo-JC-1, at 7-8; NEP-JC-1, at 7-8). Neither MECo nor NEP have previously issued green bonds (Exhs. MECo-DPU 1-10; NEP-DPU 1-10).

Based on our review of the records, we are satisfied that the issuance of green bonds by MECo and/or NEP would be for a legitimate utility purpose, including, but not limited to, the refinancing of short-term debt with long-term debt, financing capital needs, constructing utility plant and properties and for other general corporate purposes (Exhs. MECo-DPU 2-5; MECo-DPU 1-9, Att. 1, at 9-11; NEP-DPU 2-5; NEP-DPU 1-9, Att. 1, at 9-11).

Moreover, the Department has previously approved the issuance of green bonds.

D.P.U. 18-127, at 12, 13-15.²³

Because the Companies' stated purposes of issuing said debt are consistent with the purposes identified above, the Department finds that (1) MECo's proposed issuance of long-term debt securities, including the issuance of green bonds, in an aggregate principal amount up to \$1.1 billion is reasonably necessary to accomplish a legitimate purpose in meeting MECo's service obligations in accordance with G.L. c. 164, § 14; and (2) NEP's proposed issuance of long-term debt securities, including the issuance of green bonds, in an aggregate principal amount up to \$1.1 billion is reasonably necessary to accomplish a legitimate purpose in meeting NEP's service obligations in accordance with G.L. c. 164, § 14.

2. Net Plant Test

a. Introduction

The Department requires companies to demonstrate that their net utility plant equals or exceeds their total capitalization, thereby supporting the additional amount of financing, pursuant to G.L. c. 164, § 16. D.P.U. 84-96, at 5. The purpose of the net plant test is both to protect ratepayers from excessive rates associated with overcapitalization and to assure creditors of a utility that the company has sufficient tangible assets to cover its liabilities. Boston Gas Company, D.T.E. 03-40, at 321 (2003), citing Report of the Department of

²³ The Department addresses the filing requirements associated with the issuance of green bonds in Section VI.A.3.

Public Utilities Relative to the Capitalization of Gas and Electric Companies, Senate Document No. 315, at 8-15 (January 1922); Colonial Gas Company, D.P.U. 1247-A, at 7 (1982). Under the net plant test, a company must present evidence showing that its net utility plant (i.e., utility plant in service less accumulated depreciation,²⁴ CIAC,²⁵ CWIP,²⁶ goodwill,²⁷ and other necessary adjustments) is equal to or greater than its total capitalization (i.e., the sum of long-term debt, preferred stock, and common stock outstanding, including any necessary adjustments). D.P.U. 11-55, at 12, 28-29; D.T.E. 01-32, at 10-11; D.P.U. 84-96, at 5, 8.

²⁴ Accumulated depreciation must be excluded from a company's plant accounts for the purposes of the net plant test calculation because the term "fair structural value of the plant," as used in G.L. c. 164, § 16, excludes depreciation. Whitinsville Water Company, D.P.U. 08-33, at 10-11 (2008); D.P.U. 84-96, at 8.

²⁵ The Department has found that it is appropriate to remove CIAC from a company's plant accounts for purposes of the net plant test calculation because they are not included in rate base for ratemaking purposes. D.P.U. 13-129, at 11; The Berkshire Gas Company, D.P.U. 12-43, at 19-20 (2012); High Wood Water Company, D.P.U. 1439, at 5 (1984).

²⁶ The Department has determined that CWIP should be excluded from a company's plant accounts for purposes of the net plant test calculation because the term "fair structural value of the plant," as used in G.L. c. 164, § 16, includes only plant that is used and useful in providing utility service. D.T.E. 03-129, at 16; D.T.E. 01-52, at 9; D.P.U. 84-96, at 5, 8.

²⁷ The Department has determined that goodwill represents intangible balance sheet entries that should be excluded from a company's plant accounts for purposes of the net plant test calculation. D.T.E. 03-89, at 23; D.T.E. 03-64, at 10; Southern Union Company, D.T.E. 01-52, at 10 (2001).

In their initial filings, MECo and NEP each reported their net plant test calculations as of December 31, 2019 (Exhs. MECo-JC-2; NEP-JC-2).²⁸ MECo calculated after adjustments a total net utility plant balance of \$3,313,430,000 and a total capitalization of \$2,207,316,000, resulting in an excess of net utility plant over total capitalization of \$1,106,114,000 (Exh. MECo-JC-2). NEP calculated after adjustments a total net utility plant balance of \$2,695,516,000 and a total capitalization of \$1,559,627,000,²⁹ resulting in an excess of net utility plant over total capitalization of \$1,135,889,000 (Exhs. NEP-JC-2; NEP-DPU 1-1, Att.). Based on these calculations, MECo and NEP each represented that they had a sufficient balance of total capitalizable plant against which to issue the requested \$1.1 billion of debt securities (Exhs. MECo-JC-1, at 4; NEP-JC-1, at 4). However, as discussed in further detail below, the Department finds that neither company calculated their net plant test properly and, as a result, the Department determines that several adjustments are required. Additionally, each company failed to provide, in accordance with Department requirements, a complete balance sheet with all accounts and subaccounts, as well as specific references to any balance sheet items included or adjusted for within the net plant test calculations (Exhs. MECo-DPU 2-1; NEP-DPU 2-1). Bay State Gas Company,

²⁸ Although the Companies subsequently calculate their net plant tests as of March 31, 2020, in response to requests by the Department (Exhs. MECo-DPU 1-13; RR-MECo-DPU-5; NEP-DPU 1-13; RR-NEP-DPU-5), the Department relies on the December 31, 2019 numbers for our analysis based on the record evidence available.

²⁹ During discovery, NEP included an additional \$2,510,000 in its long-term debt adjustments unintentionally omitted from its initial filing (Exh. NEP-DPU 1-1 & Att.).

D.P.U. 17-142, at 18-19 (2017). As a result, the Department relies on the MECo and NEP calendar year 2019 Federal Energy Regulatory Commission (“FERC”) Form 1s to make the necessary adjustments to each company’s net plant test calculations (Exhs. MECo-AG 1-1, Att. 2; MECo FERC Form 1; NEP-AG 1-1, Att. 2).³⁰

b. Massachusetts Electric Company

MECo reported a net plant balance of \$3,313,430,000, consisting of \$6,142,451,000 in gross utility plant, less \$1,952,409,000 in accumulated depreciation and amortization, \$1,075,000 in AROs and \$798,000 in depreciation AROs, \$1,008,244,000 in goodwill, and \$202,289,000 in CWIP, plus pro forma net utility plant less associated depreciation amounts through September 2020, totaling \$131,910,000³¹ (Exh. MECo-JC-2). MECo did not identify a CIAC balance (Exh. MECo-JC-2; MECo FERC Form 1, at 4).³²

³⁰ Each company submits a FERC Form 1 to the Department with their annual return documentation. G.L. c. 164, § 83; 220 CMR 79.04. NEP provided its 2019 FERC Form 1 in response to information request NEP-AG 1-1 (Exh. NEP-AG 1-1, Att. 2). In contrast, MECo erroneously provided a duplicate copy of a document provided in response to information request MECo-AG 1-5 (Exhs. MECo-AG 1-1, Att. 2; MECo-AG 1-5, Att. 2). As a result, the Department relies on MECo’s 2019 FERC Form 1 on file with the Department for its analysis. Pursuant to 220 CMR 1.10(3), the Department incorporates by reference MECo’s calendar year 2019 annual return, FERC Form 1, (“MECo FERC Form 1”) into the record. MECo’s FERC Form 1 is available on the Department’s website at <https://www.mass.gov/doc/massachusetts-electric-ar-2019/download> (last viewed August 20, 2020).

