

**STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888**

IN RE: The Narragansett Electric Company d/b/a :
 Rhode Island Energy :
 Application for Authority to Incur Debt : Docket No. D-22-13

REPORT AND ORDER

On September 12, 2022, The Narragansett Electric Company d/b/a Rhode Island Energy (“RI Energy”), 280 Melrose Street, Providence, Rhode Island, filed an application with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking approval to enter into a Revolving Credit Agreement in the amount \$1,250,000,000. The purpose of the borrowing is to provide Rhode Island Energy the ability to make loans and provide credit support, in the form of letters of credit, as needed. The application was filed in accordance with the requirements contained in Section 39-3-15 of the Rhode Island General Laws and Rule 14 of the Division’s Rules of Practice and Procedure.

In response to the application filing, the Division conducted a duly noticed public hearing on January 10, 2023. The hearing was conducted in the Division’s hearing room, located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

For Rhode Island Energy:	Adam M. Ramos, Esq. Jennifer Brooks Hutchinson, Esq.
For the Division’s Advocacy Section:	Gregory Schultz, Esq. Special Assistant Attorney General

RI Energy proffered pre-filed direct testimony from one witness in support of its application. The witness was identified as Mr. Tadd Henninger, Vice President – Finance and Treasurer of PPL Corporation and its subsidiaries. He related that he is responsible for overseeing financial planning and analysis, as well as PPL’s treasury related activities.¹ After a summary of his educational background and professional experience, Mr. Henninger related that his testimony specifically addresses RI Energy’s application to the Division for approval to become a Designated Borrower under the \$1.25 billion Amended and Restated Revolving Credit Agreement among PPL Capital Funding, Inc. (“PPL Capital Funding”), PPL Corporation (“PPL”), as Guarantor, and its Lenders, dated December 6, 2021 (the “Revolving Credit Facility”). Mr. Henninger stated that the Revolving Credit Facility will provide RI Energy with \$250 million of liquidity capacity as an initial sublimit, with a capacity range of \$0 to 600 million.²

Mr. Henninger next provided a brief overview of RI Energy and briefly described the recent transfer of ownership of the Narragansett Electric Company from National Grid USA to PPL Rhode Island. He testified that RI Energy is a combined electric and gas distribution company incorporated in the state of Rhode Island and an indirect wholly owned subsidiary of PPL and is principally engaged in the business of selling and distributing electricity and natural gas in the state of Rhode Island.³ Mr. Henninger added that, on May 25, 2022, PPL Rhode Island, a wholly owned indirect subsidiary of PPL, acquired 100% of the

¹ RI Energy Exhibit 2a, p. 3-4.

² Id., p. 4.

³ Id., p. 5.

outstanding shares of common stock of the Narragansett Electric Company from National Grid USA and simultaneously rebranded the company as RI Energy.⁴

Mr. Henninger next discussed the instant application. He testified that following the transfer of ownership, RI Energy needs to establish new lines of liquidity to ensure it has the necessary available access to cash to fund ongoing working capital and anticipated capital expenditures. He went on to state that PPL Capital Funding, a subsidiary of PPL, is the principal borrower of the \$1.25 billion Revolving Credit Facility.⁵

Mr. Henninger testified that the purpose of RI Energy having access to the Revolving Credit Facility is that the facility will serve as a primary source of liquidity to ensure that RI Energy has adequate cash flow to finance day-to-day operations and will allow RI Energy to make cash borrowings and provide support by the issuance of letters of credit against the facility.⁶ He testified that the Revolving Credit Facility will also provide RI Energy with the opportunity to evaluate a commercial paper program which requires credit capacity to be in place as a “backstop.”⁷

With respect to the specifics as to how the Revolving Credit Facility will work, Mr. Henninger testified that upon approval by the Division, PPL Capital Funding and RI Energy will execute a Designation Agreement designating RI Energy as a Designated Borrower, and together PPL Capital Funding and RI

⁴ Id.

⁵ Id., pp. 5-6.

⁶ Id.

⁷ Id.

