

Jennifer Brooks Hutchinson
Senior Counsel
PPL Services Corporation
JHutchinson@pplweb.com

280 Melrose Street
Providence, RI 02907
Phone 401-784-7288



February 8, 2023

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
Responses to Advocacy Section Data Requests – Set 1**

Dear Ms. Massaro:

On behalf of Rhode Island Energy,¹ enclosed are the Company's responses to the Advocacy Section's First Set of Data Requests in the above-referenced matter.

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,

A handwritten signature in blue ink, appearing to read "Jennifer Brooks Hutchinson".

Jennifer Brooks Hutchinson

Enclosures

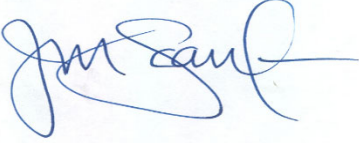
cc: Docket No. D-22-18 Service List
John Bell, Division
Gregory Schultz, Esq.

¹ The Narragansett Electric Company d/b/a Rhode Island Energy ("Rhode Island Energy" or the "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 Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

February 8, 2023

Date

**Docket No. D-22-18 The Narragansett Electric Co. d/b/a Rhode Island Energy –
Application to Issue Long-Term Debt
Service List Updated 1/9/2023**

| Name/Address | E-mail | Phone |
|--|--|--------------|
| The Narragansett Electric Company d/b/a Rhode Island Energy Celia B. O'Brien, Esq. Jennifer Hutchinson, Esq. 280 Melrose Street Providence, RI 02907 | cobrien@pplweb.com ; | 401-784-7288 |
| | jhutchinson@pplweb.com ; | |
| | jscanlon@pplweb.com ; | |
| | TJHenninger@pplweb.com ; | |
| | JBurgos@pplweb.com ; | |
| Division Advocacy Section Gregory S. Schultz, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903 John Bell, Division William Watson, Consultant | gSchultz@riag.ri.gov ; | |
| | Christy.Hetherington@dpuc.ri.gov ; | |
| | Margaret.L.Hogan@dpuc.ri.gov ; | |
| | John.Bell@dpuc.ri.gov ; | |
| | Egolde@riag.ri.gov ; | |
| | wfwatson924@gmail.com | |
| Luly E. Massaro, Clerk Division of Public Utilities 89 Jefferson Blvd. Warwick, RI 02888 | Luly.massaro@puc.ri.gov ; | 401-780-2107 |
| | Mark.A.Simpkins@dpuc.ri.gov ; | |
| | Thomas.kogut@dpuc.ri.gov ; | |

The Narragansett Electric Company
d/b/a Rhode Island Energy
Docket No. D-22-18
In Re: Application Regarding Issuance of New Long-Term Debt
Responses to Advocacy Section's First Set of Data Requests
Issued on January 20, 2023

AS 1-1

Request:

With regard to the request for waiver of Title 815-RICR-00-00-1 – DPUC Rules and Regulations 1.14.A.1.a 2, 3 and 4, have there been occasions in the past 10 years when the Company has requested and received waivers from providing the required information?

Response:

Yes. The Company has requested and received a waiver from Title 815-RICR-00-00-1.14(A)(1)(a)(2), (3), and (4) of the Division Public Utilities and Carriers' Rules of Practice and Procedure ("Rule 1.14") in the following dockets in the past 10 years:

Docket No. D-19-17: In the Company's Application and Statement dated July 10, 2019, as amended December 3, 2019, the Company sought a waiver of Rule 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, because the precise terms of the proposed New Long-term Debt Issuances were not known at the time. *See* Application and Statement at 5; *See also* Pre-filed Direct Testimony of Company Witness Jonathan Cohen at 5.

The Division Hearing Officer approved the Settlement Agreement between the Division Advocacy Section and the Company, which included a provision that granted the Company's request for a waiver of the filing requirements contained in the Division's Rules of Practice and Procedure. The Hearing Officer noted that the Division's witness agreed that "in order to respond effectively to market conditions, the Company is not able to prepare and submit the issuance-related documents in advance of undertaking the issuances (as prescribed under the Division's Rules) . . . [and] that the Company's request for such a waiver in this case is reasonable." *See* Report and Order No. 23746 at 16-17 (December 20, 2019).