³¹ \$258,695,000 - \$126,785,000 = \$131,910,000 (Exh. MECo-JC-2).

³² For ease of reference, the Department cites to the page number of the Adobe file rather than rely on the FERC Form 1 pagination. This treatment is intended to be comparable to pagination of an exhibit.

With respect to net utility plant, the Department finds that MECo appropriately excluded CWIP (Exhs. MECo-JC-2; MECo-DPU 1-1, at 2; MECo FERC Form 1, at 76, 121, 133-134). However, MECo included \$561,509 in plant held for future use and \$60,167,109 in right of use assets related to operating leases in its utility plant in service balance (Exhs. MECo-JC-2; MECo-DPU 1-1, Att. at 2; MECo FERC Form 1, at 76, 121, 123, 132). MECo also included an additional \$8,643,375 for right of use assets related to operating leases in its accumulated depreciation balance deducted from its total net utility plant (Exhs. MECo-JC-2; MECo-DPU 1-1, Att. at 2; MECo FERC Form 1, at 76, 123). Plant held for future use is not current plant in service and, thus, should be excluded from plant investment for purposes of computing the net plant test. D.P.U. 18-127, at 16; Fitchburg Gas and Electric Light Company, D.P.U. 17-25, at 11-12 (2017); Massachusetts Electric Company, D.P.U. 89-194/195, at 16-17 (1990); Boston Edison Company, D.P.U. 19300, at 10-11 (1978). Similarly, assets associated with capital leases are not considered “plant” for purposes of G.L. c. 164, § 16 and are, thus, excluded from the net plant test. D.P.U. 17-142, at 14-15; Western Massachusetts Electric Company, D.P.U. 09-50, at 14-15 (2010); Southern Union Company, D.T.E. 03-75, at 9-10 (2003); Southern Union Company, D.T.E. 03-46, at 14 (2003). Accordingly, the Department excludes the \$561,509 attributed to plant held for future use and \$51,523,734³³ in right of use assets related to operating leases from MECo’s net utility plant balance.

³³ \$60,167,109 - \$8,643,375 = \$51,523,734 (MECo FERC Form 1, at 123).

MECo proposed inclusion of pro forma net utility plant, less associated depreciation amounts, through September 2020 totaling \$131,910,000 in its net utility plant balance (Exh. MECo-JC-2). The Department has previously determined that inclusion of projected plant additions for use in calculating plant balances is not in accord with the requirements of G.L. c. 164, § 16. Bay State Gas Company, D.P.U. 11-41, at 26-27 (2011); D.T.E. 03-89, at 20. Moreover, although the issuance date of this Order aligns with the date of the projected pro forma additions, the additions are based on unaudited numbers, and there is no record evidence on which the Department can verify those numbers. To count such projects effectively as real and as satisfying the requirements of the net plant test is contrary to the intent of G.L. c. 164, § 16. Consequently, the Department excludes this amount from MECo's net utility plant balance.

MECo adjusted its gross utility plant in service to exclude \$1,008,244,000 in goodwill (Exh. MECo-JC-2). This goodwill balance consists of \$1,062,533,002³⁴ booked as an acquisition adjustment, less \$54,289,000 in amortization of plant acquisition adjustments on its FERC Form 1 (MECo FERC Form 1, at 49, 102, 121). The Department finds that MECo has correctly calculated its goodwill-related adjustments for purposes of total plant in service. As a result, the Department accepts MECo's goodwill-related adjustments to its net utility plant balance.

³⁴ This number is reported as an acquisition adjustment on MECo's FERC Form 1.

Additionally, MECo adjusted its gross utility plant in service and accumulated depreciation amounts to exclude \$1,075,000 in AROs and \$798,000 in depreciation associated with AROs (Exh. MECo-JC-2). While amounts associated with AROs are also excluded from plant for purposes of computing the net plant test, MECo reported \$2,102,534 in AROs on its FERC Form 1 (Exh. MECo-DPU 1-1, Att. at 2; MECo FERC Form 1, at 78). As a result, the Department excludes an additional \$1,027,534³⁵ from MECo's net utility plant balance. Further, the Department did not identify any depreciation ARO amounts in MECo's FERC Form 1. Therefore, the Department incorporates the \$798,000 into MECo's net utility plant balance.

Based on the Department's adjustments described herein, the Department calculates MECo's net utility plant in service to be \$3,129,205,223³⁶ as of December 31, 2019.

MECo reported a total adjusted capitalization of \$2,207,316,000 consisting of \$1,300,000,000 in long-term debt, \$905,058,000 in total adjusted common equity, and \$2,259,000 in preferred stock (Exh. MECo-JC-2). MECo's total adjusted common equity balance consists of \$59,953,000 in common stock and \$845,105,000 in OPIC (Exh. MECo-JC-2). MECo's total adjusted common equity balance excludes \$1,008,244,000 in goodwill from OPIC, \$856,049,000 in retained earnings, and \$226,000 in accumulated other comprehensive income (Exh. MECo-JC-2).

³⁵ \$2,102,534 - \$1,075,000 = \$1,027,534

³⁶ (\$3,313,430,000 - (\$561,509 + \$51,523,734 + \$131,910,000 + \$1,027,534)) + \$798,000 = \$3,129,205,223

With respect to total capitalization, the Department finds that MECo appropriately excluded retained earnings and accumulated other comprehensive income (Exhs. MECo-JC-2; MECo-DPU 1-1, Att. at 2; MECo FERC Form 1, at 78, 83-84). Regarding MECo's adjusted OPIC balance, however, we determine that adjustments are necessary. First, MECo adjusted its OPIC balance to exclude \$1,008,244,000 in goodwill (Exh. MECo-JC-2). While goodwill adjustments are excluded from capitalization for purposes of computing the net plant test, MECo reported \$1,246,836,382 in goodwill-related purchase accounting adjustments booked to other paid-in capital on its FERC Form 1 (MECo FERC Form 1, at 164). As a result, the Department excludes an additional \$238,592,382 from MECo's OPIC balance, thus, removing that amount from MECo's total capitalization.