Energy will collectively become borrowers.⁸ He went on to explain that this designation will provide RI Energy all the rights and obligations under the Revolving Credit Facility and that the Revolving Credit Facility will be allocated such that the initial sublimit will be \$1 billion for PPL Capital Funding and \$250 million for RI Energy.⁹ Mr. Henninger related that RI Energy and PPL Capital Funding may collectively reallocate the capacity within their respective sublimits, provided that each sublimit is not reduced below the minimum or increased beyond the maximum sublimit by the borrower. RI Energy's minimum sublimit will be \$0, and its maximum sublimit will be \$600 million. RI Energy and PPL Capital Funding must provide notice of no less than three days to the administrative agent of the Revolving Credit Facility of a requested change to the sublimits.¹⁰

Mr. Henninger testified that PPL's treasury department will regularly monitor the liquidity needs of RI Energy and PPL Capital Funding to determine the nature and timing of any required changes to the initial sublimits and how to most efficiently allocate the available capacity based on each entity's business plan. In addition, RI Energy will have the ability to request loans and issue letters of credit under the applicable sublimit amount at interest rates that are commensurate with RI Energy's credit rating. He testified that the interest rates are based on overnight, 1-month, 3-month, 6-month, and 12-month tenors, plus a margin (or credit spread) based on the credit rating of the borrower. He testified

⁸ Id., p.7.; RI Energy Exhibit 2b, Exhibit G.

⁹ Id.

¹⁰ Id.

that each loan must be paid at the end of the interest period or rolled into a new loan with a new interest rate based on the applicable tenors and any outstanding loans must be paid by the Revolving Credit Facility termination date.¹¹

Mr. Henninger next discussed the interest rate for the borrowings under the Revolving Credit Facility. He testified that the interest rate for the loan borrowings is determined by the applicable interest rate plus an additional margin based on the borrower's applicable credit rating. He testified that the applicable rating will be based on the higher of the two rating if RI Energy has a split rating. In addition, he testified that the Company is responsible for paying commitment fees for any unused capacity.¹² Based on RI Energy's current credit ratings, it would be classified as Category C as depicted below:

	Applicable Rating (S&P/Moody's)	Applicable Parentage for Commitment Fees	Applicable Percentage for Base Rate Loans	Applicable Percentage for Euro-Dollar Loans and Letter of Credit Fees
Category A	≥ A+ from S&P/A1 from Moody's	0.075%	0.000%	0.875%
Category B	A from S&P/A2 from Moody's	0.100%	0.000%	1.000%
Category C	A- from S&P/A3 from Moody's	0.125%	0.125%	1.125%
Category D	BBB+ from S&P/Baa1 from Moody's	0.175%	0.250%	1.250%
Category E	BBB from S&P/Baa2 from Moody's	0.200%	0.500%	1.500%
Category F	≤ BBB- from S&P/Baa3 from Moody's	0.250%	0.625%	1.625%

¹¹ Id., pp. 7-8.

¹² Id., pp. 8-9.

On the matter of how a sublimit cap of \$600 million was determined, Mr. Henninger testified that RI Energy's most recent credit capacity was \$400 million which is consistent with PPL's size expectations based upon the relative size of RI Energy and related capital requirements. He related that PPL established a maximum sublimit of \$600 million to accommodate increased capital expenditures and the ability to navigate uncertain market conditions and market volatility that could limit access to capital.¹³

Mr. Henninger testified that PPL's treasury department will regularly monitor the liquidity needs of RI Energy and PPL Capital Funding to determine the nature and timing of any required changes to the existing sublimits and how to most efficiently allocate the available capacity based on each entity's business plan. The business plan will be provided by RI Energy to determine the liquidity needs for ongoing working capital and anticipated capital expenditures.¹⁴

Mr. Henninger next addressed the need for Division approval of sublimit changes and the subsidiary parties to the Revolving Credit Agreement. He testified that RI Energy is seeking approval to become a Designated Borrower under the Revolving Credit Facility which will provide the necessary approval for management to adjust the sublimits as necessary on a prospective basis. He stated that, at this time, PPL Capital Funding is party to the Revolving Credit Facility and no other PPL subsidiaries are included to become Designated Borrowers under the Revolving Credit Agreement.¹⁵

¹³ Id., p. 9.

¹⁴ Id., pp. 9-10.

¹⁵ Id., p. 10.

