

December 22, 2022

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 Rhode Island Energy Regarding Issuance of New Long-Term Debt**

Dear Ms. Massaro:

On behalf of Rhode Island Energy,¹ I am filing an original and four copies of the Application and Statement by The Narragansett Electric Company d/b/a Rhode Island Energy Regarding Issuance of New Long-Term Debt (“Application”).

This filing consists of the Company’s Application, the pre-filed direct testimony of Tadd J. Henninger as Exhibit A, and supporting Exhibits B, C, D, and E. In addition, the Company has included the results of its investigation of whether issuing new long-term debt as secured instead of unsecured is feasible and cost-effective in Mr. Henninger’s pre-filed direct testimony in Exhibit A, as required in Docket No. D-21-09.² 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 Office of the Attorney General.

Thank you for your time and attention to this matter. If you have any questions, please contact me at 401-316-7429.

Very truly yours,



Jennifer Brooks Hutchinson

Enclosures

cc: Service List
John Bell, Division
Peter Neronha, Esq., Rhode Island Attorney General³

¹ The Narragansett Electric Company d/b/a Rhode Island Energy (“Rhode Island Energy” or the “Company”).

² In Docket No. D-21-09, PPL Corporation and PPL Rhode Island Holdings, LLC made the commitment to “investigate whether issuing long-term debt as secured instead of unsecured is feasible and cost effective before seeking approval for Narragansett’s [i.e., the predecessor to Rhode Island Energy] next long-term debt issuance. . . and to include the results of that investigation as part of its filing with the Division in the next long-term debt issuance proceeding.”² *In Re: Petition of PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA and The Narragansett Electric Company for Authority To Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC, and Related Approvals*, Docket No. D-21-09, Report and Order at 256, 333 (February 23, 2022).

³ The Company is providing a hard copy of this application to Nicholas Vaz, Esq., at the Office of the Attorney General.

STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES AND CARRIERS

_____)	
Application and Statement by)	
The Narragansett Electric Company)	
d/b/a Rhode Island Energy)	Docket No. _____
Regarding Issuance of New)	
Long-Term Debt)	
_____)	

The Applicant, The Narragansett Electric Company d/b/a Rhode Island Energy (“Rhode Island Energy” or the “Company”), respectfully represents that:

(1) The Company seeks authorization to issue and sell new long-term debt, payable more than twelve (12) months from issuance, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17.

(2) The Company is a duly organized and existing corporation of the State of Rhode Island, with a place of business at 280 Melrose Street, Providence, Rhode Island, having been created by Special Act of the General Assembly of the State, passed at its January Session, A.D. 1926, which Act has been amended by further Special Acts of the General Assembly, passed at its January Sessions, A.D., 1927, 1937, 1947, 1956, 1964, 1976, and 1988 (such Act as amended being hereinafter referred to as the “Charter”). The Company is a public utility as defined in the General Laws of Rhode Island, Section 39-1-2, and possesses and is subject to the powers, privileges, duties, and obligations set forth in its Charter, subject to the provisions of the General Laws of the State of Rhode Island. The Company is authorized to do business in the State of Rhode Island. Correspondence and communications to the Company should be addressed to:

Jennifer Brooks Hutchinson, Esq.
Office of General Counsel
PPL Services Corporation
280 Melrose Street
Providence, Rhode Island 02907
(counsel for Rhode Island Energy)

(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 September 30, 2022 the following:

<u>Capital Stock</u>	<u>Amount (\$)</u>
Common Stock, \$50 par value (1,132,487 shares)	54,624,350
Cumulative Preferred Stock, \$50 par value 4.50% Series (49,089 shares)	2,454,450

First Mortgage Bonds (*)

<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount (\$)</u>
Providence Gas FMB R	7.50%	December 15, 2025	3,000,000

(*) 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.

Senior Unsecured Notes

<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount (\$)</u>
Senior Notes	3.919%	August 1, 2028	350,000,000
Senior Notes	3.395%	April 9, 2030	600,000,000
Senior Notes	5.638%	March 15, 2040	300,000,000
Senior Notes	4.170%	December 10, 2042	250,000,000
			<u>1,500,000,000</u>

(4) The Company hereby seeks Division authorization to:

(a) Issue, at any time and from time to time, new long-term debt in an aggregate principal amount of up to \$1.2 billion at any one time outstanding through the period ending June 30, 2026 (“New Long-Term Debt”). The proceeds from the New Long-Term Debt shall be used for one or more of the following purposes: (i) to repay short-term debt; (ii) to finance the Company’s ongoing capital needs; (iii) to refinance long-term debt; and (vi) other general

corporate purposes. The New Long-Term Debt shall include secured or unsecured, taxable or tax-exempt bonds, medium or long-term notes, revolving credit loans (in each case, to the extent not issued, conducted or permitted under separate authorization, including but not limited to the Company's request for authority in Docket No. 22-13 to join a revolving credit facility), and term or bank loans and similar securities, and

(b) enter into evidences of indebtedness and related instruments in connection with New 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").

(5) The Company is requesting authorization to issue New Long-Term Debt that will mature not less than one year and not more than forty (40) years from the date of issuance with either a variable or a fixed interest rate that will depend on market conditions at the time of issuance. Such variable interest rate issuances may include a rate structure comprising a suitable market index, designated at the time of each such issuance, plus a credit spread, both components of which would depend upon the tenor of the proposed issuance, the current credit rating of the Company, competitive market conditions and other factors. By way of example, a variable interest rate may be based upon an index constituting the applicable interest rate per annum of U.S. Treasury debt of a comparable maturity (or intermediate put date) period, plus a credit spread based upon the credit rating of the Company and market conditions, as discussed in more detail in Exhibit A. The New Long-Term Debt may include certain put, call or other similar provisions. Further, the New Long-Term Debt may be issued to an affiliate or third-party investors, in public offerings, private placements, or private offerings exempt under the

Securities Act of 1933 (the “1933 Act”), including issuance to qualified institutional buyers in reliance on Rule 144A under the 1933 Act (“Rule 144A”) or to non-U.S. persons in reliance on Regulation S under the 1933 Act (“Reg. S”). Each of these issues may be executed with or without investment bankers. Further, to limit the Company’s exposure to interest rate fluctuations in connection with the New Long-Term Debt, the Company may enter into arrangements with one or more financial institutions or with PPL Corporation, its indirect parent, that will provide interest rate protection in the form of interest rate liability management and hedging instruments. Such instruments may include interest rate swaps, caps, collars or similar agreements.

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

(7) In connection with and support of its request for its authority to issue New Long-Term Debt, the Company notes and acknowledges its commitments to (a) maintain a common equity ratio of at least forty-eight percent (48%) for a five (5) year period (from May 25, 2022) and (b) continue to exclude goodwill from its rate making capital structure (subject to the right to request waiver or modification), and intends to comply with each as set forth in the Statement of Existing and Additional Commitments dated December 11 and 12, 2021 and incorporated by reference into the Division’s Report and Order in Docket No. D-21-09.¹

(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

¹ See *In Re: Petition of PPL Corporation, PPL Rhode Island: Holdings, LLC, National Grid USA and The Narragansett Electric Company for Authority To Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC, and Related Approvals*, Docket No. D-21-09, Report and Order No. 24322 at 255, 333 (February 23, 2022).

the written testimony of the Company's Vice President and Treasurer, Tadd J. Henninger, included as Exhibit A.