Second, MECo included \$355,300,000³⁷ in equity contributions from its parent company, National Grid USA, and \$653,987 in capital contributions made by its prior owner, New England Electric Systems, in the total OPIC balance (Exh. MECo-JC-2; MECo FERC Form 1, at 78, 164). The Department considers capital contributions from a parent company to be distinct from "outstanding stock" as the term is used in G.L. c. 164, § 16. D.P.U. 17-142, at 17; D.T.E. 05-9, at 12; Bay State Gas Company, D.T.E. 04-80, at 9 (2004). Consequently, for purposes of determining MECo's ability to meet the requirements of the net plant test, the Department excludes \$355,953,987 from MECo's total capitalization.

³⁷ \$60,000,000 + \$135,000,000 + \$160,300,000 = \$355,300,000 (MECo FERC Form 1, at 164).

Third, MECo included a stock compensation adjustment of \$1,283,355 in its OPIC balance (Exh. MECo-JC-2; MECo FERC Form 1, at 78, 164). Although a stock compensation adjustment may be required for financial accounting purposes, this item does not represent outstanding stock or debt for purposes of G.L. c. 164, § 16. D.T.E. 05-9, at 13; D.T.E. 04-74, at 21-22; Southern Union Company, D.T.E. 04-41, at 13 (2004). Therefore, the Department excludes \$1,283,355 from MECo's total capitalization.

Finally, MECo included in its total long-term debt balance an unamortized discount on long-term debt of \$1,771,000, identified as "debt issuance expenses" (Exhs. MECo-JC-2; MECo-DPU 1-1, Att. at 1). MECo's net plant test balance sheet indicates that the company's outstanding debt balance as of December 31, 2019, had excluded debt discounts, and that the company's adjustment is intended to restore the debt balance to its face value (Exh. MECo-JC-2). The Department does not permit the deduction of issuance costs from the long-term debt or preferred stock balances for ratemaking purposes. D.P.U. 15-144, at 15; Massachusetts Electric Company, D.P.U. 92-78, at 91-92 (1992); The Berkshire Gas Company, D.P.U. 90-121, at 159-161 (1990). Consistent with this practice, the Department includes the full-face value of outstanding debt for purposes of computing the net plant test. See D.P.U. 09-41, at 20-21. Accordingly, the Department finds that MECo's restoration of \$1,771,000 in debt issuance costs to its capitalization is appropriate.

Based on the Department's adjustments, the Department calculates MECo's total capitalization to be \$1,611,486,276³⁸ as of December 31, 2019. In comparing MECo's adjusted net utility plant of \$3,129,205,223 and its adjusted capitalization of \$1,611,486,276, MECo's net utility plant exceeds its capitalization by \$1,517,718,947. As a result, the Department finds that MECo's plant investment is currently sufficient to support the size of the proposed issuance of up to \$1.1 billion in debt.

Issues concerning the prudence of MECo's capital financing have not been raised in this proceeding, and the Department's determinations here do not represent a conclusion that these projects are economically beneficial to MECo or its customers. The Department's determinations in this Order shall not in any way be construed as a ruling relative to the appropriate ratemaking treatment to be accorded to any costs associated with the proposed financing.

c. New England Power Company

NEP reported a net plant balance of \$2,695,516,000, consisting of \$3,433,111,000 in gross utility plant, less \$590,833,000 in accumulated depreciation and amortization, \$26,218,000 in plant held for future use, \$337,614,000 in goodwill and \$18,271,000 identified as the removal of goodwill from accumulated depreciation, and \$126,343,000 in CWIP, plus pro forma net utility plant less associated depreciation amounts through

³⁸ $\$2,207,316,000 - (\$238,592,382 + \$355,953,987 + \$1,283,355) = \$1,611,486,276$

September 2020, totaling \$198,799,000³⁹ (Exhs. NEP-JC-2; NEP-DPU 1-1, Att). NEP did not identify a CIAC balance (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1).

With respect to net utility plant, the Department finds that NEP appropriately excluded CWIP (Exhs. NEP-JC-2; NEP-DPU 1-1, at 2; NEP-AG 1-1, Att. 2, at 28, 77, 90). However, NEP included \$1,346,015 for right of use assets related to operating leases in its utility plant in service balance (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 2; NEP-AG 1-1, Att. 2, at 28, 77, 79). NEP also included an additional \$123,804 for amortization of right of use assets related to operating leases in its accumulated depreciation balance deducted from its total net utility plant (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 2; NEP-AG 1-1, Att. 2, at 28, 77, 79). Further, NEP proposed inclusion of pro forma net utility plant, less associated depreciation amounts, through September 2020 totaling \$198,799,000 in its net utility plant balance (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1). As discussed above in Section VI.A.2.b., assets associated with capital leases and projected plant additions are excluded from the net plant test. Accordingly, the Department excludes \$1,222,211⁴⁰ in right of use assets related to operating leases and the \$198,799,000 attributed to pro forma adjustments from NEP's net utility plant balance.

³⁹ $\$251,791,000 - \$52,992,000 = \$198,799,000$ (Exh. NEP-JC-2).

⁴⁰ $\$1,346,015 - \$123,804 = \$1,222,211$ (Exh. NEP-AG 1-1, Att. 2, at 79).

In its calculations, NEP excluded \$26,218,000⁴¹ in plant held for future use and \$337,614,000 in goodwill (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1; NEP-DPU 1-12, Att.). While, as discussed in Section VI.A.2.b. above, both categories should be excluded from NEP's net utility plant balance, the record reflects that NEP's plant held for future use only totals \$7,947,461, whereas the goodwill amount totals \$355,885,131⁴² (Exhs. NEP-DPU 1-12; AG 1-1, Att. 2, at 57, 77, 88). As a result, the Department includes the difference between the plant held for future use amounts, or \$18,270,539, into NEP's utility plant balance, but excludes the additional goodwill amount of \$18,271,131.

Further, NEP adjusted its accumulated depreciation balance by excluding \$18,271,000 for goodwill (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1). This line item appears to be attributed to the amortization of plant acquisition adjustments in NEP's FERC Form 1 (Exh. NEP-AG 1-2, Att. 2 at 77). We determine that NEP appropriately excluded this amount.

Additionally, based on a review of NEP's FERC Form 1, NEP included \$97,313 in AROs in its net utility plant balance (Exh. AG 1-1, Att. 2, at 31). The Department has found that AROs represent balance sheet entries that do not represent plant in service. D.P.U. 13-133, at 22; Massachusetts Electric Company/Nantucket Electric Company,

⁴¹ \$363,832,000 - \$337,614,000 = \$26,218,000 (Exh. NEP-JC-2).

⁴² This number is reported as an acquisition adjustment on NEP's FERC Form 1.

