nationalgrid

Jennifer Brooks Hutchinson
Acting Assistant General Counsel and Director

August 14, 2019

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket D-19-17 - Application and Statement by The Narragansett Electric Company d/b/a National Grid Regarding Issuance of New Long-Term Debt
Responses to Division Data Requests – Set 1

Dear Ms. Massaro:

On behalf of National Grid,[1] I am enclosing the Company's responses to the first set of data requests issued by the Division of Public Utilities and Carriers (Division) in the above-referenced matter.

This filing also contains a Request for Protective Treatment of Confidential Information in accordance with Division Rule 815-RICR-00-00-1.3(D) (Rule 1.3(D)) of the Division's Rules of Practice and Procedure and R.I. Gen. Laws § 38-2-2(4)(B). The Company seeks protection from public disclosure of confidential attachments identified as Attachment DIV 1-15, Attachment DIV 1-17, and Attachment DIV 1-26. Accordingly, the Company has provided the Division with the un-redacted confidential attachments referenced above for its review.

The Company's responses to data requests Division 1-6 and Division 1-14 are pending.

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

Very truly yours,

Jennifer Brooks Hutchinson

Enclosure

cc: Docket D-19-17 Service List
Leo Wold, Esq.
John Bell, Division

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

280 Melrose Street, Providence, RI 02907
T: 401-784-7288 ■ jennifer.hutchinson@nationalgrid.com ■ www.nationalgrid.com

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.

____________________________________ August 14, 2019

Joanne M. Scanlon Date

Docket No. D-19-17 – National Grid – Debt Filing
Service List as of 8/14/19

Name/Address	E-mail	Phone
Jennifer Hutchinson, Esq. National Grid 280 Melrose St. Providence, RI 02907	Jennifer.hutchinson@nationalgrid.com; Celia.obrien@nationalgrid.com; Joanne.scanlon@nationalgrid.com;	401-784-7288
Kevin Lynch, Acting Administrator Division of Public Utilities and Carriers	Kevin.lynch@dpuc.ri.gov; Jonathan.schrag@dpuc.ri.gov; John.bell@dpuc.ri.gov; Leo.wold@dpuc.ri.gov;	
Christy Hetherington, Esq. Dept. of Attorney General 150 South Main St. Providence, RI 02903	Chetherington@riag.ri.gov; dmacrae@riag.ri.gov; Mfolcarelli@riag.ri.gov;	401-274-4400
Matthew Kahal 1108 Pheasant Crossing Charlottesville, Virginia 22901	mkahal@exeterassociates.com;	434-964-0604
File an original & 4 copies w/: Luly E. Massaro, Clerk Division of Public Utilities & Carriers 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov; John.spirito@dpuc.ri.gov; Thomas.kogut@dpuc.ri.gov;	401-780-2107

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

In Re: Application of The Narragansett Electric Company d/b/a National Grid Issuance of New Long-Term Debt	))))))	**Docket No. D-19-17**

MOTION OF THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID FOR PROTECTIVE TREATMENT OF CONFIDENTIAL INFORMATION

National Grid[1] hereby requests that the Rhode Island Division of Public Utilities and Carriers (Division) grant protection from public disclosure of certain confidential and proprietary information submitted in this proceeding, as permitted by Division Rule 815-RICR-00-00-1.3(D) (Rule 1.3(D))and R.I. Gen. Laws § 38-2-2(4)(B). National Grid also hereby requests that, pending entry of that finding, the Division preliminarily grant National Grid's request for confidential treatment pursuant to Rule 1.3(D)(2).

I. BACKGROUND

On August 14, 2019, National Grid filed with the Division responses to data requests. Division Data Requests DIV 1-15, DIV 1-17, and DIV 1-26 request certain data that is not publicly available, and that the Company deems confidential and proprietary. Attachment DIV 1-15 includes the raw data for Moody's 30-year A-rated utility bond index, as sourced from Bloomberg Professional Services. Likewise, Attachment DIV 1-17 includes bond yield data, as sourced from Bloomberg Professional

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

Services. In addition, Attachment DIV 1-26 includes the Blue Chip Financial Forecast published by Wolters Kluwer. These documents are only available through a subscription service and are not publicly available. Accordingly, the Company is seeking confidential treatment of these attachments in their entirety.

II. LEGAL STANDARD

Rule 1.3(D) of the Divisions Rules of Practice and Procedure provides that access to public records shall be granted in accordance with the Access to Public Records Act (APRA), R.I. Gen. Laws § 38-2-1, *et seq.* Under APRA, all documents and materials submitted in connection with the transaction of official business by an agency is deemed to be a "public record," unless the information contained in such documents and materials falls within one of the exceptions specifically identified in R.I. Gen. Laws § 38-2-2(4). Therefore, to the extent that information provided to the Division falls within one of the designated exceptions to the public records law, the Division has the authority under the terms of APRA to deem such information to be confidential and to protect that information from public disclosure.

In that regard, R.I. Gen. Laws § 38-2-2(4)(B) provides that the following types of records shall not be deemed public:

> Trade secrets and commercial or financial information obtained from a person, firm, or corporation which is of a privileged or confidential nature.

The Rhode Island Supreme Court has held that the determination as to whether this exemption applies requires the application of a two-pronged test set forth in *Providence Journal Company v. Convention Center Authority*, 774 A.2d 40 (R.I. 2001). The exemption applies where the disclosure of information would be likely either (1) to

impair the Government's ability to obtain necessary information in the future; or (2) to cause substantial harm to the competitive position of the person from whom the information was obtained. *See Providence Journal*, 774 A.2d 40.

The first prong of the test assesses whether the information was provided voluntarily to the governmental agency. *Providence Journal*, 774 A.2d at 47. If the answer to the first question is affirmative, then the question becomes whether the information is "of a kind that would customarily not be released to the public by the person from whom it was obtained." *Id.*

III. BASIS FOR CONFIDENTIALITY

One of the key considerations, consistent with the Division's rules and precedent, is that public disclosure of these terms would be commercially harmful to the Company and to its customers.

As stated previously, the Company seeks to protect from public disclosure of the raw data for Moody's 30-year A-rated utility bond index contained in Attachment DIV 1-15 and the bond yield data contained in Attachment DIV 1-17, as well as the Blue Chip Financial Forecast contained in Attachment DIV 1-26. This information is sourced from a professional and/or subscription service and is the type of information that is not publicly available. Publication of this information would violate the terms of the Company's subscription service and could competitively disadvantage the Company in future debt issuances. Accordingly, National Grid seeks protection for such confidential information in its entirety.

IV. CONCLUSION

In light of the foregoing, the Company respectfully requests that the Division grant its Motion for Protective Treatment as stated herein.

Respectfully submitted,

NATIONAL GRID
By its attorneys,

Jennifer Brooks Hutchinson, Esq. (#6176)
National Grid
280 Melrose Street
Providence, RI 02907
(401) 784-7288

Dated: August 14, 2019

Division 1-1

Request:

Please provide copies of all Narragansett Electric Company ("Narragansett" or "the Company") credit rating reports issued since January 1, 2017 to the present.

Response:

Please see Attachment DIV 1-1-1 and DIV 1-1-2 for the Narragansett credit reports issued since January 1, 2017 to the present.

Prepared by or under the supervision of: Jonathan Cohen

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
29 August 2017

Update

Rate this Research

RATINGS

Narragansett Electric Company

Domicile	Providence, Rhode Island, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Graham W Taylor 44-20-7772-5206
Sr Credit Officer
graham.taylor@moodys.com

Camille Zwisler 44-20-7772-1275
Associate Analyst
camille.zwisler@moodys.com

Neil Griffiths-Lambeth 44-20-7772-5543
Associate Managing Director
neil.griffiths-lambeth@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Narragansett Electric Company

Update to credit analysis

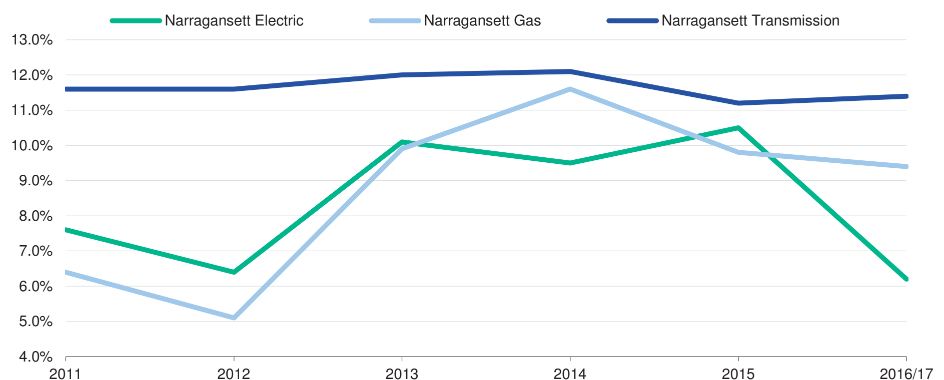
Summary

The credit quality of Narragansett Electric Company (NEC) is supported by the diversification of its revenues between distribution and transmission, stable and predictable cash flows, and the generally supportive regulatory environment in Rhode Island, where a wide variety of de-risking provisions for utilities have been included in recent rate cases. However, credit quality is constrained by additional debt at the parent holding companies within the National Grid group.

The achieved returns on equity in NEC's distribution businesses have generally been at or above the allowed ROE of 9.5% under the previous rate plan, although electricity distribution fell to 6.2% in the year to March 2017. Electricity transmission has demonstrated stable returns consistently above the 10.57% allowance, although ongoing challenges to FERC's rate-setting process creates some uncertainty about future returns. The company expects to file for new rate cases for its distribution businesses by March 2018, with new rates effective by the end of 2018.

NEC's key credit metric, the ratio of cash from operations before movements in working capital to gross debt, has been volatile in recent years due to movements in regulatory deferrals, rising to 28% in 2016/17 from 10% in 2014/15. Excluding these deferrals, CFO pre-WC/debt has been stable in the mid- to high teens, in line with our guidance for the current rating, and subject to a reasonable new rate settlement is expected to remain in this range.

Exhibit 1
NEC achieved stable ROEs from 2013 to 2015



Source: National Grid

The Narragansett Electric Company
d/b/a National Grid
Division Docket No. D-19-17
Attachment DIV 1-1-1
Page 2 of 10

Credit strengths

» Supportive regulatory environment for low business risk electricity and gas distribution in Rhode Island

» Stable and predictable FERC regulatory framework and low transmission business risk underpins transmission cash flows

Credit challenges

» Limited regulatory ring-fencing protections from additional debt at various holding companies

Rating outlook

The stable outlook for NEC reflects our opinion that the regulatory environment is generally supportive for cost recovery, and that NEC should exhibit stable CFO pre-WC/debt in the mid- to high-teens in percentage terms.

Factors that could lead to an upgrade

» CFO pre-working capital to gross debt consistently above the low 20s, in percentage terms

» Increase of FERC and/or RIPUC's supportiveness towards utilities versus its current approach

» A rating upgrade would also take into consideration the credit quality of the wider National Grid group

Factors that could lead to a downgrade

» CFO pre-working capital to gross debt persistently below the mid teens, in percentage terms

» Decrease of FERC and/or RIPUC's overall supportiveness

» A rating downgrade would also take into consideration the credit quality of the wider National Grid group

Key indicators

Exhibit 2

Key Indicators[1]

Narragansett Electric Company

	3/31/2017	3/31/2016	3/31/2015	3/31/2014	3/31/2013
CFO pre-WC + Interest / Interest	7.1x	6.7x	3.4x	4.6x	4.5x
CFO pre-WC / Debt	28.4%	24.1%	10.3%	14.7%	14.7%
CFO pre-WC – Dividends / Debt	28.4%	24.1%	10.3%	14.7%	14.7%
Debt / Capitalization	31.5%	32.9%	35.7%	36.7%	34.6%

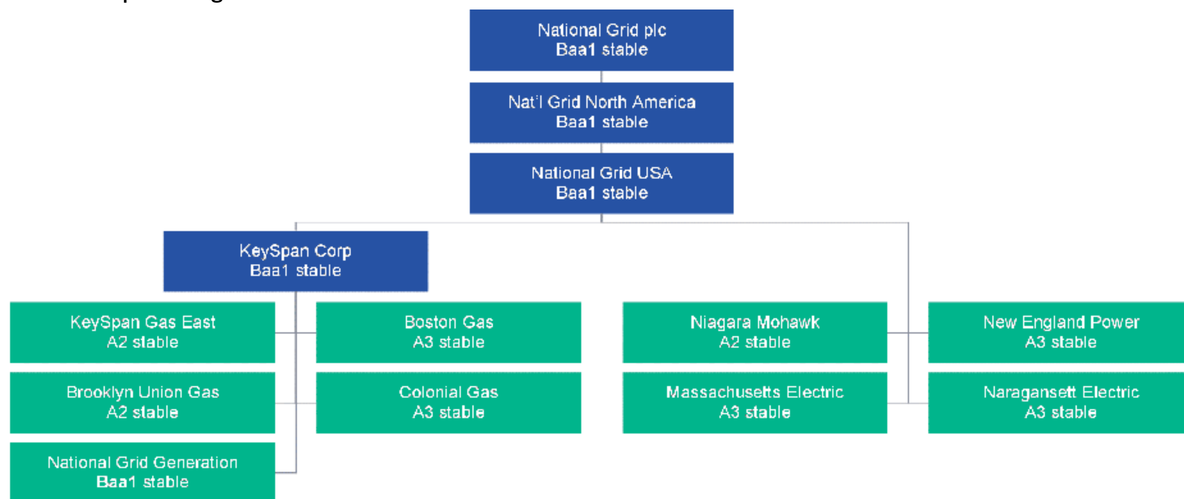
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

Corporate profile

NEC is a retail distribution company providing electric service to approximately 500,000 customers and gas service to approximately 268,000 customers in Rhode Island. It also owns electricity transmission assets in Rhode Island operated by sister company New England Power (NEP, A3 stable). As of March 2017, NEC has a rate base of $2.0 billion, comprised of $697 million of electricity transmission (regulated by the FERC) and $665 million and $640 million of electric and gas distribution, respectively (regulated by the RIPUC). NEC is fully owned by National Grid USA (NG USA, Baa1 stable), a holding company which is ultimately owned by National Grid plc (National Grid, Baa1 stable).

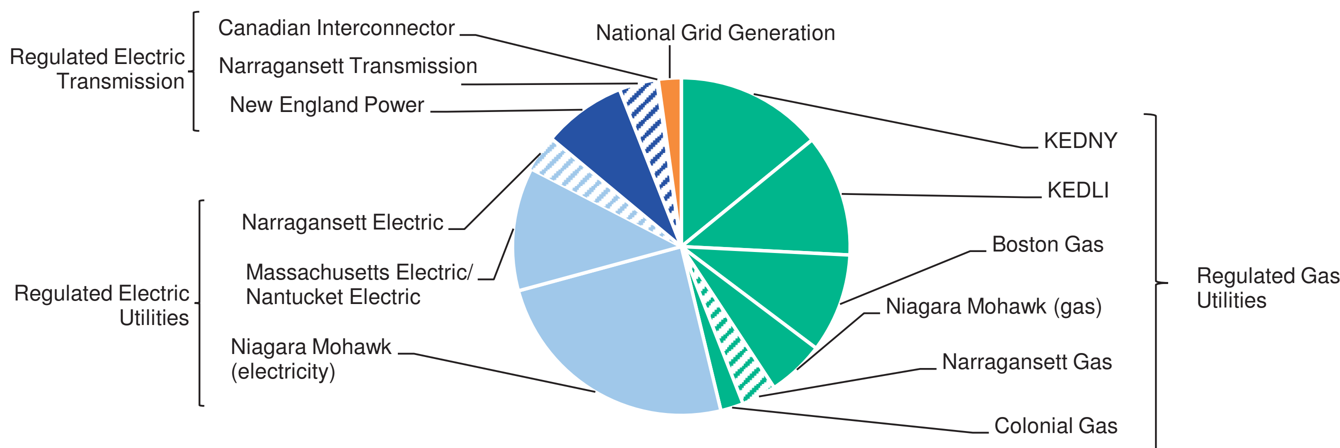
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3
National Grid US simplified organisational structure



Source: Moody's

Exhibit 4
Narragansett represents 10% of National Grid's US rate base
Rate base at 31 March 2017



Narragansett regulated entities dashed
Source: National Grid

Detailed credit considerations

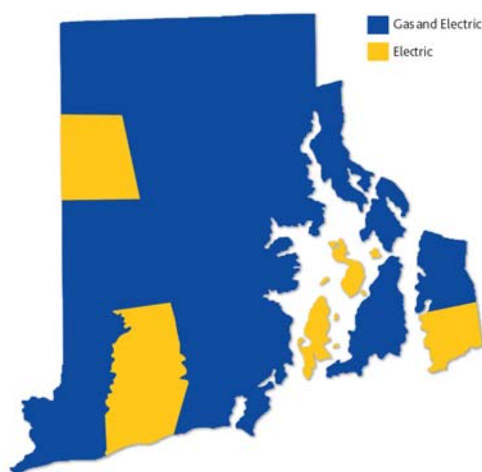
Distribution businesses generating consistent performance; new rate case expected this year

The current rate plans for NEC's electricity and gas business were approved by the RIPUC in December 2012 and have been effective from February 2013. Approved returns on equity (ROEs) are 9.5%, which was slightly below the average equity returns accorded to energy utilities nationwide during the 12 months leading up to the decision. NEC is subject to an earnings sharing mechanism, under which NEC is required to share equally with ratepayers incremental earnings between a 9.5% and a 10.5% ROE, and 75% of incremental earnings above a 10.5% ROE.

The rate plan provides for a pension adjustment mechanism and an annual property tax recovery mechanism within the annual capital programme that more closely aligns rate recovery and costs related to property tax expenses.

The Narragansett Electric Company
d/b/a National Grid
Division Docket No. D-19-17
Attachment DIV 1-1-1
Page 4 of 10

Exhibit 5
Narragansett Distribution Service Areas
Rhode Island



Source: National Grid

Exhibit 6
Rate Cases Summary

Regulated Business	Narragansett Electric	Narragansett Gas	Narragansett Transmission
Regulator	Rhode Island Public Utilities Commission		Federal Energy Regulatory Commission
Primary term of rate case	2013		-
Allowed return on equity	9.50%		10.57%
Achieved return on equity (2016/17)	6.20%	9.40%	11.40%
Rate Base at March 2017	$665m	$640m	$697m

Source: National Grid

Despite the introduction of a number of de-risking provisions, including full revenue decoupling and capital trackers, we view the regulatory environment in Rhode Island as tougher than in some other states due to the RIPUC's history of allowing lower returns than other regulators, and its use of backward-looking test years. Utilities operating under backward-looking test years are generally expected to have more difficulties in recovering their opex, resulting in a need to file more frequently for a new rate case, a source of regulatory risk, although the RIPUC incorporates some adjustments for forecast capital investment, volumes and operating costs.

In 2016/17, NEC's achieved ROEs for the electric and gas businesses were 6.2% and 9.4% respectively, below the allowed level of 9.5%. National Grid anticipates filing a combined rate case by March 2018 to recalibrate base rates and reflect change in costs since the last rate case filing.

Transmission benefits from stable and predictable FERC regulatory framework

New England Power (NEP), another National Grid subsidiary, operates the transmission facilities of its New England associate as a single integrated system and reimburses Narragansett Electric Transmission for the cost of its transmission facilities in Rhode Island, including a return on those facilities. The amount reimbursed to Narragansett Electric Transmission for the year ended 31 March 2017 was $143 million. Transmission business has no exposure to the end consumer, and therefore no commodity price risk.

In addition, the credit supportive regulatory environment and formula-based rate making process provided by the FERC also support credit quality. Provisions include a forward-looking rate setting mechanism, designed to reimburse the company for all prudently-incurred operating and maintenance expenditure, tax, depreciation and a fair return on assets employed in the provision of transmission services. The formula contains an automatic annual true-up for operating and capital costs and allows Narragansett Electric Transmission to include construction work in progress for new transmission projects in the rate base. These features are intended to ensure that the company recovers its allowed costs and returns within a two-year period. In addition, to encourage greater investment in transmission infrastructure, the FERC allows independent transmission owners to earn ROEs that tend to be above those allowed by state regulators. In line with NEP and other transmission owners in New England, Narragansett Electric Transmission is allowed to earn a base ROE of 10.57% on an assumed equity to total capitalisation ratio of 50% (in line with state regulators but lower than 64% at NEP). In addition, Narragansett Electric Transmission benefits from additional incentive mechanisms which could increase the allowed ROE up to 11.74%. However, the base return is likely to be increased to 11.14% following a decision by the court of appeals (see highlight box).