Docket No. D-17-36: The same rationale for a waiver was applied in Docket No. D-17-36.¹ *See* Application and Statement at 4-5; Pre-filed Direct Testimony of Charles V. DeRosa at 5; Report and Order No. 23032 at 12, 14-15 (February 19, 2018).

Docket No. D-12-12: The same rationale for a waiver was applied in Docket No. D-12-12. *See* Application and Statement at 4; Pre-filed Direct Testimony of Lorraine M. Lynch at 3; Report and Order No. 20853 at 11, 13 (October 31, 2012).

¹ The format for the applicable Rule of Practice and Procedure was Rule 14(a)(1)(ii),(iii) and (iv).

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AS 1-2

Request:

Company Application Exhibit D – Capital Structure – the proforma capital structure after financing shows common equity of \$3,956,098 which represents a \$1,760,000 increase from the September 30, 2022 capital structure for ratemaking. Please indicate when each addition to common equity is expected to occur and the source of the common equity.

Response:

The addition of equity is expected to occur in line with the timing of the anticipated debt issuances in order to balance the Company's capital structure. Currently, the Company anticipates debt issuances of \$400 million in 2023, \$400 million in 2025 and \$400 million in 2026. The source of the equity contributions is expected to be from the Company's parent, PPL Rhode Island Holdings, LLC.

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AS 1-3

Request:

In footnote 1 on page 7 of Henninger testimony, witness notes: "The common equity does not reflect any adjustments with respect to PPL's hold harmless commitments" from the Report and Order in Docket D-21-09. Please identify the specific hold harmless commitments referred to in this footnote.

Response:

The footnote refers to Commitment 16 incorporated in the Division of Public Utilities and Carriers Report and Order No. 24322, Docket No. D-21-09, which addresses PPL's commitment to hold harmless Rhode Island customers from any changes to Accumulated Deferred Income Taxes as a result of the Transaction.

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AS 1-4

Request:

The Company's Infrastructure, Safety and Reliability ("ISR") plan is scheduled to be heard in early 2023 and represents Company's plans through calendar year 2024. Has the ISR plan been factored into the Company's scheduling for debt financing? Please elaborate.

Response:

Yes, the Company's fiscal year 2024 Infrastructure, Safety and Reliability Plan that the Company filed with the Rhode Island Public Utilities Commission on December 22, 2022, as supplemented on January 27, 2023 and February 3, 2023 has been factored into the Company's multi-year debt financing plan of \$1.2 billion, for which it is requesting authority. Currently, the Company anticipates debt issuances of \$400 million in 2023, \$400 million in 2025 and \$400 million in 2026.

AS 1-5

Request:

On page 14 of Henninger testimony, witness states: "In normal market conditions, the difference [between secured and unsecured debt] could be a 15 to 20 basis point spread between secured and unsecured debt in the utility sector. However, put in the context of the various other factors discussed above that influence the interest rate for debt, 15 to 20 basis point variations in interest rates are common. For example, the interest rate for debt (as measured by the Moody's A-rated Utility Bond Index) has varied by at least 15 basis points over every 30-day period observed over the past year. Since 2010, the interest rate for debt has varied by at least 15 basis points for 95 percent of the 30-day observations.⁴ Therefore, timing of an issuance can be a more significant determinant of the interest rate of debt than whether the debt is secured or unsecured." Given that there is normally a risk premium for unsecured debt over secured debt, does this premium go away when interest rates, in general, vary over time. Does the Company have any special knowledge for predicting when interest rates will increase or decrease over time?

Response:

No, the Company would not expect this risk premium for unsecured debt to go away as interest rates vary over time. A secured bond is backed by collateral and so it is considered a safer investment by investors and therefore is typically issued at lower interest rates. In contrast, unsecured bonds are issued in the full faith and credit of the issuer, only backed by the issuer's creditworthiness. As such, investors will typically require a higher interest rate for unsecured bonds compared to a secured bond to compensate for the additional risk.