D.P.U. 09-39, at 103-104 (2009). Therefore, the Department excludes this amount from NEP's net utility plant balance.

Based on the Department's adjustments described herein, the Department calculates NEP's net utility plant in service to be \$2,495,396,844⁴³ as of December 31, 2019.

NEP reported a total adjusted capitalization of \$1,559,627,000 consisting of \$506,150,000 in long-term debt, \$1,052,365,000 in total adjusted common equity, and \$1,112,000 in preferred stock (Exh. NEP-DPU 1-1, Att. at 1). NEP's total adjusted common equity balance consists of \$72,398,000 in common stock and \$979,967,000 in OPIC (Exh. NEP-DPU 1-1, Att. at 1). NEP's total adjusted common equity balance excludes \$337,614,000 in goodwill from OPIC, \$116,137,000 in retained earnings, and \$281,000 in accumulated other comprehensive income (Exh. NEP-DPU 1-1, Att. at 1).

With respect to total capitalization, the Department finds that NEP appropriately excluded retained earnings and accumulated other comprehensive income (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1-2; NEP-AG 1-1, Att. 2, at 31, 38-39). Regarding NEP's adjusted OPIC balance, however, we determine that adjustments are necessary. First, NEP adjusted its OPIC balance to exclude \$337,614,000 in goodwill (Exhs. NEP-JC-2; NEP-DPU 1-1, Att. at 1). While goodwill adjustments are excluded from capitalization for purposes of computing the net plant test, the record reflects that NEP has \$540,800,641⁴⁴ in purchase

⁴³ $(\$2,695,516,000 - (\$1,222,211 + \$198,799,000 + \$18,271,131 + \$97,313)) + \$18,270,539 = \$2,495,396,884$

⁴⁴ $\$533,162,719 + 7,637,922 = \$540,800,641$ (Exh. NEP-AG 1-1, Att. 2, at 113).

accounting adjustments related to its acquisition by National Grid Group PLC (Exhs. NEP-DPU 1-12; NEP-AG 1-1, Att. 2, at 31, 113). As a result, the Department excludes an additional \$203,186,641⁴⁵ from NEP's OPIC balance, thus removing that amount from NEP's total capitalization.

Second, NEP included \$505,000,000 in contributions from its parent company, National Grid USA, and \$79,036,475⁴⁶ in parent tax loss allocations in the total OPIC balance (Exh. NEP-JC-2; NEP-DPU 1-1, Att. at 1; NEP-AG 1-1, Att. 2, at 31, 113). As discussed above in Section VI.A.2.b., the Department considers capital contributions from a parent company to be distinct from "outstanding stock" as the term is used in G.L. c. 164, § 16. Similarly, the Department considers intercompany tax allocations to be distinct from the operating company's common stock as applied in G.L. c. 164, § 16. D.T.E. 04-80, at 9. Consequently, for purposes of determining NEP's ability to meet the requirements of the net plant test, the Department excludes \$584,036,475 from NEP's total capitalization.

Additionally, NEP included in its total long-term debt balance an unamortized discount on long-term debt of \$2,510,000, identified as "debt issuance expenses" (Exh. NEP-DPU 1-1 & Att. at 1). NEP's net plant test balance sheet indicates that the company intended this amount to be excluded (Exh. NEP-DPU 1-1, Att. at 1). Consistent

⁴⁵ \$540,800,641 - \$337,614,000 = \$203,186,641

⁴⁶ \$1,358,571 + \$3,169,237 + \$25,914,922 + \$20,000,000 + \$18,522,344 + \$4,120,218 + \$5,951,183 = \$79,036,475

with our findings in Section VI.A.2.b., the Department finds that NEP's restoration of \$2,510,000 in debt issuance costs to its capitalization is appropriate.

NEP also proposed deducting from its long-term debt balance \$186,450,000 in debt scheduled to mature in November 2020 (Exh. NEP-DPU 1-1, Att. at 1; NEP-AG 1-1, Att. 2, at 116; NEP Petition, ¶ 3). The Department finds that because the maturity date of these loans occurs after the issuance of this Order, excluding this amount from NEP's total capitalization would be contrary to the Department's accounting standards. While generally accepted accounting principles may classify portions of long-term debt payable within one year as short-term liabilities for public reporting purposes, it is well-settled that the impending maturity date of a long-term debt instrument does not transform the debt into a short-term obligation. See Fitchburg Gas and Electric Light Company, D.P.U. 15-80/D.P.U. 15-81, at 251-252 (2016); Blackstone Gas Company, D.P.U. 10-69, at 7-8 (2010); D.T.E. 04-74, at 22; Commonwealth Electric Company, D.T.E. 02-51, at 6 (2002). See also 220 CMR 50.00, Balance Sheet Accounts, Accounts 221, 224; 220 CMR 51.01, 18 C.F.R. Ch. 1, part 101, Balance Sheet Accounts, Accounts 221, 224. Therefore, the Department increases NEP's total capitalization by \$186,450,000 for purposes of computing the net plant test.

Finally, NEP's long-term debt balance as of December 31, 2019, does not include \$100,000,000 in outstanding debt issued on March 31, 2020 (Exhs. NEP-DPU 1-1, Att. at 1; NEP-DPU 1-13, Att. at 1; NEP-AG 1-2, Att. (Supp.) at 7, 17; NEP Petition, ¶ 3). In

accordance with G.L. c. 164, § 16, this issuance qualifies as outstanding debt. As a result, the Department increases NEP's total capitalization by an additional \$100,000,000.

Based on the Department's adjustments, the Department calculates NEP's total capitalization to be \$1,058,853,884⁴⁷ as of December 31, 2019, after adjustment to include the March 31, 2020 debt issuance. In comparing NEP's adjusted net utility plant of \$2,495,396,884 and its adjusted capitalization of \$1,058,853,884, NEP's net utility plant exceeds its capitalization by \$1,436,543,000. As a result, the Department finds that NEP's plant investment is sufficient to support the size of the proposed issuance of up to \$1.1 billion in debt.

