THE COMMONWEALTH OF MASSACHUSETTS
OFFICE OF THE ATTORNEY GENERAL
ONE ASHBURTON PLACE
BOSTON, MASSACHUSETTS 02108

MAURA HEALEY
ATTORNEY GENERAL

(617) 727-2200
(617) 727-4765 TTY
www.mass.gov/ago

August 12, 2020

Mark D. Marini, Secretary
Department of Public Utilities
One South Station, 5th Floor
Boston, Massachusetts 02110

RE: D.P.U. 20-58, Inquiry of the Department of Public Utilities into Establishing Policies and Practices for Electric and Gas Companies Regarding Customer Assistance and Ratemaking Measures in Connection to the State of Emergency Regarding the Novel Coronavirus (COVID-19).

Dear Secretary Marini:

On May 11, 2020, the Department of Public Utilities (the "Department") opened an inquiry into establishing policies and practices regarding customer assistance and ratemaking measures for investor-owned electric and gas companies (collectively, the "Distribution Companies" or "Companies") in response to the effects of the novel coronavirus ("COVID-19") pandemic, D.P.U. 20-58 ("NOI"). As part of its NOI, the Department established a Working Group to assist the Department in establishing policies and practices. NOI, at 4. The Working Group consists of members representing each of the Distribution Companies, the Attorney General's Office ("AGO"), the Department of Energy Resources ("DOER"), the National Consumer Law Center ("NCLC"), the Low-Income Energy Affordability Network ("LEAN"), and the Associated Industries of Massachusetts ("AIM").[1]

Although the AGO was able to reach consensus with the Distribution Companies on many of its ratemaking proposals, the AGO strongly believes that it would be both in the public

---

[1] The AGO appreciates this opportunity to work with the Companies, DOER, NCLC, LEAN, and AIM to develop proposals to help residents and businesses affected by the COVID-19 pandemic and economic downturn currently gripping the Commonwealth. The customer assistance policies and procedures that the Working Group proposed and the Department approved should help many customers who have experienced financial hardship as a result of the pandemic maintain their electric and gas service.

interest and consistent with the Department's ratemaking principles for the Distribution Companies to bear their fair share of the costs of the COVID-19 pandemic. The Companies are not meant to be insulated from any and all risks of providing distribution service: a regulated company is not entitled to guaranteed profits under cost of service ratemaking *Fitchburg Gas & Elec. Light Co. v. Dep't Of Pub. Utils.*, 467 Mass. 768, 772, 783 (2014) (citations omitted). Indeed, companies have "no automatic right to include all costs." *See id.*, at 781.

The ongoing COVID-19 pandemic has had an unprecedented impact on the physical and economic well-being of ratepayers in the Commonwealth. The unemployment rate in Massachusetts is currently the highest in the country.[2] Moreover, the Massachusetts economy heavily relies upon industries directly affected by the shutdown prompted by COVID-19, including the health care, education, and tourism industries, leading to significant job losses and struggling businesses.[3] Although the customer assistance policies that the Department approved in this proceeding will help many customers get back on their feet following the initial economic downturn, these policies will not alleviate the burden of a monthly utility payment for each household and business that wishes to maintain electric and/or gas service. Customers' utility bills will continue to increase without regard to the deepening economic recession[4]: some customers will experience general base rate increases this fall; almost every customer will experience bill increases due to the collection of capital investment costs and operations and maintenance (O&M) costs outside of base rates, through previously-established reconciling mechanisms.[5]

---

[2] Adam Vaccaro, *What Will Trump's New Executive Order Mean for Unemployed Workers in Mass.? Confusion Reigns*, BOSTON GLOBE (Aug. 10, 2020), https://www.bostonglobe.com/2020/08/10/metro/uncertainty-about-unemployment-boost-baker-administration-reviews-trump-order/ (reporting that Massachusetts has the highest unemployment rate in the country, at 17.4 percent).