The Company does not have any "special knowledge" for predicting interest rates. The Company monitors interest rates and credit spreads and is in continuous communication with various banks that assist the Company in staying well-informed on the overall economic backdrop and its impact on the debt capital markets.

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AS 1-6

Request:

In footnote 5 on page 15 of Henninger testimony, witness notes: "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." Please elaborate on the impact that this amendment may have on Rule 144A transactions.

Response:

Rule 15c2-11 prohibits broker-dealers from publishing quotes on securities in the over-the-counter markets unless the broker-dealers collect and review specified issuer information, principally financial statements, that are required by the Rule to be publicly available and current. Rule 144A provides a safe harbor from Securities Act registration requirements, for the sale of securities to qualified institutional buyers. With respect to financial information, Rule 144A requires public issuers to provide financials to investors, if requested. In conflict with the provisions of Rule 144A, the amendment of Rule 15c2-11 will ultimately require private issuers of 144A securities to make their financial statements public, so broker-dealers can quote prices and offer to buy and sell their securities. Issuers that do not want to make the information publicly available may need to consider the impact of broker-dealers not being able to publish quotations on their debt securities, which would likely impact the liquidity of those debt securities and may affect investor interest in and cost of accessing the Rule 144A debt market for future debt offerings.

In November 2022, the SEC extended the relief of complying with the new interpretation until January 2025.

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AS 1-7

Request:

On page 16 of Henninger testimony, witness states: "Rule 144A/Reg. S transactions typically have stand-alone documentation, and because of fewer constraints, provide greater flexibility in accessing markets." Please elaborate on what is meant by "stand-alone documentation".

Response:

Rule 144A/Reg. S transactions typically have a stand-alone documentation, meaning that they do not need to file a prospectus for SEC review pursuant to an existing shelf registration statement, or separate registration statement with the SEC to register the debt, but rather the issuer can negotiate the Offering Memorandum and Purchase Agreement bilaterally with the banks directly and no SEC filing or approval is required.

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AS 1-8

Request:

On page 16 of Henninger testimony, the witness states: "Securities sold in Rule 144A/ Reg. S transactions are typically priced at a premium over public market transactions." Please provide any data in executable form to support the statement.

Response:

The premium for Rule 144A/ Reg. S transactions over public market transactions can vary depending on criteria such as market conditions, size of transaction, and credit profile/ratings of the Issuers.

Please see Attachment AS 1-8, which attempts to show illustrative premiums by listing select deals in which a "comparable" Rule 144A transaction and SEC Registered transaction occurred in a relatively similar timeframe.

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Attachment AS 1-8

The Company is providing Attachment AS 1-8 as an Excel file.

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AS 1-9

Request:

On page 20 of Henninger testimony, the witness states: "This subordination [to secured bondholders] of existing bondholders would negatively affect those investors, and given this disparity, the unsecured holders would expect to be compensated for this change in ranking or would require that they receive the same priority.

- a. Does the Company have an estimate of the negative impact on the unsecured bondholders of issuing secured debt? If so, please provide with details of how this was determined.
- b. Does the Company have a legal obligation to compensate these unsecured bondholders? If so, please provide specifics as to where this was made plain to bondholders for securities sold under Rule 144A/Reg. S.

Response:

- a. The negative impact to unsecured bondholders is a result of ranking lower in the priority of repayment should the Company go into default. Therefore, it is difficult to quantify the negative impact to investors as it is subject to market conditions and relative size of their position and overall investment strategy. Regardless of the quantitative impact, the Company views this as a qualitative issue when evaluating access and investor demand in the debt capital markets prospectively.
- b. The Company does not have a legal obligation to compensate the unsecured bond holders, but because many participants in this market are repeat investors, the Company considers the prospective effect on these investors in subsequent offerings, as noted above.