Section 206 dispute creates uncertainty over future allowed returns

Allowed returns for transmission operators in the ISO-NE region have been the subject of administrative law proceedings for several years. In 2014, the FERC reduced the rate of return to 10.57% from 11.14% after appeals from the Massachusetts Attorney General and other customer representatives. Although FERC determined, based on a discounted cash flow analysis, that the plausible range of returns, known as the "zone of reasonableness," was 7.03-11.74% (down from 7.3-13.1% in a previous 2006 decision), the commission declared that the existing 11.14% return was "unjust and unreasonable." FERC also reduced the maximum allowable ROE, including incentives, to 11.74%, the top of the revised zone of reasonableness.

However, in April 2017 this decision was overturned by an appeals court[1], which found that FERC had not established that the existing 11.14% return was unreasonable and that "FERC failed to provide any reasoned basis for selecting 10.57 percent as the new base ROE". The case was remanded to FERC for reconsideration.

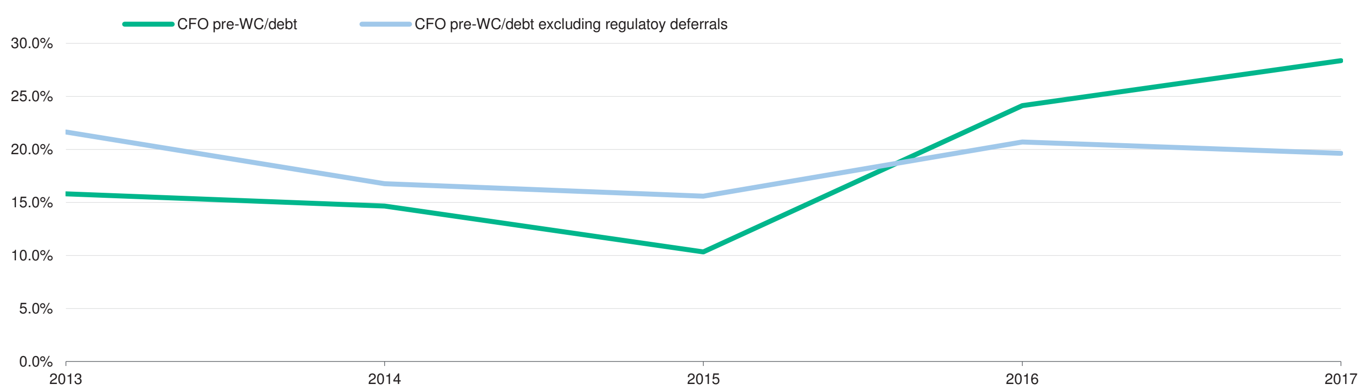
There are currently several outstanding ROE challenges, the most recent brought by Eastern Massachusetts Consumer-Owned Systems, which has called for the ROE to be cut to 8.93%.

Since the rate setting process is not contested before state commissions and given its design to ensure timely cost recovery, we consider the regulatory framework to be more stable and predictable than for state-regulated utility businesses. The transmission business continued to perform strongly with achieved ROE of 11.4% in 2017, slightly above the allowed level, as has been the case for the last eight years.

High parent debt and weak financial ring-fencing provisions constrain the ratings

NEC's credit metrics have recovered since 2015 with CFO to gross debt at 28.4% in 2017 compared to 10.6% in 2015. The improvement was driven largely by swings in regulatory assets and liabilities; excluding these cash flows, NEC's CFO pre-WC/debt has been consistently in the mid- to high teens.

Exhibit 7
Excluding regulatory deferrals, credit metrics have been stable since 2013



Source: Moody's

However, NEC's rating is constrained by the presence of additional debt at the company's parent holdings companies, NG USA, National Grid North America Inc (NGNA, Baa1 stable) and National Grid. This risk is exacerbated by weaker regulatory ring-fencing provisions applicable to NEC compared with some other state-regulated utilities within the National Grid group, particularly those in New York. Under FERC licence conditions, NEC must maintain a debt to total capitalisation ratio of less than 70%, which gives the company a significant degree of headroom compared with its existing level of leverage, around 56%.

Liquidity analysis

Given group funding arrangements, although NEC has inadequate liquidity on a standalone basis, with limited cash and cash equivalents and no revolving credit facilities (RCFs) in its own name, we regard the liquidity risk as manageable.

National Grid manages its financing and liquidity on a fully group basis with a central Finance Committee setting the rules by which individual entities can raise capital. For the US subsidiaries, including NEC, short-term liquidity requirements are managed via the group's regulated money pool. All of the regulated subsidiaries can lend and borrow from the pool, however, the unregulated holding companies – NG USA, NGNA and KeySpan Corporation (Baa1 stable) – may only act as lenders. The interest rate for borrowing under the pool is the monthly average of the 30-day A2 commercial paper rate as released by the Federal Reserve Board.

To support the regulated money pool, the parent holding companies have in place bilateral facilities of £2.4 billion and which NG plc, NG USA and NGNA are named borrowers. As of 31 March 2017, the facilities were undrawn. NG USA also has two commercial paper programs totaling $4 billion denominated equally in US dollars and Euros. Support for these programs comes from NG USA being a named borrower under the RCFs. As of March 2017, there was $759 million outstanding on the US commercial paper program and €210 million outstanding on the Euro commercial paper program.

Viewed in this wider context, NEC's liquidity position appears much stronger. NEC's rating relies on continuing access to liquidity from the wider National Grid group via this money pool arrangement.

Rating methodology and scorecard factors

NEC is rated in accordance with the methodology Regulated Electric and Gas Utilities published in June 2017. The outcome of the methodology grid for NECO is A2 based on both historic and projected metrics, on notch above the assigned rating reflecting the high levels of additional debt at the parent companies' level.

Exhibit 8
Rating factors
Narragansett Electric Company

Regulated Electric and Gas Utilities Industry Grid[1,2]	Current FY 3/31/2017		Moody's 12-18 Month Forward View As of 8/23/2017[3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.7x	A	5x - 5.5x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.7%	A	15% - 20%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	20.7%	A	15% - 20%	A
d) Debt / Capitalization (3 Year Avg)	33.3%	Aa	30% - 35%	Aa
Rating:				
a) Indicated Rating from Grid		A2		A2
b) Actual Rating Assigned				A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 03/31/2017
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Ratings

Exhibit 9

Category	Moody's Rating
NARRAGANSETT ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
First Mortgage Bonds	A1
Senior Secured MTN	(P)A1
Senior Unsecured	A3
Pref. Stock	Baa2
ULT PARENT: NATIONAL GRID PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	(P)P-2
PARENT: NATIONAL GRID NORTH AMERICA INC.	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
ST Issuer Rating	P-2
PARENT: NATIONAL GRID USA	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured MTN	(P)Baa1
Commercial Paper	P-2

Source: Moody's Investors Service

Endnotes

1 United States Court of Appeals for the District of Columbia, On Petitions for Review of Orders of the Federal Energy Regulatory Commission, 14 April 2017

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1088730

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

MOODY'S
INVESTORS SERVICE

CREDIT OPINION
14 May 2018

Update

Rate this Research

Narragansett Electric Company

Update to credit analysis

RATINGS

Narragansett Electric Company

Domicile	Providence, Rhode Island, United States
Long Term Rating	A3
Type	LT Issuer Rating
Outlook	Stable

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

Contacts

Graham W Taylor +44.20.7772.5206
VP-Sr Credit Officer
graham.taylor@moodys.com

Rob Dutfield +44.20.7772.5345
Associate Analyst
rob.dutfield@moodys.com

Neil Griffiths-Lambeth +44.20.7772.5543
Associate Managing Director
neil.griffiths-lambeth@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

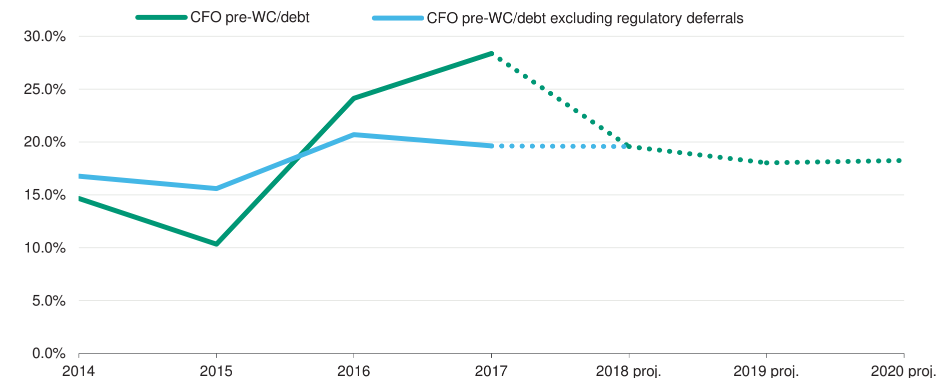
Summary

The credit quality of Narragansett Electric Company (NEC) is supported by the diversification of its revenues between distribution and transmission, stable and predictable cash flows, and the generally supportive regulatory environment in Rhode Island, where a wide variety of de-risking provisions for utilities have been included in recent rate cases. Credit quality is constrained by additional debt at the parent holding companies, including National Grid North America Inc (NGNA, Baa1 stable) and National Grid Plc (NG plc, Baa1 stable).

The achieved returns on equity in NEC's distribution businesses have generally been at or above the allowed ROE of 9.5% under the previous rate plan, although electricity distribution fell to 6.2% in the year to March 2017. Electricity transmission has demonstrated stable returns consistently above the 10.57% allowance, although ongoing challenges to FERC's rate-setting process creates some uncertainty about future returns. Excluding regulatory deferrals, CFO pre-WC to Debt has been stable in the mid to high teens, in percentage terms.

The company has recently filed new rate cases for its distribution businesses, with the new rates expected to be effective in September 2018. We had expected this to support a modest strengthening in NEC's key credit metrics. However, following US tax reforms, announced in December 2017, we now expect metrics to remain around current levels.

Exhibit 1
New rate case expected to support CFO-pre WC to Debt in the high teens



Source: Moody's

The Narragansett Electric Company
d/b/a National Grid
Division Docket No. D-19-17
Attachment DIV 1-1-2
Page 2 of 12

Credit strengths

» Supportive regulatory environment for low business risk electricity and gas distribution in Rhode Island

» Stable and predictable FERC regulatory framework and low transmission business risk underpins transmission cash flows

Credit challenges

» Limited regulatory ring-fencing protections from additional debt at various holding companies

Rating outlook

NEC is expected to remain comfortably positioned for the assigned rating, with CFO pre-WC/debt in the mid- to high-teens in percentage terms, excluding regulatory deferrals.

Factors that could lead to an upgrade

» CFO pre-working capital to gross debt consistently above the low 20s, in percentage terms

» Increase of FERC and/or RIPUC's supportiveness towards utilities versus its current approach

» A rating upgrade would also take into consideration the credit quality of the wider National Grid group

Factors that could lead to a downgrade

» Decrease of FERC and/or RIPUC's overall supportiveness

» CFO pre-WC / debt persistently below the mid teens, in percentage terms

» A rating downgrade would also take into consideration the credit quality of the wider National Grid group

Key indicators

Exhibit 2

Key Indicators[1]
Narragansett Electric Company

	FY14	FY15	FY16	FY17	FY18 proj.	FY19 proj.	FY20 proj.
CFO pre-WC + Interest / Interest	4.6x	3.4x	6.7x	7.1x	5.9x	5.8x	6.1x
CFO pre-WC / Debt	14.7%	10.3%	24.1%	28.4%	19.6%	18.0%	18.2%
CFO pre-WC – Dividends / Debt	14.7%	10.3%	24.1%	28.4%	19.6%	10.5%	11.4%
Debt / Capitalization	36.7%	35.7%	32.9%	31.5%	31.4%	36.2%	38.3%

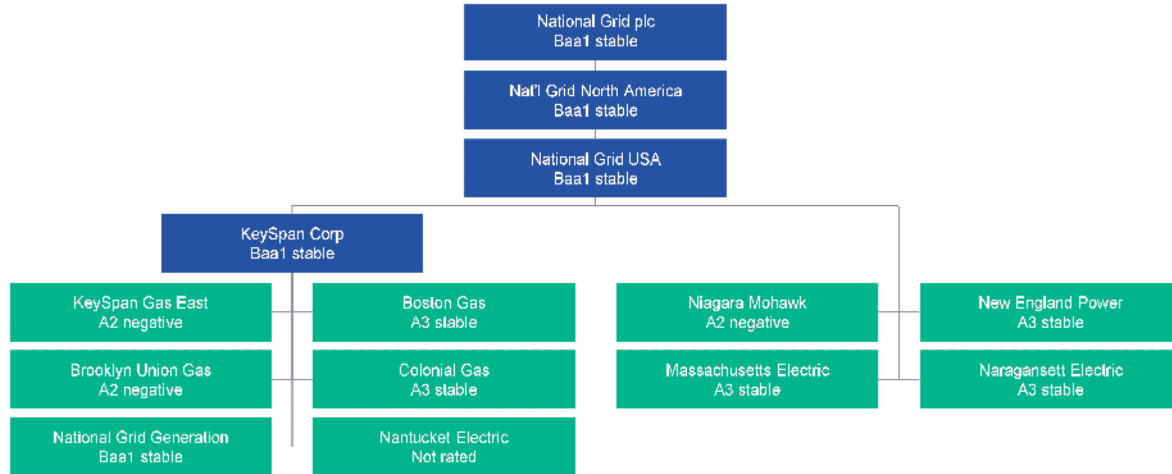
[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
Source: Moody's Financial Metrics™

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moodys.com for the most updated credit rating action information and rating history.

Corporate profile

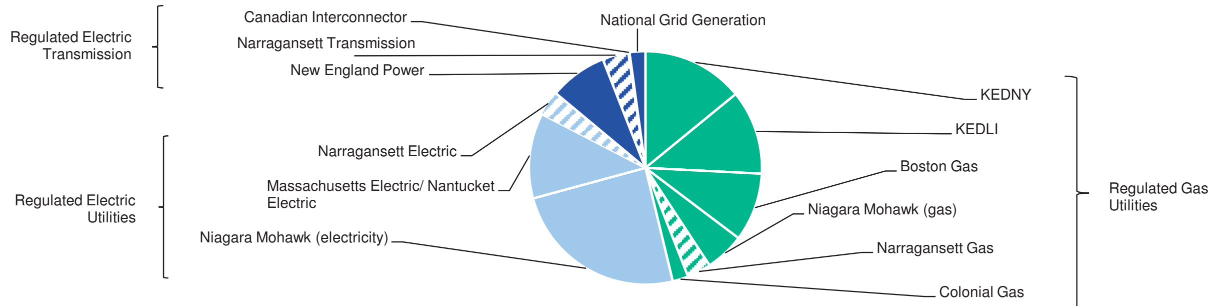
NEC is a retail distribution company providing electric service to approximately 500,000 customers and gas service to approximately 270,000 customers in Rhode Island. It also owns electricity transmission assets in Rhode Island operated by sister company New England Power (NEP, A3 stable). As of March 2017, NEC has a rate base of $2.0 billion, comprised of $697 million of electricity transmission (regulated by the FERC) and $665 million and $640 million of electric and gas distribution respectively (regulated by the RIPUC). NEC is fully owned by National Grid USA (NG USA, Baa1 stable), a holding company which is ultimately owned by National Grid plc (National Grid, Baa1 stable).

Exhibit 3
National Grid North America simplified group structure



Source: Moody's

Exhibit 4
Narragansett represents 10% of National Grid's US rate base
Rate base at 31 March 2017



Narragansett regulated entities dashed
Source: National Grid

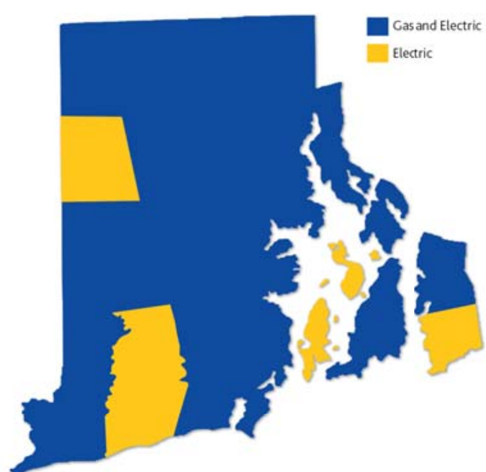
Detailed credit considerations

Distribution businesses generating consistent performance; new rate case expected this year

The current rate plans for NEC's electricity and gas business were approved by the RIPUC in December 2012 and have been effective from February 2013. Approved returns on equity (ROEs) are 9.5%, which was slightly below the average equity returns accorded to energy utilities nationwide during the 12 months leading up to the decision. NEC is subject to an earnings sharing mechanism, under which NEC is required to share equally with ratepayers incremental earnings between a 9.5% and a 10.5% ROE, and 75% of incremental earnings above a 10.5% ROE.

The rate plan provides for a pension adjustment mechanism and an annual property tax recovery mechanism within the annual capital programme that more closely aligns rate recovery and costs related to property tax expenses.

Exhibit 5
Narragansett Distribution Service Areas
Rhode Island



Source: National Grid

Exhibit 6
Rate Cases Summary

Regulated Business	Narragansett Electric	Narragansett Gas	Narragansett Transmission
Regulator	Rhode Island Public Utilities Commission		Federal Energy Regulatory Commission
Primary term of rate case	2013		-
Allowed return on equity	9.50%		10.57%
Achieved return on equity (2016/17)	6.20%	9.40%	11.40%
Rate Base at March 2017	$665m	$640m	$697m

Source: National Grid

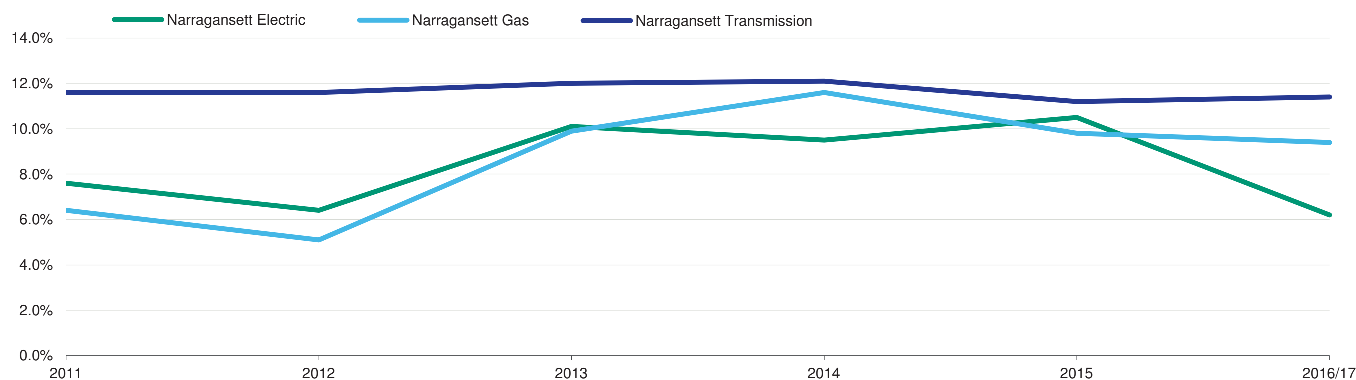
Despite the introduction of a number of de-risking provisions, including full revenue decoupling and capital trackers, we view the regulatory environment in Rhode Island as tougher than in some other states due to the RIPUC's history of allowing lower returns than other regulators, and its use of backward-looking test years. Utilities operating under backward-looking test years are generally expected to have more difficulties in recovering their opex, resulting in a need to file more frequently for a new rate case, a source of regulatory risk, although the RIPUC incorporates some adjustments for forecast capital investment, volumes and operating costs.

In 2016/17, NEC's achieved ROEs for the electric and gas businesses were 6.2% and 9.4%, respectively, below the allowed level of 9.5%.

NEC filed for a new rate case in November 2017, which included a proposal for a $71.6m uplift in allowed revenue. The new rate plan would be effective from September 2018. The filing proposes a return on equity of 10.1% and a cost of debt allowance of 4.69% and 5.18% for NEC's Electric and Gas segments respectively, subject to an assumed capitalization rate of 51%. The RIPUC provided its initial response to NEC's request in April 2018 with a final Commission decision expected in August 2018.

Exhibit 7

Dip in electricity distribution ROE to 6.2% in 2016/17; new rate plan expected to support credit metrics from FY19



Source: National Grid

Transmission benefits from stable and predictable FERC regulatory framework

New England Power (NEP), another National Grid subsidiary, operates the transmission facilities of its New England associate as a single integrated system and reimburses Narragansett Electric Transmission for the cost of its transmission facilities in Rhode Island, including a return on those facilities. The amount reimbursed to Narragansett Electric Transmission for the year ended 31 March 2017 was $143 million.