[3] Larry Edelman, *Mass. Unemployment Rate Led the Nation in June*, BOSTON GLOBE (July 17, 2020), https://www.bostonglobe.com/2020/07/17/business/massachusetts-employers-added-83700-jobs-june-economy-reopened/?p1=Article_Inline_Text_Link.

[4] Scott Horsley, *It's Official: U.S. Economy Is in a Recession*, NPR (June 8, 2020), https://www.npr.org/sections/coronavirus-live-updates/2020/06/08/872336272/its-official-scorekeepers-say-u-s-economy-is-in-a-recession; Press Release, *COVID-19 to Plunge Global Economy into Worst Recession Since World War II*, WORLD BANK (June 8, 2020), https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii.

[5] Expected rate increases include, but are not limited to, the following: Gas System Enhancement Plan ("GSEP") cost increases for each gas distribution company; revenue decoupling mechanisms for each distribution company; PBR rate increases for Eversource (Electric) and National Grid (Electric); capital cost recovery for Unitil (Electric); base rate increase for Eversource (Gas); base rate increase for Columbia Gas (contingent upon approval of settlement in D.P.U. 20-59); and many other increases due to additional reconciling mechanisms.

Although Massachusetts ratepayers currently face a financial crisis of enormous magnitude, the Distribution Companies do not. Unique among Massachusetts businesses, the Distribution Companies benefit from a variety of proactive legislative and regulatory policies implemented by the Department over the past several decades to ensure their fiscal health. Those policies include the many different rate mechanisms to recover the costs of providing distribution service, including revenue decoupling, capital investment trackers, and the annual rate increases from the Performance Based Regulation ("PBR") rate plans, along with many other individual reconciling mechanisms for everything from employee pensions and post-retirement benefits other than pension costs to storm costs to residential assistance costs. The Department's adoption of these rate mechanisms protect investors by shifting the financial risk associated with variations in these costs from investors onto the Companies' customers.

Accordingly, the risk to investors holding investments in the electric and gas companies under the Department's jurisdiction has been greatly reduced in recent years. Indeed, the risk has been reduced to the point that investors find themselves largely protected from the risks associated with an economy in the midst of an unprecedented global recession due to COVID-19.[6]

Several of the Distribution Companies have recognized the benefit of the Department's rate mechanisms in transferring the financial risk of the pandemic to customers in recent presentations to the investment community. For example, Eversource management has claimed:

> **In this period of uncertainty, our business model resonates very well. Well over 90% of our business is revenue-decoupled. We have pension recovery trackers for our FERC transmission and Massachusetts distribution businesses. Much of our capital improvement program is tracked and we are operating under multiyear rate plans for our three largest distribution franchises.**
>
> Philip J. Lembo - Eversource Energy - Executive VP & CFO, May 07, 2020, Eversource Energy Earnings Call, Transcript, at 4.

As a result of these rate mechanisms, Eversource does not see any significant impact of the COVID-19 pandemic on its earnings:

> **As you saw in our news release and on Slide 8, we continue to project earnings per share in 2020 of $3.60 to $3.70, and we continue to foresee earnings growth through 2024, around the middle of our 5% to 7% range, based on our regulated core business.**
>
> *Id.*, at 6. [emphasis added].

[6] Press Release, *COVID-19 to Plunge Global Economy into Worst Recession Since World War II*, WORLD BANK (June 8, 2020), https://www.worldbank.org/en/news/press-release/2020/06/08/covid-19-to-plunge-global-economy-into-worst-recession-since-world-war-ii.

Similarly, National Grid recently stated:

> **Like all companies, National Grid is not immune to COVID. However, as a regulated utility for the most part there are either mechanisms in place or regulatory precedents for recovering additional costs arising from COVID.**
>
> National Grid, Full Year Results Webcast, 18th June 2020, Transcript, at 10.

