

July 9, 2019

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Division Clerk
Rhode Island Division of Public Utilities & Carriers
89 Jefferson Boulevard
Warwick, RI 02888

**RE: Application and Statement by The Narragansett Electric Company d/b/a
National Grid Regarding Issuance of New Long-Term Debt**

Dear Ms. Massaro:

On behalf of National Grid,¹ I am filing an original and four copies of the Application and Statement by The Narragansett Electric Company d/b/a National Grid Regarding Issuance of New Long-Term Debt (Application). This filing consists of the Company's Application, the direct testimony of Jonathan Cohen as Exhibit A and supporting Exhibits B, C, D, and E. This filing also includes a proposed public notice of the filing and an attached certificate of service noticing the service of this filing on the Department of the Attorney General.

Thank you for your attention to this transmittal. If you have any questions, please contact me at 401-784-7288.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosure

cc: Peter Neronha, Attorney General, State of Rhode Island
Christy Hetherington, Esq., Office of Attorney General
Kevin Lynch, A/Administrator, Division of Public Utilities & Carriers
John Bell, Division of Public Utilities & Carriers
Cynthia Wilson-Frias, Esq., Public Utilities Commission

¹ The Narragansett Electric Company d/b/a National Grid ("National Grid" or "Company").

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Division of Public Utilities and Carriers.

A paper copy is also being hand delivered to Rhode Island Attorney General, Peter Neronha.



Joanne M. Scanlon

July 9, 2019
Date

**National Grid – Debt Filing, Docket No. _____
Service List as of 7/9/2019**

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File an original & 4 copies w/: Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov ;	401-780-2107
	John.spirito@dpuc.ri.gov ;	

(3) Pursuant to the provisions of its Charter and approval of the Division of Public Utilities and Carriers (the “Division”), or its predecessors, the Company had authorized and outstanding as of March 31, 2019 the following:

<u>Capital Stock</u>		<u>Number of Shares</u>	
Common Stock, \$50 par value		1,132,487	
Cumulative Preferred Stock, \$50 par value 4.50% Series		49,089	
 <u>First Mortgage Bonds (*)</u>			
<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount</u>
Providence Gas FMB N	9.63%	May 30, 2020	10,000,000
Providence Gas FMB O	8.46%	September 30, 2022	12,500,000
Providence Gas FMB P	8.09%	September 30, 2022	2,500,000
Providence Gas FMB R	7.50%	December 15, 2025	5,250,000

(*) An Indenture, dated as of January 1, 1922, by and between the U.S. Bank National Association (successor to State Street Bank and Trust Company, successor to BankBoston, N.A., successor to Rhode Island Hospital Trust National Bank, successor to Rhode Island Hospital Trust Company), as trustee, and the Company, successor to Southern Union Company, successor to Providence Gas Company, as heretofore supplemented and amended, secures these First Mortgage Bonds assumed by the Company in connection with the acquisition of certain Rhode Island gas assets of Southern Union Company.

<u>Senior Unsecured Notes</u>			
<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount</u>
Senior Notes	4.534%	March 15, 2020	250,000,000
Senior Notes	3.919%	August 1, 2028	350,000,000
Senior Notes	5.638%	March 15, 2040	300,000,000
Senior Notes	4.170%	December 10, 2042	250,000,000

(4) It is in the public interest, and the Company hereby seeks Division authorization, to:

(a) issue, from time to time, new long-term debt not to exceed an aggregate principal amount of \$850 million outstanding at any one time through the period ending March 31, 2023

(“New Long-term Debt Issuances”). The purpose of the New Long-term Debt Issuances is to accomplish one or more of the following: (i) to refinance short-term debt with long-term debt; (ii) to finance the Company’s capital needs; (iii) to construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company’s capitalization and consisting of taxable bonds, medium or long-term notes, revolving credit loans, and term or bank loans and similar securities, and

(b) enter into evidences of indebtedness and related instruments in connection with New Long-term Debt Issuances, including, but not limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit agreements, participation agreements, underwriting or similar agreements, bond purchase agreements, remarketing agreements, and security agreements and instruments, insurance agreements, or their equivalent and amendments, restatements, modifications, or supplements thereto (collectively, the “Instruments”). The terms of each Instrument will be substantially similar to the terms for comparable transactions available in the credit market, at the time of New Long-term Debt Issuances, to companies having a credit rating substantially equivalent to the Company’s credit rating.

The owners of New Long-term Debt issued to or through third parties may have the right to tender the New Long-term Debt for purchase upon specified notice periods. The New Long-term Debt may be subject to redemption at the option of the Company in accordance with the terms of the applicable agreement and otherwise as required by such agreement.

(5) To ensure adequate flexibility in meeting market conditions at the time of issuance, the Company is requesting authorization to issue New Long-term Debt as unsecured debt, taxable or tax-exempt debt, bonds, medium- or long-term notes, revolving credit loans or

bank loans, or similar securities or some combination thereof. The New Long-term Debt will have a term exceeding one year and maturity dates will not exceed 30 years from the date of issuance with either an adjustable interest rate or a fixed interest rate not exceeding an effective rate of six and a half percent per annum (unless an order of the Division is issued approving a higher rate). Further, the New Long-term Debt may be issued internally to an affiliate or through third parties, in public offerings, private placements, or Rule 144(a) transactions, and with or without investment bankers.

