# CITY OF CAMBRIDGE
Office of the City Solicitor
City Hall
795 Massachusetts Avenue
Cambridge, Massachusetts 02139
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Russell B. Higley
City Solicitor

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Deputy City Solicitor

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Legal Counsel

Diane Wynshaw-Boris
Legal Counsel

Laura H. Yager
Legal Counsel

Linda A. Stamper
Legal Counsel

Arthur J. Goldberg
Legal Counsel


February 24, 1992

Robert W. Healy
City Manager
City Hall
Cambridge, MA 02139

Re: Cambridge Electric Light Co. financing hearing before DPU

Dear Mr. Healy:

By letter of January 28, 1992 (copy attached), Councillor Duehay raised several questions about a hearing held on January 30, 1992 before the state Department of Public Utilities. The hearing was held to consider a request of the Cambridge Electric Light Company for authorization to issue and sell up to 40,000 shares of common capital stock (worth $5,000,000) and up to $15,000,000 of long term notes, with an exemption from the advertising and competitive bidding requirements of G.L.c.164, s.15.

Paul Schlaver, Executive Director of the Cambridge Consumers' Council, responded in detail to Councillor Duehay's questions in a memo to Deputy City Solicitor Don Drisdell dated February 18, 1992. The memo is attached.

After reviewing the hearing transcript and other documents (which are on file in the Law Department), and speaking with an attorney at the DPU, I am in agreement with Mr. Schlaver's analysis. The Cambridge Electric Light Company's request appears to be a sound business plan to take advantage of lower interest rates for costs previously incurred. It will have no direct effect on the rates paid by Cambridge consumers. The indirect effect, if any, would probably be beneficial to consumers because lowering the company's capital costs lessens the likelihood that consumers' rates would be increased in the future to maintain the rate of return on investment to which the investors in the company are entitled by law.

Very Truly Yours

Russell B Higley

Russell Higley
City Solicitor

cc. Paul Schlaver, Cambridge Consumers' Council (w/o attachments)

encl.

CITY OF CAMBRIDGE
MASSACHUSETTS 02139 • 617-498-9094

RECEIVED
91 JAN 28 PM 3:16
OFFICE OF THE CITY MANAGER

Councillor Francis H. Duehay
26 LOWELL STREET
CAMBRIDGE, MASSACHUSETTS 02138
617-547-0271

January 28, 1992

City Manager Robert W. Healy
Cambridge City Hall
Cambridge, MA 02139

Dear Bob:

I regard the enclosed is potentially quite serious.

First, the city has no information about the need for this stock and bond sale. What are the projects which will be funded by the revenue?

Second, what effect will this issuance have on utility rates? How will Cambridge consumers be affected? Who is advocating for the consumer? What effect will this have on the rates the city pays and is all this wise and necessary?

Third, what effect does a waiver of the competitive bidding requirement have on these effects? Higher rates and interest charges could result from this lack of competitive bidding.

In accordance with last night's council vote, I feel the city and its residents should know what's going on and, if the facts so justify, be prepared to argue against the proposal.

Would you make sure that the city is adequately represented at this hearings and that its interests and those of its institutions and residents are fully represented and protected? Perhaps representatives of the Consumer Council should become involved along with the Law Department.

Sincerely yours,

Frank

Francis H. Duehay

RICH, MAY, BILODEAU & FLAHERTY, P. C.
THE OLD SOUTH BUILDING
294 WASHINGTON STREET
BOSTON, MASSACHUSETTS 02108-4675
TELEPHONE (617) 482-1360
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January 13, 1992



Joseph E. Connarton
City Clerk
Cambridge City Hall
Massachusetts Avenue
Cambridge, MA 02139

Re: Cambridge Electric Light Company, D.P.U. 92-15

Dear Mr. Connarton:

Please be advised that Cambridge Electric Light Company has made application to the Department of Public Utilities of the Commonwealth of Massachusetts for approval of its application for approval and authorization to issue and sell up to 40,000 shares of common capital stock; to issue and sell additional long-term notes; for an exemption from the advertising and competitive bid requirements of G.L. Chpater 164, Section 15; and for such other action as may be deemed necessary or appropriate in connection with the foregoing (described further in the enclosed order of notice).