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AS 1-10

Request:

If the Company offers the option of exchanging their current unsecured debt for new secured debt at then current market rates (reference Henninger testimony p. 21), and some of the unsecured debt holders choose not to exercise this option, is it the Company's opinion that it has fulfilled any obligations that it may have to compensate these unsecured bondholders?

Response:

Yes, the Company believes that if it would complete an exchange offer at par value to identified unsecured bondholders, it has fulfilled any potential obligation it may have to provide the unsecured bondholders the opportunity to exchange their unsecured bonds for secured bonds.

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AS 1-11

Request:

On page 23 of Henninger testimony, witness states: "Certain gas assets of the Company are subject to the lien of the Providence Gas Indenture." Please provide the amounts, types and details of these assets.

Response:

There is currently \$2.3 million outstanding under the Providence Gas Indenture ("PGI") which is scheduled to mature in 2025. The PGI provides for substantially all gas assets to be provided as collateral against the outstanding bonds. The net book value of the gas assets as of December 31, 2022 is \$1.4 billion.

AS 1-12

Request:

On pages 25-26 of Henninger testimony, witness states: "This arrangement, while supportive of a smooth transition of these functions to Rhode Island Energy, could present complexities regarding the various system implementations and integration that need to occur prior to the Company having the ability to execute and manage its own processes and controls for financial reporting." Please elaborate what these complexities are.

Response:

PPL Rhode Island Holdings, LLC acquired the Company from National Grid USA ("National Grid") with no IT systems of its own due to National Grid's centralized model. As a result, the TSA¹ was established to ensure a smooth transition of most functions while PPL Corporation ("PPL") implements new systems, where needed, and otherwise transitions Rhode Island Energy into its existing systems. In the meantime, PPL relies on National Grid for certain accounting and financial reporting processes and controls.

As discussed on pages 25-26 of the Pre-filed Direct Testimony of Company Witness Tadd Henninger, in the context of having Rhode Island Energy become registered with the Securities Exchange Commission, the complexities would be related to the requirements of filing a registration statement. The registration would require three years of comparative, historical financial statements. The financial statements would have to be restated as a result of the change in the Company's fiscal year-end from March 31 under National Grid to PPL's fiscal year-end of December 31. These historical financial statements would then need to be audited with more scrutiny based on different accounting standards (Public Company Accounting Oversight Board versus American Institute of Certified Public Accountants). The internal controls and underlying financial processes related to the comparative historical financial statements would be subject to Sarbanes-Oxley compliance, when those internal controls and financial processes were different based upon the owners of the Company during those time periods. During the term of the TSA, PPL would need to rely on National Grid to produce much of this historical information, and this type of additional work was not contemplated in the TSA. Therefore, it is highly likely that requesting National Grid to assist with this effort would result in additional, and potentially significant, costs for the Company. Moreover, the Company could become subject to potential liability for any errors or omissions in the data National Grid may provide, effectively becoming a guarantor of National Grid's work product without visibility into the underlying processes or documentation.

¹ Transition Services Agreement by and among National Grid USA Service Company, Inc., National Grid USA (solely with respect to Section 4.6), and The Narragansett Electric Company dated as of May 25, 2022 (the "TSA").

AS 1-13

Request:

On pages 27 of Henninger testimony, witness states: “Given the improvement in the Company’s credit rating after being acquired by PPL Rhode Island, the Company expects a beneficial impact on its interest rate on its future debt issuances, regardless of debt instruments utilized.” Do the existing unsecured bondholders realize any benefits from the improvement in the Company’s credit rating in the form of bond price increases or other “compensation”?

Response:

As illustrated below, following the close of PPL’s acquisition of the Company, and subsequently the ratings upgrade from the rating agencies, the spreads compressed meaningfully across the Company’s bonds. Given the compression in the spreads of the Rhode Island Energy bonds, existing unsecured bondholders have benefitted from the bonds trading tighter under PPL’s ownership. However, the unsecured bondholders would not receive any additional “compensation” from the Company, as the interest rate on the outstanding long-term debt is fixed.

Source: J.P. Morgan DataQuery