(9) Due to potential uncertainty and volatility in the debt capital markets, the Company seeks the flexibility to choose the timing of and structure of the New Long-Term Debt based on standards and criteria that in the Company's judgment will result in cost effective financing to the Company, including, but not limited to, secured or unsecured debt, fixed or variable interest rate, and offering mechanism, such as public registered or private non-registered offerings. Since the precise terms of the proposed New Long-Term Debt are not known at this time, the Company seeks a waiver of the Division's Rules of Practice and Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4) to the extent that such rules would require the Company to provide investment memoranda, prospectuses, information or registration statements or other documents to describe the transactions or potential funding sources.

(10) Exhibit B contains the Company's current estimate of the costs and expenses of issuing New Long-Term Debt; however, this is only an estimate, 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 including, but not limited to (a) costs, gains and losses from interest rate liability management and (b) costs or expenses relating to a transition to public, registered or secured debt structures, be deferred and amortized over the life of the New Long-Term Debt.

(11) The Company currently anticipates issuing New Long-Term Debt requested under this Application as early as the second quarter of 2023. (It is noted that the Company's existing authorization to issue certain long-term debt pursuant to Docket No. D-19-17 expires March 31, 2023, under which existing authorization the Company retains the ability to issue approximately

\$300 million in additional long-term debt.) In order to maintain the ability to timely access capital markets, including any preparatory planning, the Company respectfully requests that the Division act on this Application as expeditiously as possible and issue a final order by March 31, 2023, or as soon as otherwise practicable in advance of the existing authority's termination.

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

(13) As described in paragraph (9) and elsewhere in this Application, the Company requests flexibility to select the timing, structure, offering mechanism, terms, rates and other attributes of New Long-Term Debt from time-to-time based upon the Company's judgement as to relevant financial market conditions and the respective cost or other appropriate benefits or considerations for the Company as to the potential forms of New Long-Term Debt. A discussion of certain of such matters, including with respect to (a) secured or unsecured debt and (b) public, registered or private offerings exempt under the 1933 Act, prepared in connection with the Company's commitment in Docket No. D-21-09, is included as a part of as Exhibit A to this Application.

(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, at any time and from time to time (including to an affiliate or third-

party investors, and including, but not limited to, through public offerings or private placements, or Rule 144A or Reg. S transactions and with or without investment banks), through the period ending June 30, 2026 not exceeding \$1.2 billion in aggregate principal amount outstanding at any one time, upon such terms, at such rates of interest, with such maturities, whether secured or unsecured, and at such offering prices, as the Company may determine, and, if the price of any such long-term debt securities is sold at a discount, such price will be deemed to be cost effective with the amortization of the discount over the life of such debt to be deemed authorized and approved; provided that, the New Long-Term Debt shall (a) mature not less than one year and in not more than forty (40) years from the date of issuance, (b) bear interest at a fixed rate or variable 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, including, without limitation (i) to repay short-term debt; (ii) to finance the Company's ongoing capital needs; (iii) to refinance long-term debt; and (iv) for other general corporate purposes, and for the avoidance of doubt, including the ability to extend or replace any previously-issued debt with subsequent New Long-Term Debt, so long as the aggregate principal amount of outstanding indebtedness New Long-Term Debt authorized hereby does not exceed \$1.2 billion at one time.

D. Authorizing, approving and consenting that the Company may, at any time and 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 and interest rate liability management or hedging 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.

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.

[SIGNATURE PAGES FOLLOW]

Respectfully submitted,

THE NARRAGANSETT ELECTRIC
COMPANY d/b/a RHODE ISLAND ENERGY

By: 
David J. Bonenberger, President

Dated: December 7th, 2022

By: _____
Bree F. Archambault, Corporate Secretary

Dated: December _____, 2022

STATE OF RHODE ISLAND)

COUNTY OF PROVIDENCE)

Signed and attested before me this 7th day of December 2022 by David J. Bonenberger, President of The Narragansett Electric Company d/b/a Rhode Island Energy.


Notary Public

NOTARY # 760341

Michael S. Grant
Notary Public, State of Rhode Island
My Commission Expires Jan. 30, 2025

COMMONWEALTH OF PENNSYLVANIA)

) ss.:

COUNTY OF LEHIGH)

Signed and attested before me this ___ day of December 2022 by Bree F. Archambault, Corporate Secretary of The Narragansett Electric Company d/b/a Rhode Island Energy.

Notary Public

Application and Statement by
The Narragansett Electric Company
d/b/a Rhode Island Energy
Regarding the Issuance of New Long-Term Debt
December 22, 2022

Exhibits

Exhibit A - Direct Testimony of Tadd J. Henninger, Vice President and Treasurer

Exhibit B - Estimated Debt Issuance Costs

Exhibit C - Balance Sheet

Exhibit D - Present and Pro Forma of Capital Structure

Exhibit E - Historical Long-Term Interest Rates

PRE-FILED DIRECT TESTIMONY

OF

TADD J. HENNINGER

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1 **I. Introduction and Qualifications**

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

3 My name is Tadd Henninger. My business address is 2 North Ninth Street, Allentown,
4 Pennsylvania 18101. I am the Vice President - Finance and Treasurer of PPL Corporation
5 (“PPL”) and its subsidiaries, including The Narragansett Electric Company d/b/a Rhode
6 Island Energy (“Rhode Island Energy” or the “Company”). My responsibilities include
7 overseeing financial planning and analysis, as well as PPL’s treasury related activities.
8 These activities include leading PPL’s debt and equity capital market transactions,
9 maintaining rating agency and banking relationships, managing liquidity and cash, and
10 overseeing pensions and investments.

11
12 **Q. On whose behalf are you testifying?**

13 A. I am testifying on behalf of Rhode Island Energy in this proceeding.

14
15 **Q. Please summarize your educational and professional background.**

16 A. My career dates back to 1998 when I began working at Ernst & Young, a public
17 accounting firm, upon graduating from Kutztown University with a Bachelor of Science
18 degree in Accounting. I spent more than ten years with Ernst & Young prior to joining
19 PPL in 2009. Since joining PPL, I primarily have served in finance-related roles,
20

1 including working in PPL’s mergers and acquisitions group prior to joining the Treasury
2 organization in 2011. Since joining the Treasury organization, I have served in various
3 roles, including my current role as Vice President - Finance and Treasurer.
4

5 **Q. Have you previously testified before the Rhode Island Division of Public Utilities
6 and Carriers (the “Division”) or the Rhode Island Public Utilities Commission?**

7 A. Yes. I testified before the Division with respect to Docket No. 21-09, which sought the
8 approval to transfer ownership of the Company from National Grid USA to PPL Rhode
9 Island Holdings, LLC (“PPL Rhode Island”). I also provided pre-filed direct testimony
10 to the Division in support of Rhode Island Energy’s request for Approval to Join a
11 Revolving Credit Facility, Docket No. D-22-13.
12

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

14 A. Yes, I have provided written testimony before public utilities regulators in Pennsylvania.
15

16 **Q. What is the purpose of your testimony?**

17 A. The purpose of my testimony is to support the Company’s application (the “Application”) to the Division to request authorization to issue at any time and from time to time new
18 long-term debt of up to \$1.2 billion aggregate principal amount at any one time
19 outstanding through the period ending June 30, 2026 (“New Long-Term Debt”). Also, in
20 Docket No. D-21-09, *In Re: Petition of PPL Corporation, PPL Rhode Island Holdings,*
21

1 *LLC, National Grid USA, and The Narragansett Electric Company for Authority to*
2 *Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island*
3 *Holdings, LLC and Related Approvals, PPL and PPL Rhode Island committed to*
4 investigate whether issuing long-term debt in the public markets as secured instead of
5 unsecured is feasible and cost-effective before seeking approval for Rhode Island
6 Energy’s next long-term debt issuance. This testimony presents the results of that
7 investigation.