Issues concerning the prudence of NEP's capital financing have not been raised in this proceeding, and the Department's determinations here do not represent a conclusion that these projects are economically beneficial to NEP or its customers. The Department's determinations in this Order shall not in any way be construed as a ruling relative to the appropriate ratemaking treatment to be accorded to any costs associated with the proposed financing.

d. Filing Requirements

Notwithstanding our conclusions, addressed above, the Department remains concerned with the Companies' presentations of their net plant test calculations, especially in consideration of the nominal amount attributed to the excess of net utility plant over total

⁴⁷ $(\$1,559,627,000 - (\$203,186,641 + \$584,036,475)) + \$186,450,000 + \$100,000,000 = \$1,058,853,884$

capitalization originally projected by each company in relation to the level of the requests, as well as the number of adjustments required by the Department.⁴⁸ In D.P.U. 17-142, at 18-19, the Department directed all gas and electric companies to include the following as part of their initial financing filings: (1) a complete balance sheet with all accounts and subaccounts; (2) a net plant test calculation including specific references to any balance sheet items included or adjusted for within the calculation; and (3) an itemized breakdown of any premium and additional paid-in capital accounts. This requirement facilitates Department review of financing requests, especially in consideration of the limited time for adjudication and consideration that often arises between the filing dates and the requested issuance dates. Both Companies failed to provide the requisite documentation in their initial filings. Moreover, during discovery, the Department requested each company's chart of accounts, including all accounts and subaccounts, as of both December 31, 2019, and March 31, 2020,⁴⁹ which the Companies provided; however, the Companies did not provide the balances for those accounts (Exhs. MECo-DPU 2-1; NEP-DPU 2-1).

⁴⁸ Specifically, MECo initially projected excess plant of approximately \$1,106,114,000 over total capitalization, and NEP initially projected excess plant of approximately \$1,138,399,000, thereby each "passing" the net plant test by only \$6,114,000 and \$38,399,000, respectively (Exhs. MECo-JC-2; NEP-JC-2).

⁴⁹ The Department requested updated data through March 31, 2020, due to the availability of audited, verifiable data for the Companies through that date (Exhs. MECo-DPU 1-13; NEP-DPU 1-13; Tr. at 62-63). This would have permitted possible further revisions to the net plant test calculations, including the ability to reflect increases to the Companies' actual plant in service and accumulated depreciation balances (see Exhs. MECo-JC-2; MECo-DPU 1-12; NEP-JC-2; MECo-DPU 1-12; RR-MECo-DPU-5; RR-NEP-DPU-5).

As a result, we find that the Companies failed to present their net plant test calculations with sufficient transparency to easily facilitate Department review, particularly as reflected in the above adjustments. Accordingly, we remind the Companies of the filing requirements for their future financing requests. D.P.U. 17-142, at 18-19.

3. Maximum Interest Rate

Each company proposes that the long-term debt securities would carry either a fixed or adjustable interest rate, not to exceed seven percent per annum, to be determined based on market conditions at the time of issuance (Exhs. MECo-JC-1, at 6-7; NEP-JC-1, at 6-7). In determining the requested interest rates, the Companies considered current market rates for similarly rated securities and historical rates, and MECo and NEP specify that each included a measure of flexibility to address uncertain and volatile markets (Exhs. MECo-JC-1, at 6-7; NEP-JC-1, at 6-7).

The Department recognizes that the potential for financial volatility requires the allowance of a measure of flexibility in setting maximum interest rates for long-term debt securities. D.T.E. 04-51, at 13; D.T.E. 03-129, at 16-17; D.T.E. 03-89, at 26. In the case of adjustable-rate debt, the Department has recognized that the maximum interest rate must be sufficient to allow the interest rate to vary over the life of the debt instrument without undue risk to the investor. D.T.E. 04-51, at 13; D.T.E. 03-129, at 16-17; D.T.E. 03-89, at 26; D.P.U. 89-44, at 4-5. To retain relevancy, a maximum interest rate proposal should be based on a realistic appraisal of market conditions in both the current and near term. D.P.U. 17-36/D.P.U. 17-37, at 34. Reliance on historical averages to develop maximum

interest rates will always be subject to distortions in market conditions that occur within the historic period, such as the financial market crash of 2008 and recent volatility in the markets arising from the COVID-19 pandemic (Exhs. MECo-JC-1, at 6-7, 12, & Appendix; MECo-JC-4; NEP-JC-1, at 6-7; NEP-JC-3; Tr. at 55-56). D.P.U. 17-36/D.P.U. 17-37, at 34.

Given current and anticipated U.S. Treasury rates, it is unlikely that the Companies will issue debt at a seven percent interest rate (Exhs. MECo-JC-1, at 6; MECo-JC-4; NEP-JC-1, at 6; NEP-JC-3). Nevertheless, the proposed seven percent maximum interest rate takes into consideration recent analysts' forecasts of 30-year Treasury yields covering the period for which the Companies request long-term borrowing authority, the Federal Reserve's future outlook to increase interest rates, the historical rate of increase in utility bond yields, and recently realized credit spreads for similarly rated affiliates (Exhs. MECo-JC-1, at 6-7; MECo-JC-4; NEP-JC-1, at 6-7; NEP-JC-3). The Companies' evaluation of financial markets for both variable and fixed interest rate securities in determining the proposed maximum interest rate for these instruments takes market distortions into consideration and is consistent with the method previously approved by the Department. D.P.U. 13-133, at 26-28; D.P.U. 09-41, at 13-14; D.T.E. 03-129, at 18 n.11. Accordingly, the Department approves the maximum interest rate of seven percent for issuance of long-term debt securities proposed by MECo and NEP. However, the Department fully expects the Companies to carefully monitor the capital markets to obtain the most favorable interest rates at the time of placement. D.P.U. 18-127, at 19.

Finally, the Attorney General requests that the Department prohibit the issuance of green bonds if the cost exceeds conventional financing, or prohibit the recovery from ratepayers any debt costs for green bonds that exceed the cost of conventional bonds (Attorney General Letter at 1, 3). We decline to adopt these proposals. As we previously observed, companies have an obligation to manage their capital structures prudently, taking into consideration their capital needs, interest rates, and market conditions. D.P.U. 18-127, at 20 (citation omitted). Therefore, MECo and NEP must fully evaluate their financing options and exercise reasoned judgement as to whether and when to issue green bonds. D.P.U. 18-127, at 20. As a result, consistent with the requirements of D.P.U. 18-127, at 20, and the Companies' representations, to the extent that MECo or NEP issue green bonds, we require the issuing company to provide the Department with its underwriters' professional estimation of the savings associated with any green bond issuances in comparison to traditional bonds, as well as an itemized listing of issuance expenses including attestation costs. This information shall be provided with the post-issuance compliance filing identified by the Department in Section VI.B., below.

4. Duration of Bonds

The Companies request Department approval to issue long-term debt greater than one year but no more than 30 years in duration and assert that most issuances for traditional utility bonds are either 10 or 30 years in duration (Exhs. MECo-JC-1, at 7-8; NEP-JC-1, at 7-8; Tr. at 40, 42). The Attorney General requests that the Department direct the Companies to give reasonable preference to debt issuances of longer duration (30 years rather

than 10 years) given the short-term average life of each company's portfolio of outstanding debt (Attorney General Letter at 1, 3). The Companies counter that this proposed directive would be an unwarranted restriction on management's prerogative to determine the appropriate tenor that would provide the most benefit to customers at a given time, and would not be in the public interest (MECo Reply Brief at 5; NEP Reply Brief at 5).