In discussing the benefits of the arrangement to RI Energy, Mr. Henninger testified that RI Energy will have access to liquidity capacity under a single credit facility that provides borrowings and the ability to issue letters of credit at rates commensurate with RI Energy's credit rating-independent of the credit rating of PPL and other PPL affiliates. The ability to moderate and socialize credit capacity amongst multiple borrowers provides the ability to align credit commitment costs with the relative amount of credit capacity required. He testified that the Revolving Credit Facility also provides the opportunity to evaluate a commercial paper program for RI Energy, which requires credit capacity to be in place to serve as a "backstop." The use of a commercial paper program has historically provided lower borrowing cost, subject to market conditions.¹⁶

Mr. Henninger next testified with respect to how the request for approval of the Revolving Credit Facility impacts RI Energy's proforma capital structure. He related that the Revolving Credit Facility establishes liquidity capacity that is committed by the lenders named in the agreement and does not constitute or require the issuance of actual securities to investors. The Revolving Credit Facility provides the Company with the ability to borrow by incurring loans that would be based on short-term interest rates. He testified that the borrowings under the Revolving Credit Facility would be classified as short-term debt on the Company's balance sheet. Mr. Henninger testified that the Revolving Credit Facility itself does not affect the Company's outstanding debt and therefore the

¹⁶ Id.

Company has not presented a proforma capital structure showing the effect of the transaction.¹⁷

In his final remarks, Mr. Henninger opined as to the reason RI Energy is seeking Division approval in the instant matter as the borrowings will be classified as short-term debt on RI Energy's balance sheet. He testified that the terms of the Revolving Credit Facility reflect "evidence of indebtedness" that does not mature for more than a year. He related that, although the characteristics of RI Energy's borrowings under the Revolving Credit Facility are those of short-term debt, the Revolving Credit Facility itself technically falls within the definition of long-term debt as defined by Rhode Island law due to the five-year maturity of the Revolving Credit Facility on December 6, 2026.¹⁸

The Division's Advocacy Section proffered two witnesses in support of its position. The witnesses were identified as Mr. Doug Smith and Ms. Kathleen Kelly of Daymark Energy Advisers, Inc ("Daymark").¹⁹ Mr. Smith and Ms. Kelly appeared before the Division to sponsor and authenticate a position memorandum directed to John Bell, Chief Accountant for the Division. In its

¹⁷ Id., p. 11.

¹⁸ Id.; Transcript, pp. 11-14. At the outset of the hearing, RI Energy requested that the Division make a ruling in its Decision and Order on the legal issue as to whether a Revolving Credit Facility of this nature is subject to Division jurisdiction. The undersigned Hearing Officer suggested that the hearing be continued in order to allow the parties time to brief the issue and that this issue would be decided beforehand. Rather than delay the hearing, counsel for both RI Energy and the Division's Advocacy Section requested the undersigned Hearing Officer allow the hearing to proceed as scheduled as RI Energy would consent to the Division's jurisdiction for this particular Revolving Credit Facility filing so long as it would not prejudice their ability to raise the issue on a future similar filing. The undersigned Hearing Officer allowed the hearing to proceed and noted for the record that RI Energy's consent to jurisdiction in this filing would not prevent them from raising the issue in future similar filings.

¹⁹ Both Mr. Smith and Ms. Kelly appeared before the Division remotely via Zoom video conferencing.

memorandum, Daymark examined several areas of potential impact to customers to ensure that the type, size, and general characteristics of the Revolving Credit Facility were reasonable and in the best interests of customers.²⁰ Daymark's examination focused on the value of the Revolving Credit Facility, the costs incurred, and its potential impacts.²¹

With respect to the value of the Revolving Credit Facility, Daymark stated that the revolving Credit Facility's need and intended use is consistent with good company management. They went on to explain that RI Energy needs sufficient liquidity to manage its business through a range of potential short-term futures and is seeking to establish and use the Revolving Credit Facility for reasonable operating purposes which have clear benefits to any company in its position.²²

Daymark went on to address the costs incurred due to the Revolving Credit Facility. Daymark explained that Rhode Island Energy will incur costs in two primary categories. To the extent that it uses the Revolving Credit Facility, RI Energy will be charged interest as would occur for any debt instrument. RI Energy will also be charged commitment fees for unused capacity. Based on RI Energy's current credit rating, that charge would be 0.125% of the uncommitted sublimit annually. Assuming no use of the Revolving Credit Facility, this charge equals \$312,500 in the first year if the initial expected sublimit of \$250 million was unchanged. It would be \$500,000 at the "Company's most recent credit

²⁰ In its position memorandum, Daymark uses the term "line of credit" or "LOC" when referring to the applicable Revolving Credit Facility. In order to remain consistent with the terminology used throughout the Decision and Order, the term Revolving Credit Facility will continue to be used

²¹ Daymark Position Memorandum, p. 1-2.