8
9 **Q. How is your testimony organized?**

10 A. Section I is the Introduction and Qualifications. Section II describes the Company’s
11 application to issue the New Long-Term Debt. Section III describes the New Long-Term
12 Debt. Section IV presents the results of the Company’s Secured Debt Investigation
13 pursuant to Docket No. D-21-09. Section V is the Conclusion.

14
15 **II. Description of the Application**

16 **Q. Mr. Henninger, would you please give a brief description of Rhode Island Energy?**

17 A. Rhode Island Energy is a combined electric and gas distribution company. The Company
18 is a Rhode Island corporation and an indirect wholly owned subsidiary of PPL. The
19 Company is principally engaged in the business of selling and distributing electricity and
20

1 natural gas within Rhode Island, which makes it a public utility as defined by Rhode
2 Island General Laws § 39-1-2(a)(20). The Company has a place of business at 280
3 Melrose Street, Providence, Rhode Island.

4
5 **Q. Please describe the Company's Application that is the subject of this proceeding.**

6 A. The Application is for authorization to issue at any time and from time to time, the New
7 Long-Term Debt. The proceeds from the New Long-Term Debt will be used for one or
8 more of the following purposes:

- 9 (i) to repay short-term debt
10 (ii) to finance the Company's ongoing capital needs
11 (iii) to refinance long-term debt; and
12
13 (iv) other general corporate purposes.

14
15 The New Long-Term Debt may include secured and unsecured, tax-exempt or taxable
16 bonds, medium or long-term notes, revolving credit loans, (in each case, to the extent not
17 issued, conducted, or permitted under separate authorization, including but not limited to
18 the Company's request for authority in Docket No. 22-13 to join a revolving credit
19 facility) and term or bank loans and similar securities or any combination thereof.

20
21 The Company also seeks Division authorization to enter into evidence of indebtedness
22 and related instruments in connection with the New Long-Term Debt, including, but not
23 limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit

1 agreements, participation agreements, underwriting or similar agreements, bond purchase
2 agreements, remarketing agreements, security agreements, and instruments, insurance
3 agreements, or their equivalent and amendments, restatements, modifications, or
4 supplements thereto (collectively, the “Instruments” and individually, an “Instrument”).
5

6 **Q. How do market conditions affect the Company’s request to issue long-term debt**
7 **securities?**

8 A. Market conditions are critical in determining when the Company will access the debt
9 capital markets. From time to time, debt capital markets may experience uncertainty and
10 volatility. For example, this past year has been a period of significant volatility due to
11 several geopolitical issues and high inflation that has resulted in an aggressive central
12 bank tightening cycle, resulting in higher interest rates across the interest rate curve.
13 During this time of significant volatility, borrowers had limited opportunities to issue
14 debt and, in some instances, had to pay higher coupons on their debt. For these reasons,
15 it is essential for Rhode Island Energy to have as much flexibility as possible regarding
16 the terms and timing of issuing the New Long-Term Debt.
17

18 **Q. How do these market conditions affect the timing and structure of the debt**
19 **issuance?**

20 A. The Company’s ability to achieve the best value when issuing the New Long-Term Debt
21 requires that the Company be responsive to market conditions, investors, and their

1 requirements for capital investment. Due to this market dynamic, the Company seeks to
2 have the flexibility to choose the timing of and structure of the New Long-Term Debt
3 based on standards and criteria that in the Company's judgment will result in benefits to
4 the Company. As a result, the Company is not reasonably able to identify in advance
5 details of the New Long-Term Debt, including:

- 6 (1) the type of debt instrument to be utilized;
- 7 (2) the term of the debt instrument; and
- 8 (3) the interest rate to be paid to investors.

9
10 Given the need to respond quickly to market conditions to achieve the best value, it is
11 necessary for the Company to obtain a waiver of the Division's Rules of Practice and
12 Procedure 815-RICR-00-00-1.14(A)(1)(a)(2),(3), and (4), to the extent that those
13 provisions require the Company to provide investment memoranda, prospectuses,
14 information or registration statements or other documents to describe the transactions or
15 potential funding sources as part of this Application.

16
17 **Q. Are you familiar with Exhibit C, the Balance Sheet dated September 30, 2022?**

18 **A.** Yes, I am.

19

1 **Q. What does Exhibit C show with respect to the Balance Sheet of the Company?**

2 A. Exhibit C shows the Company's total assets, liabilities and equity at September 30, 2022.

3

4 **Q. Are you familiar with Exhibit D regarding the Company's capitalization?**

5 Yes, I am.

6 A.

7 **What does Exhibit D show with respect to the Company's capital structure and the**

8 **Q. initial use of New Long-Term Debt?**

9 Exhibit D shows the Company's capitalization at September 30, 2022 and the impact to

10 A. the capitalization after the anticipated debt financings of \$1.2 billion are issued. The

11 anticipated financing activity is expected to result in a capital structure of 59.47 percent

12 common equity,¹ 0.04 percent preferred equity and 40.49 percent of debt.

13

14 **What are the factors driving the Company's request for authorization to issue new**

15 **Q. long-term financing?**

16 The Company is seeking authorization to issue, at any time and from time to time, up to

17 \$1.2 billion in New Long-Term Debt (i) to repay short-term debt; (ii) to finance the

18

¹ The common equity ratio reflects the impacts of PPL's 338 (h)(10) election under the Internal Revenue Code in connection with the acquisition of the Company, being treated as an asset acquisition for tax purposes thereby resulting in a "step-up" in tax basis. The common equity does not reflect any adjustments with respect to PPL's hold harmless commitments.

1 Company's ongoing capital needs; (iii) to refinance long-term debt; and (iv) for other
2 general corporate purposes.

3
4 Most recently, the Company received long-term financing authorization to issue up to
5 \$900 million through March 2023 pursuant to the Division's Report and Order dated
6 December 20, 2019, in Docket No. D-19-17. In April 2020, the Company issued \$600
7 million of long-term debt, resulting in \$300 million of remaining authority pursuant to the
8 existing authorization, which is due to expire prior to the anticipated need to access long-
9 term capital.

10
11 **III. Description of New Long-Term Debt**

12 **Q. The Company's request contemplates the issuance of up to \$1.2 billion of**
13 **New Long-Term Debt securities from time to time to satisfy its projected financing**
14 **needs. Please describe on what basis this amount was determined.**

15 A. The Company determined the amount of the financing need by primarily evaluating its
16 future anticipated capital expenditures. The Company expects to need up to \$1.2 billion
17 of long-term debt over the next several years primarily to fund its ongoing capital needs,
18 including without limitation, investments in grid modernization, resiliency, and digital
19 transformation, additional transmission investments, as well as replacing aging
20 infrastructure. The Company expects to maintain a capital structure that appropriately
21 supports its operations and is consistent with the Company's commitment to maintain a

1 common equity ratio of at least 48 percent as set forth in the Statement of Existing and
2 Additional Commitments dated December 11, and 12, 2021 and incorporated by
3 reference into the Division's Report and Order in Docket No. D-21-09.²
4

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

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

10 **Q. What is the interest rate range that the Company expects to pay for the New Long-**
11 **Term Debt?**

12 A. The interest rate payable on the New Long-Term Debt will vary depending on market
13 conditions at the time of issuance and on the structure of the financing used by the
14 Company. Long-term debt typically is priced using the 30-year US Treasury Bond index
15 (a standard basis for determining long term rate pricing) with the applicable tenor plus a
16 credit spread, which accounts for a number of market and issuer specific factors including
17 the issuer's credit rating and whether the debt is secured or unsecured. For example,
18 based on current market conditions, the Company would expect to issue long-term

² See *In Re: Petition of PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA and The Narragansett Electric Company for Authority To Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC, and Related Approvals*, Docket No. D-21-09, Report and Order No. 24322 at 255, 333 (February 23, 2022).