We decline to adopt the Attorney General's proposal. The Attorney General proffers no support or Department precedent for her proposal, other than asserting that the Companies have the responsibility to obtain the lowest overall costs in the long run (Attorney General Letter at 3). Moreover, the record reflects that the Companies consider a variety of factors when determining the term of issuances, including supply, investor demand, interest rates, and yield curves within the market (Tr. at 39-43). Consistent with our findings involving the maximum interest rate to be applied to the debt issuances, we permit the Companies a measure of flexibility involving the duration of their debt issuances.

5. Exemption from G.L. c. 164, § 15

MECo and NEP each request an exemption to the competitive solicitation and advertising requirements of G.L. c. 164, § 15 (Exhs. MECo-JC-1, at 9; NEP-JC-1, at 9). The Companies propose to issue long-term debt securities through (1) competitive bidding; (2) negotiation with underwriters; (3) negotiation directly with investors through one or more agents; (4) to one or more agents as principal for resale to investors, in private or public offerings; or (5) in connection with the establishment of loan facilities with a bank or syndicate of banks (Exhs. MECo-JC-1, at 9; NEP-JC-1, at 9). The Companies maintain that

the benefits of a competitive solicitation process for customers can be duplicated through the negotiated public offerings without the additional cost and time associated with a competitive solicitation process (Exhs. MECo-JC-1, at 9; NEP-JC-1, at 9). Further, the Companies state that they will always assess the various options at the time of the planned issuance to ensure that the best value is achieved, whether by issuing via the debt capital markets, internally to an affiliate, or through bank loans (Exhs. MECo-JC-1, at 11; NEP-JC-1, at 11).

The competitive bidding process required by Section 15, first enacted in 1919,⁵⁰ requires that gas and electric companies seeking to sell bonds, notes, debentures, or other evidences of indebtedness with a maturity of more than five years advertise proposals for the purchase of the specific securities to be offered in two or more local newspapers where the company maintains its principal business office, as well as in two or more Boston newspapers. G.L. c. 164, § 15. The Department has long recognized that today's financial markets do not operate as they did in 1919 and that newspaper advertising is an inefficient way to attract investor interest. D.P.U. 09-41, at 23; D.T.E. 05-9, at 20-21.

The Department is persuaded that a competitive solicitation process conducted under strict application of Section 15 could impair MECo's and NEP's ability to select the form of security most appropriate to a particular market condition, as well as each company's ability to time the issuance of such securities to the market (Exhs. MECo-JC-1, at 9; MECo-JC-6; MECo-DPU 1-11; NEP-JC-1, at 9; NEP-JC-5; NEP-DPU 1-11). The Department finds that

⁵⁰ St. 1919, c. 104, § 1.

MECo and NEP have shown that a newspaper solicitation process could adversely affect investor interest, ultimately impairing the financial benefits available to ratepayers under the negotiated offering process. D.P.U. 16-171, at 22-23; Fitchburg Gas and Electric Company, D.T.E. 01-43, at 8 (2001); New England Power Company, D.T.E. 00-53, at 10 (2000). In this case, it is appropriate to allow each company the flexibility offered by the negotiated offering process to facilitate MECo's and NEP's access to the capital markets and to reduce issuance costs and interest rate expense. The Department finds that the Companies have demonstrated that their proposed placement processes are sufficient to realize the intent of Section 15 for competitive solicitation while still providing flexibility to enter the debt market quickly. Therefore, the Department finds that it is in the public interest to exempt MECo and NEP from the advertising and competitive solicitation requirements of G.L. c. 164, § 15.

6. Exemption from G.L. c. 164, § 15A

MECo and NEP also request an exemption from the par value requirement of G.L. c. 164, § 15A, to issue new debt at a price not less than 95 percent or more than 100 percent of its principal amount (Exhs. MECo-JC-1, at 10, MECo-DPU 2-2; NEP-JC-1, at 10; NEP-DPU 2-2). The Companies contend that issuing the debt securities below par value would offer MECo and NEP enhanced flexibility in entering the market quickly to take advantage of the prevailing market rates (Exhs. MECo-JC-1, at 10; MECo-DPU 2-3; NEP-JC-1, at 10; NEP-DPU 2-3).

The Department recognizes that discounts are a standard market device that investors rely upon to refine the price structure of a securities instrument in order to achieve a desired

interest rate.⁵¹ See, e.g., Western Massachusetts Electric Company, D.P.U. 10-64, at 30 (2011); NSTAR Electric Company, D.P.U. 07-43, at 19 (2007); D.T.E. 03-64, at 13. The Department has found that it is in the public interest to authorize the issuance of debt securities below par value where this technique offers a company enhanced flexibility in entering the market quickly to take advantage of prevailing interest rates, particularly if this pricing strategy benefits the company's ratepayers in the form of lower interest rates and a lower cost of capital. D.P.U. 10-64, at 30; D.P.U. 92-127, at 8; D.P.U. 91-47, at 12-13. Moreover, discounts provide companies with increased flexibility to time their debt issuances without regard for day-to-day market fluctuations. This increased flexibility enables companies to issue debt securities in a timely manner and take advantage of favorable market conditions. D.P.U. 07-43, at 19, citing D.T.E. 03-89, at 16-17; D.T.E. 03-64, at 13; D.T.E. 00-62, at 8, 12. For these reasons, the Department finds that it is in the public interest to exempt MECo and NEP from the par value requirement of G.L. c. 164, § 15A, in order to issue new debt at a price not less than 95 percent or more than 100 percent of its principal amount. Consistent with the requirement of G.L. c. 164, § 15A, MECo and NEP each shall amortize the amount of any discount from the par value over the life of the new

⁵¹ In the public market, debt securities are priced in increments of 0.01 percent, and issued at interest rates set at increments of either 0.05 percent or 0.125 percent. Western Massachusetts Electric Company, D.P.U. 15-127, at 20 (2015). Consequently, the face value of a security is often discounted by a small amount to recognize the finer pricing points.

issuance series on a straight-line basis.⁵² D.P.U. 07-43, at 19, citing D.T.E. 03-129, at 20-21; D.T.E. 00-62, at 12.