(6) As of March 31, 2019, the Company has approximately \$1.2 billion of long-term debt and \$45.9 million of short-term debt outstanding. The Company may refinance the short-term debt with New Long-term Debt depending upon market conditions and the terms of such debt.

(7) In determining the timing and amount of issuance of the New Long-term Debt, the Company intends to maintain a ratio of total long-term debt to total capitalization (excluding goodwill) of approximately 47 to 50 percent.

(8) In accordance with 815-RICR-00-00-1.14(A)(1)(a) of the Division's Rules of Practice and Procedure, written testimony and supporting exhibits are attached hereto including the written testimony of the Company's Business Partner Director, US Treasury, Jonathan Cohen.

(9) Because of volatility in the debt markets, it is in the public interest that the Company have the flexibility to choose the timing of and to select purchasers of the long-term debt securities on the basis of standards and criteria that in management's judgment will result in benefits to the Company and its customers, including, but not limited to, the terms and interest rate.

Because the precise terms of the proposed New Long-term Debt Issuances are not known at this time, the Company seeks a waiver of the Division's Rules of Practice and Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4) to the extent that it would require the Company to provide investment memoranda, prospectuses, information or registration statements or other documents to describe the transactions or potential funding sources.

(10) It is in the public interest that the Company have the flexibility to adjust the face value of New Long-term Debt Instruments to reflect the final pricing of the security, including a discount to the face value of a particular security.

(11) Exhibit B contains the Company's current estimate of the costs and expenses of issuing New Long-term Debt; however, this is an estimate only and the actual costs and expenses may differ from this estimate. The Company requests that the actual costs and expenses of issuing New Long-term Debt be deferred and amortized over the life of the New Long-term Debt.

(12) The Company currently anticipates issuing New Long-term Debt as early as the last half of calendar year 2019. The Company respectfully requests that the Division act on this Application as expeditiously as possible and issue a final order by October 15, 2019.

(13) Exhibit C of this Application comprises the actual balance sheet of the Company at March 31, 2018.

(14) In accordance with 815-RICR-00-00-1.14(A)(1)(b) of the Division's Rules of Practice and Procedure a copy of this application has been filed with the Rhode Island Office of Attorney General.

Accordingly, the Company, under the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17, requests the entry of an order:

A. Authorizing, approving and consenting to the issuance and sale of the New Long-term Debt by the Company, from time to time (including internally to an affiliate or through third parties, and including, but not limited to, through public offerings or private placements, or Rule 144(a) transactions and with or without investment banks), through the period ending March 31, 2023 not exceeding \$850 million in aggregate principal amount outstanding at any one time, upon such terms, at such rates of interest, with such maturities and at such prices, as the Company may determine, and if the price of any such long-term debt securities is below the face amount of such long-term debt securities, find that the issuance and sale below face amount is in the public interest and if any such long-term debt security is sold at less than face value, authorize and approve the amortization of the discount over the life of such security; provided that, each issue of New Long-term Debt shall (a) mature in not more than 30 years from the date of issuance, (b) bear interest at a fixed rate or an adjustable rate, which will vary with a market index designated at the time of each such issuance, not exceeding an effective rate of 6.5 percent per annum (unless an order of the Division is issued approving a higher rate), and (c) shall be sold through one or more of (i) competitive bidding, (ii) negotiation with underwriters, (iii) negotiation directly with investors, (iv) through one or more agents, (v) to one or more agents as principal for resale to investors, (vi) in private or public offerings, (vii) in connection with the establishment of loan facilities with a bank or syndicate of banks, or (viii) internally to an affiliate;

B. Authorizing, approving and consenting to the execution and delivery by the Company of the Instruments in connection with the issuance and sale of such New Long-term Debt.

C. Authorizing, approving and consenting to the use of the proceeds of the issue and sale of such New Long-term Debt for the repayment or terming out of short-term debt; for the payment of capital expenditures incurred by the Company for the acquisition of property, the construction, completion, extensions, additions, maintenance and improvements to the Company's plant and properties or for the payment of obligations of the Company incurred for such purposes; for the refinancing of existing debt and/or previously redeemed issues of debt (including, without limitation, previously redeemed issues); for general working capital; for reimbursement of the treasury and for other general corporate purposes, including, but not limited to, restructuring of the Company's capitalization in connection therewith.

D. Authorizing, approving and consenting that the Company may, from time to time in one or more transactions, refinance some or all of the New Long-term Debt , in one or more series and/or issues;

E. Authorizing, approving and consenting to the execution and delivery by the Company of such other financing and security agreements or instruments as may be reasonably necessary in the view of the Company in connection with the issuance of the New Long-term Debt described in this Application, and also authorize, approve, and vote that the New Long-term Debt Issuances described in this Application may be guaranteed by a direct or indirect parent of the Company, as necessary and appropriate to complete a debt issuance;

F. Reciting the purposes to which the proceeds of such New Long-term Debt Issuances may be applied and reciting that the money to be procured by such series and/or issues of New Long-term Debt is reasonably required for the purpose specified in such order; and

G. Authorizing, approving and consenting to such other and further orders and approvals as the Division may deem proper in the circumstances.

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

By *Terence M. Sobolewski*
Terence M. Sobolewski, President

Dated: 7/9/2019

By *Keri Sweet Zavaglia*
Keri Sweet Zavaglia, Secretary

Dated: 7/5/19

STATE OF RHODE ISLAND, COUNTY OF PROVIDENCE

Sworn to and subscribed before me this 9TH day of July, 2019 by Terence M. Sobolewski, President of The Narragansett Electric Company d/b/a National Grid.