1 unsecured senior bonds at an interest rate of approximately 5.30 percent based upon the
2 30-year US Treasury of 3.50 percent plus a credit spread of about 1.80 percent (180 basis
3 points) as indicative of pricing on December 15, 2022. These rates are subject to change,
4 perhaps substantially, during the period of authorization based on market conditions.
5 Exhibit E shows the historical 30-year U.S Treasury Rates and 30- year BBB+ Utility
6 Credit Curve since November 2019.

7
8 **Q. Would you please describe in more detail the types of New Long-Term Debt**
9 **securities the Company may enter into pursuant to this financing request?**

10 A. The Company proposes to issue New Long-Term Debt Instruments with a maturity
11 greater than one year and not to exceed 40 years from the date of issuance. The securities
12 are expected to carry either a fixed or variable interest rate, which will vary with a market
13 index to be designated at the time of issuance. The New Long-Term Debt may be issued
14 in private or public offerings, in connection with the establishment of loan facilities with
15 a bank or syndicate of banks, or internally to an affiliate.

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

19 A. The New Long-Term Debt securities would be sold from time to time in light of the
20 Company's cash requirements and market conditions. These securities may be sold in
21 one or more offerings through one or more of the following methods: competitive

1 bidding; negotiation with underwriters; negotiation directly with investors, through one or
2 more agents; to one or more agents as principal for resale to investors, in private or public
3 offerings; or in connection with the establishment of loan facilities with a bank or
4 syndicate of banks; or internally to an affiliate.

5
6 **Q. Please describe the offering options available to the Company.**

7 A. The most common platforms for issuance are (i) public offerings registered with the
8 Securities and Exchange Commission (“SEC”); (ii) private placement transactions in
9 accordance with Rule 4(a)(2) under the Securities Act of 1933 (the “1933 Act”) and (iii)
10 private offerings, including transactions under Regulation 144A and Regulation S under
11 the 1933 Act (“Rule 144A/ Reg. S transactions”). The Company may also issue New
12 Long-Term Debt to an affiliate.

13
14 Please see Section IV below for a more detailed discussion on these financing
15 alternatives.

16
17 **Q. When does the Company plan to issue the proposed New Long-Term Debt?**

18 A. The Company plans to issue the New Long-Term Debt, at any time and from time to
19 time, during the proposed authorization period.

20 Depending on when an authorization is granted, capital market conditions and other
21 circumstances, the Company anticipates issuing New Long-Term Debt as early as the

1 second quarter in calendar year 2023. The Company therefore respectfully requests that
2 the Division issue a final order by March 31, 2023.

3
4 **Q. Has the Company estimated the costs associated with issuing New Long-Term Debt?**

5 A. Yes. The Company's current estimate of the costs and expenses of issuing New Long-
6 Term Debt is indicated in Exhibit B; however, this is an estimate only and the actual costs
7 and expenses may differ from this estimate. The Company requests that the actual costs
8 and expenses of issuing New Long-Term Debt be deferred and amortized over the life of
9 the New Long-Term Debt.

10
11 **Q. Is the New Long-Term Debt in the best interest of the Company and its customers,
12 and if so, why?**

13 A. Yes, it is. As mentioned above, replacement of short-term debt with long-term debt will
14 have the corollary effect of freeing up short-term debt capacity for its intended purposes
15 of financing day-to-day working capital needs and, on a temporary basis, new
16 construction work in progress until the time that these projects are placed in service.
17 It is in the interests of customers for the Company to have a capital structure that
18 appropriately supports its operations because, over the long run, doing so will enable the
19 Company to maintain access to vital capital resources at a reasonable cost.

20

1 **IV. Secured Debt Investigation Pursuant to Docket No. D-21-09**

2 **A. Background and Overview**

3 **Q. Please describe the commitment made by PPL and PPL Rhode Island in Docket No.**
4 **D-21-09 regarding an investigation of the feasibility and cost-effectiveness of issuing**
5 **secured debt in the public market.**

6 A. In Docket No. D-21-09, PPL and PPL Rhode Island made the following commitment:

7 PPL will investigate whether issuing long-term debt as secured instead of
8 unsecured is feasible and cost effective before seeking approval for
9 Narragansett's [i.e., the predecessor to Rhode Island Energy] next long-term
10 debt issuance. As part of this investigation, PPL will evaluate the costs,
11 benefits, and constraints associated with making Narragansett an SEC
12 registrant and establishing a secured indenture, which would provide
13 Narragansett the ability to issue senior secured, first mortgage bonds in the
14 public market versus senior unsecured debt via private placement.
15 Narragansett will include the results of that investigation as part of its filing
16 with the Division in the next long-term debt issuance proceeding.³
17

18 **Q. The commitment references “secured” and “unsecured” debt. As a preliminary**
19 **matter, what are the key differences between secured and unsecured debt?**

20 A. Unsecured debt is not backed by an asset pledged as collateral. For utilities, mortgage
21 bonds are a common type of secured debt issuance in which there is a primary lien on
22 utility assets (subject to certain exceptions) that are used as collateral for the bonds.

23

³ Report and Order No. 24322 at 256, 333.

1 **Q. Do secured and unsecured bonds have different interest rates?**

2 A. Secured debt would typically have lower rates than unsecured debt; however, that is not
3 the only driver of its interest rate. Interest rates are driven by multiple factors, including
4 economic conditions, Federal Reserve Policy, the issuer's credit rating, business and
5 financial risk, and the term of the debt. Whether debt is secured or unsecured, however,
6 has an impact on the interest rate that is paid. This is primarily because, although both
7 secured and unsecured debt are subject to credit risk (i.e., the potential for the issuer to
8 default on its debt obligations), unsecured debt investors face a higher degree of credit
9 risk than secured debt investors, since secured debtholders have a claim on the collateral
10 if the issuer defaults. In normal market conditions, the difference could be a 15 to 20
11 basis point spread between secured and unsecured debt in the utility sector. However, put
12 in the context of the various other factors discussed above that influence the interest rate
13 for debt, 15 to 20 basis point variations in interest rates are common. For example, the
14 interest rate for debt (as measured by the Moody's A-rated Utility Bond Index) has varied
15 by at least 15 basis points over every 30-day period observed over the past year. Since
16 2010, the interest rate for debt has varied by at least 15 basis points for 95 percent of the
17 30-day observations.⁴ Therefore, timing of an issuance can be a more significant
18 determinant of the interest rate of debt than whether the debt is secured or unsecured.

⁴ Source: Bloomberg Professional. Further, as noted in a recent Bloomberg News article, "[t]here have been yield swings [on ten-year Treasury Notes] exceeding 10 basis points on 51 days so far this year," demonstrating overall volatility in the bond market. See, Bloomberg News, "Bond Market Heads Into Treacherous Waters as Activity Subsides," November 19, 2022.

1 **Q. What are the key differences between public market and Rule 144A/ Reg. S debt?**

2 A. An issuer that sells securities into the public markets (which includes retail and
3 institutional investors) must register the securities with the SEC pursuant to a registration
4 statement that will, in turn, subject the issuer to the Securities Exchange Act of 1934 (the
5 “1934 Act”) Reporting Obligations and to internal accounting and reporting
6 requirements. SEC registered issuers also have higher compliance standards with respect
7 to the Sarbanes Oxley Act (“SOX”), requiring additional reporting on internal controls
8 and practices. There are no restrictions on the investor base for SEC-registered debt
9 instruments.