7. Issuance of Long-Term Debt to an Affiliated Company

Although the Companies assert that they do not have plans to issue the proposed debt to a corporate affiliate, MECo and NEP each request the flexibility to issue debt internally to an affiliate (Exhs. MECo-JC-1, at 8, 11; MECo-AG 1-10; NEP-JC-1, at 8, 11; NEP-AG 1-10). The Department has general supervision of dealings between jurisdictional gas and electric companies and an affiliated company, as defined by G.L. c. 164, § 85. G.L. c. 164, § 76A; D.P.U. 17-36/D.P.U. 17-37, at 38; D.P.U. 16-171, at 25. For purposes of G.L. c. 164, § 76A, an affiliated company means

[A]ny corporation, society, trust, association, partnership or individual (a) controlling a company subject to this chapter, either directly, by ownership of a majority of its voting stock or of such minority thereof as to give it substantial control of such company, or indirectly, by ownership of such a majority or minority of the voting stock of another corporation or association so controlling such company; or (b) so controlled by a corporation, society, trust, association, partnership or individual controlling as aforesaid, directly or indirectly, a company subject to this chapter; or (c) standing in such a relation to a company subject to this chapter that there is an absence of equal bargaining power between the corporation, society, trust, association,

⁵² The Companies propose that the debt issuance costs, and any debt discount be deferred and amortized over the life of the debt (Exh. MECo-JC-1, at 11; MECo Petition, ¶ 9; NEP-JC-1, at 11; NEP Petition, ¶ 9). Each company's proposed accounting treatment is not inconsistent with Department precedent. See D.P.U. 17-36/D.P.U. 17-37, at 38 n.26; D.P.U. 90-121, at 159-160; Boston Edison Company, D.P.U. 86-71, at 16 (1986). In addressing each company's proposed accounting treatment of debt issuance costs, the Department makes no finding on the ratemaking treatment or prudence of these costs.

partnership or individual and the company so subject, in respect to their dealings and transactions.

G.L. c. 164, § 85.⁵³ In the exercise of our authority over dealings with affiliated companies, the Department finds that it is appropriate to determine whether specific conditions are required for the issuance of long-term debt pursuant to G.L. c. 164, § 14, by a gas or electric company to an affiliated company. D.P.U. 17-36/D.P.U. 17-37, at 39; D.P.U. 16-171, at 24-25. The Department's regulations at 220 CMR 12.00 et seq., applicable to MECo, also impose certain standards of conduct and transaction pricing requirements on distribution companies and their affiliates. 220 CMR 12.01(2).⁵⁴ These regulations permit affiliate transactions, subject to certain requirements, and do not generally require prior Department approval of these transactions. 220 CMR 12.00 et seq.

In examining dealings with affiliated companies under G.L. c. 164, § 76A, the Department seeks to protect against financial and accounting abuse.

D.P.U. 17-36/D.P.U. 17-37, at 40; D.P.U. 16-171, at 27. Regarding the issuance of

⁵³ As a result of possible economic advantages of arrangements between jurisdictional operating companies and affiliated companies within a holding company system, a special commission of the Massachusetts Legislature issued its "Report of the Special Commission on Conduct and Control of Public Utilities" in March 1930. House Document No. 1200. As a result of this Report, the Legislature enacted statutes designed to confer on the Department powers to regulate directly affiliate-operating company contracts: St. 1930, c. 395 (G.L. c. 164, § 85); St. 1930, c. 396 (G.L. c. 164, § 94B). See 45 Harv. L. Rev. 729, n.3 (1932); 49 Harv. L. Rev. 957, 986 & n.126 (1935).

⁵⁴ NEP is not a distribution company but, rather, an electric company as defined in G.L. c. 164, § 1, that provides electric transmission service (Exh. NEP-JC-1, at 3-4). D.P.U. 16-171, at 26-27.

long-term debt by a jurisdictional utility to an affiliated company, the terms and conditions of the issuance shall be consistent with safe and sound financing practice.

D.P.U. 17-36/D.P.U. 17-37, at 40; D.P.U. 16-171, at 27. That is, the affiliated company may not exploit the affiliate relationship to benefit from terms and conditions that are materially more advantageous to the interests of the affiliated company than terms and conditions that the jurisdictional utility could expect to obtain in the financial markets.

D.P.U. 17-36/D.P.U. 17-37, at 40; D.P.U. 16-171, at 27-28.

Additionally, 220 CMR 12.04 requires that when an affiliate sells, leases, or transfers an asset to a distribution company, or provides services to a distribution company, the cost should be no greater than the market value of the asset or service provided. Further, a distribution company must maintain a log of such transactions, which is submitted annually to the Department. 220 CMR 12.04(4). The log must include the date of the transaction, the nature and quantity of the asset or service provided, the price charged, and an explanation of how the price was derived for purposes of compliance with the regulation. 220 CMR 12.04.

The Department finds that, in this case, it is appropriate to allow MECo and NEP the flexibility to issue long-term debt to an affiliate or by another means, where appropriate, as specified above, in order to facilitate each company's access to the capital markets.⁵⁵ The Department's regulations permit affiliate transactions, subject to certain requirements. 220 CMR 12.00 et seq. Here, the Department conditions its approval for MECo on the

⁵⁵ The Department notes that it previously granted such flexibility to NEP to issue long-term debt to an affiliate. D.P.U. 16-171, at 23.

company's compliance with those requirements. D.P.U. 17-36/D.P.U. 17-37, at 41. We find that satisfaction of those requirements may be appropriately demonstrated in a compliance filing if MECo issues long-term debt to an affiliate and does not require pre-approval in these circumstances. D.P.U. 17-36/D.P.U. 17-37, at 41. Accordingly, if MECo issues long-term debt to an affiliate under the authority granted herein, it shall demonstrate as part of its compliance filing discussed in Section VI.B. below that the transaction is in compliance with the relevant provisions of 220 CMR 12.00 et seq. D.P.U. 17-36/D.P.U. 17-37, at 41.

Further, to the extent that either MECo or NEP issues long-term debt to an affiliate, the issuing company must include in the compliance filing an "officer's certificate" with the following representations: (1) the officer is a duly appointed officer of the company; (2) the officer is authorized to file the certificate; (3) based on reasonable efforts, the company could not secure a debt issuance on comparable or more favorable terms than the debt issuance to the affiliated company; and (4) the foregoing is true, accurate, and complete.

D.P.U. 17-36/D.P.U. 17-37, at 41-42; D.P.U. 16-171, at 28.

B. Report on Issuance and Sale of Securities

The Department has determined that it is useful to receive information pertaining to the actual terms of securities that the Department has authorized and approved. See, e.g., D.P.U. 18-127, at 20; D.P.U. 17-36/D.P.U. 17-37, at 45-46; D.P.U. 15-01, at 15; D.P.U. 13-133, at 32. MECo and NEP each represent that they will submit a post-issuance compliance filing for their debt issuances (Exhs. MECo-AG 1-19; NEP-AG 1-19).

The Attorney General requests that each company capture a screenshot of Bloomberg data on U.S. Treasury yields and the reported spread above U.S. Treasury rates paid on utility bonds of duration and credit rating similar to National Grid on the day that each company elects to issue new debt, observing that the market yield on Treasury debt and the credit spread change over time (Attorney General Letter at 2). MECo and NEP do not oppose providing a screenshot from the Bloomberg display terminal taken on the date of issuance showing the U.S. Treasury bond interest rate (MECo Reply Brief at 3; NEP Reply Brief at 3). However, the Companies observe that a Bloomberg screenshot of the credit spread for similarly-rated companies on the same day would not reflect the actual credit spread for the issuance due to a number of factors and, thus, they suggest modifying the credit spread screenshot proposal to instead permit the filings to include further information that reflects comparable credit spreads to compare against the final cost of issuance (MECo Reply Brief at 2-3, citing Tr. at 24-26, 34-36, 47-49; NEP Reply Brief at 2-3, citing Tr. at 24-26, 34-36, 47-49).