Michael D. DiNezza Notary Public
My Commission Expires:

Michael D. DiNezza
Notary Public, State of Rhode Island
My Commission Expires June 26, 2021
Notary # 27545

STATE OF NEW YORK)

ONONDAGA : ss.:
COUNTY OF ~~NEW YORK~~)

On the 5TH day of July, 2019, before me, the undersigned, a Notary Public in and for said State, personally appeared Keri Sweet Zavaglia, Secretary of The Narragansett Electric Company d/b/a National Grid personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that she executed the same in her capacity, and that by her signature on the instrument, the individual or the person on behalf of which the individual acted, executed the instrument.

Janet M. Audunson
Notary Public

JANET M. AUDUNSON
NOTARY PUBLIC STATE OF NEW YORK
ONONDAGA COUNTY
LIC. 000421912
COMM. EXP. 12-21-2021

Exhibits

- Exhibit A - Direct Testimony of Jonathan Cohen, Business Partner Director, US Treasury
- Exhibit B - Estimated Expenses of Issue
- Exhibit C - Balance Sheet
- Exhibit D - Impact of Proposed Financing Plan to Restructure Capitalization
- Exhibit E - Interest Rates

Exhibit A
The Narragansett Electric Company
d/b/a National Grid
Division Docket No. _____
In Re: New Long-Term Debt
Testimony of Jonathan Cohen
July 9, 2019

PRE-FILED DIRECT TESTIMONY

OF

JONATHAN COHEN

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1 **I. Introduction and Qualifications**

2 **Q. Please state your name, position, and business address.**

3 A. My name is Jonathan Cohen. I am Director of US Treasury, Planning, and Strategy of
4 National Grid USA Service Company, Inc. (“National Grid”). My business address is
5 One MetroTech Center, Brooklyn, New York 11201.

6
7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of The Narragansett Electric Company d/b/a National Grid
9 (“Narragansett Electric” or the “Company”) in this proceeding.

10
11 **Q. Please summarize your educational and professional background.**

12 A. I am a qualified accountant with the Institution for Chartered Accountants in England and
13 Wales and a qualified Treasurer with the Association of Corporate Treasurers.
14 From 2006 to 2012, I worked at BDO LLP, an accounting, tax, audit, and consulting
15 services firm. I worked in audit, specializing in financial services companies, including
16 banks, brokers, and fund managers. I joined National Grid in 2012 as a member of the
17 Corporate Banking Group. In that role, I was responsible for managing the bank
18 relationships, including associated borrowings and revolving credit facilities. I was also

19

1 responsible for analyzing and monitoring National Grid's credit ratings and managed
2 interactions with its debt investors. I joined National Grid's Debt Capital Markets group
3 in 2015, participating in public bond issuances and managing the associated currency and
4 interest rate risks. I also participated in the sale of significant assets in one of National
5 Grid plc's largest operating companies in the United Kingdom. I began my current
6 position in 2017, where I am focused on business partnering to determine the efficiency
7 of operations and to obtain identified value opportunities. In my current position, I am
8 familiar with the financing activities of Narragansett Electric.

9
10 **Q. Have you previously testified before the Rhode Island Division of Public Utilities and**
11 **Carriers (the "Division") or the Rhode Island Public Utilities Commission?**

12 A. No, I have not.

13
14 **Q. Have you previously testified before any other state public utilities commission?**

15 A. Yes, I recently submitted testimony to the New York Public Service Commission in
16 support of a petition filed on behalf of The Brooklyn Union Gas Company d/b/a National
17 Grid and KeySpan Gas East Corporation d/b/a National Grid on capital structures and cost
18 of debt.

19

1 **II. Description of the Application**

2 **Q. Mr. Cohen, would you please give a brief description of Narragansett Electric?**

3 A. Narragansett Electric is a combined electric and gas distribution company. The Company
4 is a Rhode Island corporation and is a subsidiary of National Grid USA, a Delaware
5 corporation, and a wholly-owned indirect subsidiary of National Grid plc. The principal
6 business of Narragansett Electric is selling and distributing electricity and natural gas
7 within Rhode Island, which makes it a public utility as defined by R.I. General Laws
8 § 39-1-2, and the Company has a place of business at 280 Melrose Street, Providence,
9 Rhode Island.

10

11 **Q. Please describe the Company's application that is the subject of this proceeding.**

12 A. The purpose of this testimony is to support the Company's request to the Division for
13 authorization to issue from time to time, through the period ending March 31, 2023, new
14 long-term debt not to exceed an aggregate principal amount of \$850 million outstanding
15 at any one time ("New Debt"). The purpose of the New Debt is to accomplish one or
16 more of the following: (i) to refinance short-term debt with long-term debt; (ii) to finance
17 the Company's capital needs; (iii) to construct utility plant and properties; (iv) to
18 reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate
19 purposes, including but not limited to the restructuring of the Company's capitalization.

1 New Debt may consist of taxable bonds, medium or long-term notes, revolving credit
2 loans, and term or bank loans and similar securities.