²² *Id.*, p. 2.

capacity” of \$400 million sublimit level. Finally, it would be \$750,000 at the requests maximum sublimit level of \$600 million. Daymark opined that, while these differences are not trivial, they appear to be reasonable costs to maintain the financial insurance that such access to liquidity provides. Also, the potential benefit of borrowing at lower cost through the use of commercial paper may provide some offset to the commitment fees.²³

Daymark stated that as the Revolving Credit Facility is used, the commitment fees decline and the charges listed above are likely to be higher than what is actually paid, as the point of the Revolving Credit Facility is to provide liquidity through borrowing against that capacity.²⁴

Daymark went on to discuss the potential impacts of the Revolving Credit Facility. Certain potential impacts were identified and reviewed to determine if there was unreasonable exposure to ratepayers. In its memorandum, Daymark examined the potential impacts on RI Energy’s credit rating, long-term weighted average cost of capital (“WACC”), the allowance for funds used during construction (“AFUDC”) rate, potential future increases in actual sublimit and/or borrowing against the Revolving Credit Facility and the potential impact on rates.²⁵

The first potential impact reviewed was the potential of the Revolving Credit Facility to influence the credit rating of RI Energy. Daymark agreed with Mr. Henninger’s testimony that strong access to capital is generally a net positive

²³ Id.

²⁴ Id.

²⁵ Id., p. 3.

for credit ratings and that there is no reason to believe that the Revolving Credit Facility's impact on the Company's credit rating would impact customer costs.²⁶

The second potential impact to customers was the influence on the long-term weighted average cost of capital (WACC) of the company. Daymark related that in its response to the Advocacy Section's data requests, specifically AS 2-2, RI Energy confirmed that the most recent approved WACC in the company's most recent base distribution rate case (Docket No 4770) would continue to be used until the next base distribution rate case. Based on this information, Daymark concluded that there would be no impact to customers until that time.

The third potential impact investigated by Daymark, was the potential for a change in debt capacity to impact the allowance for funds used during construction (AFUDC) rate. Daymark again turned to RI Energy's responses to Advocacy Section data requests. They noted that in the company's response to AS 2-3, Mr. Henninger confirmed that the current AFUDC rate was based on the long-term debt rate times the ratio of long-term debt to total debt, stock, and equity meaning that the establishment of the Revolving Credit Facility would not impact the AFUDC rate upon approval.²⁷

The next potential impact considered was the use of the Revolving Credit Facility itself. Daymark related that, while the amount and type of borrowing appears reasonable given the reasons discussed infra, the use of the debt instrument will impact the Company's operations and balance sheet. They went

²⁶ Id.

²⁷ Id.

on to explain that this is not a concern in and of itself, but bears watching as the frequency or magnitude of changes to the initial parameters of the agreement (increases in sublimit, use of funds, rollover of open position, extension of the agreement) could all indicate areas of interest for regulators or other stakeholders.²⁸

The final potential impact examined was the potential impact on rates. Daymark noted that, besides the potential indirect impact on rates implied in the impacts reviewed infra, the interest rates directly impact future rates as well. They explained that interest rates have been rising for the past year and are up sharply since RI Energy was acquired in May 2022. This rise in rates will have an impact on future distribution rates if the trend does not reverse but is independent of the Revolving Credit Facility.²⁹

Daymark stated that based on Mr. Henninger's testimony, RI Energy does not anticipate any modification to the company's base distribution rates until RI Energy files a new base distribution rate case with the Rhode Island Public Utilities Commission, which is expected no sooner than three years from the May 25, 2022 closing date on which PPL Rhode Island Holdings, LLC acquired the Company.³⁰

In its final remarks, Daymark stated that the main value of the Revolving Credit Facility is to provide insurance against potential cash flow outcomes that could prove challenging to manage without a ready source of capital. Daymark

²⁸ Id., pp. 3-4.