Furthermore, National Grid demonstrated its financial strength during this time of the pandemic by forecasting that shareholders' dividend policy would not change and declaring a dividend increase:

> **Whilst COVID will bring near-term earnings and cash flow headwinds, the underlying operations of the company remain strong. This has enabled the Board to confirm the dividend policy. And as previously announced, due to the current levels of investment we do not expect to buyback the scrip issues during FY'21.**
>
> *Id.*, at 12.
>
> **The Board has recommended an increase in the final dividend to 32.0 pence per ordinary share ($2.0126 per American Depositary Share) which will be paid to shareholders on the register as at 3 July 2020. If approved, this will bring the full year dividend to 48.57 pence per ordinary share, an increase of 2.6% over the 47.34 pence per ordinary share in respect of the financial year ending 31 March 2019.**
>
> National Grid, 2019/20 Full Year Results Statement, 18 June 2020, at 12. [emphasis added]

Unitil also expects the effect on its finances to be insignificant, stating:

> **No change in dividend policy anticipated as a result of the COVID-19 Emergency.**
>
> Unitil Second Quarter 2020 Earnings Conference Call Supplement, July 30, 2020, at 9.

NiSource, Avangrid, and Algonquin also have continued to declare dividends throughout this pandemic. Algonquin, like National Grid, increased its dividend:

> **We believe APUC is well positioned to deal with the impact COVID-19 may have on our business in 2020. Further, our long term growth prospects continue to provide our Board of Directors with the confidence to approve a 10% increase in APUC's annual dividend this quarter.**
>
> Press Release, Algonquin Power & Utilities Corp. Announces 2020 First Quarter Financial Results, May 7, 2020, at 1.

The Companies' well-founded confidence in their financial position is further demonstrated by the fact that not one of the Companies has deviated from their capital investment programs.[7] As the Companies and their parent companies recognize, with the vast majority of the financial risk of the pandemic borne by customers, shareholders are largely insulated from all of its effects.

The ratepayers of the Commonwealth need the Department's help to ease the burdens currently placed on their shoulders, in line with the help the Department has provided to the Distribution Companies to manage their fiscal burdens over the years. Therefore, as proposed by the AGO below, the Department should find that it is appropriate and necessary for the Companies' shareholders to bear *some* of the financial risks created by the COVID-19 pandemic, including: (1) any COVID-19 related O&M expenses; (2) 50 percent of any incremental bad debt expense; and (3) 50 percent of costs related to the small C&I arrearage forgiveness program. Furthermore, in recognition of the unique nature of PBR rate plans, the Department should deny additional recovery of certain expenses for Companies recovering distribution costs under a PBR plan. Finally, the Department should limit carrying costs on the Companies' incremental cash working capital amounts to the short-term debt rate.

I. Background

On May 29, 2020, the Working Group submitted an initial report to the Department outlining the Working Group's recommendations for customer assistance policies and practices in connection with COVID-19. The Working Group's initial report included the following recommendations: (1) extended payment plans for residential and commercial and industrial ("C&I") customers; (2) waiver of late fees; (3) enhancements to arrearage management plans ("AMPs") for residential customers; (4) establishment of a limited arrearage forgiveness program for small C&I customers; (5) statewide communication and customer outreach plan; (6) a proposal to end the shut-off moratorium for C&I customers on September 1, 2020; and (7) a proposal to end the shut-off moratorium for residential customers on November 15, 2020.[8]

On June 9, 2020, the Distribution Companies submitted a COVID-19 Ratemaking Proposal to the Working Group, as the Department instructed. NOI, at 10. Following several weeks of consideration and deliberation regarding the Companies' Ratemaking Proposal, the Working Group submitted a Ratemaking Working Group Report to the Department on August 5,

---

[7] May 07, 2020, Eversource Energy Earnings Call, Transcript, at 4; National Grid, Full Year Results Webcast, 18 June 2020, at 3, 16; Unitil Second Quarter 2020 Earnings Conference Call Supplement, July 30, 2020, at 8, 14; NiSource, Supplemental Slides: Second Quarter 2020 Earnings, Aug. 5, 2020, at 3, 23; Avangrid, Results Presentation: Second Quarter, July 22, 2020, at 6; Press Release, Algonquin Power & Utilities Corp. Announces 2020 First Quarter Financial Results, May 7, 2020, at 1.