If you have any questions regarding this matter, please feel free to contact the undersigned.

Sincerely,

James M. Avery /hmr

James M. Avery
Counsel for
Cambridge Electric Light Company

/hmr
Enclosure

k:/ut1/nga/52029001.nga

The Commonwealth of Massachusetts

DEPARTMENT OF PUBLIC UTILITIES

RECEIVED BY CITY CLERK
1992 JAN 15 AM 9:21
CAMBRIDGE MA.

January 13, 1992

D.P.U. 92-15

CAMBRIDGE ELECTRIC LIGHT COMPANY

Application and Petition of Cambridge Electric Light Company, pursuant to G.L. Chapter 164, Section 14, for approval and authorization to issue and sell up to 40,000 shares of common capital stock, $25 par value, at no less than par; to issue and sell, on a negotiated basis, additional long-term notes in the aggregate principal amount of up to $15,000,000; for an exemption from the advertising and competitive bid requirements of G.L. Chapter 164, Section 15; and for such other action as may be deemed necesssary or appropriate in connection with the foregoing.

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Upon the forgoing application and petition, the Department of Public Utilities will conduct a public hearing in its hearing room, Leverett Saltonstall Building, 100 Cambridge Street, Boston, Massachusetts on Thursday, January 30, 1992 at 10:00 a.m.

The Cambridge Electric Light Company is required to give notice of said hearing by publication hereof once at least fourteen (14) days prior to said date in the Boston Globe and the Boston Herald.

The applicant, Cambridge Electric Light Company, is also required to serve a copy hereof fourteen (14) days prior to said date on the Mayor and City Clerk of Cambridge.

The applicant is also required to make return of service and publication at the time of the hearing.

By Order of the Department,

Mary L. Cottrell

MARY L. COTTRELL, SECRTARY

# CAMBRIDGE CONSUMERS' COUNCIL

831 Massachusetts Ave. Cambridge, MA 02139
Tel. (617) 349-6150
349-6153

serving the residents of:

Cambridge
Boston

City Of Cambridge

Paul J. Schlaver
Executive Director


To: Don Dresdell
From: Paul Schlaver *Paul*
Date: February 18, 1992

RE: D.P.U. HEARING OF JANUARY 30, 1992

After a review of the transcript from the above mentioned hearing and supplemental documentation, I believe it is possible to sufficiently answer the questions and concerns raised by Councillor Frank Duehay in his letter of January 28th to the City Manager.

This particular hearing, Cambridge Electric Light Company, D.P.U. 92-15, can be characterized as a "Financing Case". I have been told by a staff attorney at the DPU that his agency requires considerable preliminary information from a utility company when it is asked to review financing requests. For these cases, DPU staff economists as well as a hearing officer/attorney review the entire matter.

I was further advised that the following type of DPU cases may be more likely candidates for the attention of city representatives:

1. Rate Hearings;
2. Integrated Resource (Planning) Management Hearings;
3. Conservation and Land Management Hearings

Yet, he felt that the kind of questions raised by Councillor Duehay were certainly worthy ones. In fact, some of these questions would probably be asked by his DPU colleague serving as hearing officer for the Cambridge Electric Company's request.

I am providing to you, for your review and filing (so the materials will be available for the City Manager Healy or Councillor Duehay if desired) the following documents:

1. Prepared testimony of James D. Rappoli, Treasurer of Cambridge Electric Light Company, submitted prior to the hearing on January 21, 1992.
2. Information requests made by DPU Hearing Officer John Cope-Flanagan on January 22, 1992, prior to the formal hearing.
3. Copy of the full transcript of the January 30, 1992 Hearing.
4. The Cambridge Electric Light Company's responses to the ten requests made by the Hearing Officer Cope-Flanagan on January 22, 1992.

I will summarize my review by attempting to respond directly to the three questions raised by Councillor Duehay.

QUESTION 1: "First, the city has no information about the need for this stock and bond sale. What are the projects which will be funded by the revenue?