Transmission business has no exposure to the end consumer, and therefore no commodity price risk. The credit supportive regulatory environment and formula-based rate making process provided by the FERC also support credit quality. Provisions include a forward-looking rate setting mechanism, designed to reimburse the company for all prudently-incurred operating and maintenance expenditure, tax, depreciation and a fair return on assets employed in the provision of transmission services. The formula contains an automatic annual true-up for operating and capital costs and allows Narragansett Electric Transmission to include construction work in progress for new transmission projects in the rate base. These features are intended to ensure that the company recovers its allowed costs and returns within a two-year period. In addition, to encourage greater investment in transmission infrastructure, the FERC allows independent transmission owners to earn ROEs that tend to be above those allowed by state regulators. In line with NEP and other transmission owners in New England, Narragansett Electric Transmission is allowed to earn a base ROE of 10.57% on an assumed equity to total capitalisation ratio of 50% (in line with state regulators but lower than 66% at NEP). In addition, Narragansett Electric Transmission benefits from additional incentive mechanisms which could increase the allowed ROE up to 11.74%. However, the base return could be increased following a decision by the court of appeals (see highlight box).

Section 206 dispute creates uncertainty over future allowed returns

Allowed returns for transmission operators in the ISO-NE region have been the subject of administrative law proceedings for several years. In 2014, the FERC reduced the rate of return to 10.57% from 11.14% after appeals from the Massachusetts Attorney General and other customer representatives. Although FERC determined, based on a discounted cash flow analysis, that the plausible range of returns, known as the "zone of reasonableness," was 7.03-11.74% (down from 7.3-13.1% in a previous 2006 decision), the commission declared that the existing 11.14% return was "unjust and unreasonable." FERC also reduced the maximum allowable ROE, including incentives, to 11.74%, the top of the revised zone of reasonableness.

However, in April 2017 this decision was overturned by an appeals court[1], which found that FERC had not established that the existing 11.14% return was unreasonable and that "FERC failed to provide any reasoned basis for selecting 10.57 percent as the new base ROE". The case was remanded to FERC for reconsideration.

There are currently several outstanding ROE challenges, the most recent brought by Eastern Massachusetts Consumer-Owned Systems, which has called for the ROE to be cut to 8.93%.

Since the rate setting process is not contested before state commissions and given its design to ensure timely cost recovery, we consider the regulatory framework to be more stable and predictable than for state-regulated utility businesses. The transmission business continued to perform strongly with achieved ROE of 11.4% in 2017, slightly above the allowed level, as has been the case for the last eight years.

Tax reforms will negatively affect utility cash flows

The 2017 tax reform legislation will have an overall negative credit impact on regulated operating companies and their holding companies (see Regulated Utilities - US: Tax reform is credit negative for sector, but impact varies by company, 24 January 2018). Moody's estimates that the recent changes in tax laws will dilute most utilities' CFO pre-WC/debt by approximately 150-250 basis points, depending to some degree on the size of the company's capital expenditure program.

Although the regulated utility sector is carved out in terms of the treatment of interest deductibility and expensing of capital expenditures, from an earnings perspective the effect on regulated entities is neutral because savings on the lower tax expense are passed on to their customers, as required by regulation. However, from a cash flow perspective the legislation is credit negative, because regulated utilities typically pay much less tax in cash.

It is not yet clear how, and how quickly, various regulators, including FERC and RIPUC, will adjust allowed revenues to reflect the change. However, in March 2018, FERC initiated an inquiry into the impact of US tax reforms on public utilities with a view to ensuring that the benefits of tax reform are being accurately reflected in customer rates. In the January 2018 rate order for Niagara Mohawk Power Corporation (NiMo, A2 stable), an NGNA subsidiary, the NYPSC noted that the benefits of tax reform should accrue to customers.

Stable credit metrics, but high parent debt and weak financial ring-fencing provisions constrain the ratings

NEC's headline credit metrics have strengthened since 2015, with CFO to gross debt at 28.4% in 2017 compared to 10.6% in 2015. However, the improvement was driven partially by swings in regulatory assets and liabilities; excluding these cash flows, NEC's CFO pre-WC/debt has been consistently in the mid to high teens in percentage terms. Assuming that NEC's rate plan will require it to pass through substantially all of the reduction in tax expense through lower bills, we expect NEC's ratio of CFO pre-WC to Debt to remain in the high teens.

However, NEC's credit quality is constrained by the presence of additional debt at the company's parent holdings companies, NG USA, National Grid North America Inc (NGNA, Baa1 stable) and National Grid. This risk is exacerbated by weaker regulatory ring-fencing provisions applicable to NEC compared with some other state-regulated utilities within the National Grid group, particularly those in New York. Under FERC licence conditions, NEC must maintain a debt to total capitalisation ratio of less than 70%, which gives the company a significant degree of headroom compared with its existing level of leverage, around 56%.

Liquidity analysis

Given group funding arrangements, although NEC has inadequate liquidity on a standalone basis, with limited cash and cash equivalents and no revolving credit facilities (RCFs) in its own name, we regard the liquidity risk as manageable.

National Grid manages its financing and liquidity on a fully group basis with a central Finance Committee setting the rules by which individual entities can raise capital. For the US subsidiaries, including NEC, short-term liquidity requirements are managed via the group's regulated money pool. All of the regulated subsidiaries can lend and borrow from the pool, while the unregulated holding companies – NG USA, NGNA and KeySpan Corporation (Keyspan, Baa1 stable) – may only act as lenders. The interest rate for borrowing under the money pool is determined by reference to the cost of meeting its funding needs, typically a mix of 30-day A2 commercial paper and any other long- and short-term funding sources issued at its parent, NGNA.

To support the regulated money pool, the parent holding companies have in place bilateral facilities of £2.4 billion maturing between 2019 and 2022 and for which National Grid, NG USA and NGNA are named borrowers. The facilities were undrawn as of March 2017. In addition, NGUSA and Keyspan can borrow $3 billion under a working capital facility with National Grid plc. NG USA also has two commercial paper programs totaling $4 billion denominated equally in US dollars and Euros. As of March 2017, there was $759 million outstanding on the US commercial paper program and €210 million outstanding on the Euro commercial paper program. Viewed in this wider context, NEC's liquidity position appears much stronger.

Rating methodology and scorecard factors

NEC is rated in accordance with the methodology Regulated Electric and Gas Utilities published in June 2017. The outcome of the methodology grid for NEC is A2 based on historical and A3 based on projected metrics.

Exhibit 8
Rating factors
Narragansett Electric Company

Regulated Electric and Gas Utilities Industry Grid [1][2]	Current FY 3/31/2017		Moody's 12-18 Month Forward View As of 4/27/2018 [3]	
Factor 1 : Regulatory Framework (25%)	**Measure**	**Score**	**Measure**	**Score**
a) Legislative and Judicial Underpinnings of the Regulatory Framework	A	A	A	A
b) Consistency and Predictability of Regulation	A	A	A	A
Factor 2 : Ability to Recover Costs and Earn Returns (25%)				
a) Timeliness of Recovery of Operating and Capital Costs	Aa	Aa	Aa	Aa
b) Sufficiency of Rates and Returns	Baa	Baa	Baa	Baa
Factor 3 : Diversification (10%)				
a) Market Position	Baa	Baa	Baa	Baa
b) Generation and Fuel Diversity	N/A	N/A	N/A	N/A
Factor 4 : Financial Strength (40%)				
a) CFO pre-WC + Interest / Interest (3 Year Avg)	5.7x	A	5x - 6x	A
b) CFO pre-WC / Debt (3 Year Avg)	20.7%	A	17% - 19%	Baa
c) CFO pre-WC – Dividends / Debt (3 Year Avg)	20.7%	A	10% - 12%	Baa
d) Debt / Capitalization (3 Year Avg)	33.3%	Aa	36% - 38%	Aa
Rating:				
Grid-Indicated Rating Before Notching Adjustment		A2		A3
HoldCo Structural Subordination Notching		0		0
a) Indicated Rating from Grid		A2		A3
b) Actual Rating Assigned				A3

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations.
[2] As of 03/31/2017
[3] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.
Source: Moody's Financial Metrics™

Appendix

Exhibit 9

Peer Comparison Table

	Narragansett Electric Company			Delmarva Power & Light Company			Potomac Electric Power Company			Jersey Central Power & Light Company		
	A3			Baa1			Baa1			Baa2		
USD Millions	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17	FY15	FY16	FY17
Revenue	1,500.0	1,306.2	1,263.4	1,302.0	1,277.0	1,300.0	2,129.0	2,186.0	2,158.0	1,853.0	1,833.0	1,827.0
CFO Pre - W/C	125.4	275.0	317.3	325.4	288.7	328.6	494.0	501.9	430.6	379.5	422.2	478.4
Interest Expense	52.5	48.6	51.9	56.5	55.1	58.1	130.1	142.2	137.4	153.1	145.2	117.8
Gross Debt	1,214.1	1,139.5	1,118.8	1,579.8	1,467.4	1,631.1	2,623.4	2,539.8	2,680.6	2,756.0	2,481.0	2,121.0
Net Debt	1,194.8	1,125.1	1,111.0	1,574.8	1,421.4	1,629.1	2,618.4	2,530.8	2,675.6	2,756.0	2,481.0	2,121.0
Book capitalization	3,398.0	3,459.8	3,556.0	3,753.8	3,841.4	3,557.1	6,552.4	6,707.8	6,234.6	6,279.0	6,382.0	5,867.0
(CFO Pre-W/C + Interest) / Interest	3.4x	6.7x	7.1x	6.8x	6.2x	6.7x	4.8x	4.5x	4.1x	3.5x	3.9x	5.1x
(CFO Pre-W/C) / Debt	10.3%	24.1%	28.4%	20.6%	19.7%	20.1%	18.8%	19.8%	16.1%	13.8%	17.0%	22.6%
(CFO Pre - W/C - Dividends) / Debt	10.3%	24.1%	28.4%	14.8%	16.0%	13.3%	13.3%	14.4%	11.1%	13.8%	17.0%	22.6%
Debt / Book Capitalization	35.7%	32.9%	31.5%	42.1%	38.2%	45.9%	40.0%	37.9%	43.0%	43.9%	38.9%	36.2%

Source: Moody's Financial Metrics™. All figures are calculated using Moody's estimates and standard adjustments.

Exhibit 10

Debt Adjustment Breakdown

(in US Millions)	FYE Mar-12	FYE Mar-13	FYE Mar-14	FYE Mar-15	FYE Mar-16	FYE Mar-17
As Reported Debt	**798.2**	**906.6**	**848.6**	**1,084.7**	**1,039.7**	**969.0**
Pensions	91.1	138.8	123.0	128.2	94.2	144.4
Hybrid Securities	1.2	1.2	1.2	1.2	1.2	1.2
Non-Standard Adjustments	0.0	0.0	253.0	0.0	4.4	4.1
Moody's-Adjusted Debt	**890.6**	**1,046.7**	**1,225.8**	**1,214.1**	**1,139.5**	**1,118.8**

Source: Moody's Financial Metrics™. All figures are calculated using Moody's estimates and standard adjustments.

Ratings

Exhibit 11

Category	Moody's Rating
NARRAGANSETT ELECTRIC COMPANY	
Outlook	Stable
Issuer Rating	A3
Senior Secured MTN	(P)A1
Senior Unsecured	A3
Pref. Stock	Baa2
ULT PARENT: NATIONAL GRID PLC	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured	Baa1
Commercial Paper	P-2
Other Short Term	(P)P-2
PARENT: NATIONAL GRID USA	
Outlook	Stable
Issuer Rating	Baa1
Senior Unsecured MTN	(P)Baa1
Commercial Paper	P-2

Source: Moody's Investors Service

Endnotes

1 United States Court of Appeals for the District of Columbia, On Petitions for Review of Orders of the Federal Energy Regulatory Commission, 14 April 2017

© 2018 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from $1,500 to approximately $2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moodys.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1105131

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

MOODY'S
INVESTORS SERVICE

Division 1-2

Request:

Please provide a five-year history 2014-2019 of Narragansett's credit ratings (including corporate ratings, secured debt, unsecured debt, and commercial paper).

Response:

Please see below table for Narragansett's credit ratings history from 2014-2019.

Years	**Moody's**[1]	**Standard & Poor's**[1]
2014	A3 / A3 / A1	A- / A- / A
2015	A3 / A3 / A1	A- / A- / A
2016	A3 / A3 / A1	A- / A- / A
2017	A3 / A3 / A1	A- / A- / A
2018	A3 / A3 / A1	A- / A- / A
2019	A3 / A3 / A1	A- / A- / A

[1] ***Issuer Rating / Unsecured debt / Secured debt***

Prepared by or under the supervision of: Jonathan Cohen

Division 1-3

Request:

Please provide the most recent Narragansett presentation to credit rating agencies.

Response:

Please see Attachment DIV 1-3 for the most recent presentation provided to the credit rating agencies.

Prepared by or under the supervision of: Jonathan Cohen

nationalgrid

Debt Investor Update

Full Year Results 2018/19

16 May 2019

Cautionary statement

nationalgrid

This presentation contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include information with respect to National Grid's financial condition, its results of operations and businesses, strategy, plans and objectives. Words such as 'aims', 'anticipates', 'expects', 'should', 'intends', 'plans', 'believes', 'outlook', 'seeks', 'estimates', 'targets', 'may', 'will', 'continue', 'project' and similar expressions, as well as statements in the future tense, identify forward-looking statements. These forward-looking statements are not guarantees of National Grid's future performance and are subject to assumptions, risks and uncertainties that could cause actual future results to differ materially from those expressed in or implied by such forward-looking statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond National Grid's ability to control or estimate precisely, such as changes in laws or regulations, including any arising as a result of the United Kingdom's exit from the European Union; announcements from and decisions by governmental bodies or regulators, including proposals relating to the RIIO-T2 price controls as well as increased political and economic uncertainty;; the timing of construction and delivery by third parties of new generation projects requiring connection; breaches of, or changes in, environmental, climate change and health and safety laws or regulations, including breaches or other incidents arising from the potentially harmful nature of its activities; network failure or interruption, the inability to carry out critical non network operations and damage to infrastructure, due to adverse weather conditions including the impact of major storms as well as the results of climate change, due to counterparties being unable to deliver physical commodities, or due to the failure of or unauthorised access to or deliberate breaches of National Grid's IT systems and supporting technology; failure to adequately forecast and respond to disruptions in energy supplies; performance against regulatory targets and standards and against National Grid's peers with the aim of delivering stakeholder expectations regarding costs and efficiency savings, including those related to investment programmes and remediation plans; and customers and counterparties (including financial institutions) failing to perform their obligations to the Company. Other factors that could cause actual results to differ materially from those described in this announcement include fluctuations in exchange rates, interest rates and commodity price indices; restrictions and conditions (including filing requirements) in National Grid's borrowing and debt arrangements, funding costs and access to financing; regulatory requirements for the Company to maintain financial resources in certain parts of its business and restrictions on some subsidiaries' transactions such as paying dividends, lending or levying charges; the delayed timing of recoveries and payments in National Grid's regulated businesses and whether aspects of its activities are contestable; the funding requirements and performance of National Grid's pension schemes and other post-retirement benefit schemes; the failure to attract, develop and retain employees with the necessary competencies, including leadership and business capabilities, and any significant disputes arising with National Grid's employees or the breach of laws or regulations by its employees; and the failure to respond to market developments, including competition for onshore transmission, the threats and opportunities presented by emerging technology, development activities relating to changes in the energy mix and the integration of distributed energy resources, and the need to grow the Company's business to deliver its strategy, as well as incorrect or unforeseen assumptions or conclusions (including unanticipated costs and liabilities) relating to business development activity. For further details regarding these and other assumptions, risks and uncertainties that may impact National Grid, please read the Strategic Report section and the 'Risk factors' on pages 193 to 196 of National Grid's most recent Annual Report and Accounts, as updated by National Grid's unaudited half-year financial information for the six months ended 30 September 2018 published on 8 November 2018. In addition, new factors emerge from time to time and National Grid cannot assess the potential impact of any such factor on its activities or the extent to which any factor, or combination of factors, may cause actual future results to differ materially from those contained in any forward-looking statement. Except as may be required by law or regulation, the Company undertakes no obligation to update any of its forward-looking statements, which speak only as of the date of this presentation.

nationalgrid

Financial performance highlights

Underlying operating profit
£3,427m ↓4%
FY18: **£3,560m**

Underlying EPS
58.9p ↑5%
FY18: **56.2p**

Return on Equity
11.8% ↓50bps
FY18: **12.3%**

Asset growth increased
7.2% ↑130bps
FY18: **5.9%**

Dividend growth in line with policy
47.34p ↑3.1%
FY18: **45.93p**

Underlying results from continuing operations, excluding exceptional items, remeasurements, timing and major storm costs. Exceptional items totalled £624m in 2018/19

Operating profit calculated at constant currency

Safety, reliability and customer performance

- Continued strong safety performance
  - IFR of 0.1*
- Strong reliability maintained across our networks
- Good response to increased storm frequency
- Improved customer satisfaction scores across the Group

* Combined IFR is the number of injuries per 100,000 hours worked in a 12 month period for employees and contractors

Strong strategic progress in 2018/19

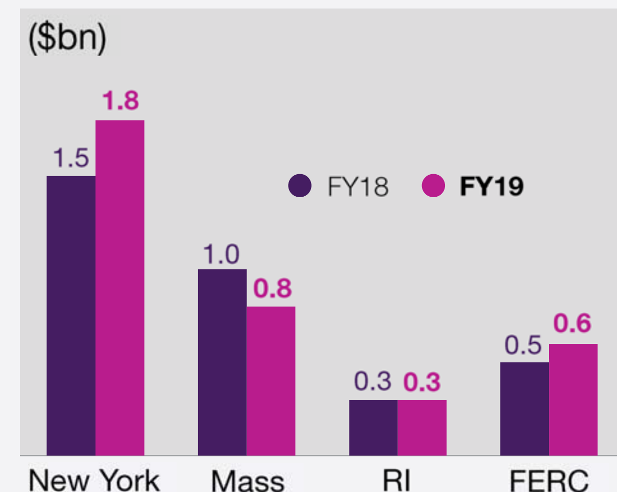
- Delivered strong organic growth in 18/19
  - £4.5bn of capital invested delivering asset growth of 7.2%
- Sale of Cadent to complete with £2bn in proceeds expected in June
- Good US regulatory progress, with all distribution companies under refreshed rates
- Launched new cost efficiency programmes in both UK and US
- Significant progress on interconnector portfolio
- Major milestone achieved for Property business with sale of Fulham site to St William

US operational performance

nationalgrid

- Achieved 8.8% RoE, 93% of allowed
- Asset growth of 9.2%
- US cost efficiency programme launched
  - will deliver cost savings of $30m in 19/20 and $50m in 20/21
- Massachusetts Gas union agreement reached
  - higher costs of labour dispute due to additional spend during peak winter period
  - minimise bill increases for customers
  - exceptional charge of £283m
  - agreement with two further unions reached since January

$3.5bn
invested driving
asset growth of 9.2%



Continued regulatory progress

nationalgrid

- First cycle of refreshing rate plans successfully complete
- Rhode Island and Massachusetts Gas filings completed in 18/19
- Enabling New York's clean energy goals
  - $650m capital request for smart meters (AMIs) in NiMo
- New rates filed for Massachusetts Electric and KEDNY/KEDLI

Rhode Island rate plan

Summary

- 3 year settlement from September 2018
- RoE of 9.3%
- $240m annual capex

Massachusetts Gas rate plan

Summary

- New rates effective from October 2018
- RoE of 9.5%
- $413m annual capex allowance

UK

UK operational performance

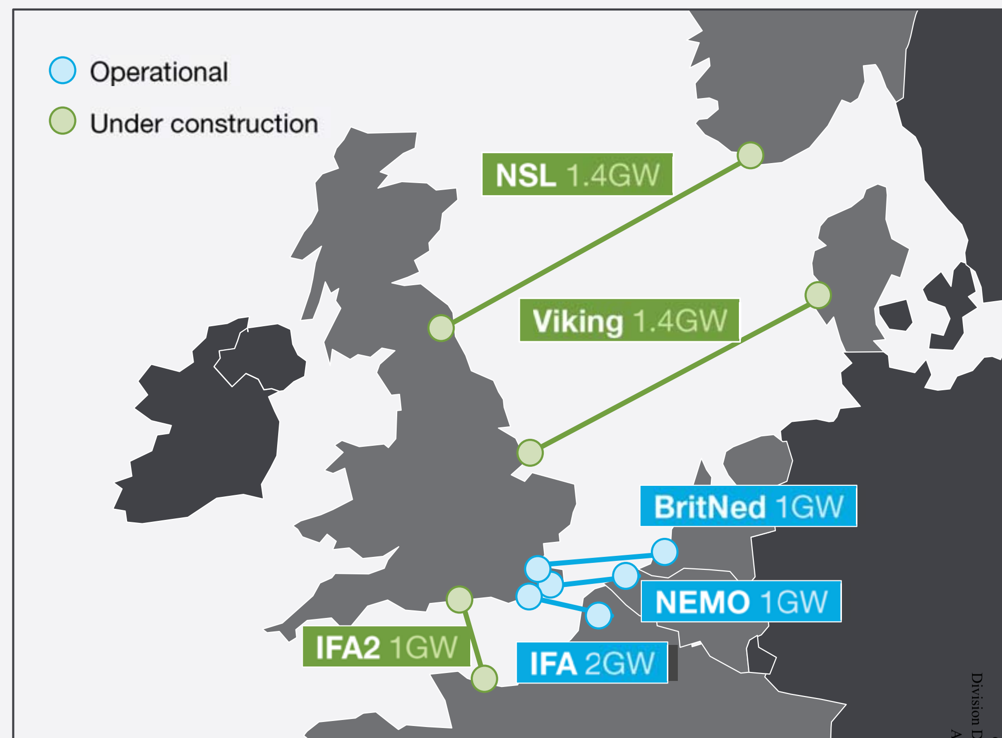
- UK Return on Equity of 12.4%, consistently delivering outperformance in the 200-300bps range
- Cost efficiency programme progressing
  - one-off costs of £136m in 18/19
  - expect to deliver at least £50m opex savings in 19/20 and £100m from 20/21
- RIIO-T1 reopeners funding agreed
- Electricity System Operator now legally separate
- Limited economic impact of cancellation of NuGen and Horizon nuclear projects
  - one-off charge of £137m