3
4 Narragansett Electric also seeks Division authorization to enter into evidences of
5 indebtedness and related instruments in connection with the New Debt, including, but not
6 limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit
7 agreements, participation agreements, underwriting or similar agreements, bond purchase
8 agreements, remarketing agreements, and security agreements, and amendments,
9 restatements, modifications, or supplements thereto (collectively, the “Instruments” and
10 individually, an “Instrument”). The terms of each Instrument will be substantially similar
11 to the terms for comparable transactions available in the credit market, at the time of New
12 Debt issuance, to companies having a credit rating substantially equivalent to the
13 Company’s credit rating.

14
15 **Q. How do the current conditions in the market for long-term debt securities support**
16 **the Company’s request to issue new long-term financing?**

17 A. While conditions in the credit markets have shown some improvements over the difficult
18 times experienced by borrowers in the recent past, opportunities for debt issuances in
19 such markets can still be few and far between. For these reasons, it is essential for

1 borrowers to have as much flexibility as possible regarding the terms and timing of the
2 debt they may issue.

3
4 **Q. How do these market conditions for long-term debt securities impact the**
5 **Company's ability to determine the timing and structure of any debt issuance?**

6 A. The Company's ability to achieve the best value when issuing the New Debt requires that
7 the Company be responsive to market conditions, investors, and their requirements for
8 capital investment. Because of volatility in the debt markets, it is in the public interest
9 that the Company have the flexibility to choose the timing of and to select purchasers of
10 the long-term debt securities on the basis of standards and criteria that in management's
11 judgment will result in benefits to the Company and its customers, including, but not
12 limited to, the terms and interest rate. As a result, the Company is not reasonably able to
13 identify in advance details of its proposed debt issuance such as: (1) the type of debt
14 instrument to be utilized; (2) the term of the debt instrument; and (3) the interest rate to
15 be paid to investors. Given the need to respond to market conditions to achieve the best
16 value, it is necessary for the Company to obtain a waiver of the Division's Rules of
17 Practice and Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4), to the extent that
18 those provisions require the Company to provide investment memoranda, prospectuses,
19 information or registration statements or other documents to describe the transactions or
20 potential funding sources as part of this application.

1 **Q. Are you familiar with Exhibit C, the Balance Sheet dated March 31, 2018?**

2 A. Yes, I am.

3

4 **Q. What does Exhibit C show with respect to the capital structure of the Company?**

5 A. Exhibit C shows that at March 31, 2018, the Company's total capitalization was
6 composed of 46.8 percent debt (12.5 percent short-term debt and 34.3 percent long-term
7 debt), 53.1 percent common equity (exclusive of goodwill), and 0.1 percent preferred
8 stock.

9 **Q. Are you familiar with Exhibit D, Impact of Proposed Financing Plan to Restructure
10 Capitalization?**

11 A. Yes, I am.

12

13 **Q. What does Exhibit D show with respect to the Company's capital structure and the
14 initial use of New Debt?**

15 A. Exhibit D shows that, as of March 31, 2019, the Company's capitalization was composed
16 of approximately 35.9 percent long-term debt, 1.4 percent short-term debt, and 0.1
17 percent preferred stock, and 62.6 percent common equity. The Company anticipates its
18 immediate financing need to be the issuance of approximately \$500 million of long-term
19 debt to fund upcoming debt maturities and repay its current short-term debt. This

1 financing activity will result in a capital structure of approximately 50.5 percent common
2 equity and 49.5 percent long-term debt.

3
4 **Q. What are the factors driving the Company's request for authorization to issue new**
5 **long-term financing?**

6 A. Narragansett Electric is seeking authorization to issue the New Debt to meet the need to
7 finance investments in new utility plant. Presently, the Company has long-term financing
8 authorization to issue up to \$730 million through March 2021 pursuant to the Division's
9 Report and Order dated February 19, 2018 in Docket No. D-17-36. In July 2018, the
10 Company issued \$350 million of long-term debt, resulting in \$380 million of remaining
11 authority; however, the Company anticipates having an increased funding need that will
12 exceed this remaining authorization. For example, Narragansett Electric's annual capital
13 spending has totaled \$843 million over the three fiscal years ending March 31, 2016,
14 2017 and 2018. During this time, the Company issued the \$350 million of long-term debt
15 in July 2018 and used internally generated funds and short-term debt to finance the
16 construction and replacement of the Company's plant-in-service, which represents long-
17 lived assets that should be financed wholly with long-term securities, including debt
18 issuances having maturities closer to or matching the average expected life of the
19 underlying asset. Replacement of short-term debt with long-term debt will have the
20 corollary effect of freeing up short-term debt capacity for its intended purposes of

1 financing day-to-day working capital needs and, on a temporary basis, new construction
2 work in progress until the time that these projects are placed in service. It is in the
3 interests of customers for the Company to have a capital structure that appropriately
4 supports its operations because, over the long run, doing so will enable the Company to
5 maintain access to vital capital resources at a reasonable cost.

6
7 Further, Narragansett Electric needs to fund \$250 million of bonds that are due to mature
8 March 15, 2020, \$10 million of bonds that are due to mature May 30, 2020 and
9 \$12.5 million of bonds that are due to mature September 30, 2022. This coupled with
10 growing short-term debt balance that is estimated to be approximately \$100 million in
11 and around the same time frame drives the need for additional new long-term debt.