[8] The Department issued an order approving the Working Group's recommended customer outreach plan on June 26, 2020. D.P.U. 20-58-A. On July 31, 2020, the Department issued an order approving the Working Group's consensus policies and procedures for customer assistance. D.P.U. 20-58-B.

2020. Although the Working Group reached consensus on some of the Companies' proposals, there were several significant areas of disagreement. Accordingly, the AGO hereby submits these supplemental comments to the Ratemaking Working Group Report to support the AGO's positions on those issues where the AGO and the Distribution Companies did not reach consensus.

II. The Distribution Companies Should Absorb Some of the Financial Risks Associated with the Economic Downturn.

As discussed, *supra*, it is inappropriate to entirely shield the Companies' shareholders from any risk of loss due to the pandemic while ratepayers pay even more when many of them can least afford it. Thus, the Department should act to protect ratepayers and limit cost recovery in the targeted areas described below.

A. The Department Should Reject the Companies' Request to Recover COVID-19 O&M Costs.

As more fully described in Section III below, the AGO opposes, in all instances, the recovery of any COVID-19 O&M costs for the Companies with PBR rate plans because the PBR mechanism will already compensate those Companies for the COVID-19 O&M costs.

The AGO also opposes recovery of COVID-19 O&M expenses for any Distribution Company. In their proposal, the Companies list potential COVID-19 O&M expenses as: staff sequestering; facilities cleaning; personal protection equipment; and other costs incremental to costs recovered through base rates that were necessary to work safely in providing an emergency response to the Governor's state of emergency. Ratemaking Working Group Report, at 7. The Companies do not attempt to quantify the projected amount of these costs. As a general matter, costs for some level of facilities cleaning and the purchase of equipment necessary for employees to perform their jobs are standard costs of service and thus already included in each company's base distribution rates. Any increase in these types of costs due to COVID-19 should be within the normal ebb and flow of each company's operating expenses, as set in their last distribution base rate case.

Further, the amount of COVID-19 O&M costs will be offset by reductions in costs in other areas. There are many O&M expenses that will likely decrease as a result of COVID-19, including normal O&M activities that were not performed, both at the distribution company level and the service company level. The following is a non-exhaustive list of costs that should have decreased:

- Overtime wages;
- Health care costs;
- Employee conference, entertainment, and travel expenses;
- Gasoline and tolls expenses; transit reimbursement expenses; parking expenses;
- Facilities' utilities expenses and maintenance expenses; and

- Customer turn off/turn on expenses.

Indeed, some of the Companies are already benefitting from these decreased costs.[9]

Prior to presenting any costs for recovery, each company should also demonstrate that it has maximized potential O&M cost reductions to mitigate the increases in ratepayer costs due to COVID-19, including: employee raises/bonuses/incentive compensation (outside of those required by contract); and reduction of discretionary O&M spending.[10]

Accordingly, the overall COVID-19 O&M costs, offset by any cost decreases or reductions related to the pandemic, should be relatively low, such that the Companies can absorb these costs without any significant financial impact. Moreover, if the Department agrees with the AGO's position, the Department (and the parties) would avoid the time, resources, and costs associated with protracted litigation over what O&M costs qualify as "incremental," what costs were actually reduced as a result of the pandemic, and what costs should have been reduced in order to save customers money. Therefore, the AGO recommends that the Department reject the Companies' request for cost recovery for COVID-19 O&M expenses.