NGV

nationalgrid

Strong progress for NG Ventures

- 1GW, 140km Nemo Link to Belgium successfully commissioned in January
- Construction of IFA2 and NSL on track
- Final investment decision taken on Viking Link
  - all planning and land rights obtained
- Geronimo acquisition enables further growth in US renewables, 6GW potential pipeline
  - expected to complete in June



nationalgrid

Interest, tax and earnings

Finance costs
£993m

1% lower than FY18

- Lower RPI
- Effective interest rate of 4.3%

Underlying effective tax rate[1]
19.6%

at **£(476)m**

- Tax rate 420bps lower than 17/18, due to tax reform
- Underlying tax charge £117m lower than 17/18

Underlying earnings[2]
£1,995m

FY18: **£1,944m**

- 3,386m weighted average shares
- 58.9p/share

1 Excluding joint ventures and associates
2 Underlying results attributable to equity shareholders
Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

nationalgrid

Cash flow and net debt

£m	Year ended 31 March 2019
Underlying operating profit	3,427
Depreciation & amortisation	1,588
Exceptional items	(400)
Working capital & other	(151)
Net operating cash flow	**4,464**
Net debt	**(26,529)**

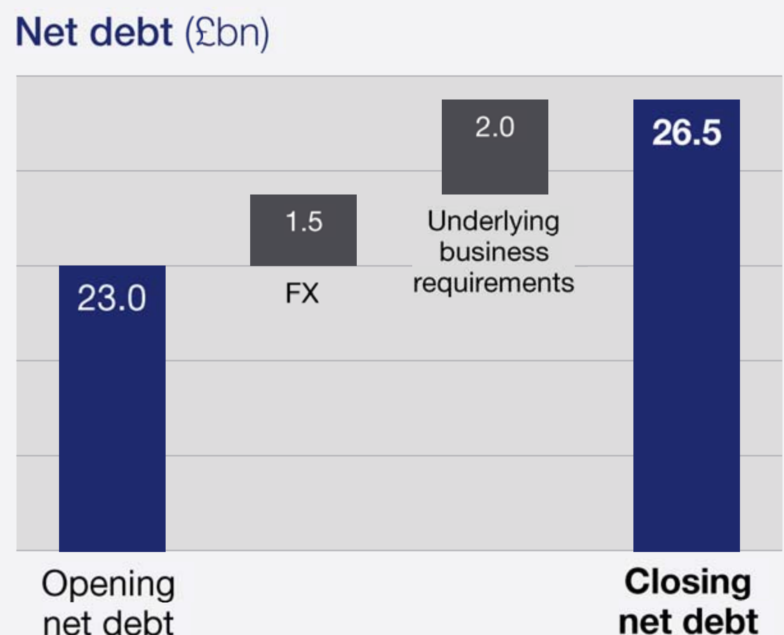
RCF / Net debt **9.4%**

FFO / Net debt **12.6%**

Excluding exceptional items:

10.8% **14.7%**

Net debt (£bn)



Net debt slightly lower than guidance - exceptional costs partially offset by favourable timing

RCF / Net debt based on the Moody's methodology. FFO / Net debt based on the S&P methodology

nationalgrid

Capital investment to increase to almost £5bn

US Regulated investment

- Continued investment to update and modernise the networks
- Supported by recent filings requests for Massachusetts Electric and KEDNY & KEDLI

UK Regulated investment

- Two thirds of spend relates to asset health
- Increased spend on undergrounding power lines in Dorset

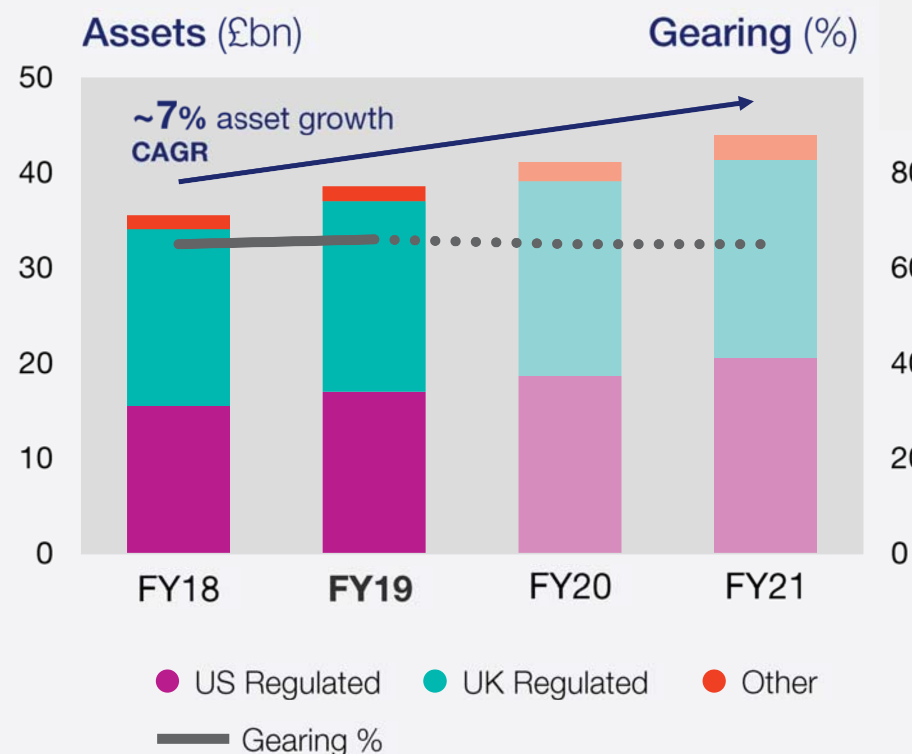
NGV & Other

- Significant increase in interconnector spend
- Initial investments in large scale renewables

Efficiently funding growth

nationalgrid

- Gearing of 66% at March 2019
- Investment expected to increase to around £5bn in 19/20 and 20/21
- Financing growth through
  - new debt issued at attractive rates
  - benefit from Cadent sale proceeds in June
  - internally generated capital, delivered through strong operational performance
  - additional capital generated by the scrip in 19/20 and 20/21
- Gearing to continue to be at the mid-sixty percent level in 19/20 and 20/21



FY19/20 technical guidance

nationalgrid

Regulated performance

- UK regulated operations expected to deliver outperformance of 200-300 bps
  - £50m benefit from cost efficiency programme in 19/20
- US RoE expected to improve to at least 95% of the allowed return
  - $30m benefit from US cost efficiency programme in 19/20

NG Ventures and Other activities

- Non-repeat of Fulham transaction and legal settlements
- First year of Nemo and St William joint venture profits

Interest and tax charge

- Interest charge to increase, including growth in average net debt and absence of one-off benefits in 18/19
- Effective tax rate on profits generated in the year of around 21%

Net debt

- ~£1bn increase in net debt, including receipt of Cadent proceeds and £0.4bn impact of IFRS16

nationalgrid

Priorities & Outlook

Performance optimisation

US priorities & outlook
Delivering for our customers

- Three key focus areas:
  - improving customer experience
  - efficient and safe service delivery
  - fair and progressive regulatory settlements
- Invest in customer e-billing portal
  - ambition of universal paperless billing
- Upgrade our gas business IT systems, providing
  - more efficient workforce management
  - more responsive customer service
  - further cost efficiencies

nationalgrid

US priorities & outlook
Evolving regulatory frameworks

- Regulatory strategy to move to forward-looking incentive-based multi-year agreements
  - greater benefits for customers
  - higher returns for shareholders

Massachusetts
Electric rates

Summary of proposal

- 5 year rate plan from October 2019
- RoE of 10.5%
- $300m annual capex allowance

KEDNY / KEDLI
Gas rates

Summary of proposal

- 4 year rate plan from April 2020
- Year 1 RoE of 9.65%
- $962m annual capex allowance KEDNY
- $586m annual capex allowance KEDLI

Performance optimisation

UK priorities & outlook
Embedding cost efficiencies

- Three key focus areas:
  - embed customer cost efficiency programme
  - deliver capital investment efficiently
  - continue regulatory development
- Go-live with new IT systems
- Complete Feeder 9 tunnelling
- Start undergrounding work on Dorset VIP project

Performance optimisation

UK priorities & outlook
Achieving a fair regulatory outcome

- Ofgem's RIIO-2 proposals a step in the right direction, however:
  - current proposals won't bring change consumers need
  - require a fair risk/return balance for both consumers and investors
- Next step – submit draft business plans for stakeholder comment
- Consultation on final licence modifications for Hinkley-Seabank expected in the summer

Performance optimisation

NGV priorities & outlook
Interconnectors driving strong growth

- Interconnectors provide cost-effective source of energy to meet UK demand
  - 7.8GW importing ~90% low carbon energy by 2025
- Continue to successfully deliver interconnector projects
- Geronimo acquisition to complete in June

Evolve for the future

nationalgrid

Our contribution
At the forefront of the energy transition

- Environmental and sustainability goals integral part of our business priorities
- Significant progress on decarbonisation targets
  - already achieved 68% reduction in emissions and reviewing 2050 target
- Focus on eight UN Sustainable Development Goals
  - enhancing the natural environment value of sites across UK
  - supporting the Government's Inclusive Economy Partnership, reporting on disability, mental health and wellbeing in the workplace

Growth

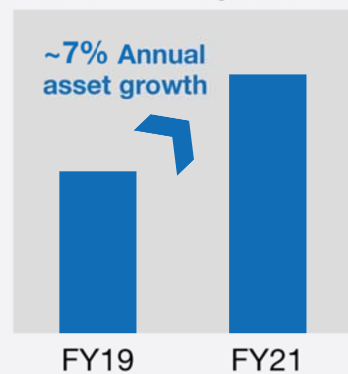
Strong outlook for growth maintained

- Investment of nearly £5bn in both 19/20 and 20/21
- Vast majority of investment covered by regulatory arrangements

Targeting asset growth of
5-7% per annum
assuming 3% inflation

At constant currency

~£10bn
of investment over the next two years



nationalgrid

Debt Funding

Debt funding

- National Grid issued c. £2.9bn of new long term debt in 2018/19:
  - We issued c. $3.2bn (~£2.4bn) from our US companies, the majority at OpCo level
  - National Grid Electricity Transmission (NGET) issued its first bonds since 2013, raising c. £0.5bn in total
- In 2019/20 we expect the majority of debt issuance to be at OpCo level, both in the US and in the UK for NGET
- £5.5bn of general liquidity facilities
- Strong credit ratings: single A range for UK operating companies and the majority of US operating companies

Summary

- Delivered strong organic growth and strategic progress
  - underpinning our total return proposition
  - delivering significant customer benefits
- Contributing to the evolution of regulatory frameworks in US and UK
- Strong balance sheet supporting long term growth and dividends

nationalgrid

Q&A

nationalgrid

Appendix

UK

UK Electricity Transmission

nationalgrid

Return on equity

10.2%
Base return

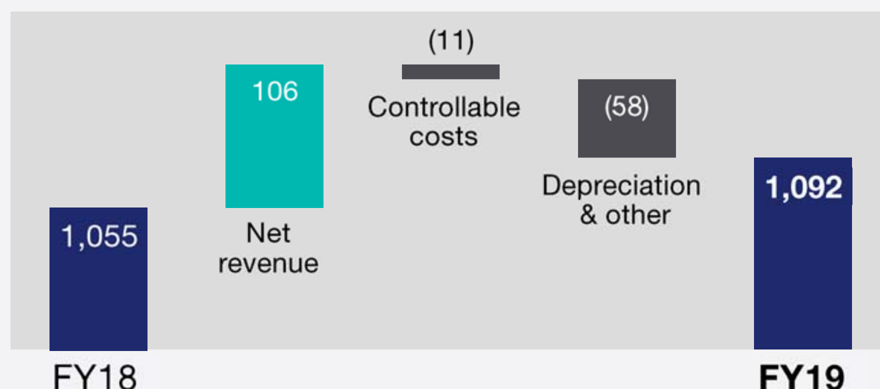
230bps
Totex incentive

50bps
Other incentives

70bps
Additional allowances

Achieved return
13.7%
FY18: **13.1%**

Underlying operating profit (£m)



Capital investment
£925m
FY18: **£999m**

Regulated asset value
£13.5bn
FY18: **£13.0bn**

- RoE benefits from reopener filings
- 3.8% RAV growth
- Operating profit excludes exceptional charges:
  - £137m nuclear charge
  - £100m of efficiency programme costs

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

UK

UK Gas Transmission

nationalgrid

Return on equity

10.0%
Base return

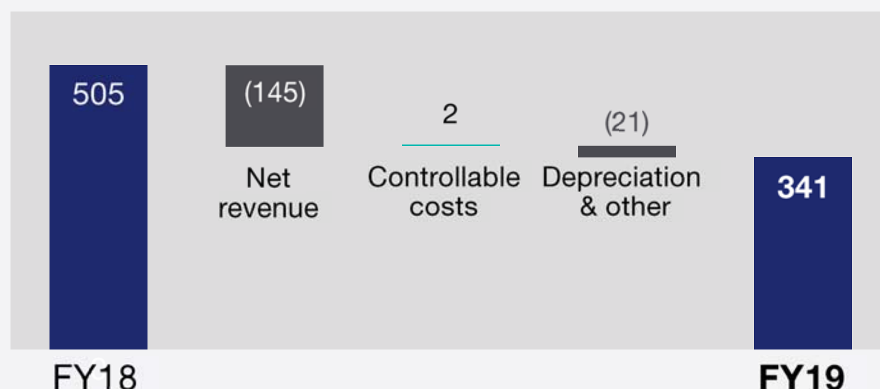
(110)bps
Totex incentive

120bps
Other incentives

(60)bps
Additional allowances

Achieved return
9.5%
FY18: **10.0%**

Underlying operating profit (£m)



Capital investment
£308m
FY18: **£310m**

Regulated asset value
£6.2bn
FY18: **£6.0bn**

- RoE includes impact of reopener filings and asset health spend
- Operating profit reflects expected return of Avonmouth revenues
- 3.3% RAV growth
- Operating profit excludes £36m of efficiency programme costs

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

US

US Regulated

nationalgrid

Return on equity

8.6% New York

7.6% Massachusetts

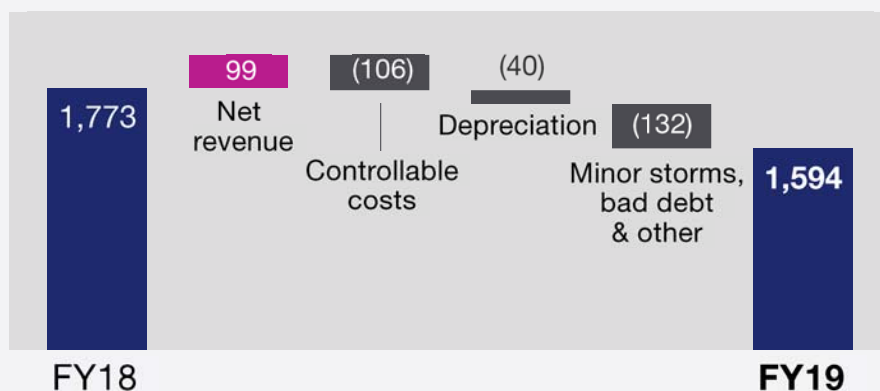
7.7% Rhode Island

11.5% FERC

Achieved return **8.8%**

FY18: **8.9%**

Underlying operating profit (£m)



Capital investment **$3,458m**
FY18: **$3,290m**

Rate base **$22.9bn**
FY18: **$20.9bn**

Assets outside rate base **$2.5bn**
FY18: **$2.5bn**

- Achieved 93% of the allowed return
- 9.2% rate base growth
- £80m of increased costs not expected to recur in 19/20
- Operating profit excludes exceptional charges:
  - $370m Mass. Gas labour dispute costs
  - $88m efficiency programme costs

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs at constant currency

NGV

NG Ventures

nationalgrid

Operating profit (£m)	Year ended 31 March 2019	31 March 2018
Metering	153	155
Grain LNG	74	76
Interconnectors	64	65
Other	(28)	(64)
	263	**232**

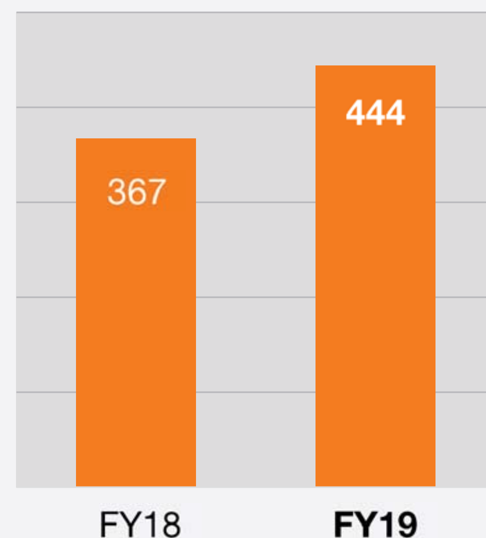
Post tax share of JVs (£m)	31 March 2019	31 March 2018
Interconnectors*	29	35
Millennium	18	14
Other	6	5
	53	**54**
Total NGV	**316**	**286**

* Includes Britned and Nemo

Operating profit, share of joint venture profit after tax and investment calculated at constant currency

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

Capital investment (£m)



- Increased investment in interconnectors
- Interconnectors to contribute around £250m of EBITDA by 24/25

Other activities

nationalgrid

Operating profit (£m)	Year ended 31 March 2019	31 March 2018
Property	181	84
Corporate centre & other	(44)	(89)
	137	**(5)**

Post tax share of JVs (£m)	31 March 2019	31 March 2018
St William	(17)	(9)
Other	4	-
	(13)	**(9)**

	31 March 2019	31 March 2018
Total Other activities	**124**	**(14)**

- Operating profit increases
  - Fulham transaction completed at the end of the year
  - legal settlements of £95m, partially offset by one-off pension charges

Total investment[1]

£179m

FY18: **£160m**

- Increased capital investment, driven by NG Partners

1 Excludes investment in St. William joint venture

Operating profit, share of joint venture profit after tax and investment calculated at constant currency

Underlying results, excluding timing, exceptional items, remeasurements and major storm costs

---

Division 1-4

Request:

Please update Exhibit C of the Application to June 30, 2019 when available.

Response:

Please see Attachment DIV 1-4 for the updated balance sheet for The Narragansett Electric Company as of March 31, 2019. The June 2019 balance sheet will be provided once it becomes available.

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

	March 31, 2019	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,269**	$ 6,386
Restricted cash	**384**	479
Accounts receivable	**266,065**	251,985
Allowance for doubtful accounts	**(28,492)**	(25,617)
Accounts receivable from affiliates	**20,079**	22,221
Unbilled revenues	**66,806**	66,150
Inventory	**25,061**	23,390
Regulatory assets	**62,584**	87,297
Accrued tax benefit	**5,342**	13,246
Other	**7,948**	4,093
Total current assets	**434,046**	449,630
Property, plant and equipment, net	**3,214,681**	2,984,346
Other non-current assets:		
Regulatory assets	**457,320**	492,361
Goodwill	**724,810**	724,810
Other	**43,841**	37,176
Total other non-current assets	**1,225,971**	1,254,347
Total assets	**$ 4,874,698**	$ 4,688,323

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

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

	March 31, 2019	March 31, 2018
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 155,981**	$ 170,458
Accounts payable to affiliates	**52,144**	14,430
Current portion of long-term debt	**251,375**	15,839
Taxes accrued	**35,889**	34,534
Customer deposits	**11,924**	10,627
Interest accrued	**7,824**	5,417
Regulatory liabilities	**130,335**	109,484
Intercompany money pool	**56,547**	307,520
Renewable energy certificate obligations	**4,898**	5,746
Other	**47,580**	31,611
Total current liabilities	**754,497**	705,666
Other non-current liabilities:		
Regulatory liabilities	**561,558**	553,343
Asset retirement obligations	**9,629**	9,472
Deferred income tax liabilities, net	**359,119**	324,161
Postretirement benefits	**72,893**	83,234
Environmental remediation costs	**117,441**	137,677
Other	**20,433**	17,423
Total other non-current liabilities	**1,141,073**	1,125,310
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**2,055,538**	2,030,903
Long-term debt	**923,590**	826,444
Total capitalization	**2,979,128**	2,857,347
Total liabilities and capitalization	**$ 4,874,698**	$ 4,688,323

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

Division 1-5

Request:

Please provide a copy of Narragansett's most recent fiscal year annual report and financial statements.