10
11 By contrast, non-registered senior unsecured debt issued in Rule 144A or Regulation S
12 (“Reg. S”) transactions is exempt from registration requirements by the SEC. Rule 144A
13 investors are limited to Qualified Institutional Buyers, while investors in Reg. S
14 transactions are limited to non-U.S. Persons. Issuer information for Rule 144A/ Reg. S
15 transactions is generally limited to original and subsequent debtholders.⁵ Overall, Rule
16 144A/ Reg. S transactions are considered cost-effective and relatively easy to execute,
17 with comparatively less onerous reporting requirements and covenants (e.g., the
18 Company’s current reporting requirements consist of annual audited financial statements
19 within 180 days of fiscal year-end, quarterly financial statements within 75 days after

⁵ Rule 15c2-11 under the Securities and Exchange Act of 1934 was amended to include fixed-income securities and may have an impact on the financial disclosure requirements for Rule 144A transactions.

1 quarter-end, and an annual certificate of No Default to the Trustee). Further, Rule 144A/
2 Reg. S transactions typically have stand-alone documentation, and because of fewer
3 constraints, provide greater flexibility in accessing markets.
4

5 **Q. Do public market and Rule 144A/ Reg. S bonds have different interest rates?**

6 A. Securities sold in Rule 144A/ Reg. S transactions are typically priced at a premium over
7 public market transactions. As with secured versus unsecured debt, however, there are
8 other drivers of debt costs. Indeed, during 2022, the pricing premium with respect to
9 securities sold in Rule 144A/ Reg. S transactions over public market transactions has
10 been wider due to the volatility in the capital markets.
11

12 **Q. In what format has the Company previously issued debt?**

13 A. Since 2010, the Company has issued long-term debt in a senior unsecured Rule 144A for
14 Life format. The Company has issued \$1.5 billion in outstanding senior unsecured
15 bonds, with a weighted average coupon of 4.1 percent. The debt portfolio also includes
16 \$3 million in legacy Providence Gas First Mortgage Bonds maturing in 2025 from the
17 Company's purchase of gas assets in 2006. The table below summarizes the Company's
18 historical debt issuances.

**Figure 1: Long-Term Debt Portfolio
(thousands)**

Senior Unsecured Notes	Rating	Maturity	Size	Coupon
NECO-3.919-SN-2028	A3/A-	8/1/2028	\$350,000	3.919%
NECO-3.395-SN-2030	A3/A-	4/9/2030	\$600,000	3.395%
NECO-5.638-SN-2040	A3/A-	3/15/2040	\$300,000	5.638%
NECO-4.170-SN-2042	A3/A-	12/10/2042	\$250,000	4.170%
Providence Gas First Mortgage Bonds				
RI-7.50-FM B-2025	NR/A	12/15/2025	\$3,000	7.500%
			\$1,503,000	4.102%

Q. Were those historical issuances made pursuant to Division and Commission approvals?

A. Yes. Most recently, in Docket No. D-19-17, the Division authorized the Company to issue new long-term debt, either secured or unsecured.⁶

Furthermore, in Docket No. 4770, the Commission approved an Amended Settlement Agreement that authorized the recovery of the embedded cost of debt, including unsecured debt issuances. Specifically, the Order states that “[u]pon completion of the long-term debt issuance, the revenue requirement established by the Settlement Agreement shall be adjusted to use the actual weighted cost of long-term debt and debt expense after the new debt issuance.”⁷

⁶ See Application and Statement by The Narragansett Electric Company d/b/a National Grid) Regarding Issuance of New Long-Term Debt, Docket No. D-19-17 at 19-20 (December 20, 2019).

⁷ See *The Narragansett Elec. Co. Application for Approval of a Change in Electric and Gas Base Distribution Rates*,

1 **Q. Can the Company issue secured debt in the Rule 144A/ Reg. S market?**

2 A. Yes, the Company may continue to issue in the Rule 144A for Life format but establish a
3 secured indenture. As described later, however, establishing that indenture would have
4 unique filing and reporting requirements.

5

6 **B. Results of the Company's Investigation**

7 **Q. Has Rhode Island Energy performed the investigation described in the commitment?**

8 A. Yes. As described in the commitment, the Company evaluated the feasibility of both: (1)
9 issuing secured debt, which would involve establishing a secured indenture with a lien on
10 the Company's property (subject to certain exemptions) to secure its secured bond
11 obligations; and (2) becoming an SEC registrant, which would enable the Company to
12 issue debt in the public market.

13

14 **Q. Please describe the Company's investigation.**

15 A. The Company performed an assessment of the costs, benefits, and constraints of issuing
16 secured debt in the public market. Specifically, as part of its ongoing review of the
17 Company's financing plans and in connection with the commitment made by the
18 Company in Docket No. D-21-09, the Company evaluated the costs and benefits of

*Docket No. 4770, Order No. 23823 at 40 (approving the Amended Settlement Agreement, dated August 16, 2018).
The actual capital structure was adjusted to reflect the long-term debt issued on July 27, 2018 pursuant to the
Division's Report and Order in Docket No. D-17-36.*

1 continuing to issue senior unsecured debt in a Rule 144A for Life format versus
2 alternatives. The Company also evaluated the feasibility and practicality of pursuing SEC
3 registration and entering into a secured indenture, including the achievability of those
4 alternatives in time to meet the Company's financing needs. The evaluation included
5 consultation with bank partners, legal counsel and the Company's independent auditor.
6 The Company also consulted with various external and internal resources to develop
7 estimates of what the additional costs would be related to moving from its historical
8 approach to debt financing using Rule 144A for Life issuances.

9
10 In terms of issuing secured debt, the Company evaluated both: (1) the considerations
11 associated with managing the impact on current unsecured debt holders of adding secured
12 debt; and (2) direct costs associated with issuing secured debt, relative to unsecured debt
13 costs. In terms of issuing debt in the public markets, the Company evaluated the costs of
14 becoming an SEC registrant subject to the 1934 Act Reporting Obligations, which would
15 enable public market issuances, and the costs of maintaining that status on an ongoing
16 basis.

17
18 **Q. What are the considerations associated with the Company's current debt and**
19 **investors as they relate to the matter of issuing secured debt?**

20 A. The critical consideration associated with the Company's current debt and investors is
21 that issuing secured debt will effectively subordinate the existing unsecured debt and its

1 holders. Specifically, the unsecured debt holders would be put in a subordinated position
2 because, in the event of a default by the Company, holders of secured debt (by operation
3 of the secured debt indenture) would have access to the collateral underlying the secured
4 debt indenture in order to get payment on such secured debt. Unsecured holders have no
5 such right. This subordination of existing bondholders would negatively affect those
6 investors, and given this disparity, the unsecured holders would expect to be compensated
7 for this change in ranking or would require that they receive the same priority.

8
9 **Q. Why would subordination negatively affect the existing holders of unsecured debt,
10 and why is that important?**

11 A. The Company is concerned about negative impacts to its existing holders of unsecured
12 debt because these investors would likely be the same investors buying the new, secured
13 bonds, or other Company bonds in the future. The negative market reaction of the
14 existing unsecured debt holders to being subordinated could impact the Company's
15 access to capital and pricing prospectively, which comes at a cost to both the Company
16 and customers. To avoid this negative outcome, the Company would need to consider
17 addressing the impact of subordination on existing investors.

18
19 **Q. What approaches could the Company take to address the impact of subordination
20 on existing holders of unsecured debt?**

21 A. The subordination of existing holders of unsecured debt could be handled by either

1 collateralizing the existing unsecured debt, or by fully redeeming the existing unsecured
2 bonds under the Optional Redemption provision of the indenture.