Due to uncertainty and recent volatility in the market, we agree that including day-of issuance data in the post issuance compliance filing would facilitate review and evaluation of the issuance (Exhs. MECo-JC-1, at 12 & Appendix; MECo-JC-4; NEP-JC-3; Tr. at 55-56). As a result, we approve the Attorney General's proposal regarding inclusion in the post-issuance compliance filing of the Bloomberg screenshots of both the requested U.S. Treasury rate and credit spread, as well as the Companies' proposal to include additional supporting data that explain the final credit spread applied to the issuance. We

determine that inclusion of the credit spread screenshot will provide the necessary context to the Companies' proposed additional data for the actual credit spread.

Consistent with Department precedent and the Companies' representations, as well as the directives above and in Sections VI.A.4. and VI.A.7, the Department directs MECo and NEP to each report to the Department and to the Attorney General within 30 days of any issuance hereunder, the following information: (1) the name of the lender; (2) the principal amount; (3) the maturity; (4) the yield; (5) reference to any index; (6) whether priced at par; (7) any optional prepayment; (8) a description of how the interest rate and the term were determined; (9) affiliate transaction information; (10) Bloomberg screenshots taken on the day of issuance of the U.S. Treasury rate and credit spread, as well as additional relevant information reflecting comparable credit spreads to compare against the final cost of issuance; and (11) data on green bond issuances, if applicable.

VII. ORDER

Accordingly, after due notice, hearing, and due consideration, the Department:

VOTES: That the issuance and sale by Massachusetts Electric Company, d/b/a National Grid, from time to time during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion is reasonably necessary for the purposes for which such issuance and sale has been authorized, including for refinancing short-term debt, financing capital expenditures, constructing utility plant properties, reimbursing the treasury, and for general corporate purposes; and further

VOTES: That the issuance and sale by New England Power Company, d/b/a National Grid, from time to time during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion is reasonably necessary for the purposes for which such issuance and sale has been authorized, including for refinancing short-term debt, financing capital expenditures, constructing utility plant properties, reimbursing the treasury, funding maturing debt, and for general corporate purposes; and further

VOTES: That the issuance and sale by Massachusetts Electric Company, d/b/a National Grid, from time to time during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, at less than par value, is in the public interest, and such issuance and sale shall be exempt from the requirements of G.L. c. 164, § 15A, and that if a security is sold at less than par value, it is in the public interest to amortize the discount from par value over the life of the new issuance series on a straight-line basis; and further

VOTES: That the issuance and sale by New England Power Company, d/b/a National Grid, from time to time during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, at less than par value, is in the public interest, and such issuance and sale shall be exempt from the requirements of G.L. c. 164, § 15A, and that if a security is sold at less than par value, it is in the public interest to amortize the discount from par value over the life of the new issuance series on a straight-line basis; and it is

ORDERED: That the issuance and sale by Massachusetts Electric Company, d/b/a National Grid, during the period extending three years from the date of this Order, in an aggregate principal amount up to \$1.1 billion and for a term not to exceed 30 years, is reasonably necessary for the purposes for which such issuance is authorized; and it is

FURTHER ORDERED: That the issuance and sale by New England Power Company, d/b/a National Grid, during the period extending three years from the date of this Order, in an aggregate principal amount up to \$1.1 billion and for a term not to exceed 30 years, is reasonably necessary for the purposes for which such issuance is authorized; and it is

FURTHER ORDERED: That such authorized long-term debt securities issued by Massachusetts Electric Company, d/b/a National Grid shall carry a fixed interest rate not to exceed seven percent per annum, or an adjustable interest rate to vary with a market index designated at the time of issue, but that will not exceed seven percent per annum; and it is

FURTHER ORDERED: That such authorized long-term debt securities issued by New England Power Company, d/b/a National Grid shall carry a fixed interest rate not to exceed seven percent per annum, or an adjustable interest rate to vary with a market index designated at the time of issue, but that will not exceed seven percent per annum; and it is

FURTHER ORDERED: That Massachusetts Electric Company, d/b/a National Grid's issuance and sale from time to time, during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, without complying with the advertising and competitive

solicitation provisions of G.L. c. 164, § 15, is in the public interest, and that such issuance and sale shall be exempt from the provisions of G.L. c. 164, § 15; and it is

FURTHER ORDERED: That New England Power Company, d/b/a National Grid's issuance and sale from time to time, during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, without complying with the advertising and competitive solicitation provisions of G.L. c. 164, § 15, is in the public interest, and that such issuance and sale shall be exempt from the provisions of G.L. c. 164, § 15; and it is

FURTHER ORDERED: That the issuance and sale by Massachusetts Electric Company, d/b/a National Grid, during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, at less than par value pursuant to G.L. c. 164, § 15A, is in the public interest, and that if a security is sold at less than par value, it is in the public interest to amortize the discount from par value over the life of the new issuance series on a straight-line basis; and it is

FURTHER ORDERED: That the issuance and sale by New England Power Company, d/b/a National Grid, during the period extending three years from the date of this Order, of long-term debt securities, including green bonds, in an aggregate principal amount up to \$1.1 billion, at less than par value pursuant to G.L. c. 164, § 15A, is in the public interest, and that if a security is sold at less than par value, it is in the public interest to

amortize the discount from par value over the life of the new issuance series on a straight-line basis; and it is

FURTHER ORDERED: That the net proceeds from such sale of long-term debt securities by Massachusetts Electric Company, d/b/a National Grid, shall be used for the purposes set forth herein; and it is

FURTHER ORDERED: That the net proceeds from such sale of long-term debt securities by New England Power Company, d/b/a National Grid, shall be used for the purposes set forth herein; and it is

FURTHER ORDERED: That Massachusetts Electric Company and New England Power Company, each d/b/a National Grid, shall provide the Department with a copy of the final version of the note(s) and a description of how the interest rate and term of the notes are determined; and it is

FURTHER ORDERED: That Massachusetts Electric Company and New England Power Company, each d/b/a National Grid, shall comply with all other directives contained in this Order; and it is

FURTHER ORDERED: That the Secretary of the Department shall within three days of the issuance of this Order cause a certified copy of it to be filed with the Secretary of the Commonwealth.

By Order of the Department,

/s/
Matthew H. Nelson, Chair

/s/
Robert E. Hayden, Commissioner

/s/
Cecile M. Fraser, Commissioner

An appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or in part. Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of the twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. G.L. c. 25, § 5.