Response:

Please see Attachment DIV 1-5 for the most recent fiscal year annual report and financial statements for The Narragansett Electric Company.

The Narragansett Electric Company

Financial Statements

For the years ended March 31, 2019, 2018, and 2017

THE NARRAGANSETT ELECTRIC COMPANY

TABLE OF CONTENTS

Independent Auditors' Report 3

Statements of Income 4
Years Ended March 31, 2019, 2018 and 2017

Statements of Comprehensive Income 5
Year Ended March 31, 2017

Statements of Cash Flows 6
Years Ended March 31, 2019, 2018 and 2017

Balance Sheets 7
March 31, 2019 and 2018

Statements of Capitalization 9
March 31, 2019 and 2018

Statements of Changes in Shareholders' Equity 10
Years Ended March 31, 2019, 2018 and 2017

Notes to the Financial Statements 11
- 1 - Nature of Operations and Basis of Presentation 11
- 2 - Summary of Significant Accounting Policies 11
- 3 - Revenue 19
- 4 - Regulatory Assets and Liabilities 21
- 5 - Rate Matters 23
- 6 - Property, Plant and Equipment 25
- 7 - Employee Benefits 25
- 8 - Capitalization 33
- 9 - Income Taxes 35
- 10 - Environmental Matters 37
- 11 - Commitments and Contingencies 38
- 12 - Related Party Transactions 41

Deloitte.

Deloitte & Touche LLP
30 Rockefeller Plaza
New York, NY 10112
USA

Tel: +1 212 492 4000
Fax: +1 212 489 1687
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Narragansett Electric Company

We have audited the accompanying financial statements of The Narragansett Electric Company (the "Company"), which comprise the balance sheets and statements of capitalization as of March 31, 2019 and 2018 and the related statements of income, cash flows, and changes in shareholders' equity for the two years in the period ended March 31, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Narragansett Electric Company as of March 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Predecessor Auditors' Opinion on 2017 Financial Statements

The financial statements of the Company as of and for the year ended March 31, 2017, were audited by other auditors whose report, dated July 14, 2017, expressed an unmodified opinion on those statements.

Deloitte + Touche LLP

July 12, 2019

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF INCOME
(in thousands of dollars)

	Years Ended March 31,		
	2019	2018	2017
Operating revenues	**$ 1,556,597**	$ 1,445,025	$ 1,263,354
Operating expenses:			
Purchased electricity	**439,140**	359,726	302,210
Purchased gas	**173,829**	180,576	132,919
Operations and maintenance	**507,911**	474,341	418,499
Depreciation	**111,095**	105,686	103,923
Other taxes	**135,020**	132,057	120,461
Total operating expenses	**1,366,995**	1,252,386	1,078,012
Operating income	**189,602**	192,639	185,342
Other income and (deductions):			
Interest on long-term debt	**(51,573)**	(43,247)	(43,758)
Other interest, including affiliate interest	**(4,060)**	(3,619)	(3,199)
Loss on sale of assets	**-**	-	(2,468)
Other income (deductions), net	**468**	(213)	749
Total other deductions, net	**(55,165)**	(47,079)	(48,676)
Income before income taxes	**134,437**	145,560	136,666
Income tax expense	**24,001**	22,249	48,524
Net income	**$ 110,436**	$ 123,311	$ 88,142

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF COMPREHENSIVE INCOME
(in thousands of dollars)

		Year Ended March 31,
		2017*
Net income	$	88,142
Other comprehensive income, net of taxes:		
Unrealized gains on securities		110
Change in pension and other postretirement obligations		(4)
Unrealized gains on hedges		471
Total other comprehensive income		577
Comprehensive income	$	88,719
Related tax (expense) benefit:		
Unrealized gains on securities	$	(60)
Change in pension and other postretirement obligations		2
Unrealized gains on hedges		(254)
Total tax expense	$	(312)

*2018 and 2019 not presented due to immaterial nature of statement.

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CASH FLOWS
(in thousands of dollars)

	Years Ended March 31,		
	2019	2018	2017
Operating activities:			
Net income	**$ 110,436**	$ 123,311	$ 88,142
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**111,095**	105,686	103,923
Regulatory amortizations	**(1,580)**	235	714
Deferred income tax	**36,399**	41,290	27,470
Bad debt expense	**23,856**	19,136	14,105
Amortization of debt discount and issuance costs	**412**	293	293
Pension and postretirement benefit expenses	**(3,203)**	19,031	20,727
Pension and postretirement benefit contributions, net	**(12,294)**	(38,935)	(16,841)
Environmental remediation payments	**(1,847)**	(2,946)	(4,889)
Changes in operating assets and liabilities:			
Accounts receivable, net, and unbilled revenues	**(35,717)**	(66,457)	(35,989)
Accounts receivable from/payable to affiliates	**42,975**	-	-
Inventory	**(4,406)**	(1,604)	4,330
Regulatory assets and liabilities, net	**66,431**	(64,143)	97,822
Derivative instruments	**(3,511)**	7,364	(23,469)
Prepaid and accrued taxes	**14,707**	5,094	5,418
Accounts payable and other liabilities	**30,294**	73,334	19,284
Other, net	**(15,375)**	(30,543)	(1,827)
Net cash provided by operating activities	**358,672**	190,146	299,213
Investing activities:			
Capital expenditures	**(305,013)**	(269,344)	(295,621)
Proceeds from restricted cash and special deposits	**-**	7,834	58,044
Payments on restricted cash and special deposits	**-**	(7,357)	(43,887)
Cost of removal	**(26,652)**	(21,033)	(17,883)
Other	**(480)**	(517)	1,250
Net cash used in investing activities	**(332,145)**	(290,417)	(298,097)
Financing activities:			
Common stock dividends to Parent	**(85,250)**	-	-
Preferred stock dividends	**(110)**	(110)	(110)
Payments on long-term debt	**(15,839)**	(1,375)	(1,375)
Issuance of long-term debt	**350,000**	-	-
Payment of debt issuance costs	**(1,893)**	-	-
Intercompany money pool	**(271,647)**	100,339	(6,238)
Net cash (used in) provided by financing activities	**(24,739)**	98,854	(7,723)
Net increase (decrease) in cash, cash equivalents, and restriced cash	**1,788**	(1,417)	(6,607)
Cash, cash equivalents and restricted cash, beginning of year	**6,865**	7,803	14,410
Cash, cash equivalents and restricted cash, end of year	**$ 8,653**	$ 6,386	$ 7,803
Supplemental disclosures:			
Interest paid	**$ (50,639)**	$ (44,492)	$ (42,574)
Income taxes refunded (paid)	**15,746**	(2,624)	63
Significant non-cash items:			
Capital-related accruals included in accounts payable	**12,625**	18,987	15,775
Parent tax loss allocation	**-**	3,047	-

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

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

	March 31, 2019	March 31, 2018
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 8,269**	$ 6,386
Restricted cash	**384**	479
Accounts receivable	**266,065**	251,985
Allowance for doubtful accounts	**(28,492)**	(25,617)
Accounts receivable from affiliates	**20,079**	22,221
Unbilled revenues	**66,806**	66,150
Inventory	**25,061**	23,390
Regulatory assets	**62,584**	87,297
Accrued tax benefit	**5,342**	13,246
Other	**7,948**	4,093
Total current assets	**434,046**	449,630
Property, plant and equipment, net	**3,214,681**	2,984,346
Other non-current assets:		
Regulatory assets	**457,320**	492,361
Goodwill	**724,810**	724,810
Other	**43,841**	37,176
Total other non-current assets	**1,225,971**	1,254,347
Total assets	**$ 4,874,698**	$ 4,688,323

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

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

	March 31, 2019	March 31, 2018
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	**$ 155,981**	$ 170,458
Accounts payable to affiliates	**52,144**	14,430
Current portion of long-term debt	**251,375**	15,839
Taxes accrued	**35,889**	34,534
Customer deposits	**11,924**	10,627
Interest accrued	**7,824**	5,417
Regulatory liabilities	**130,335**	109,484
Intercompany money pool	**56,547**	307,520
Renewable energy certificate obligations	**4,898**	5,746
Other	**47,580**	31,611
Total current liabilities	**754,497**	705,666
Other non-current liabilities:		
Regulatory liabilities	**561,558**	553,343
Asset retirement obligations	**9,629**	9,472
Deferred income tax liabilities, net	**359,119**	324,161
Postretirement benefits	**72,893**	83,234
Environmental remediation costs	**117,441**	137,677
Other	**20,433**	17,423
Total other non-current liabilities	**1,141,073**	1,125,310
Commitments and contingencies (Note 11)		
Capitalization:		
Shareholders' equity	**2,055,538**	2,030,903
Long-term debt	**923,590**	826,444
Total capitalization	**2,979,128**	2,857,347
Total liabilities and capitalization	**$ 4,874,698**	$ 4,688,323

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CAPITALIZATION
(in thousands of dollars)

	Interest Rate	Maturity Date	March 31, 2019	March 31, 2018
Total shareholders' equity			**$ 2,055,538**	$ 2,030,903
Long-term debt:	Interest Rate	Maturity Date		
Unsecured notes:				
Senior Note	4.53%	March 15, 2020	**250,000**	250,000
Senior Note	5.64%	March 15, 2040	**300,000**	300,000
Senior Note	4.17%	December 10, 2042	**250,000**	250,000
Senior Note	3.92%	August 1, 2028	**350,000**	-
			1,150,000	800,000
First Mortgage Bonds ("FMB"):				
FMB Series S	6.82%	April 1, 2018	**-**	14,464
FMB Series N	9.63%	May 30, 2020	**10,000**	10,000
FMB Series O	8.46%	September 30, 2022	**12,500**	12,500
FMB Series P	8.09%	September 30, 2022	**2,500**	3,125
FMB Series R	7.50%	December 15, 2025	**5,250**	6,000
			30,250	46,089
Total debt			**1,180,250**	846,089
Unamortized debt discount			**(1,859)**	(2,076)
Unamortized debt issuance costs			**(3,426)**	(1,730)
Total debt less unamortized costs			**1,174,965**	842,283
Current portion of long-term debt			**251,375**	15,839
Total long-term debt			**923,590**	826,444
Total capitalization			**$ 2,979,128**	**$ 2,857,347**

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

THE NARRAGANSETT ELECTRIC COMPANY
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(in thousands of dollars)

				Accumulated Other Comprehensive Income (Loss)					
	Common Stock	Cumulative Preferred Stock	Additional Paid-in Capital	Unrealized Gain (Loss) on Available-For-Sale Securities	Pension and Other Postretirement Benefits	Hedging Activity	Total Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
Balance as of March 31, 2016	$ 56,624	$ 2,454	$ 1,354,977	$ 795	$ 1,206	$ (3,672)	$ (1,671)	$ 403,276	$ 1,815,660
Net income	-	-	-	-	-	-	-	88,142	88,142
Other comprehensive income:									
Unrealized gains on securities, net of $60 tax expense	-	-	-	110	-	-	110	-	110
Change in pension and other postretirement obligations, net of $2 tax benefit	-	-	-	-	(4)	-	(4)	-	(4)
Unrealized gains on hedges, net of $254 tax expense	-	-	-	-	-	471	471	-	471
Total comprehensive income									88,719
Share based compensation	-	-	31	-	-	-	-	-	31
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2017	$ 56,624	$ 2,454	$ 1,355,008	$ 905	$ 1,202	$ (3,201)	$ (1,094)	$ 491,308	$ 1,904,300
Net income	-	-	-	-			-	123,311	123,311
Other comprehensive income:									
Unrealized gains on securities, net of $38 tax expense	-	-	-	26	-	-	26	-	26
Change in pension and other postretirement obligations, net of $29 tax expense	-	-	-	-	99	-	99	-	99
Unrealized gains on hedges, net of $93 tax expense	-	-	-	-	-	228	228	-	228
Total comprehensive income									123,664
Parent tax loss allocation	-	-	3,047	-	-	-	-	-	3,047
Share based compensation	-	-	2	-	-	-	-	-	2
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Balance as of March 31, 2018	$ 56,624	$ 2,454	$ 1,358,057	$ 931	$ 1,301	$ (2,973)	(741)	$ 614,509	2,030,903
Net income	-	-	-	-			-	110,436	110,436
Other comprehensive loss:									
Unrealized losses on securities, net of $3 tax benefit	-	-	-	(12)	-	-	(12)	-	(12)
Change in pension and other postretirement obligations, net of $182 tax benefit	-	-	-	-	(683)	-	(683)	-	(683)
Unrealized gains on hedges, net of $67 tax expense	-	-	-	-	-	254	254	-	254
Total comprehensive income									109,995
Common stock dividends to Parent	-	-	-	-	-	-	-	(85,250)	(85,250)
Preferred stock dividends	-	-	-	-	-	-	-	(110)	(110)
Impact of adoption of recognition and measurement of financial assets and liabilities standard		-	-	(896)	-	-	(896)	896	-
Balance as of March 31, 2019	$ 56,624	$ 2,454	$ 1,358,057	$ 23	$ 618	$ (2,719)	$ (2,078)	$ 640,481	$ 2,055,538

The Company had 1,132,487 shares of common stock authorized, issued and outstanding, with a par value of $50 per share and 49,089 shares of cumulative preferred stock authorized, issued and outstanding, with a par value of $50 per share at March 31, 2019 and 2018.

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

THE NARRAGANSETT ELECTRIC COMPANY
NOTES TO THE FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS AND BASIS OF PRESENTATION

The Narragansett Electric Company ("the Company") is a retail distribution company providing electric service to approximately 506,000 customers and gas service to approximately 273,000 customers in 38 cities and towns in Rhode Island. The Company's service area covers substantially all of Rhode Island.

The Company is a wholly-owned subsidiary of National Grid USA ("NGUSA" or the "Parent"), a public utility holding company with regulated subsidiaries engaged in the generation of electricity and the transmission, distribution, and sale of both natural gas and electricity. NGUSA is a direct wholly-owned subsidiary of National Grid North America Inc. ("NGNA") and an indirect wholly-owned subsidiary of National Grid plc, a public limited company incorporated under the laws of England and Wales.

The accompanying financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), including the accounting principles for rate-regulated entities. The financial statements reflect the ratemaking practices of the applicable regulatory authorities.

The Company has evaluated subsequent events and transactions through July 12, 2019, the date of issuance of these financial statements, and concluded that there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended March 31, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Use of Estimates

In preparing financial statements that conform to U.S. GAAP, the Company must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenses, and the disclosure of contingent assets and liabilities included in the financial statements. Actual results could differ from those estimates.

Regulatory Accounting

The Federal Energy Regulatory Commission ("FERC"), the Rhode Island Public Utilities Commission ("RIPUC"), and the Rhode Island Division of Public Utilities and Carriers ("Division") regulate the rates the Company charges its customers. In certain cases, the rate actions of the FERC, RIPUC and Division can result in accounting that differs from non-regulated companies. In these cases, the Company defers costs (as regulatory assets) or recognizes obligations (as regulatory liabilities) if it is probable that such amounts will be recovered from, or refunded to, customers through future rates. In accordance with Accounting Standards Codification ("ASC") 980, "Regulated Operations," regulatory assets and liabilities are reflected on the balance sheet consistent with the treatment of the related costs in the ratemaking process.

Revenue Recognition

Revenues are recognized for energy service provided on a monthly billing cycle basis. The Company records unbilled revenues for the estimated amount of services rendered from the time meters were last read to the end of the accounting period (See Note 3, "Revenue" for additional details).

Other Taxes

The Company collects taxes and fees from customers such as sales taxes, other taxes, surcharges, and fees that are levied by state or local governments on the sale or distribution of gas and electricity. The Company accounts for taxes that are imposed on customers (such as sales taxes) on a net basis (excluded from revenues).

The Company's policy is to accrue for property taxes on a calendar year basis, taking into account the assessment period. The Company had accrued for property taxes of $18.3 million and $18.0 million at March 31, 2019 and 2018, respectively.

Income Taxes

Federal income taxes have been computed utilizing the asset and liability approach that requires the recognition of deferred tax assets and liabilities for the tax consequences of temporary differences by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities. Deferred income taxes also reflect the tax effect of net operating losses, capital losses, and general business credit carryforwards. The Company assesses the available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate tax character will be generated to realize the benefits of existing deferred tax assets. When the evaluation of the evidence indicates that the Company will not be able to realize the benefits of existing deferred tax assets, a valuation allowance is recorded to reduce existing deferred tax assets to the net realizable amount.

The effects of tax positions are recognized in the financial statements when it is more likely than not that the position taken, or expected to be taken, in a tax return will be sustained upon examination by taxing authorities based on the technical merits of the position. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. Deferred investment tax credits are amortized over the useful life of the underlying property.

NGNA files consolidated federal tax returns including all of the activities of its subsidiaries. Each subsidiary determines its tax provision based on the separate return method, modified by a benefits-for-loss allocation pursuant to a tax sharing agreement between NGNA and its subsidiaries. The benefits of consolidated tax losses and credits are allocated to the NGNA subsidiaries giving rise to such benefits in determining each subsidiary's tax expense in the year that the loss or credit arises. In a year that a consolidated loss or credit carryforward is utilized, the tax benefit utilized in consolidation is paid proportionately to the subsidiaries that gave rise to the benefit regardless of whether those subsidiaries would have utilized the benefit. The tax sharing agreement also requires NGNA to allocate its parent tax losses, excluding deductions from acquisition indebtedness, to each subsidiary in the consolidated federal tax return with taxable income. The allocation of NGNA's parent tax losses to its subsidiaries is accounted for as a capital contribution and is performed in conjunction with the annual intercompany cash settlement process following the filing of the federal tax return.

Cash and Cash Equivalents

Cash equivalents consist of short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at cost, which approximates fair value.

Restricted Cash

Restricted cash consists of collateral paid to the Company's counterparties for outstanding derivative instruments. The Company had restricted cash of $0.4 million and $0.5 million at March 31, 2019 and 2018, respectively.

The following table reconciles cash, cash equivalents and restricted cash, as reported on the balance sheet, to the cash, cash equivalents and restricted cash, as reported on the statements of cash flows:

		Year ended March 31, 2019
		(in thousands of dollars)
Cash and Cash Equivalents as reported on the Balance Sheets	$	8,269
Restricted Cash as reported on the Balance Sheets		384
Cash, Cash Equivalents and Restricted Cash reported on the Statements of Cash Flows	$	8,653

Accounts Receivable and Allowance for Doubtful Accounts

The Company recognizes an allowance for doubtful accounts to record accounts receivable at estimated net realizable value. The allowance is determined based on a variety of factors including, for each type of receivable, applying an estimated reserve percentage to each aging category, taking into account historical collection and write-off experience, and management's assessment of collectability from individual customers, as appropriate. The collectability of receivables is continuously assessed and, if circumstances change, the allowance is adjusted accordingly. Receivable balances are written off against the allowance for doubtful accounts when the accounts are disconnected and/or terminated and the balances are deemed to be uncollectible. The Company recorded bad debt expense of $23.9 million, $19.1 million, and $14.1 million for the years ended March 31, 2019, 2018, and 2017, respectively, within operations and maintenance in the statements of income.

Inventory

Inventory is comprised of materials and supplies, purchased Renewable Energy Certificates (“RECs”), and gas in storage. Materials and supplies are stated at weighted average cost, which represents net realizable value, and are expensed or capitalized as used. Purchased RECs are stated at cost. There were no significant write-offs of obsolete inventory for the years ended March 31, 2019, 2018, or 2017.

Gas in storage is stated at weighted average cost and the related cost is recognized when delivered to customers. Existing rate orders allow the Company to pass directly through to customers the cost of gas purchased, along with any applicable authorized delivery surcharge adjustments. Gas costs passed through to customers are subject to regulatory approvals and are reported periodically to the RIPUC.

The Company had materials and supplies of $13.5 million and $11.8 million, purchased RECs of $2.4 million and $5.1 million, and gas in storage of $9.2 million and $6.5 million at March 31, 2019 and 2018, respectively.