3
4 **Q. Please further describe the considerations and costs related to collateralizing**
5 **existing unsecured debt.**

6 A. The Company could collateralize its existing unsecured bonds with secured debt by
7 establishing a secured indenture and then issuing first mortgage bonds to the trustee of
8 the unsecured bonds to hold for the benefit of the existing unsecured bondholders. The
9 collateralization of the unsecured bonds would reduce the credit risk for the existing
10 bondholders, but the interest rate on this newly collateralized debt would remain the
11 same. Thus, despite incurring the cost to provide security and improve the credit profile
12 on such debt, the Company would derive no economic benefit from such efforts.
13 Therefore, there is an opportunity cost to the Company associated with collateralizing
14 existing investors. In fact, the Company would be reducing its operational flexibility due
15 to the restrictive nature of the lien on assets while obtaining no financial benefit from the
16 collateralization.

17
18 **Q. Are there other approaches the Company could take to address the subordination of**
19 **existing unsecured debt?**

20 A. Yes, although each of them is costly. Various strategies to alleviate the subordination
21 issue faced by the unsecured debt holders would include conducting a liability

1 management exercise for the existing unsecured bonds or exchanging the entire
2 unsecured bond portfolio for a secured bond portfolio. The liability management exercise
3 would entail the Company paying a premium to existing bondholders under the Optional
4 Redemption provision of the indenture. The Optional Redemption provision provides the
5 Company the ability to redeem the bonds prior to maturity at a certain redemption price,
6 which is defined as 100 percent of the principal outstanding plus the present value of all
7 required interest payments due on the bonds through their respective maturity dates
8 computed using a discount rate equal to the treasury rate for the comparable remaining
9 term plus an adder of 15 to 25 basis points depending on the bond. As of December 15,
10 2022, the Company estimates that premium to be approximately \$85 million for the \$1.5
11 billion of outstanding debt. Alternatively, the Company could explore an exchange offer
12 whereby existing bondholders would have the option of exchanging their current
13 unsecured debt for new secured debt at then current market rates. The execution of an
14 exchange offer, however, does not guarantee that all the existing unsecured debt would
15 be exchanged, given that it is at the option of the bondholders. Dependent on market
16 conditions, the coupon rates and size of the Company's existing tranches, it is not certain
17 that an exchange offer would alleviate the subordination issue in an efficient manner.

18
19 **Q. Would these strategies to alleviate the subordination issue impact the cost of debt?**

20 A. Yes, these various strategies available to alleviate the subordination issue may negatively
21 impact the weighted average cost of debt, especially in the current interest rate market

1 environment. In the instance of the optional redemption provision, the Company would
2 need to finance the incremental premiums of approximately \$85 million plus the principal
3 amount of \$1.5 billion of the existing debt at higher interest rates than the current
4 weighted average cost. For illustrative purposes, assume the Company would issue \$1.5
5 billion plus the additional of \$85 million of premiums at 4.60 percent for ten years (i.e.,
6 an illustrative rate for senior secured public transaction with a comparable credit rating).
7 This results in an incremental \$4 million of annual interest expense related to the
8 premium alone and would increase the weighted average coupon of the existing \$1.5
9 billion debt portfolio to 4.6 percent from the current 4.1 percent, adding about \$12
10 million of annual interest expense.⁸

11
12 **Q. Besides subordination of existing unsecured bondholders, would the issuance of**
13 **secured debt raise other considerations related to the Company's existing debt?**

14 A. Yes. Certain gas assets of the Company are subject to the lien of the Providence Gas
15 Indenture. The fact that these assets are subject to a pre-existing lien adds complexity to
16 the Company's potential pursuit of a secured indenture because these assets would need
17 to be treated differently (due to the existence of the pre-existing lien) under the secured
18 indenture than the Company's other assets. Specifically, the Providence Gas Indenture
19 generally restricts the Company's ability to create certain liens or encumbrances over the

⁸ Estimates are quoted before consideration of tax (i.e., pre-tax).

1 gas assets. The Company may need to “ring-fence” the gas assets and structure a new
2 secured indenture to provide the lien only on its electric and transmission assets.
3 Bifurcating the assets may result in less of an interest rate differential between secured
4 and unsecured debt, particularly due to the size of the gas assets relative to total asset
5 base. This complication could negatively impact both investor interest in and pricing on
6 the secured debt. The amount of bonds outstanding under the Providence Gas Indenture is
7 \$3 million and, therefore, does not have a material impact on the Company’s evaluation.
8 It is, however, an administrative component that will need to be addressed, including the
9 costs to redeem the bond early or create the ring-fencing discussed above, as well as any
10 costs related to the legal documentation of terminating the lien or creating a bifurcated
11 structure.

12
13 **Q. What are the additional costs and constraints associated with enabling the issuance**
14 **of secured debt?**

15 A. In terms of issuing secured debt, the Company will bear additional costs related to
16 establishing a lien on the Company’s property. Further, a secured indenture requires
17 ongoing reporting and monitoring of the underlying assets supporting the lien to ensure
18 they remain sufficient as collateral. This requires additional administration by the trustee,
19 external and internal counsel, and potentially engineering consultants, if deemed

20

1 necessary or prudent, as well as costs related to internal resources, which results in higher
2 administrative costs.

3
4 **Q. What are the additional costs and constraints associated with enabling the issuance**
5 **of debt in the public market?**

6 A. The costs and constraints associated with accessing the public markets relate to the costs
7 associated with becoming and remaining an SEC registrant. SEC registration will require
8 the Company to prepare a registration statement and submit it to the SEC for approval.
9 The time required to secure this SEC approval is uncertain and, thus, may impact the
10 Company's ability to access the capital markets during a favorable interest rate
11 environment. SEC registration will also subject the Company to 1934 Act Reporting
12 Obligations and related ongoing periodic and current reports, which would result in both
13 an initial one-time fee and ongoing legal, reporting and auditing fees. Furthermore, SEC
14 registration may be challenging during the period over which the Company is under a
15 Transition Services Agreement ("TSA") with National Grid, as discussed further below.

16
17 **Q. What are the challenges associated with SEC registration during the TSA period?**

18 A. Services under the TSA include certain of Rhode Island Energy's financial reporting
19 functions. Currently, the Company has several controls and processes that it relies on
20 National Grid to execute on its behalf pursuant to the TSA. This arrangement, while
21 supportive of a smooth transition of these functions to Rhode Island Energy, could

1 present complexities regarding the various system implementations and integration that
2 need to occur prior to the Company having the ability to execute and manage its own
3 processes and controls for financial reporting. As a separate registrant, the Company
4 may have lower materiality thresholds that may require the Company to implement
5 additional controls and processes around financial reporting (as well as a greater volume
6 and frequency of reports), which may not be feasible given the existing terms and
7 expected timing of the TSA termination currently planned for May 2024.