²⁹ Id. p. 4.

³⁰ Id.

concluded that the Revolving Credit Facility will provide strong value to Rhode Island Energy in ensuring sufficient ability to respond to changing financial futures at a reasonable cost, that there is no reason to believe that the establishment of the Revolving Credit Facility with the requested sublimit of \$600 million will harm customer interests and recommended approval of the request.³¹

The Advocacy Section conducted a brief cross-examination of RI Energy's witness. After completing its examination, the Advocacy Section stated that it was satisfied from the evidence presented that RI Energy had met the requirements set forth under RI. Gen. Laws § 39-3-15 and Rule 1.14 of the Division Rules of Practice and Procedure (815-RICR-00-00-1.14) and recommends approval of RI Energy's application.³²

FINDINGS

Predicated on a careful examination of the record in this matter, the Division finds that RI Energy's application seeking authority to enter into a Revolving Credit Agreement in the amount \$1,250,000,000 is reasonable and in the interest of RI Energy and its ratepayers.

Now, therefore, it is

(24573) ORDERED:

1. That RI Energy's September 12, 2022 application, which seeks Division approval under R.I.G.L. §39-3-15, to enter into a Revolving Credit Agreement in the amount \$1,250,000,000, the purpose of which is to

³¹ Id.

³² Tr., p. 27.

provide Rhode Island Energy the ability to make loans and provide credit support, in the form of letters of credit, as needed, is hereby approved as filed.

2. That RI Energy is authorized to enter into evidences of indebtedness in connection with the Revolving Credit Facility;
3. That the Division authorizes, approves, and consents to RI Energy as a Designated Borrower under the Revolving Credit Facility to have a maximum sublimit not to exceed \$600 million with a stated maturity date of December 6, 2026, including two one-year extension options, permitting extensions of the maturity date until December 6, 2028 if both are exercised;
4. That the Division authorizes, approves, and consents to the execution and delivery by RI Energy of the Designation Agreement, Notice of Borrowing, Notice of Letter of Credit Request, Notice of Revolving Increase, Notice of Conversion/Continuation in connection with the Company's rights and obligations under the Revolving Credit Facility;
5. That the Division authorizes, approves, and consents to the use of the Revolving Credit Facility, to incur cash loans, issuing letters of credit and supporting a commercial paper program, if applicable;
6. That the Division authorizes, approves, consents to and grants RI Energy the ability to amend or restate the existing Revolving Credit Facility to exercise the extension options;
7. That the provision requiring RI Energy to provide a present and proforma capital structure presentation, showing the effect of the security issuance, is hereby waived;
8. That the Division hereby limits approval of the instant application to the terms and details identified in the record and stated above.

**DATED AND EFFECTIVE AT WARWICK, RHODE ISLAND ON FEBRUARY 8,
2023.**



Mark Allen Simpkins, Esq.
Hearing Officer

APPROVED: 

Linda George, Esq.
Administrator



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NOTICE OF AVAILABILITY OF JUDICIAL REVIEW (PROVIDED PURSUANT TO R.I.G.L. § 42-35-12)

Please be advised that if you are aggrieved by this final decision (report and order) of the Rhode Island Division of Public Utilities and Carriers (“Division”) you may seek judicial review of the Division’s final decision by filing an appeal with the Rhode Island Superior Court. You have thirty (30) days from the mailing date (or hand delivery date) of the Division’s final decision to file your appeal. The procedures for filing the appeal are set forth in Rhode Island General Laws, Section 42-35-15.

Proceedings for review may be instituted by filing a complaint in the Superior Court of Providence or Kent Counties. Copies of the complaint must be served upon the Division and all other parties of record in your case. You must serve copies of the complaint within ten (10) days after your complaint is filed with the Superior Court.

Please be advised that the filing of a complaint (appeal) with the Superior Court does not itself stay enforcement of the Division’s final decision. You may, however, seek a stay from the Division and/or from the Court.

The judicial review shall be conducted by the Superior Court without a jury and shall be confined to the record. The Court, upon request, shall hear oral argument and receive written briefs.