Renewable Energy Standard Obligation

RECs are stated at cost and are used to measure compliance with State renewable energy standards. RECs support new renewable generation standards and are held primarily to be utilized in fulfilment of the Company’s compliance obligations. At March 31, 2019 and 2018, the Company recorded a renewable energy standard obligation of $4.9 million and $5.7 million, respectively, within renewable energy certificate obligations.

Derivative Instruments

The Company uses derivative instruments to manage commodity price risk. All derivative instruments, except those that qualify for the normal purchase normal sale exception, are recorded on the balance sheet at fair value. All commodity costs, including the impact of derivative instruments, are passed on to customers through the Company’s commodity rate adjustment mechanisms. Regulatory assets or regulatory liabilities are recorded to defer the recognition of unrealized losses or gains on derivative instruments, respectively. The gains or losses on the settlement of these contracts are recognized as purchased electricity and purchased gas on the statements of income and then refunded to, or collected from, customers consistent with regulatory requirements.

The Company has certain non-trading instruments for the physical purchase of electricity that qualify for the normal purchase normal sale exception and are accounted for upon settlement. If the Company were to determine that a contract no longer qualifies for the normal purchase normal sale exception, then the Company would recognize the fair value of the contract and account for the gains and losses using the regulatory accounting described above.

The Company’s accounting policy is to not offset fair value amounts recognized for derivative instruments and related cash collateral receivable or payable with the same counterparty under a master netting agreement, but rather to record and present the fair value of the derivative instrument on a gross basis, with related cash collateral recorded within restricted cash on the balance sheet.

Power Purchase Agreements

The Company enters into power purchase agreements to procure electricity to serve its customers. The Company evaluates whether such agreements are leases, derivative instruments, or executory contracts, and performs an assessment under the guidance for Variable Interest Entities ("VIE"), included in Topic 810, "Consolidations." Power purchase agreements that do not qualify as leases or derivative instruments are accounted for as executory contracts and are, therefore, recognized as the electricity is purchased. In making its determination of the accounting for power purchase agreements, the Company considers many factors, including: the source of the electricity; the level of output from any specified facility that the Company is taking under the contract; the involvement, if any, that the Company has in operating the specified facility; and the pricing mechanisms in the contract.

Natural Gas Long-Term Arrangements

The Company enters into long-term gas contracts to procure gas to serve its customers. Those contracts include Asset Management Agreements, Baseload, and Peaking gas contracts. Similar to the power purchase agreements noted above, the Company evaluates whether such agreements are leases, derivative instruments, or executory contracts, and performs an assessment under the guidance for VIE included in Topic 810, "Consolidations," and applies the appropriate accounting treatment.

Fair Value Measurements

The Company measures derivative instruments, available-for-sale securities, and pension and postretirement benefits other than pension plan assets at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following is the fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that a company has the ability to access as of the reporting date;
- Level 2: inputs other than quoted prices included within Level 1 that are directly observable for the asset or liability or indirectly observable through corroboration with observable market data;
- Level 3: unobservable inputs, such as internally-developed forward curves and pricing models for the asset or liability due to little or no market activity for the asset or liability with low correlation to observable market inputs; and
- Not categorized: certain investments are not categorized within the fair value hierarchy. These investments are typically in commingled funds or limited partnerships that are not publicly traded and have ongoing subscription and redemption activity. As a practical expedient, the fair value of these investments is the Net Asset Value ("NAV") per fund share, derived from the underlying securities' quoted prices in active markets.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Property, Plant, and Equipment

Property, plant and equipment is stated at original cost. The cost of repairs and maintenance is charged to expense and the cost of renewals and betterments that extend the useful life of property, plant and equipment is capitalized. The capitalized cost of additions to property, plant and equipment includes costs such as direct material, labor and benefits, and an allowance for funds used during construction ("AFUDC").

Depreciation is computed over the estimated useful life of the asset using the composite straight-line method. Depreciation studies are conducted periodically to update the composite rates and are approved by the FERC and RIPUC. The average composite rates for the years ended March 31, 2019, 2018, and 2017 are as follows:

	Electric			Gas		
	Years Ended March 31,			Years Ended March 31,		
	2019	2018	2017	**2019**	2018	2017
Composite rates	**3.0%**	2.9%	2.9%	**3.4%**	3.4%	3.2%

Depreciation expense includes a component for the estimated cost of removal, which is recovered through rates charged to customers. Any difference in cumulative costs recovered and costs incurred is recognized as a regulatory liability. When property, plant and equipment is retired, the original cost, less salvage, is charged to accumulated depreciation, and the related cost of removal is removed from the associated regulatory liability. The Company recognized a regulatory liability for the amount that was in excess of costs incurred of $221.9 million and $217.0 million at March 31, 2019 and 2018, respectively.

Allowance for Funds Used During Construction

The Company records AFUDC, which represents the debt and equity costs of financing the construction of new property, plant and equipment. The equity component of AFUDC is reported in the accompanying statements of income as non-cash income in other income (deductions), net. The debt component of AFUDC is reported as a non-cash offset to other interest, including affiliate interest. After construction is completed, the Company is permitted to recover these costs through their inclusion in rates. The Company recorded AFUDC related to equity of $4.3 million, $0.1 million, and $(0.1) million reflecting adjustments to plant balances for the years ended March 31, 2019, 2018 and 2017. The Company recorded AFUDC related to debt was $2.5 million, $1.4 million, and $1.0 million for the years ended March 31, 2019, 2018, and 2017, respectively. The average AFUDC rates for the years ended March 31, 2019, 2018, and 2017 were 5.7%, 1.7%, and 1.1%, respectively.

Impairment of Long-Lived Assets

The Company tests the impairment of long-lived assets when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverability of an asset is determined by comparing its carrying value to the estimated undiscounted cash flows that the asset is expected to generate. If the comparison indicates that the carrying value is not recoverable, an impairment loss is recognized for the excess of the carrying value over the estimated fair value. For the years ended March 31, 2019 and 2018, there were no impairment losses recognized for long-lived assets. For the year ended March 31, 2017, there was $2.5 million of impairment losses recognized for long-lived assets.

Goodwill

The Company tests goodwill for impairment annually on January 1, and when events occur or circumstances change that would more likely than not reduce the fair value of the Company below its carrying amount. The Company has early adopted Accounting Standards Update ("ASU") No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates step two from the two-step goodwill impairment test required under the current standard. The one-step approach requires a recoverability test performed based on the comparison of the Company's estimated fair value with its carrying value, including goodwill. If the estimated fair value exceeds the carrying value, then goodwill is not considered impaired. If the carrying value exceeds the estimated fair value, the Company is required to recognize an impairment charge for such excess, limited to the carrying amount of goodwill.

Historically, the fair value of the Company was calculated for the annual goodwill impairment test utilizing both the income and market-based approaches. For the year ended March 31, 2019, the fair value of the Company was calculated utilizing only the income approach. The Company believes that this approach provides the most reliable information about the Company's estimated fair value. Based on the resulting fair value from the annual analyses, the Company determined that no adjustment to the goodwill carrying value was required at March 31, 2019 or 2018.

Asset Retirement Obligations

Asset retirement obligations are recognized for legal obligations associated with the retirement of property, plant and equipment primarily associated with the Company's distribution facilities. Asset retirement obligations are recorded at fair value in the period in which the obligation is incurred, if the fair value can be reasonably estimated. In the period in which new asset retirement obligations, or changes to the timing or amount of existing retirement obligations are recorded, the associated asset retirement costs are capitalized as part of the carrying amount of the related long-lived asset. In each subsequent period the asset retirement obligation is accreted to its present value. The Company applies regulatory accounting guidance and both the depreciation and accretion costs associated with asset retirement obligations are recorded as increases to regulatory assets on the balance sheets. These regulatory assets represent timing differences between the recognition of costs in accordance with U.S. GAAP and costs recovered through the ratemaking process.

The following table represents the changes in the Company's asset retirement obligations:

	Years Ended March 31,	
	2019	2018
	(in thousands of dollars)	
Balance as of the beginning of the year	**$ 9,909**	$ 10,150
Accretion expense	**381**	385
Liabilities settled	**(268)**	(626)
Balance as of the end of the year	**$ 10,022**	$ 9,909

The Company had a current portion of asset retirement obligations of $0.4 million included in other current liabilities on the balance sheets at March 31, 2019 and 2018.

Employee Benefits

The Company participates with other NGUSA subsidiaries in defined benefit pension plans and postretirement benefit other than pension ("PBOP") plans for its employees, administered by NGUSA. The Company recognizes its portion of the pension and PBOP plans' funded status on the balance sheet as a net liability or asset. The cost of providing these plans is recovered through rates; therefore, the net funded status is offset by a regulatory asset or liability. The pension and PBOP plans' assets are commingled and allocated to measure and record pension and PBOP funded status at the year-end date. Pension and PBOP plan assets are measured at fair value, using the year-end market value of those assets.

New and Recent Accounting Guidance

Accounting Guidance Adopted

Pension and Postretirement Benefits

In March 2017, the Financial Accounting Standards Board ("FASB") issued ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost," which changes certain presentation and disclosure requirements for employers that sponsor defined benefit pension and other postretirement benefit plans. The ASU requires the service cost component of the net benefit cost to be classified within the same line item as other compensation in operating income in an entity's statements of income and the other components of net benefit cost to be classified outside of operating income on a retrospective basis. In addition, as prescribed by the ASU, only the service cost component will be eligible for capitalization when applicable, on a prospective basis.

The Company adopted this new guidance on April 1, 2018. Although required by the standard, the Company elected not to retrospectively adjust the accompanying 2018 and 2017 financial statements as management determined that such retrospective application, is not material to the Company's statements of income for the years ended March 31, 2018 and

2017 presented herein. The adoption of this ASU did not have a material effect on the Company's results of operations, cash flows, and financial position.

Statement of Cash Flows

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash," which requires entities to show the changes in the total of cash, cash equivalents, restricted cash, and restricted cash equivalents in the statement of cash flows. The Company has adopted the new guidance in the current fiscal year. The application of the new guidance did not have a material impact on the Company's presentation of its statements of cash flows in the current year. Although required by the standard, the Company elected not to retrospectively adjust the accompanying 2018 and 2017 financial statements as management determined that such retrospective application, is not material to the Company's statements of cash flows for the years ended March 31, 2018 and 2017 presented herein.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments," which provides guidance about the classification of certain cash receipts and payments within the statement of cash flows, including debt prepayment or extinguishment costs, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims and policies, and distributions received from equity method investments. The Company adopted the new guidance in the current fiscal year and applied it retrospectively for each prior period presented. The application of the new guidance did not have a material impact on the Company's presentation of its statements of cash flows.

Revenue Recognition

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." The FASB further amended ASC 606 through various updates issued thereafter. The underlying principle of this ASU is that an entity will recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration the entity expects to be entitled to, in exchange for those goods or services. The Company adopted the new guidance on April 1, 2018, using the modified retrospective method applied to contracts that were not completed as of April 1, 2018, and the Company did not recognize an adjustment to retained earnings for the cumulative effect of adopting the standard.

The adoption of ASC 606 did not have a material impact on the presentation of the Company's results of operations, cash flows, or financial position. The Company has added additional disclosures as required under ASC 606 (See Note 3, "Revenue," for additional details).

Financial Instruments – Classification and Measurement

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments–Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The new guidance eliminates the available-for-sale and cost method classification for equity securities and requires that all equity investments, other than those accounted for using the equity method of accounting, be measured and recorded at fair value with any changes in fair value recognized through net income. However, for equity investments that do not have a readily determinable fair value an entity may choose to measure equity investments at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. If any entity elects to use the measurement alternative for equity investments without readily determinable fair values, those investments must be qualitatively assessed for impairment at each reporting period and, if impairment exists, the investment is required to be measured at fair value. The guidance does not impact the classification or measurement of investments in debt securities. The guidance also amended certain disclosure requirements related to financial instruments. The Company adopted the guidance on April 1, 2018 using a modified retrospective transition approach, with a cumulative effect adjustment to retained earnings, which was reclassified from accumulated other comprehensive income for $0.9 million related to equity investments that were previously classified as available-for-sale.

Accounting Guidance Not Yet Adopted

Leases

In February 2016, the FASB issued ASU 2016-02, "Leases," (Topic 842) related to lease accounting. For the Company, the new standard is effective for the fiscal year ending March 31, 2020, and interim periods within. Under the new standard, a lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified assets for a period of time in exchange for consideration. Under the requirements of the new standard, lessees will need to recognize leases on the balance sheet as a right-of-use asset and a related lease liability, which will be equal to the present value of the estimated future lease payments. The right-of-use asset at inception will be based on the liability, subject to certain adjustments, such as initial direct costs. The new standard requires leases to be classified as either operating or financing which will impact the amount and classification of lease related expenses on the statements of income. Under the new standard, lessor accounting is largely unchanged. The new standard also has additional disclosure requirements.

The new standard provides the Company with transition practical expedients including a package of three expedients that must be taken together and allows the Company to: not reassess whether existing contracts contain leases, carry forward the existing classification of any leases, and not reassess initial direct costs associated with existing leases. The Company has exercised its option to elect the package of practical expedients. The Company will make the election under the new standard to not reflect a right-of-use asset or related liability for leases with a term of 12 months or less. The Company has also elected the practical expedient to not reevaluate land easements existing at adoption if they were not previously accounted for as leases. The Company will not make the election to combine the lease components and the associated non-lease components of an arrangement and account for this as a single lease component and will also not elect the expedient to use hindsight in determining the lease term for existing leases at the time of adoption.

The Company will recognize and measure the cumulative effect of the new standard at the beginning of the earliest period presented using the modified retrospective approach. The Company determined the impact the ASU will have on its financial statements by reviewing its lease population and identifying lease data needed for the disclosure requirements. The Company has various operating leases, primarily related to fleet vehicles. The Company will implement a new lease accounting system in fiscal year 2020 to ensure ongoing compliance with the ASU's requirements. The Company recognized approximately $25.1 million of operating lease liabilities as right-of-use assets on the balance sheets upon transition at April 1, 2019. The implementation of the new guidance will not materially impact the Company's results of operations or cash flows, as the Company does not expect significant changes to its pattern of expense recognition as a result of the new standard. The Company's operating leases are further discussed in Note 11, "Commitments and Contingencies."

Financial Instruments

In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Statements," which requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The FASB further amended Topic 326 through additional updates issued thereafter. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. Credit losses relating to available-for-sale debt securities should be recorded through an allowance for credit losses. For the Company, the requirements of the new standard will be effective for the fiscal year ending March 31, 2022, and interim periods within, with early adoption permitted from the fiscal year ending March 31, 2020 and interim periods within. The Company is currently assessing the impact of this standard.

Reclassifications

Certain reclassifications have been made to the prior years' financial statements to conform the prior years' data to the current year's presentation. These reclassifications had no effect on reported income, total assets, or shareholders' equity as previously reported.

3. REVENUE

The following table presents, for the year ending March 31, 2019, revenue from contracts with customers, as well as additional revenue from sources other than contracts with customers, disaggregated by major source:

	Year ended March 31, 2019
	(in thousands of dollars)
Revenue from Contracts with Customers:	
Electric Transmission	$ **211,544**
Electric Distribution	**919,074**
Gas Distribution	**466,336**
Other Revenue from Contracts with Customers	**16,457**
Total Revenue from Contracts with Customers	**1,613,411**
Revenue from Regulatory Mechanisms	**(56,814)**
Total Operating Revenues	$ **1,556,597**

Electric and Gas Distribution: The Company owns, maintains and operates an electric and natural gas distribution network in Rhode Island. Distribution revenues are primarily from the sale of electricity, gas, and related services to retail customers. Distribution sales are regulated by the RIPUC, which is responsible for determining the prices and other terms of services as part of the ratemaking process. The arrangement where a utility provides a service to a customer in exchange for a price approved by a regulator is referred to as a tariff sales contract. Gas and electric distribution revenues are derived from the regulated sale and distribution of electricity and natural gas to residential, commercial, and industrial customers within the Company's service territory under the tariff rates. The tariff rates approved by the regulator are designed to recover the costs incurred by the Company for the products and services provided, along with a return on investment.

The performance obligation related to distribution sales is to provide electricity and natural gas to the customers on demand. The electricity and natural gas supplied under the tariff represents a single performance obligation as it is a series of distinct goods or services that are substantially the same. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity or natural gas as the Company provides these services. The Company records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount the Company has the right to invoice.

The distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers for electricity and natural gas provided to customers by the Company, but not yet billed. Unbilled revenues are determined based on estimated unbilled sales volumes for the respective customer classes and then applying the applicable tariff rate to those volumes. Actual amounts billed to customers when the meter readings occur may be different from the estimated amounts.

Certain customers have the option to obtain electricity or natural gas from other suppliers. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

Electric Transmission: The Company owns an electric transmission system in Rhode Island. Transmission systems generally include overhead lines, underground cables, and substations, connecting generation and interconnectors to the distribution system. The Company's transmission services are regulated by both the Independent System Operator ("ISO") – New England and by the FERC. Additionally, the Company makes available its transmission facilities to New England Power ("NEP," an NGUSA affiliate), for operation and control pursuant to an integrated facilities agreement, Service Agreement No. 23 (Integrated Facilities Agreement or "IFA"). See Note 12 "Related Party Transactions" for additional details.

Electric transmission revenues arise under tariff/rate agreements and are collected primarily from the Company's Rhode Island distribution customers.

Other Revenue from Contracts with Customers: Other Revenue from Contracts with Customers consists of off-system sales, which represent direct sales of gas to participants in the wholesale natural gas marketplace, which occur after customer demands are satisfied.

Revenue from Regulatory Mechanisms: The Company records revenues in accordance with accounting principles for rate-regulated operations that are arrangements between the Company and the regulator, which are not accounted for as contracts with customers. These include various deferral mechanisms such as capital trackers, energy efficiency programs, storm deferral, and programs that qualify as Alternative Revenue Programs ("ARPs"). ARPs enable the Company to adjust rates in the future, in response to past activities or completed events. The Company's electric and gas distribution rates both have a Revenue Decoupling Mechanism ("RDM"), which allows for annual adjustments to the Company's delivery rates as a result of the reconciliation between allowed revenue and billed revenue. The Company also has other ARPs related to the achievement of certain objectives, demand side management initiatives, and certain other ratemaking mechanisms. The Company recognizes ARPs with a corresponding offset to a regulatory asset or liability account when the regulatory specified events or conditions have been met, when the amounts are determinable, and are probable of recovery (or payment) through future rate adjustments.

4. REGULATORY ASSETS AND LIABILITIES

The Company records regulatory assets and liabilities that result from the ratemaking process. The following table presents the regulatory assets and regulatory liabilities recorded on the balance sheet:

	2019	2018
	(in thousands of dollars)	
Regulatory assets:		
Current:		
Derivative instruments	**$ -**	$ 2,784
Gas costs adjustment	**-**	35,159
Rate adjustment mechanisms	**57,089**	34,890
Renewable energy certificates	**2,530**	642
Revenue decoupling mechanism	**1,735**	13,822
Other	**1,230**	-
Total	**62,584**	87,297
Non-current:		
Environmental response costs	**121,166**	140,002
Postretirement benefits	**170,545**	187,087
Storm costs	**130,907**	142,269
Other	**34,702**	23,003
Total	**457,320**	492,361
Regulatory liabilities:		
Current:		
Derivative instruments	**793**	-
Energy efficiency	**23,817**	43,089
Gas cost adjustment	**3,806**	-
Rate adjustment mechanisms	**45,293**	37,297
Revenue decoupling mechanism	**22,890**	15,289
Transmission service	**33,572**	13,809
Other	**164**	-
Total	**130,335**	109,484
Non-current:		
Cost of removal	**221,907**	216,983
Energy efficiency	**18,190**	-
Environmental response costs	**15,641**	12,840
Postretirement benefits	**651**	14,904
Regulatory tax liability, net	**278,052**	276,728
Other	**27,117**	31,888
Total	**561,558**	553,343
Net regulatory liabilities	**$ (171,989)**	$ (83,169)

Cost of removal: Represents cumulative amounts collected, but not yet spent, to dispose of property, plant and equipment. This liability is discharged as removal costs are incurred.

Derivative instruments: The Company evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery

are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs.

Energy efficiency: Represents the difference between revenue billed to customers through the Company's energy efficiency charge and the costs of the Company's energy efficiency programs as approved by the RIPUC.

Environmental response costs: The regulatory asset represents deferred costs associated with the Company's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated. The Company's rate plans provide for specific rate allowances for these costs, with variances deferred for future recovery from, or return to, customers. The Company believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory liability represents the excess of amounts received in rates over the Company's actual site investigation and remediation costs.

Gas costs adjustment: The Company is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, as approved by the RIPUC. These amounts will be refunded to or recovered from customers over the next year.

Postretirement benefits: The regulatory asset represents the Company's non-cash accrual of net actuarial gains and losses and the excess amounts received in rates over actual costs of the Company's pension and PBOP plans that are to be passed back in future periods.