8
9 **Q. Are there other timing considerations related to becoming SEC registered or**
10 **entering into a secured indenture?**

11 A. Yes. Both becoming SEC registered and entering into a secured indenture take time and
12 considerable internal and external resources and may not be achievable prior to the
13 Company's next required debt financing. For example, to be able to issue secured debt,
14 the Company will be required to engage securities counsel and an investment bank (to act
15 as lead underwriter) to perform due diligence, inventory, document, and assess the value
16 of all of the Company's real and personal property that will serve as the basis of the
17 security for the secured debt, engage local real estate counsel to advise on real estate law
18 and filing issues, draft and negotiate a secured mortgage indenture with bond
19 underwriters and the trustee and, ultimately, document these efforts in an offering
20 memorandum by which to sell secured debt in the market. The Company would also
21 need to undergo discussions with credit ratings agencies and develop a communications

1 strategy for existing bondholders. Any decision by the Company to pursue alternative
2 financing approaches must be made with consideration of the need to continue investing
3 in its system and operations to provide service to customers.
4

5 **Q. In its investigation, did the Company estimate the benefits and costs described**
6 **above?**

7 A. Yes. The benefit and cost estimates for each item considered in the evaluation are
8 provided below.
9

10 **Interest Rate Differentials**

- 11 • Secured, public debt transactions are typically priced at a lower interest rate relative
12 to unsecured debt issued in Rule 144A/ Reg. S format as discussed above. In normal
13 market conditions, the rate differential for secured, public debt is approximately 15 to
14 20 basis points below unsecured, Rule 144A/ Reg. S debt. These amounts may differ
15 from time to time based upon market conditions.
- 16 • Given the improvement in the Company's credit rating after being acquired by PPL
17 Rhode Island , the Company expects a beneficial impact to its interest rate on its
18 future debt issuances, regardless of the debt instrument utilized.
19

1 **Cost Implications for Existing Debt**

2 • ***Existing Bondholders Subordination and Liability Management:***

3 As described earlier, collateralization of existing unsecured bonds has an opportunity
4 cost to the Company in that it will not be compensated for reducing the existing
5 bondholders' credit risk by collateralizing their unsecured bonds. Any pricing benefit
6 associated with issuing secured debt is likely to be offset by the opportunity cost
7 discussed above. Alternatively, if the Company is required to address the
8 subordination issue with its outstanding unsecured debt by restructuring its existing
9 debt portfolio, additional costs are estimated to be approximately \$85 million. These
10 incremental costs would need to be financed with new debt at current interest rates of
11 approximately 4.6 percent for ten years as of December 15, 2022.

12
13 **Cost Implications for New Issuances (Secured and Public)**

- 14 • *SEC Registration:* Registered debt security issuers must register with the SEC, which
15 entails several cost outlays, including a one-time registration fee of approximately
16 \$150,000.
- 17
18 • *Legal Fees:* Approximately \$300,000 to \$350,000 depending on whether the
19 Company chooses to complete an exchange offer for the existing bonds and what
20 kind of diligence is required by the investment banks.
- 21
22 • *Audit Fees:* Mandatory incremental audit fees for the Company as an SEC Registrant
23 are estimated at \$200,000 on an annual basis.
- 24
25 • *Ongoing Internal Costs:* Estimated labor costs related to the broader scope of SOX
26 control testing and financial reporting of \$200,000 annually.
- 27

- 1 • *Ongoing Reporting and Compliance:* Ongoing reporting requirements, including
2 estimated legal costs of approximately \$100,000 annually.
3
4 • *Engineering Certificate/Evaluation:* Estimated costs of \$150,000 or more related to
5 the need to document and assess the value of all of the Company’s real and personal
6 property.
7
8 • *Real Estate Counsel:* Estimated costs of approximately \$250,000 to engage real
9 estate counsel to advise on real estate law and filing requirements with the local
10 jurisdictions.
11
12 • *Trustee Fees:* Estimated costs of \$50,000 related to the drafting and negotiation of
13 the secured mortgage indenture with the bond underwriters and the trustee.
14
15 • *Company Counsel:* Estimated costs of \$200,000 to assist the Company with the items
16 mentioned above.
17
18

19 **Q. Would these aforementioned costs offset some of the expected interest savings of**
20 **issuing secured debt in the public markets?**

21 A. Yes. The Company’s evaluation indicates the cost for the ability to issue secured debt in
22 public markets would most likely partially reduce any interest savings associated with
23 issuing secured debt in the public markets. Figure 2 reflects an illustrative example of the
24 cost impact to the Company should it pursue the ability to issue secured debt in the public
25 markets. This figure does not include consideration of the existing bondholders of
26 unsecured debt that must be evaluated and quantified depending on the alternative
27 selected.

1

Figure 2: Illustration of estimated costs

Cost Component	Estimated cost
SEC Registration	
SEC Registration Fees (one-time)	\$150,000
Legal fees for debt IPO (one-time)	\$350,000
Incremental Annual Audit Fees	\$200,000
Ongoing Internal Costs	\$200,000
Ongoing Reporting and Compliance Costs	\$100,000
Total incremental fees:	\$1,000,000
Secured Indenture	
Engineering Evaluation/Certificate	\$150,000 ⁹
Real Estate Counsel/Title company	\$250,000
Trustee Fees (including Trustee Counsel fees)	\$50,000
Company counsel fees	\$200,000
Total fees for Secured Indenture:	\$650,000
Total Estimated Costs:	\$1,650,000

2

3

4 **Q. What did the Company conclude based on its investigation?**

5 A. Based on the Company’s assessment, the Company concluded that while there is
6 typically a cost differential between issuing secured debt in public markets compared to a
7 Rule 144A For Life format, it is not necessarily feasible to commence issuing secured
8 debt as there are other factors and constraints to consider. There are inherent costs
9 associated with addressing the subordination of the existing bondholders, as well as the
10 initial and ongoing costs associated with SEC registration and establishing and
11 maintaining a secured indenture. Therefore, it is likely that the Company will continue to
12

⁹ If deemed necessary or prudent.

1 issue unsecured long-term debt in the Rule 144A for Life format, given that the
2 cost/benefit to the Company and its customers of issuing secured debt is not compelling.

3
4 **Q. How does this conclusion align with customer interests?**

5 A. These findings align with customer interest because, although there may be a lower
6 interest rate resulting from issuing secured debt in the public market, there are offsetting
7 costs and constraints that are critical to consider and that reduce the cost advantage and/or
8 make alternative financial arrangements impractical. To the extent there is an
9 opportunity for the Company to find more cost-effective pricing on debt, the Company
10 has the incentive to seek it. The Company does not gain by paying higher interest rates,
11 as those costs are absorbed by the Company between rate cases until reflected in the
12 embedded cost of debt in a rate case. Therefore, the Company continually seeks to
13 minimize the total costs it pays on its debt issuances. The Company will notify the
14 Division, if, in the future, the Company determines that it is in the best interest of the
15 Company and its customers for the Company to incur the costs of becoming an SEC
16 registrant and establishing a secured indenture to issue long-term secured debt in the
17 public market.

18
19 **V. Conclusion**

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

21 A. Yes, it does.

Estimated Debt Issuance Costs

The estimated debt issuances costs include an underwriting commission, as well as other legal, accounting and rating agency fees. The legal, accounting and rating agency fees approximate \$1 million per debt issuance. The underwriting commission is expressed below as a percentage of the debt principal amount.