12
13 **III. Description of New Debt**

14 **Q. The Company's request contemplates the issuance of up to \$850 million of New Debt**
15 **securities from time to time in order to satisfy its projected financing needs. Please**
16 **describe on what basis this amount was determined.**

17 A. Narragansett Electric made that determination by taking into account the financing needs
18 to fund its future capital expenditures and maturing long-term debt as well as restructuring
19 its capitalization. Specifically, Narragansett Electric is seeking approval to issue up to
20 \$850 million to ensure that it has adequate flexibility to refinance short-term debt with

1 long-term debt, finance its capital needs, align its capital structure and accomplish other
2 general corporate purposes. The Company's requested borrowing authority provides for
3 flexibility to address financing needs under a reasonable range of potential scenarios
4 (e.g., higher than presently anticipated capital investment needs) during the borrowing
5 authorization period.

6
7 **Q. What ratings have been assigned to the Company's outstanding senior unsecured**
8 **long-term debt by the major rating agencies?**

9 A. The Company's outstanding senior unsecured long-term debt is rated A3 by Moody's and
10 A- by Standard and Poor's.

11
12 **Q. What is the maximum interest rate that Narragansett Electric proposes at this time?**

13 A. The interest rate payable on the New Debt will vary depending on market conditions at the
14 time of issuance. Based on a review of historical rates over the past few years, current
15 market conditions, including the Company's experiences and future market expectations,
16 the Company has concluded that a 6.5 percent maximum interest rate for a 30-year bond is
17 a realistic expectation.

18

1 **Q. How does this interest rate compare to the approximate current market for long-term**
2 **debt securities for Narragansett Electric or similarly rated companies?**

3 A. Based on the Moody's A-rated 30-year utility bond index, the current interest rate for 30-
4 year "A" rated utility bonds is around 3.9 percent (30-day average as of June 14,
5 2019). The yield history from January 1, 2010 through June 14, 2019, for long-term debt
6 issues for utilities with similar ratings is provided in Exhibit E. Over the past five years,
7 the yield on long-term debt has varied between approximately 3.4 to 4.6 percent.

8
9 **Q. How is the proposed maximum interest rate of 6.5 percent reasonable in light of the**
10 **current and anticipated market conditions.**

11 A. Since the start of 2010, the average yield on "A" rated utility 30-year debt, per Moody's
12 relevant index, has reached a maximum of six percent. While 30-year Treasury bonds are
13 yielding between two-and-half and three percent in current market conditions, it is
14 expected that this yield will increase over the coming years when the Federal Reserve
15 resumes normalization of monetary policy and its benchmark interest rate. The credit
16 spread for "A" rated utilities is a reasonable proxy for Narragansett Electric. Looking
17 back over the past 15 years, the maximum increase in "A" rated utilities' 30-year bond
18 yields in a single year has been approximately 200 basis points. Recent analysts'
19 forecasts of 30-year Treasury yields covering the timeframe for which the Company
20 requests long-term borrowing authority range as high as 5.3 percent, while the most

1 recently realized credit spread to 30-year Treasuries realized by one of the Company's
2 similarly rated affiliates was 142 basis points. Taken together, the present utility bond
3 yields, changing monetary policy, the historical rate of increase in utility bond yields,
4 recent analyst interest rate forecasts, and comparable credit spreads support a maximum
5 interest rate of 6.5 percent for the New Debt.

6
7 **Q. Would you please describe in more detail the types of New Debt securities**
8 **Narragansett Electric may enter into pursuant to this financing request?**

9 A. Narragansett Electric proposes to issue New Debt Instruments with a maturity greater
10 than one year and not to exceed 30 years from the date of issuance. The securities would
11 carry either a fixed interest rate not to exceed the rate established by the Division or an
12 adjustable rate, which will vary with a market index to be designated at the time of
13 issuance but not to exceed the maximum rate of seven percent. The New Debt may be
14 issued internally to an affiliate or through third parties, in public offerings, private
15 offerings, or private placements, and with or without investment bankers.

16
17 **Q. If and when Narragansett Electric determines to issue and sell New Debt securities,**
18 **how would it plan to market the New Debt?**

19 A. Depending on the type of New Debt security proposed to be issued, such New Debt
20 securities would be sold from time to time in light of the Company's cash requirements

1 and market conditions. These securities may be sold in one or more offerings through one
2 or more of the following methods: competitive bidding; negotiation with underwriters;
3 negotiation directly with investors, through one or more agents; to one or more agents as
4 principal for resale to investors, in private or public offerings; or in connection with the
5 establishment of loan facilities with a bank or syndicate of banks. The benefits of a
6 competitive solicitation process for customers can be duplicated through the negotiated
7 public offering process without the additional cost and time associated with a competitive
8 solicitation process. Negotiated transactions benefit customers and are more appropriate
9 than competitive bid transactions, especially during periods of fluctuating securities
10 markets.

11
12 In addition, issuing debt securities below par value offers a company enhanced flexibility
13 in entering the market quickly to take advantage of prevailing market rates. Further,
14 underwriters may wish to receive their compensation as a discount from face value of the
15 New Debt.

16
17 **Q. Please describe the offering options available to Narragansett Electric.**

18 A. The most common platforms for issuance are through public offerings registered with the
19 Securities and Exchange Commission (“SEC”), ‘144A’ private offerings, or the 4(2)
20 private placement market. SEC-registered transactions reach a wide investor base but

1 reports are required to be filed with the SEC on a periodic basis. 144A transactions are
2 sold to Qualified Institutional Buyers, and so do not require any reporting to the SEC.
3 While transactions can be secured against particular assets, Narragansett Electric
4 anticipates issuing debt on an unsecured basis when it is in the best interest of customers
5 to do so. Revolving credit loans, term loans and banks loans are all potential offering
6 options and could be specifically tailored to the Company's needs. In addition,
7 Narragansett Electric could issue New Debt internally from an affiliate.