Rate adjustment mechanisms: In addition to commodity costs, the Company is subject to a number of additional rate adjustment mechanisms, whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered, as approved by the RIPUC.

Regulatory tax liability, net: Represents over-recovered federal deferred taxes of the Company primarily as a result of regulatory flow-through accounting treatment and excess federal deferred taxes as a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act").

Renewable energy certificates: Represents deferred costs associated with the Company's compliance obligation with the Rhode Island Renewable Portfolio Standard ("RPS"). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Revenue decoupling mechanism: As approved by the RIPUC, the Company has electric and gas RDMs which allow for an annual adjustment to the Company's delivery rates as a result of the reconciliation between allowed and actual billed revenues. Any difference is recorded as a regulatory asset or regulatory liability.

Storm costs: The Company is allowed to recover storm costs from all retail delivery service customers. This balance reflects costs yet to be recovered. See Note 5, "Rate Matters," for additional information regarding the recovery of storm costs.

Transmission service: The Company arranges transmission service on behalf of its customers and bills the costs of those services to customers, pursuant to the Company's Transmission Service Cost Adjustment Provision. Any over or under recoveries of these costs are passed on to customers receiving transmission service over the subsequent year.

The Company records carrying charges on regulatory balances for which cash expenditures have been made and are subject to recovery, or for which cash has been collected and is subject to refund, as approved in accordance with the RIPUC. Carrying charges are not recorded on items for which expenditures have not yet been made.

5. RATE MATTERS

General Rate Case

The Company reached a settlement agreement with the Division and several other intervening parties to increase distribution revenue for its electric and gas operations over the three-year period commencing September 1, 2018, which was approved by the RIPUC on August 24, 2018. This settlement is an agreement that was reached in response to the base distribution revenue increase requests that the Company filed with the RIPUC on November 27, 2017. Pursuant to the settlement, electric distribution revenue will increase by approximately $14 million, $11 million, and $4 million and gas distribution revenue will increase by approximately $6 million, $8 million, and $4 million annually, on September 1, 2018, September 1, 2019 and September 1, 2020, respectively. The settlement reflects an allowed return on equity ("ROE") rate of 9.275% based on a common equity ratio of approximately 51%. Previously, the Company was entitled to earn an allowed ROE of 9.5%, with a common equity ratio of approximately 49.1%.

These revenue increases are intended to fund significant systems-related investments, including the replacement of several aging operational systems used in the Company's electric and gas businesses with newer integrated systems that will be shared by the Company and its electric and gas affiliates. The settlement introduces a new incentive-only performance incentive for System Efficiency: Annual Megawatt ("MW") Capacity Savings, with maximum earnings ranging from approximately $0.4 million in 2019 to $0.9 million in 2021. In addition, the settlement identifies several additional metrics for tracking and reporting purposes only, some of which may become eligible for a financial performance incentive during the term of the multi-year rate plan. The increases set in place for the second and third years of the settlement may be reopened for recovery of the implementation of advanced metering and grid modernization costs.

Recovery of Transmission Costs

The Company's transmission facilities are operated in combination with the transmission facilities of its New England affiliates, Massachusetts Electric Company ("MECO") and NEP, as a single integrated system with NEP designated as the combined operator. NEP collects the costs of the combined transmission asset pool including a return on those facilities under NEP's Tariff No. 1 from the ISO. The ISO allocates these costs among transmission customers in New England, in accordance with the ISO Open Access Transmission Tariff ("ISO-NE OATT").

According to the FERC order, the Company is compensated for its actual monthly transmission costs, with its authorized maximum ROE of 11.74% on its transmission assets. The amounts remitted by NEP to the Company for the years ended March 31, 2019, 2018, and 2017 were $144.8 million, $155.1 million, and $143.0 million, respectively, which are eliminated as operating revenues and operations and maintenance expenses within the accompanying statements of income (See Note 12 "Related Party Transactions" for additional details). On October 16, 2014, the FERC issued an order, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On March 3, 2015, the FERC issued an Order on Rehearing, Opinion No. 531-B, affirming the 10.57% base ROE and clarifying that the 11.74% maximum ROE applies to all individual transmission projects with ROE incentives previously granted by the FERC. On April 14, 2017, the U.S. Court of Appeals for the D.C. Circuit (Court of Appeals) vacated and remanded FERC's Opinion No. 531 (and successor orders), through which the FERC had lowered the New England Transmission Owners ("NETO") return on equity from 11.14% to 10.57% and capped the total incentives at 11.74%.

On October 16, 2018, the FERC issued an order on all four complaints describing how it intends to address the issues that were remanded by the Court. The FERC proposed a new framework to determine whether an existing ROE is unjust and unreasonable and, if so, how to calculate a replacement ROE. The FERC stated that these calculations are merely preliminary.

Tax Cuts and Jobs Act

On March 15, 2018, the FERC initiated multiple proceedings intended to adjust FERC-jurisdictional rates to reflect the corporate tax changes as a result of the passage of the Tax Act. Of the proceedings initiated relevant to the Company is the Notice of Inquiry ("NOI") seeking comments on the effects of the Tax Act on all FERC-jurisdiction rates and a Notice of

Proposed Rulemaking (NOPR) issued as a result of the NOI. In response to the FERC NOI, the Company made recommendations designed to mitigate the cash flow impacts of the expected refunds including providing flexibility regarding the methods used to refund accumulated deferred income tax ("ADIT") to customers and providing flexibility regarding the time period of the flow back. In the NOPR, FERC proposed to give the flexibility the company proposed. Comments on the NOPR were due on January 22, 2019. The Company is awaiting a final rule from FERC.

The RIPUC opened a docket to address the change in the federal corporate income tax rate and other changes resulting from the Tax Act that was signed into law in December 2017. Specifically, the RIPUC requested the Company's proposal for how it planned to reduce rates associated with the income taxes recovered from customers on the equity component of the return on investment included in revenue taxed at the new lower income tax rate of 21% effective January 1, 2018, and how it planned to return to customers the reduction in its net deferred income tax liabilities resulting from the 14% decrease in the federal income tax rate from 35%. Effective September 1, 2018, the Company reduced its revenue requirement for the distribution electric and gas rates in effect for the impacts of the Tax Act as appropriate. On January 24, 2019, the Company filed with the RIPUC a settlement agreement among the Company, the Division, the Office of Energy Resources, and the State of Rhode Island Office of the Lieutenant Governor, pursuant to which approximately $4.8 million and $3.1 million will be provided to electric and gas customers, respectively, which reflect the benefits of the Company's reduced federal corporate income tax payment obligations for the period January 1, 2018 through August 31, 2018. The RIPUC approved the settlement agreement on May 17, 2019, as filed.

Storm Contingency Fund

On December 29, 2016, the Company filed with the RIPUC a petition to implement a Storm Fund Replenishment Factor ("SFRF") effective July 1, 2017 to collect approximately $84.3 million over a four-year period to be credited to the Company's Storm Contingency Fund ("Storm Fund") to restore the Storm Fund to a surplus position. In addition, the Company also requested to extend the annual $3 million of supplemental base distribution rate contributions beyond the current expiration date of January 31, 2019, to coincide with the four-year replenishment period. The Division, which is the primary intervener in Rhode Island on rate matters, filed testimony challenging the recovery of $10.6 million of the $84.3 million being sought through the SFRF. On June 21, 2017, the RIPUC unanimously approved the Company's request to collect the $84.3 million. On April 27, 2018, the RIPUC approved the Joint Proposal Settlement Agreement, which proposed a Storm Fund deficit balance reduction of $2 million, instead of $10.6 million as previously challenged. The SFRF is applicable to all retail electric delivery service customers effective July 1, 2017 for a four-year period. In addition, the RIPUC unanimously approved the Company's request to extend the annual $3 million of supplemental base distribution rate contributions to the Storm Fund, which the RIPUC authorized in the Company's 2012 rate case, for an additional 26-month period beyond its current expiration to March 31, 2021.

New England East-West Solution ("NEEWS") Project

In September 2008, the Company, NEP, and Northeast Utilities jointly filed an application with the FERC to recover financial incentives for the NEEWS project, pursuant to the FERC's Transmission Pricing Policy Order No. 679. NEEWS consists of a series of inter-related transmission upgrades identified in the New England Regional System Plan and is being undertaken to address a number of reliability problems in Connecticut, Massachusetts, and Rhode Island. The Company's share of the NEEWS-related transmission investment was approximately $560 million. The Company is fully reimbursed for its transmission revenue requirements on a monthly basis by NEP through NEP's Tariff No. 1. Effective November 18, 2008, the FERC granted (1) an incentive ROE of 12.89% (125 basis points above the approved base ROE of 11.64%), (2) 100% construction work in progress ("CWIP") in rate base, and (3) recovery of plant abandoned for reasons beyond the companies' control. As discussed in the preceding section, effective October 16, 2014, the FERC issued a series of orders establishing a maximum ROE of 11.74% that effectively caps the NEEWS incentive ROE at that level. The NEEWS upgrades were placed in service in December 2015.

6. PROPERTY, PLANT, AND EQUIPMENT

The following table summarizes property, plant and equipment at cost, along with accumulated depreciation and amortization:

	March 31,	
	2019	2018
	(in thousands of dollars)	
Plant and machinery	**$ 3,881,079**	$ 3,637,419
Land and buildings	**123,628**	118,334
Assets in construction	**191,324**	152,852
Software and other intangibles	**23,974**	20,513
Property held for future use	**15,028**	15,028
Total property, plant and equipment	**4,235,033**	3,944,146
Accumulated depreciation and amortization	**(1,020,352)**	(959,800)
Property, plant and equipment, net	**$ 3,214,681**	$ 2,984,346

7. EMPLOYEE BENEFITS

The Company participates with other NGUSA subsidiaries in qualified and non-qualified non-contributory defined benefit plans (the “Pension Plans”) and PBOP plans (together with the Pension Plan (the “Plans”)), covering substantially all employees.

Plan assets are maintained for all of NGUSA and its subsidiaries in commingled trusts. In respect of cost determination, plan assets are allocated to the Company based on its proportionate share of the projected benefit obligations. The Plans’ costs are first directly charged to the Company based on the Company’s employees that participate in the Plans. Costs associated with affiliated service companies’ employees are then allocated as part of the labor burden for work performed on the Company’s behalf. The Company applies deferral accounting for pension and PBOP expenses associated with its regulated gas and electric operations. Any differences between actual costs and amounts used to establish rates are deferred and collected from, or refunded to, customers in subsequent periods. Pension and PBOP service costs are included within operations and maintenance expense, and non-service costs are included within other income (deductions), net in the accompanying statements of income. Portions of the net periodic benefit costs disclosed below have been capitalized as a component of property, plant, and equipment.

Pension Plans

The Qualified Pension Plan is a defined benefit plan which provides most union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. Supplemental non-qualified, non-contributory executive retirement programs provide additional defined pension benefits for certain executives. During the years ended March 31, 2019, 2018, and 2017, the Company made contributions of approximately $12.0 million, $28.9 million, and $13.2 million, respectively, to the Qualified Pension Plans. The Company expects to contribute approximately $1.8 million to the Qualified Pension Plans during the year ending March 31, 2020.

Benefit payments to Pension Plan participants for the years ended March 31, 2019, 2018, and 2017 were approximately $27.6 million, $29.5 million, and $24.0 million, respectively.

PBOP Plans

The PBOP plans provide health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage. During the years ended March 31, 2019, 2018, and 2017, the Company made contributions of approximately zero, $9.7 million, and $3.3 million, respectively, to the PBOP Plans. The Company does not expect to contribute to the PBOP Plans during the year ending March 31, 2020.

Benefit payments to PBOP plan participants for the years ended March 31, 2019, 2018, and 2017 were approximately $9.8 million, $10.5 million, and $9.9 million, respectively.

Defined Contribution Plan

NGUSA has a defined contribution pension plan that covers substantially all employees. For the years ended March 31, 2019, 2018 and 2017, the Company recognized an expense in the accompanying statements of income of $3.1 million, $3.1 million and $2.8 million, respectively, for matching contributions.

Net Periodic Benefit Costs

The Company's net periodic benefit pension costs for the years ended March 31, 2019, 2018, and 2017 were $9.8 million, $9.9 million, and $12.2 million, respectively.

The Company's net periodic benefit PBOP costs for the years ended March 31, 2019, 2018, and 2017 were $2.8 million, $3.5 million, and $6.9 million, respectively.

Amounts Recognized in OCI and Regulatory Assets

The following tables summarize the Company's changes in actuarial gains/losses and prior service costs recognized primarily in regulatory assets as well as other comprehensive income for the years ended March 31, 2019, 2018, and 2017:

	Pension Plans		
	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial loss (gain)	**$ 7,362**	$ 2,080	$ (14,509)
Amortization of net actuarial loss	**(9,659)**	(9,565)	(10,917)
Amortization of prior service cost, net	**(20)**	(20)	(20)
Total	**$ (2,317)**	$ (7,505)	$ (25,446)
Included in regulatory assets	**$ (3,182)**	$ (7,377)	$ (25,453)
Included in AOCI	**865**	(128)	7
Total	**$ (2,317)**	$ (7,505)	$ (25,446)

	PBOP Plans		
	Years Ended March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial (gain) loss	**$ (7,013)**	$ (3,869)	$ (33,082)
Amortization of net actuarial loss	**(1,275)**	(1,730)	(3,952)
Amortization of prior service benefit, net	**20**	23	225
Total	**$ (8,268)**	$ (5,576)	$ (36,809)
Included in regulatory assets	**$ (8,268)**	$ (5,576)	$ (36,809)
Total	**$ (8,268)**	$ (5,576)	$ (36,809)

Amounts Recognized in AOCI and Regulatory Assets – not yet recognized as components of net actuarial loss

The following tables summarize the Company's amounts recognized in regulatory assets and accumulated other comprehensive income on the balance sheet that have not yet been recognized as components of net actuarial loss at March 31, 2019, 2018 and 2017:

	Pension Plans		
	At March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial loss	**$ 153,304**	$ 155,601	$ 163,086
Prior service cost	**17**	37	57
Total	**$ 153,321**	$ 155,638	$ 163,143
Included in regulatory assets	**$ 152,321**	$ 155,502	$ 162,879
Included in AOCI	**1,000**	136	264
Total	**$ 153,321**	$ 155,638	$ 163,143

	PBOP Plans		
	At March 31,		
	2019	2018	2017
		(in thousands of dollars)	
Net actuarial loss	**$ 19,510**	$ 27,798	$ 33,397
Prior service benefit	**(25)**	(45)	(68)
Total	**$ 19,485**	$ 27,753	$ 33,329
Included in regulatory assets	**$ 19,485**	$ 27,753	$ 33,329
Total	**$ 19,485**	$ 27,753	$ 33,329

The amount of net actuarial loss to be amortized from regulatory assets during the year ending March 31, 2020 for the Pension and OPEB Plans is $9.2 million and $1.0 million, respectively.

Amounts Recognized on the Balance Sheet

The following table summarizes the portion of the funded status that is recognized on the Company's balance sheet at March 31, 2019 and 2018:

	Pension Plans		PBOP Plans	
	March 31,		March 31,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
Projected benefit obligation	**$ (562,887)**	$ (560,190)	**$ (213,390)**	$ (223,753)
Allocated fair value of plan assets	**542,261**	534,883	**160,798**	165,530
Total	**$ (20,626)**	$ (25,307)	**$ (52,592)**	$ (58,223)
Current liabilities	**$ (195)**	$ (149)	**$ (130)**	$ (147)
Other non-current liabilities	**(20,431)**	(25,158)	**(52,462)**	(58,076)
Total	**$ (20,626)**	$ (25,307)	**$ (52,592)**	$ (58,223)

Expected Benefit Payments

Based on current assumptions, the following benefit payments are expected subsequent to March 31, 2019 in respect of the Company:

(in thousands of dollars) **Years Ended March 31,**	**Pension Plans**	**PBOP Plans**
2020	$ 32,274	$ 9,899
2021	33,353	10,321
2022	34,461	10,773
2023	35,690	11,148
2024	37,034	11,429
2025-2029	202,788	61,939
Total	**$ 375,600**	**$ 115,509**

Assumptions Used for Employee Benefits Accounting

	Pension Plans		
	Years Ended March 31,		
	2019	2018	2017
Benefit Obligations:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.50%**	6.25%	6.50%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**3.50%**	3.50%	3.50%
Expected return on plan assets	**6.25%**	6.50%	6.50%

	PBOP Plans		
	Years Ended March 31,		
	2019	2018	2017
Benefit Obligations:			
Discount rate	**4.10%**	4.10%	4.30%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.50%-7.25%**	6.25%-6.75%	6.50%-6.75%
Net Periodic Benefit Costs:			
Discount rate	**4.10%**	4.30%	4.25%
Rate of compensation increase	**n/a**	n/a	n/a
Expected return on plan assets	**6.25%-6.75%**	6.50%-6.75%	6.50%-6.75%

The Company selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, the Company uses the Hewitt AA Above Median Curve along with the expected future cash flows from the Company retirement plans to determine the weighted average discount rate assumption.

The expected rate of return for various passive asset classes is based both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

Assumed Health Cost Trend Rate

	March 31,	
	2019	2018
Health care cost trend rate assumed for next year		
Pre 65	**7.25%**	7.50%
Post 65	**5.75%**	5.75%
Prescription	**9.75%**	10.25%
Rate to which the cost trend is assumed to decline (ultimate)	**4.50%**	4.50%
Year that rate reaches ultimate trend		
Pre 65	**2028**	2028
Post 65	**2026**	2026
Prescription	**2027**	2027

Plan Assets

NGUSA, as the Plans' sponsor, manages the benefit plan investments to minimize the long-term cost of operating the Plans, with a reasonable level of risk. Risk tolerance is determined as a result of a periodic study which analyzes the Plans' liabilities and funded status and results in the determination of the allocation of assets across equity and fixed income securities. Equity investments are broadly diversified across U.S. and non-U.S. stocks, as well as across growth, value, and small and large capitalization stocks. Likewise, the fixed income portfolio is broadly diversified across market segments. Small investments are also approved for private equity, real estate, and infrastructure, with the objective of enhancing long-term returns while improving portfolio diversification. For the PBOP Plans, since the earnings on a portion of the assets are taxable, those investments are managed to maximize after tax returns consistent with the broad asset class parameters established by the study. Investment risk and return are reviewed by NGUSA's Investment Committee on a quarterly basis.

The Pension Plan is a trusteed non-contributory defined benefit plan covering all eligible represented employees of the Company and eligible non-represented employees of the participating National Grid companies. The PBOP Plans are both a contributory and non-contributory, trusteed, employee life insurance and medical benefit plan sponsored by NGUSA. Life insurance and medical benefits are provided for eligible retirees, dependents, and surviving spouses of NGUSA.

The target asset allocations for the benefit plans as of March 31, 2019 and 2018 are as follows:

	Pension Plans		PBOP Union		PBOP Non-Union	
	March 31,		March 31,		March 31,	
	2019	2018	**2019**	2018	**2019**	2018
			(in thousands of dollars)			
US Equities	**20%**	20%	**34%**	34%	**45%**	45%
Global equities (including US)	**7%**	7%	**12%**	12%	**0%**	0%
Global tactical asset allocation	**10%**	10%	**17%**	17%	**0%**	0%
Non-US equities	**10%**	10%	**17%**	17%	**25%**	25%
Fixed income securities	**40%**	40%	**20%**	20%	**30%**	30%
Private equity	**5%**	5%	**0%**	0%	**0%**	0%
Real estate	**5%**	5%	**0%**	0%	**0%**	0%
Infrastructure	**3%**	3%	**0%**	0%	**0%**	0%
Total	**100%**	100%	**100%**	100%	**100%**	100%

Fair Value Measurements

The following tables provide the fair value measurements amounts for the pension and PBOP assets at the Plan level:

	March 31, 2019				
	Level 1	**Level 2**	**Level 3**	**Not Categorized**	**Total**
			(in thousands of dollars)		
Pension Assets:					
Cash and cash equivalents	$ -	$ 1,954	$ -	$ 27,308	$ 29,262
Accounts receivable	50,966	-	-	-	50,966
Accounts payable	(105,196)	-	-	-	(105,196)
Convertible or Exchangeable Securities	-	188	-	-	188
Equity	189,522	-	-	667,776	857,298
Fixed income securities	-	621,152	-	339,857	961,009
Futures contracts	692	-	-	-	692
Preferred securities	-	6,426	-	-	6,426
Private equity	-	-	-	155,902	155,902
Real estate	-	-	-	116,409	116,409
Other	68,624	-	-	198,167	266,791
Total	**$ 204,608**	**$ 629,720**	**$ -**	**$ 1,505,419**	**$ 2,339,747**
PBOP Assets:					
Cash and cash equivalents	$ 8,632	$ 101	$ -	$ 869	$ 9,602
Accounts receivable	2,295	-	-	-	2,295
Accounts payable	(333)	-	-	-	(333)
Equity	161,077	-	-	274,993	436,070
Fixed income securities	-	156,161	-	-	156,161
Futures contracts	(107)	-	-	-	(107)
Other	39,056	-	-	79,657	118,713
Total	**$ 210,620**	**$ 156,262**	**$ -**	**$ 355,519**	**$ 722,401**

	March 31, 2018				
	Level 1	Level 2	Level 3	Not Categorized	Total
	(in thousands of dollars)				
Pension Assets:					
Cash and cash equivalents	$ 575	$ 15,518	$ -	$ 28,149	$ 44,242
Accounts receivable	88,162	-	-	-	88,162
Accounts payable	(133,593)	-	-	-	(133,593)
Equity	303,037	(16)	-	651,355	954,376
Fixed income securities	-	553,463	-	338,944	892,407
Preferred securities	-	5,972	-	-	5,972
Private equity	-	-	-	133,785	133,785
Real estate	-	-	-	110,551	110,551
Other	1,329	-	-	178,235	179,564
Total	**$ 259,510**	**$ 574,937**	**$ -**	**$ 1,441,019**	**$ 2,275,466**
PBOP Assets:					
Cash and cash equivalents	$ 9,111	$ 16	$ -	$ 598	$ 9,725
Accounts receivable	1,998	-	-	-	1,998
Accounts payable	(183)	-	-	-	(183)
Equity	189,026	-	-	281,678	470,704
Fixed income securities	-	165,705	-	-	165,705
Other	14,030	-	-	78,622	92,652
Total	**$ 213,982**	**$ 165,721**	**$ -**	**$ 360,898**	**$ 740,601**

The methods used to fair value pension and PBOP assets are described below:

Cash and cash equivalents: Cash and cash equivalents that can be priced daily are classified as Level 1. Active reserve funds, reserve deposits, commercial paper, repurchase agreements, and commingled cash equivalents are classified as Level 2. Cash and cash equivalents invested in commingled money market investment funds which have NAV used as a practical expedient pricing per fund share are excluded from the fair value hierarchy.