Maturity in years	3	5	10	30
Underwriting Commissions	0.350%	0.600%	0.650%	0.875%

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

<u>ASSETS</u>	<u>September 30, 2022</u>
Current assets:	
Cash and cash equivalents	\$ 3,461
Accounts receivable	336,025
Allowance for doubtful accounts	(84,678)
Notes receivable from affiliates	105,432
Unbilled revenue	37,848
Inventory	42,554
Regulatory assets	138,413
Derivative instruments	59,628
Other	<u>13,519</u>
Total current assets	<u>652,202</u>
Property, Plant and Equipment, net	<u>4,108,059</u>
Other non-current assets:	
Deferred income tax assets, net	35,176
Pension benefit	44,403
Regulatory assets	439,051
Goodwill	724,810
Other	<u>41,875</u>
Total other non-current assets	<u>1,285,315</u>
Total Assets	<u>\$6,045,576</u>

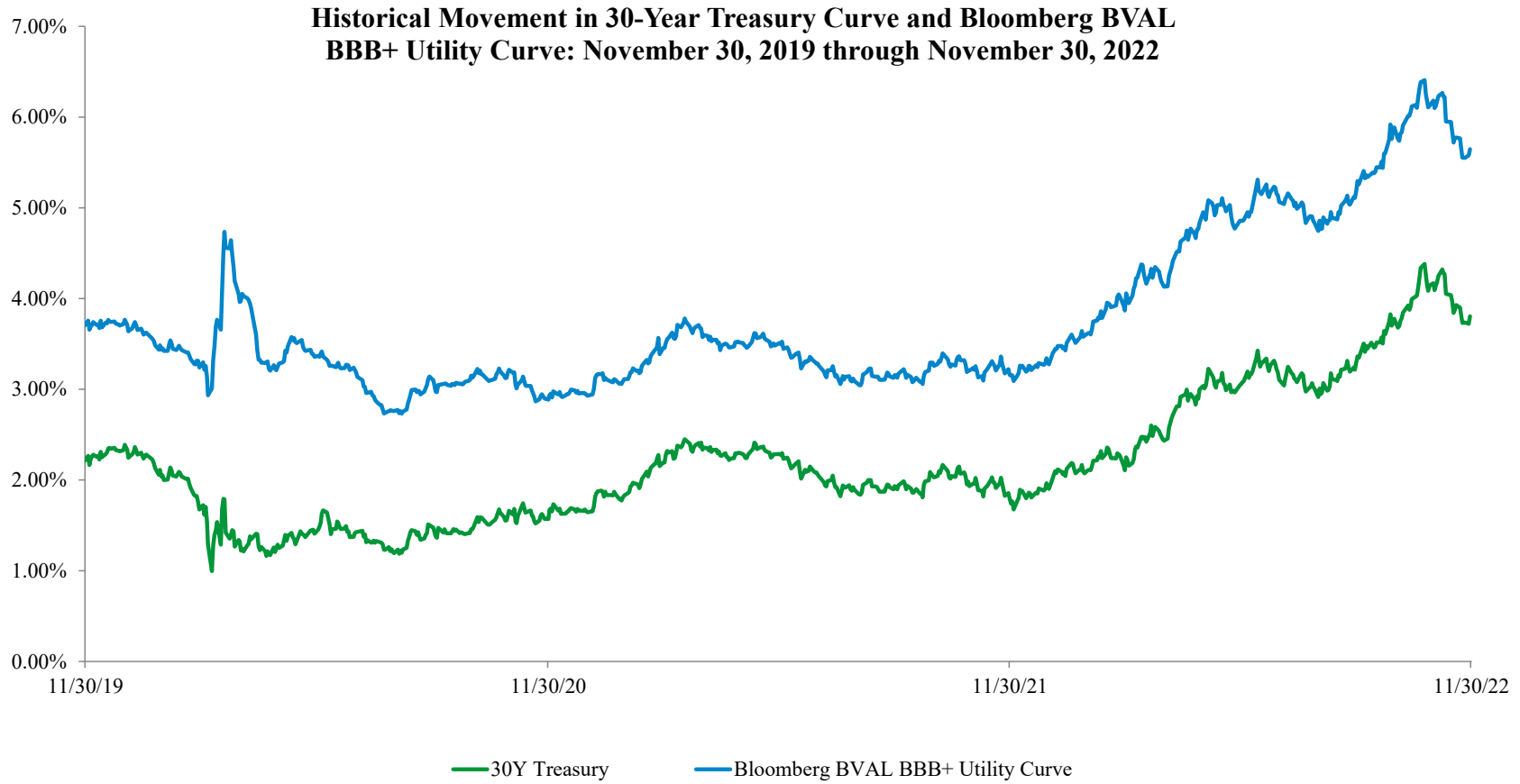
THE NARRAGANSETT ELECTRIC COMPANY BALANCE SHEETS
(in thousands of dollars)

<u>LIABILITIES AND CAPITALIZATION</u>	<u>September 30, 2022</u>
Current liabilities:	
Accounts payable	\$ 262,069
Accounts payable to affiliates	8,670
Current portion of long-term debt	750
Taxes accrued	36,544
Customer deposits	11,356
Interest accrued	16,057
Regulatory liabilities	231,792
Derivative instruments	3,661
Renewable energy certificate obligations	21,930
Environmental remediation costs	7,247
Counterparty collateral	81,050
Other	<u>97,074</u>
Total current liabilities	<u>778,200</u>
Long-term debt	<u>1,496,200</u>
Other non-current liabilities:	
Regulatory liabilities	708,219
Asset retirement obligations	9,682
Environmental remediation costs	94,827
Other	<u>35,086</u>
Total other non-current liabilities	<u>847,814</u>
Equity	
Common stock	56,624
Preferred stock	2,454
Additional paid in capital	1,480,448
Earnings reinvested	1,384,380
Accumulated other comprehensive income	<u>(544)</u>
Total equity	<u>2,923,362</u>
Total liabilities and equity	<u><u>\$6,045,576</u></u>

**The Narragansett Electric Company d/b/a Rhode Island Energy Capital Structure
(\$000s)**

	Capital Structure As of 9/30/2022^(a)			Capital Structure for Ratemaking					Proforma Capital Structure After Financing	
	Balance	Ratio	Goodwill Adjustment	Balance	Ratio	New Long- Term Debt	Other Changes		Balance	Ratio
Long Term Debt	\$1,496,200	33.85%		\$1,496,200	40.49%	\$1,200,000	(\$3,000)	(c)	\$2,693,200	40.49%
Short Term Debt	-	0.00%		-	0.00%	-	-		-	0.00%
Preferred Stock	2,454	0.06%		2,454	0.07%	-	-		2,454	0.04%
Common Equity ^(b)	2,920,908	66.09%	(\$724,810)	2,196,098	59.44%	-	1,760,000	(d)	3,956,098	59.47%
Total Capitalization	<u>\$4,419,562</u>	<u>100%</u>		<u>\$3,694,752</u>	<u>100%</u>				<u>\$6,651,752</u>	<u>100%</u>

- (a) Unaudited Balance Sheet from system ledger
- (b) The common equity above reflects the impacts of PPL's 338 (h)(10) election under the Internal Revenue Code in connection with the acquisition of Narragansett Electric Company, being treated as an asset acquisition for tax purposes thereby resulting in a "step-up" in tax basis. The common equity does not reflect any adjustments with respect to PPL's hold harmless commitments.
- (c) Long-term debt maturity of \$3M
- (d) Change in equity due to increase in retained earnings and capital contributions from parent



The Narragansett Electric Company d/b/a Rhode Island Energy
APPLICATION FOR BORROWING AUTHORITY

NOTICE OF FILING

Division Docket No. D-22-_____

On December 22, 2022, 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 Rhode Island Energy ("Rhode Island Energy" or the "Company") hereby gives notice that it has filed with the Division an Application to issue, at any time and from time to time, new long-term debt not to exceed an aggregate principal amount of \$1.2 billion at any one time outstanding through the period ending June 30, 2026 after the Division approves the Company's Application ("New Debt"). The proceeds from the New Debt shall be used for one or more of the following purposes: (i) to repay short-term debt; (ii) to finance the Company's ongoing capital needs; (iii) to refinance long-term debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company's capitalization. New Debt may consist of secured or unsecured, taxable or tax-exempt 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 Rhode Island Energy, 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.

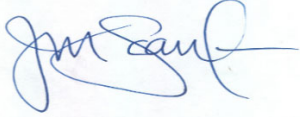
Rhode Island Energy

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

December 22, 2022
Date

Rhode Island Energy – Debt Filing
Service List Docket No. _____
As of 12/20/2022

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File an original & 4 copies w/: Luly E. Massaro, Clerk 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov;	
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