In the alternative, if the Department decides to allow cost recovery for COVID-19 O&M expenses, the AGO respectfully requests that the Department limit recovery to those instances where the Companies can show that the incremental COVID-19 O&M costs, net of any savings,

---

[9] For example, Unitil experienced a "net lower O&M of $0.6M in Q2 as a result of COVID-19" because "[l]ower employee benefit costs of $1.0M partially offset other pandemic related costs of $0.4 million." Unitil Second Quarter 2020 Earnings Conference Call Supplement, July 30, 2020, at 14. Unitil also noted during its first quarter that training, travel, and "[o]ther discretionary expenses" were down, and along with delayed hiring, might offset some COVID impacts. Motley Fool Transcribers, Unitil Corp. (UTL) Q1 2020 Earnings Call Transcript, at 8 (May 1, 2020), https://www.fool.com/earnings/call-transcripts/2020/05/01/unitil-corp-utl-q1-2020-earnings-call-transcript.aspx (attached as Exhibit AG-1). NiSource explained that it had a non-GAAP net operating earnings, year-over-year increase "driven primarily by reduced employee and administrative expense measures put in place to offset the revenue impacts of COVID-19." Seeking Alpha Transcripts, NiSource Inc. (NI) CEO Joe Hamrock on Q2 2020 Results – Earnings Call Transcript, at 5 (Aug. 6, 2020), https://seekingalpha.com/article/4365021-nisource-inc-ni-ceo-joe-hamrock-on-q2-2020-results-earnings-call-transcript (attached as Exhibit AG-2); *see also* NiSource, Supplemental Slides: Second Quarter 2020 Earnings, Aug. 5, 2020, at 4, 5 ("Cost Management More Than Offset COVID Impacts During Q2"). And NiSource experienced these savings without sacrificing safety. Exh AG-2, at 6 ("To date, the pandemic has not presented significant barriers to our safety and infrastructure modernization programs.").

[10] As noted above, NiSource has shown that cost management can "more than offset" the impact of COVID without sacrificing safety improvements. *See supra* note 9. NiSource even noted to analysts that "there's certainly more temporary items that we can hold back on different programs and different initiatives to offset the impact of COVID." Exh. AG-2, at 18.

meet the Department's exogenous cost threshold, as outlined in the Ratemaking Working Group Report, at pages 7–8. Additionally, if the threshold is met, the cost recovery should be limited to 50 percent of the net incremental COVID-19 O&M costs. These costs are attributable to the pandemic itself rather than the shut-off moratorium—thus, the costs should be shared with ratepayers.

B. The Department Should Limit Cost Recovery for Bad Debt Costs.

As more fully described in Section III below, the AGO opposes the recovery of any bad debt-related expense by the Companies with PBR rate plans because those Companies' PBR rate plans already compensate those Companies for bad debt-related expense through the PBR rate mechanism.

For those Companies without PBR plans, the AGO proposes that the Department require each company to show that its incremental bad debt costs are extraordinary in amount, above the exogenous cost threshold—as described in the Ratemaking Working Group Report at 7–8—to qualify for recovery. This proposal is consistent with traditional ratemaking practice, allowing for recovery outside of base rates only for extraordinary expenses. *See North Attleboro Gas Company*, D.P.U. 93-229, at 7 (1994). If the expenses are not extraordinary in amount, they should not qualify for special recovery outside of a base rate case. *See id.* This requirement is necessary because the bad debt costs represent costs incurred due to the larger economic downturn and are not directly attributable to the Companies' compliance with the Department's shut-off moratorium.[11] Moreover, because the bad debt costs in question have not yet materialized, any claim that some of these costs are attributable to the moratorium are purely speculative.

Third, if the bad debt costs meet the exogenous cost threshold, the Companies without PBR plans should shoulder some of the financial burden and limit recovery to 50 percent of incremental bad debt costs.

C. The Department Should Limit Cost Recovery for the Small C&I Arrearage Forgiveness Cost.

Because the small C&I arrearage forgiveness cost is a one-time cost that the Companies propose to incur due to the severity of the economic downturn, the AGO proposes that the Department limit the Companies to recovery of 50 percent of these incremental costs.

---

[11] The costs directly attributable to the shut-off moratorium—the incremental cash working capital costs and waived fees—as well as the costs directly attributable to the residential arrearage management programs—are not subject to the extraordinary expense requirement because the costs were incurred in connection with the Department's regulatory policies.