8
9 **Q. Please describe the Company's rationale for issuing unsecured debt.**

10 A. The decision of whether to issue secured versus unsecured bonds does not rely entirely
11 upon achieving the lowest possible interest rate, but also takes into account legal
12 considerations, business requirements and the need to maintain financing flexibility.
13 While secured debt pricing is less expensive than unsecured debt by approximately 15-20
14 basis points, this is due to the fact that the issuer is required to subject all of its property,
15 plant, and equipment to a blanket lien, the value of which can far exceed the value of the
16 debt raised in a secured offering. In the case of Narragansett Electric, collateralizing a
17 secured debt offering with all of its assets could result in the value of the secured debt
18 offering being substantially over collateralized. Also, it is worth noting that there is an
19 existing blanket lien on Narragansett Electric's gas assets resulting from the purchase of
20 those assets from Southern Union, which would have to be ring-fenced in the event of

1 future secured bond issuances. This limitation and restriction on a usual blanket lien
2 would be factored into the pricing of the secured debt offering, narrowing the spread
3 differential.

4
5 There are also other reasons why unsecured debt is preferred over secured debt. First, the
6 level of diligence required to ensure the integrity of a lien granted to new secured debt
7 holders could be extensive and cause additional delays in the Company's ability to
8 respond to the market and achieve the best value for its customers. Second, there are
9 additional costs associated with filing fees and mortgage recording taxes required to
10 record the mortgage in various villages, towns, and counties, which also negatively
11 impacts the overall value of issuing secured debt, thereby potentially resulting in higher
12 costs to customers. Third, the use of secured debt creates additional legal rights and
13 obligations to the secured debt holders. These include, but are not limited to, preferential
14 treatment of secured debt holders over unsecured debt holders in various legal
15 proceedings (e.g. debt acceleration, foreclosure rights, etc.) that could result in
16 diminished operational flexibility for the Company.

17
18 In summary, the decision to issue secured versus unsecured bonds, in the best interest of
19 Narragansett Electric's customers, should not be conditioned solely on interest rates. The
20 incremental amount of time and cost to issue secured debt due to the complexity of our

1 current mortgage structure, combined with the consequences associated with preferential
2 treatment to the Company's current and future investors could offset the reduced cost
3 from issuing secured debt, especially during this current period when the spread between
4 secured and unsecured is narrow, i.e., 15-20 basis points.

5
6 **Q. Is the Company amenable to notifying the Division prior to issuing unsecured debt
7 in a manner similar to the terms of the settlement in Docket No D-17-26?**

8 A. Yes; however, the rationale for issuing unsecured debt, as described above, is not likely
9 to change with a subsequent issuance during the proposed authorization period. For this
10 reason, the Company seeks to have the flexibility to issue the debt on a secured or
11 unsecured basis during the term of the authorization; however, the Company is
12 amendable to revisiting the rationale for unsecured debt with the Division as part of a
13 future application.

14
15 **Q. Please describe the offering options Narragansett Electric is considering and the
16 advantages of each option.**

17 A. Narragansett Electric is not subject to SEC periodic reporting, which makes 144A
18 transactions a cost-effective approach with relative ease of execution. A 144A
19 transaction involves stand-alone documentation that would enable Narragansett Electric
20 to issue bonds to qualified investors. An alternative approach with similar ease of

1 execution that also avoids some of the costs associated with external debt issuances is
2 issuance of debt internally to an affiliate.

3
4 Narragansett Electric will always assess the various options at the time of planned
5 issuance to ensure that the best value is achieved, whether that is issuing via the debt
6 capital markets, internally to an affiliate, or through bank loans.

7
8 **Q. When does the Company plan to issue the proposed New Debt?**

9 A. The Company plans to issue from time to time during the proposed authorization period.
10 However, depending on when an authorization is granted, capital market conditions, and
11 other circumstances, the Company anticipates issuing New Debt as early as the fourth
12 quarter in calendar year 2019. The Company therefore respectfully requests that the
13 Division issue a final order by October 15, 2019 authorizing the issuance.

14
15 **Q. Has Narragansett Electric estimated the costs associated with issuing New Debt?**

16 A. Yes. The Company's current estimate of the costs and expenses of issuing New Debt is
17 indicated on Exhibit B; however, this is an estimate only and the actual costs and
18 expenses may differ from this estimate. Narragansett Electric requests that the actual
19 costs and expenses of issuing New Debt be deferred and amortized over the life of the
20 New Debt.

1 **Q. Is the Company's application substantially similar to its financing application filed**
2 **in Docket D-17-36?**

3 A. Yes, with one minor exception. In the prior application, the Company included a request
4 for a two-year extension option, which the Company subsequently withdrew as part of
5 the settlement in that docket. In this application, the Company is not proposing an
6 extension option; however, in lieu of a fixed three-year term, the Company is proposing
7 an authorization period through March 31, 2023 (which will result in a term of slightly
8 longer than three years) to align with its capital needs. The capital needs are estimated
9 using data forecasted on a financial year basis and having the authorization expire mid-
10 year will introduce the challenge of phasing cash flows. Aligning the authorization to our
11 business forecasts enables the Company to more accurately plan future financings.