ANSWER: The primary purpose of this financing request is to generate funds "to repay short-term borrowing incurred to temporarily finance additions to property, plant and equipment and to repay maturing long term debt obligations." (See Rappoli testimony pages 2-3 and also see Transcript pages 9-10)

Cambridge Electric Light Company is a wholly-owned subsidiary of Commonwealth Energy System. The 40,000 shares of common capital stock will be purchased by Commonwealth Energy System. Since this does not involve any public offering of stock, no Securities and Exchange Commission approval is required. (see Rappoli, p. 8)

The stock purchase by Commonwealth Energy System will generate $5 million of common stock equity for the short term debt repayment. Apparently, this debt was incurred to finance previous additions to property, plant and equipment and not for any new or future projects. The company is also seeking the issuance of $15 million of long term debt. This will be used to repay outstanding short-tern borrowing and to repay maturing long term debt obligations.

QUESTION 2: What effect will this issuance have on utility rates? How will Cambridge consumers be affected? Who is advocating for the consumer? What effect will this have on the rates the city pays and is all this wise and necessary?

ANSWER: This financing hearing does not directly impact rates for the city or its residents. Nothing in the transcript or other documents makes any reference to a possible rate impact. But, I perceive that if you look at the timing of this financing request and the relevant discussion of this and the process being used by Cambridge Electric Light Company you can conclude that it will have no adverse rate impact. In fact, it certainly appears to be a sound fiscal management decision.

On page ten of the transcript Mr. Rappoli points out that the interest rate market is the lowest in recent history. "I think we're talking about the lowest range in the last 13 to 15 years."..... "The prime rate is currently at a low. Its the lowest rate in 15 years....rates are at a very good point in time for the company to go ahead and try to finance short-term debt on a long term basis."

QUESTION 3: What effect does a waiver of the competitive bidding requirement have on these effects? Higher rates and interest charges could result from this lack of competitive bidding.

ANSWER: The exemption from competitive bidding seems to be adequately answered and apparently is a request often granted by the DPU in the past. There are considerably more costs involved with an advertised and competitive bidding process, and no clear assurance that the results will be better than the private placement proposal. Secondly, the time needed to implement the public verses private method is much greater and could negate the value obtained with the low interest rates now available in case the market changes for the worse during the longer process.

A considerable amount of the testimony explains that their own form of "private competitive bidding" will actually occur because they will seek proposals from five different commercial banking institutions. The five will be banks they are already familiar with. (See Transcript pages 11-14 and Rappoli pages 4-5)

The proposals will then be evaluated and "the company will then decide which of the financings that are proposed to us fit into the package that the company ultimately would like to obtain, and basically that's the longest term with the cheapest rate." (Transcript page 13, line 17-21)

Therefore, it appears to me that the DPU's approval of this financing request package of Cambridge Electric Light Company will not result in any harm to the City of Cambridge or its residents. Furthermore, it appears that the regulatory power and expertise of the DPU serves us well in such financing cases.

This is not to say that, in some of the other kinds of hearings mentioned earlier, representatives of the City should not be ready and able to offer testimony. As the Scheme Z situation so amply demonstrates, Cambridge officials and residents cannot always assume that their best interests will be served by state agencies as they try to weigh competing interests.

2.

CITY OF CAMBRIDGE
CAMBRIDGE, MASSACHUSETTS 02139

TEL. 349-4300
FAX. 349-4307

EXECUTIVE DEPARTMENT
ROBERT W. HEALY
City Manager

RICHARD C. ROSSI
Deputy City Manager

March 2, 1992

To The Honorable, The City Council:

With reference to Awaiting Report Item No. 23, regarding a Department of Public Utilities hearing on the petition of the Cambridge Electric Light Co. for approval and authorization to issue and sell shares of common capital stock, please find attached a response from Russell B. Higley, City Solicitor, relative to this matter.

Very truly yours,

Robert W. Healy
City Manager

RWH/mev
attachment

Consent Agenda # 2 S-183

a DPU hearing on the petition of the

Awaiting Report Item No. 23 regarding
a DPU hearing on the petition of the
Cambridge Electric Light Co. for approval
and authorization to issue and sell
shares of common capital stock.

In City Council,

March 2, 1992

Placed on file