III. Companies with PBRs Are Not Eligible to Recover Certain Expenses.

COVID-19 O&M expenses and bad debt costs are attributable to the pandemic and larger economic downturn, rather than directly attributable to the Department's shut-off moratorium. Accordingly, these costs are pandemic-related costs that are not eligible for recovery under the exogenous cost factor of the PBR rate plans for National Grid and Eversource.[12]

Both National Grid and Eversource's PBR rate plans provide the company with recovery of its costs for providing distribution service. The PBR formula is supposed to allow recovery of all of the distribution costs, including the increases in those costs during the term of the rate plan, which in these cases is five years. The PBR formula is represented by the equation:

$$\Delta P = I - X + Z$$

Where

ΔP is the annual percent change in price or revenue
I is the inflation rate
X is the productivity factor
Z is the exogenous cost factor

The rate formula provides for increases in costs due to inflation as represented by the I-component. The I-component is the rate of inflation in the general economy as measured by the change in the Gross Domestic Product Price Index ("GDPPI"). The exogenous cost factor provides for recovery of incremental changes in costs associated with changes in accounting, tax, regulatory, legislative, or judicial requirements that uniquely and specifically affect the company's distribution service. *See Massachusetts Electric Company and Nantucket Electric Company, each d/b/a National Grid,* D.P.U. 18-150, at 65 (2019).

Pandemic-related costs, such as COVID-19 O&M expenses and incremental bad debt costs, are not allowable costs under the exogenous cost factor. These costs do not uniquely affect the electric or gas distribution business. Indeed, it is clear that the pandemic affects all of the U.S. economy, including all of the businesses and residents within it.[13] The definition of the exogenous cost factor in the tariffs for National Grid and Eversource specifically exempts these type of economy-wide costs from eligibility, stating in part that eligible costs must be "unique to the electric distribution industry as opposed to the general economy" and "the cost must be

---

[12] For ease of reference, the AGO refers to "National Grid and Eversource's" PBR plans. The AGO refers to only those National Grid and Eversource companies that have PBR plans, which are Massachusetts Electric Company d/b/a National Grid and NSTAR Electric Company d/b/a Eversource Energy. NSTAR Gas Company d/b/a Eversource Energy has requested a PBR plan in its most recent rate case, and if the Department ultimately adopts such PBR plan, the AGO's comments in this section would apply to NSTAR Gas Company with equal force.

[13] *See supra*, note 7.

beyond the Company's control and are not reflected in GDPPI." *See* Massachusetts Electric Company Tariff M.D.P.U. No. 1423, at 6–7 (Section 1.05.1); *see also* NSTAR Electric Company tariff M.D.P.U. No. 59C, at 5 (Section 1.08). Accordingly, pandemic-related costs are not exogenous costs as defined in National Grid and Eversource's Department-approved tariffs.

Furthermore, because the vast majority, if not all, businesses in the economy will incur incremental costs associated with the pandemic, it will increase those businesses' costs and they will likely increase the prices that they charge to recover those costs. The general rate of inflation as represented by the I-component of the PBR rate formula will then increase accordingly. Therefore, the companies will be adequately compensated for their pandemic-related costs through the increase in the I-component of the PBR rate formula. Thus, allowing a second recovery of the costs of the pandemic here would permit those companies on PBR rate plans to double recover those costs.

Finally, like investors in all businesses, a company's shareholders must bear the risk of possible losses in the investments that they make. When National Grid and Eversource petitioned the Department for a PBR plan, they fully understood the risks, including the possibility of a loss. In exchange for the annual, unreviewed increases in distribution rates that the PBR rate plan provides, the companies were expected to stay out for five years and manage their costs under the formula increases. It is wholly unfair and unreasonable for these companies to now ask for an out from their PBR rate plans, because they cannot manage their costs like every other business must do as a result of COVID-19. Accordingly, the Department should reject requests by National Grid (electric), Eversource (electric), and Eversource (gas) (pending the outcome of D.P.U. 19-120) for recovery of COVID-19 O&M expense and incremental bad debt costs through the exogenous cost factors.