12

13 **IV. Conclusion**

14 **Q. Is the New Debt advantageous to and in the best interest of Narragansett Electric's**
15 **customers? If so, why?**

16 A. Yes, it is. As mentioned above, replacement of short-term debt with long-term debt will
17 have the corollary effect of freeing up short-term debt capacity for its intended purposes
18 of financing day-to-day working capital needs and, on a temporary basis, new
19 construction work in progress until the time that these projects are placed in service. It is
20 in the interests of customers for the Company to have a capital structure that

1 appropriately supports its operations because, over the long run, doing so will enable the
2 Company to maintain access to vital capital resources at a reasonable cost.

3

4 **Q. Does this conclude your testimony?**

5 A. Yes, it does.

Estimated Expenses of Issue for NECO Debt Expressed as a Percentage of Principal

Maturity in years	2	3	5	7	10	20	30
Underwriting Commissions	0.200%	0.250%	0.350%	0.400%	0.450%	0.750%	0.875%
Other Issuance Expenses*	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%
Total Issuance Expenses	0.260%	0.310%	0.410%	0.460%	0.510%	0.810%	0.935%

* Other issuance expenses are usually approximately \$0.3 million per issue. This equates to 0.06% for a principal amount of \$500 million, but this proportion would rise for smaller issuances.

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 6,386	\$ 7,803
Restricted cash and special deposits	479	956
Accounts receivable	251,985	212,572
Allowance for doubtful accounts	(25,617)	(25,192)
Accounts receivable from affiliates	22,221	6,354
Unbilled revenues	66,150	57,817
Inventory	23,390	24,216
Regulatory assets	87,297	52,446
Derivative instruments	731	6,189
Prepaid taxes	13,246	9,821
Other	3,362	1,805
Total current assets	449,630	354,787
Property, plant and equipment, net	2,984,346	2,785,811
Other non-current assets:		
Regulatory assets	492,361	464,135
Goodwill	724,810	724,810
Derivative instruments	10	167
Other	37,166	13,905
Total other non-current assets	1,254,347	1,203,017
Total assets	\$ 4,688,323	\$ 4,343,615

The accompanying notes are an integral part of these financial statements.

THE NARRAGANSETT ELECTRIC COMPANY
BALANCE SHEETS
(in thousands of dollars)

	March 31,	
	2018	2017
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 170,458	\$ 124,895
Accounts payable to affiliates	14,430	80,085
Current portion of long-term debt	15,839	1,375
Taxes accrued	34,534	29,624
Customer deposits	10,627	12,514
Interest accrued	5,417	5,434
Regulatory liabilities	109,484	106,788
Intercompany money pool	307,520	125,659
Derivative instruments	1,971	392
Renewable energy certificate obligations	5,746	11,841
Other	29,640	20,701
Total current liabilities	705,666	519,308
Other non-current liabilities:		
Regulatory liabilities	553,343	245,856
Asset retirement obligations	9,472	10,150
Deferred income tax liabilities, net	324,161	538,229
Postretirement benefits	83,234	121,799
Environmental remediation costs	137,677	135,529
Derivative instruments	1,394	1,224
Other	15,467	25,230
Other tax liabilities	562	-
Total other non-current liabilities	1,125,310	1,078,017
Capitalization:		
Shareholders' equity	2,030,903	1,904,300
Long-term debt	826,444	841,990
Total capitalization	2,857,347	2,746,290
Total liabilities and capitalization	\$ 4,688,323	\$ 4,343,615

The accompanying notes are an integral part of these financial statements.

The Narragansett Electric Company Capital Structure
(\$000)

	Capital Structure As of 3/31/2019*		Ratemaking Adjustments		Capital Structure for Ratemaking As of 3/31/2020		Financing Plan		Other Changes		Capital Structure After Financing As of 3/31/2020	
	Balance	Ratio	Balance	Ratio	Balance	Ratio	Balance	Ratio	Balance	Ratio	Balance	Ratio
Long-Term Debt	\$1,180,250	35.91%	\$1,180,250	46.07%	\$1,430,250	49.42%	\$500,000		(\$250,000)		\$1,430,250	49.42%
Short-Term Debt	\$45,884	1.40%	\$45,884	1.79%	\$2,454	0.08%	-		(\$105,768)		-	0.00%
Preferred Stock	\$2,454	0.07%	\$2,454	0.10%	\$2,454	0.10%					2,454	0.08%
Common Equity	\$2,058,300	62.62%	(\$724,810)	52.05%	\$1,333,490	50.49%	(\$75,000)		\$202,715		1,461,205	50.49%
Total Capitalization	\$3,286,888	100%	\$2,562,078	100%	\$2,893,909	100%					\$2,893,909	100%