IV. The Department Should Limit Carrying Charges on the Incremental Cash Working Capital Amounts to the Short-Term Debt Rate.

Carrying costs for the incremental cash working capital amount should be set at the Companies' short-term debt rate rather than the pre-tax weighted average cost of capital ("WACC"). As discussed below, the incremental borrowing that the Companies should incur to carry the incremental cash working capital associated with the customer service shut-off moratorium will be outstanding for a relatively short time, and therefore the appropriate carrying charge is the charge associated with short-term debt.[14]

The Companies propose to use each company's WACC as the carrying charge on the incremental cash working capital. As support, the Companies rely on the incorrect premise that the incremental cash working capital is the same as the cash working capital that the Companies include in rate base for which they earn the pre-tax WACC rate of about 10 percent (more or

---

[14] Unlike the other pandemic-related costs described in the sections above, the costs specifically associated with the customer service shutoff moratorium may be eligible for recovery by those Companies under a PBR rate plan as an exogenous cost under the Department's approved PBR rate mechanisms, because those costs directly result from a regulatory directive that specifically effects the electric distribution industry.

less). However, the amount of cash working capital is included in rate base and fixed in base rates.

On the other hand, the incremental cash working capital associated with the service shutoff moratorium is neither fixed in amount nor is it permanent in nature. Indeed, with the agreed upon terms and the expected residential moratorium lasting until November 15, 2020, with hardship customers eligible for protection through April 2021, the Companies should not have to carry these incremental balances for any more than three years. *See* D.P.U. 20-58-B, at 16. Therefore, the issues with the moratorium-related cash flow should be a short-term accounts receivable problem, not a long-term one. Basic financial principles would dictate that the Companies finance these short-term assets with short-term financing, not permanent capital—like long-term debt.

The Companies have significant short-term borrowing capacity to cover the incremental cash working capital costs. Each company has the capacity to issue short-term debt, access to bank credit lines, and/or access to intercompany money pool borrowings that provide more than sufficient capacity to cover the carrying costs of the incremental cash working capital. These sources of funds provide the lowest, most economical cost for the Companies to finance the incremental cash working capital. Indeed, the low short-term interest rates available to the Companies should be in the 1 to 2 percent range over the next two years, allowing customers to save many millions of dollars by using these short-term debt resources.[15]

Finally, the Companies' claim that permanent capital will be used to finance the incremental cash working capital is not credible. The Companies have not announced any elimination or reduction in shareholder dividends to fund these costs. The Companies have not petitioned the Department and demonstrated the need to finance their incremental cash working capital. Indeed, the Department precedent regarding debt and equity issuances would not allow for financing the moratorium-related incremental cash working capital because cash working capital is not part of their net plant test.[16]

For all of the reasons discussed above, the Department should order the Companies to use their least cost rate of short-term debt to determine carrying costs for any incremental borrowing amounts that the Companies may incur as a result of the changes in the cash working capital requirements as a result of the customer service shutoff moratorium.

V. Conclusion

The AGO respectfully requests that the Department adopt the recommendations outlined herein, including (1) requiring the distribution companies to absorb some of the financial risks

[15] *See* https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20200610.pdf.

[16] *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) (a company is required to present evidence that its net utility plant is equal to or in excess of its total capitalization); *see also Aquarion Water Company of Massachusetts*, D.P.U. 11-55, at 12, 28–29 (2011); D.P.U. 90-50, at 4–5.

associated with the COVID-19 economic downturn; (2) rejecting cost recovery of pandemic-related costs for companies with PBR plans; and (3) limiting carrying charges on the incremental cash working capital amounts to the short-term debt rate.

Respectfully submitted,

/s/ Elizabeth A. Anderson
Elizabeth A. Anderson
Timothy Reppucci
Elizabeth Mahony
Jo Ann Bodemer
Assistant Attorneys General
Massachusetts Attorney General
Office of Ratepayer Advocacy