* Unaudited Balance Sheet from system ledger

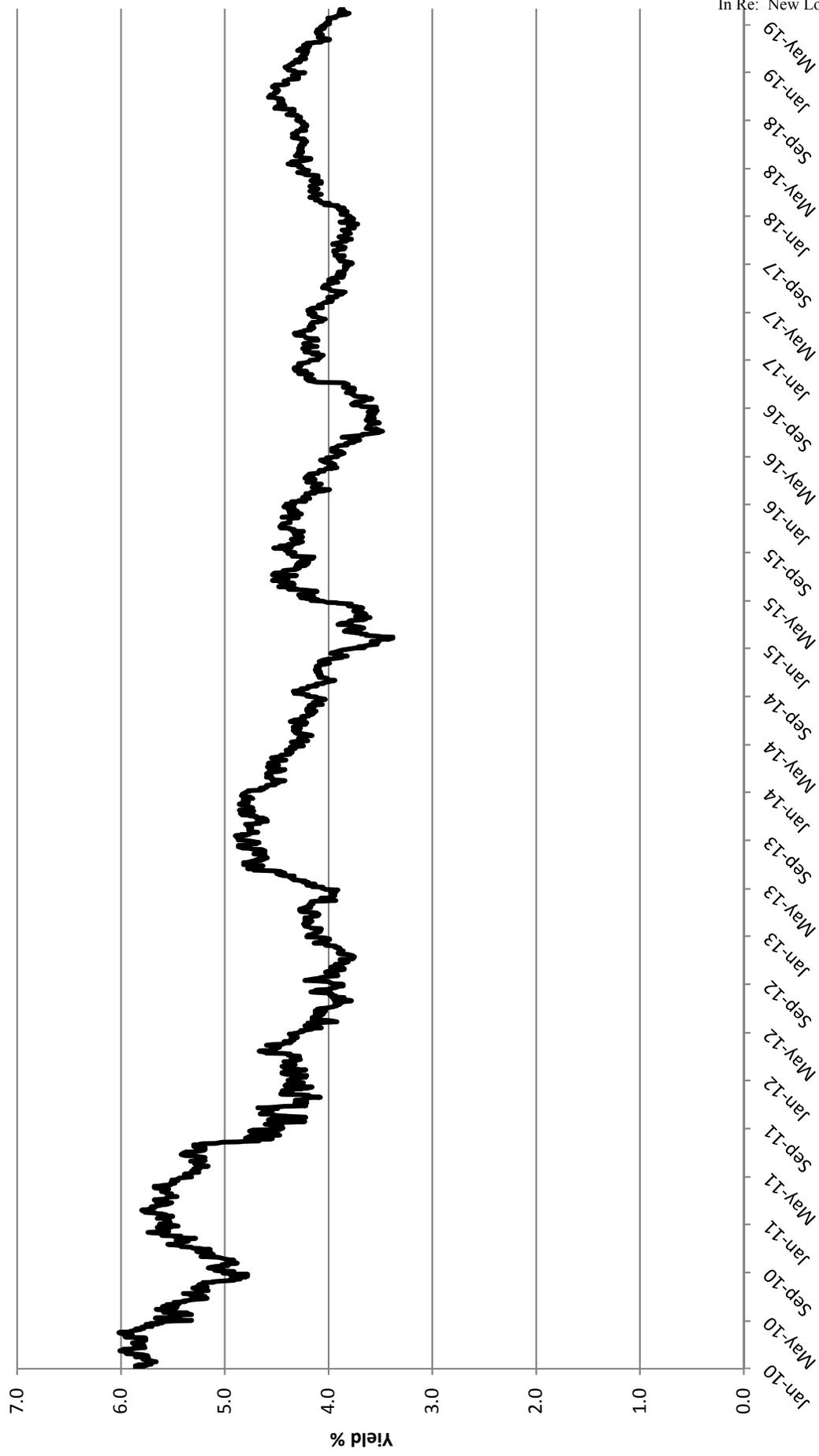
(a) Exclude goodwill

(b) Long-term debt maturity of \$250M

(c) Including forecasted decrease in short-term debt from 3/31/19 to 3/31/20

(d) Including forecasted increase in retained earnings from 3/31/19 to 3/31/20

Historical Movement in 30-Year A-Rated (Moody's) Utility Yields January 1, 2010 through June 14, 2019



The Narragansett Electric Company d/b/a National Grid
APPLICATION FOR BORROWING AUTHORITY
NOTICE OF FILING
Division Docket No. D-19-_____

On July 9, 2019, pursuant to the Rhode Island General Law § 39-3-15, §39-3-17 and 815-RICR-00-00-1.14 of the Division of Public Utilities and Carriers' ("Division") Rules of Practice and Procedure, The Narragansett Electric Company d/b/a National Grid ("National Grid" or the "Company") hereby gives notice that it has filed with the Division an Application to issue, from time to time, new long-term debt not to exceed an aggregate principal amount of \$850 million outstanding at any one time through the period ending March 31, 2023 after the Division approves the Company's Application ("New Debt"). The purpose of the New Debt is to accomplish one or more of the following: (i) to refinance short-term debt with long-term debt; (ii) to finance the Company's capital needs; (iii) to construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company's capitalization. New Debt may consist of taxable bonds, medium or long-term notes, revolving credit loans, and term or bank loans and similar securities.

A copy of the application is on file for examination at National Grid, 280 Melrose Street, Providence, Rhode Island, and at the offices of the Division, 89 Jefferson Boulevard, Warwick, Rhode Island. A copy of the filing was also provided to the Rhode Island Attorney General's Department, Consumer Division. Reference is made to Chapters 39-3-15 and 39-3-17 of the Rhode Island General Laws.

Please note that the Division is accessible to the handicapped, and that individuals requesting interpreter services for the hearing impaired must contact the Clerk seventy-two hours in advance of the hearing.

National Grid