Accounts receivable and accounts payable: Accounts receivable and accounts payable are classified as Level 1. Such amounts are short-term and settle within a few days of the measurement date.

Equity and preferred securities: Common stocks, preferred stocks, and real estate investment trusts are valued using the official close of the primary market on which the individual securities are traded. Equity securities are primarily comprised of securities issued by public companies in domestic and foreign markets plus investments in commingled funds, which are valued on a daily basis. If the Company can exchange shares of the publicly traded securities and the fair values are primarily sourced from the closing prices on stock exchanges where there is active trading, the securities are classified as Level 1 investments. If there is less active trading, then the publicly traded securities would typically be priced using observable data, such as bid and ask prices, and these measurements are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For investments in commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV used as a practical expedient per fund share, derived from the underlying securities' quoted prices in active markets. These investments are excluded from the fair value hierarchy.

Fixed income securities: Fixed income securities (which include corporate debt securities, municipal fixed income securities, U.S. Government and Government agency securities including government mortgage backed securities, index linked government bonds, and state and local bonds), convertible securities, and investments in securities lending collateral (which include repurchase agreements, asset backed securities, floating rate notes and time deposits) are valued with an institutional bid valuation. A bid valuation is an estimated price a dealer would pay for a security (typically in an institutional round lot).

Oftentimes, these evaluations are based on proprietary models, which pricing vendors establish for these purposes. In some cases, there may be manual sources when primary vendors do not supply prices. Fixed income investments are primarily comprised of fixed income securities and fixed income commingled funds. The prices for direct investments in fixed income securities are generated on a daily basis. Prices generated from less active trading with wider bid ask prices are classified as Level 2 investments. Mutual funds with publicly quoted prices and active trading are classified as Level 1 investments. For commingled funds that are not publicly traded and have ongoing subscription and redemption activity, the fair value of the investment is the NAV used as a practical expedient, per fund share. These investments are excluded from the fair value hierarchy.

Private equity and real estate: Commingled equity funds, commingled special equity funds, limited partnerships, real estate, venture capital, and other investments are valued using evaluations (NAV used as a practical expedient per fund share) based on proprietary models, or based on the NAV used as a practical expedient. Investments in private equity and real estate funds are primarily invested in privately held real estate investment properties, trusts, and partnerships as well as equity and debt issued by public or private companies. The Company's interest in a fund or partnership is estimated based on the NAV used as a practical expedient. The Company's interest in these funds cannot be readily redeemed due to the inherent lack of liquidity and the primarily long-term nature of the underlying assets. Distribution is made through the liquidation of the underlying assets. The Company views these investments as part of a long-term investment strategy. These investments are valued by each investment manager based on the underlying assets. The funds utilize valuation techniques consistent with the market, income, and cost approaches to measure the fair value of certain real estate investments. The majority of the underlying assets are valued using significant unobservable inputs and often require significant management judgment or estimation based on the best available information. Market data includes observations of the trading multiples of public companies considered comparable to the private companies being valued. Investments in limited partnerships with redemption restrictions and that use NAV used as a practical expedient are excluded from the fair value hierarchy.

While management believes its valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the NAV used as a practical expedient could result in a different fair value measurement at the reporting date.

8. CAPITALIZATION

The aggregate maturities of long-term debt for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars) Years Ending March 31,	
2020	$ 251,375
2021	11,375
2022	1,375
2023	13,875
2024	750
Thereafter	901,500
Total	$ 1,180,250

The Company's debt agreements and banking facilities contain covenants, including those relating to the periodic and timely provision of financial information by the issuing entity and financial covenants, such as restrictions on the level of indebtedness. Failure to comply with these covenants, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of the Company's debt and may restrict the Company's ability to draw upon its facilities or access the capital markets. During the years ended March 31, 2019 and 2018, the Company was in compliance with all such covenants.

Debt Authorizations

Since January 12, 2015, the Company had regulatory approval from the FERC to issue up to $400 million of short-term debt. The authorization was renewed with an effective date of January 11, 2019 for a period of two years and expires on January 10, 2021. The Company had no external short-term debt outstanding to third-parties as of March 31, 2019 or 2018. Refer to Note 12, "Related Party Transactions" under "Intercompany Money Pool" for short-term debt outstanding with associated companies.

Since March 21, 2018, the RIPUC authorized the Company to issue up to $730 million through March 21, 2021. On July 24, 2018 the Company issued $350 million of unsecured senior long-term debt at 3.919% due August 1, 2028.

First Mortgage Bonds

At March 31, 2019, the Company had $30.3 million of FMB outstanding. Substantially all of the assets used in the gas business of the Company are subject to the lien of the mortgage indentures under which these FMB have been issued. The FMB have annual sinking fund requirements totaling approximately $1.4 million.

The Company has a maximum 70% of debt-to-capitalization covenant. Furthermore, if at any time the Company's debt exceeds 60% of the total capitalization, each holder of bonds then outstanding, shall receive effective as of the first date of such occurrence, a one time, and permanent, 0.20% increase in the interest rate paid by the Company on its bonds. During the years ended March 31, 2019 and 2018, the Company was in compliance with this covenant.

Dividend Restrictions

Pursuant to the preferred stock arrangement, as long as any preferred stock is outstanding, certain restrictions on payment of common stock dividends would come into effect if the common stock equity was, or by reason of payment of such dividends became, less than 25% of total capitalization. The Company was in compliance with this covenant and accordingly, the Company was not restricted as to the payment of common stock dividends under the foregoing provisions at March 31, 2019 or 2018.

Cumulative Preferred Stock

The Company has certain issues of non-participating cumulative preferred stock outstanding where the security is guaranteed by National Grid plc and can be redeemed at the option of the Company. There are no mandatory redemption provisions on the Company's cumulative preferred stock. A summary of cumulative preferred stock is as follows:

	Shares Outstanding		Amount		
	March 31,		March 31,		Call
Series	**2019**	2018	**2019**	2018	Price
	(in thousands of dollars, except per share and number of shares data)				
$50 par value - 4.50% Series	**49,089**	49,089	**$ 2,454**	$ 2,454	$ 55.000

The Company did not redeem any preferred stock during the years ended March 31, 2019, 2018, or 2017. The annual dividend requirement for cumulative preferred stock was $0.1 million for each of the years ended March 31, 2019, 2018, and 2017.

9. INCOME TAXES

Components of Income Tax Expense

	Years Ended March 31,		
	2019	2018	2017
	(in thousands of dollars)		
Current federal income tax expense (benefit)	**$ (12,398)**	$ (19,040)	$ 21,054
Deferred federal tax expense	**36,415**	41,351	27,576
Amortized investment tax credits [1]	**(16)**	(62)	(106)
Total deferred tax expense	**36,399**	41,289	27,470
Total income tax expense	**$ 24,001**	$ 22,249	$ 48,524

(1) Investment tax credits ("ITC") are accounted for using the deferral and gross up method of accounting and amortized over the depreciable life of the property giving rise to the credits.

Statutory Rate Reconciliation

The Company's effective tax rates for the years ended March 31, 2019, 2018 and 2017 were 17.9%, 15.2% and 35.5%, respectively. The following table presents a reconciliation of income tax expense at the federal statutory tax rate of 21%, 31.55%, and 35%, respectively, to the actual tax expense:

	Years Ended March 31,		
	2019	2018	2017
	(in thousands of dollars)		
Computed tax	**$ 28,231**	$ 45,923	$ 47,833
Change in computed taxes resulting from:			
Temporary difference flowed through	**(172)**	695	834
Federal rate change	**-**	(23,497)	-
Amortization of excess deferred federal income tax	**(4,121)**	-	-
Other items, net	**63**	(872)	(143)
Total	**(4,230)**	(23,674)	691
Total income tax expense	**$ 24,001**	$ 22,249	$ 48,524

The Company is included in the NGNA and subsidiaries' consolidated federal income tax return. The Company has joint and several liability for any potential assessments against the consolidated group.

On December 22, 2017, the Tax Act was signed into law. The Tax Act includes significant changes to various federal tax provisions applicable to the Company, including provisions specific to regulated public utilities. The most significant changes include the reduction in the corporate federal income tax rate from 35% to 21% effective January 1, 2018, the elimination of bonus depreciation for certain property acquired or placed in service after September 27, 2017, and the extension of the normalization requirements for ratemaking treatment of excess deferred taxes.

On August 3, 2018, the Internal Revenue Service ("IRS") and the U.S. Department of Treasury released proposed regulations associated with the bonus depreciation rules enacted as part of the Tax Act. The proposed regulations would enable utilities to claim additional bonus depreciation on property acquired and placed in service between September 28, 2017 and March 31, 2018. The Company adopted the guidance in the proposed regulations and claimed the additional six months of bonus depreciation on its fiscal year 2018 federal income tax return.

In accordance with ASC 740, "Income Taxes," the effects of changes in tax law are required to be recognized in the period of enactment, which for the Company was the period ended March 31, 2018. Since the Company's fiscal year end is March 31, the statutory rate applicable for the Company's fiscal year ended March 31, 2018, was a blended tax rate of 31.55%. For the fiscal year ended March 31, 2019 and future periods, the federal income tax rate is 21%. In addition, ASC 740 requires deferred income tax assets and liabilities to be measured at the enacted tax rate expected to apply when temporary differences are to be realized or settled. As a result, the Company remeasured its federal deferred income tax assets and liabilities using the newly enacted tax rate of 21%.

On December 22, 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") 118, which provides guidance on accounting for the effects of the Tax Act. SAB 118 provides a measurement period that should not extend beyond one year from the Tax Act enactment date to complete the accounting under ASC 740, "Income Taxes". To the extent that a company's accounting for certain income tax effects of the Tax Act is incomplete, a company can determine a reasonable estimate for those effects and record a provisional estimate in the financial statements. As of March 31, 2019, any and all provisional amounts previously recorded in accordance with SAB 118 have been adjusted to reflect their final amounts.

As of March 31, 2018, the remeasurement amounted to a decrease in the net deferred income tax liability of $250 million of which $23.7 million benefit was recorded to deferred income tax expense and $226.3 million was recorded as a regulatory liability for the refund of excess accumulated deferred income taxes to the ratepayers ("excess ADIT"). During the current period, the Company adjusted the remeasurement of the net deferred income tax liability by $5.3 million, which was recorded as an increase to the regulatory liability for excess ADIT. As of March 31, 2019, the regulatory liability for excess ADIT on a pre-tax basis prior to amortization amounted to $293 million ($231.6 million post-tax).

Deferred Tax Components

	March 31,	
	2019	2018
	(in thousands of dollars)	
Deferred tax assets:		
Environmental remediation costs	**$ 25,263**	$ 28,912
Net operating losses	**42,197**	50,076
Postretirement benefits and other employee benefits	**18,801**	20,731
Regulatory liabilities - other	**36,445**	21,693
Regulatory liabilities - taxes	**58,391**	58,116
Other items	**11,036**	11,796
Total deferred tax assets	**192,133**	191,324
Deferred tax liabilities:		
Amortization of goodwill	**40,366**	36,613
Property related differences	**401,506**	366,609
Regulatory assets - environmental	**22,160**	26,704
Regulatory assets - postretirement benefits	**35,513**	35,954
Regulatory assets - other	**19,662**	14,841
Regulatory assets - storm costs	**27,990**	30,716
Other items	**4,054**	4,031
Total deferred tax liabilities	**551,251**	515,468
Net deferred income tax liabilities	**359,118**	324,144
Deferred investment tax credits	**1**	17
Deferred income tax liabilities, net	**$ 359,119**	$ 324,161

Net Operating Losses

The amounts and expiration dates of the Company's net operating loss carryforwards as of March 31, 2019 are as follows:

	Carryforward Amount *(in thousands of dollars)*	Expiration Period
Federal	$ 331,026	2033-2038

As a result of the accounting for uncertain tax positions, the amount of deferred tax assets reflected in the financial statements is less than the amount of the tax effect of the federal and state net operating losses carryforward reflected on the income tax returns.

The Company recognizes interest related to unrecognized tax benefits in other interest, including affiliate interest and related penalties, if applicable, in other income (deductions), net, in the accompanying statements of income. As of March 31, 2019 and 2018, the Company has accrued for interest related to unrecognized tax benefits of $0.3 million and zero, respectively. During the years ended March 31, 2019, 2018, and 2017, the Company recorded interest expense related to unrecognized tax benefits of $0.3 million for 2019 and zero for 2018 and 2017. No tax penalties were recognized during the years ended March 31, 2019, 2018 and 2017.

It is reasonably possible that other events will occur during the next twelve months that would cause the total amount of unrecognized tax benefits to increase or decrease. However, the Company does not believe any such increases or decreases would be material to its results of operations, financial position, or cash flows.

During the year ended March 31, 2019, the Company reached a settlement with the IRS for the tax years ended August 24, 2007, March 31, 2008 and March 31, 2009. The outcome of the settlement did not have a material impact on the Company's results of operations, financial position, or cash flows. The IRS continues its examination of the next audit cycle which includes the income tax returns for the years ended March 31, 2010 through March 31, 2012. The examination is expected to conclude in the next fiscal year and result in a settlement agreement with the IRS. The Company does not anticipate the settlement will have a material impact on the Company's financial position. As a result of both settlements with the IRS a refund of $8.4 million is expected to be received within the next 12 months. The income tax returns for the years ended March 31, 2013 through March 31, 2019 remain subject to examination by the IRS.

The following table indicates the earliest tax year subject to examination for each major jurisdiction:

Jurisdiction	Tax Year
Federal	March 31, 2010

The Company is not subject to state income taxes since the State of Rhode Island does not impose an income tax on public utility companies.

10. ENVIRONMENTAL MATTERS

The normal ongoing operations and historic activities of the Company are subject to various federal, state, and local environmental laws and regulations. Under federal and state Superfund laws, potential liability for the historic contamination of property may be imposed on responsible parties jointly and severally, without regard to fault, even if the activities were lawful when they occurred.

The United States Environmental Protection Agency ("EPA"), the Massachusetts Department of Environmental Protection ("DEP"), and the Rhode Island Department of Environmental Management ("DEM") have alleged that the Company is a potentially responsible party under state or federal law for the remediation of a number of sites at which hazardous waste is alleged to have been disposed. The Company's most significant liabilities relate to former Manufactured Gas Plant ("MGP") facilities formerly owned by the Blackstone Valley Gas and Electric Company and the Rhode Island gas distribution assets of New England Gas. The Company is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with the EPA, DEM and DEP. Expenditures incurred for the year ended March 31, 2019, 2018, and 2017 were $1.8 million, $2.9 million, and $4.9 million, respectively.

The Company estimated the remaining costs of environmental remediation activities were $120.3 million and $137.7 million at March 31, 2019 and 2018, respectively. The Company had a current portion of environmental remediation costs of $2.9 million included in other current liabilities on the balance sheet at March 31, 2019. These costs are expected to be incurred over approximately 40 years, and these undiscounted amounts have been recorded as estimated liabilities on the balance sheet. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end use for each site, and actual environmental conditions encountered. The Company has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, the Company may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has approved a settlement agreement that provides for rate recovery of remediation costs of former MGP sites and certain other hazardous waste sites located in Rhode Island. Under that agreement, qualified costs related to these sites are paid out of a special fund established as a regulatory liability on the balance sheet. Rate-recoverable contributions of approximately $3 million are added annually to the fund, along with interest and any recoveries from insurance carriers and other third-parties. Accordingly, as of March 31, 2019 and 2018, the Company has recorded environmental regulatory assets of $121.2 million and $140.0 million, respectively, and environmental regulatory liabilities of $15.6 million and $12.8 million, respectively (See Note 4, "Regulatory Assets and Liabilities" for additional details).

The Company believes that its ongoing operations, and its approach to addressing conditions at historic sites, are in substantial compliance with all applicable environmental laws. Where the Company has regulatory recovery, it believes that the obligations imposed on it because of the environmental laws will not have a material impact on its results of operations or financial position.

11. COMMITMENTS AND CONTINGENCIES

Operating Lease Obligations

The Company has various operating leases relating to fleet vehicles. The future minimum lease payments for the years subsequent to March 31, 2019 are as follows:

(in thousands of dollars) Years Ending March 31,	
2020	$ 8,135
2021	7,059
2022	5,742
2023	4,405
2024	2,742
Thereafter	1,963
Total	$ 30,046

Purchase Commitments

The Company has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before the Company is obligated to make payment. Additionally, the Company has entered into various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. The Company is liable for these payments regardless of the level of service required from third-parties.

The Company's commitments under these long-term contracts for the years subsequent to March 31, 2019 are summarized in the table below:

(in thousands of dollars) Years Ending March 31,	Energy Purchases
2020	$ 301,855
2021	102,899
2022	37,276
2023	33,512
2024	33,030
Thereafter	253,912
Total	$ 762,484

Long-term Contracts for Renewable Energy

Deepwater Agreement

The 2009 Rhode Island law required the Company to solicit proposals for a small scale renewable energy generation project of up to eight wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham. The renewable energy generation project also included a transmission cable to be constructed between Block Island and the mainland of Rhode Island. On June 30, 2010, the Company entered into a 20-year Amended Power Purchase Agreement ("PPA") with Deepwater Wind Block Island LLC ("Deepwater"), which was approved by the RIPUC in August 2010. The wind turbines reached commercial operation on December 12, 2016 and the PPA is being accounted for as a capital lease. The Company also negotiated a Transmission Facilities Purchase Agreement ("Facilities Purchase Agreement") with Deepwater to purchase the permits, engineering, real estate, and other site development work for construction of the undersea transmission cable (collectively, the "Transmission Facilities"). On April 2, 2014, the Division issued its Consent Decision for the Company to execute the Facilities Purchase Agreement with Deepwater. In July 2014, four agreements were filed with the FERC, in part, for approval to recover the costs associated with the transmission cable and related facilities (the "Project") that will be allocated to the Company and Block Island Power Company through transmission rates. On September 2, 2014, the FERC accepted all four agreements, thus approving cost recovery for the Project, with no conditions, that will apply to the Company's costs, as well as those of NEP. The agreements went into effect on September 30, 2014. On January 30, 2015, the Company closed on its purchase of the Transmission Facilities from Deepwater. The Company placed the Transmission Facilities into service on October 31, 2016.

Three-State Procurement

On April 9, 2018, the RIPUC approved eight long-term (20-year) contracts totaling approximately 44 MWs of nameplate capacity between the Company and several counterparties pursuant to the Rhode Island Long-Term Contracting Standard. Because the contracts were approved pursuant to the Rhode Island Long-Term Contracting Standard, the Company may collect 2.75% remuneration on the annual payments made under the contracts. The contracts resulted from a three-state solicitation for renewable energy generation proposals.

Offshore Wind Energy Procurement

On December 6, 2018, the Narragansett Electric Company entered into a 20-year PPA with DWW Rev I, LLC ("Revolution Wind"), for the purchase of the electricity and renewable energy credits generated by the offshore windfarm proposed by Revolution Wind, that will have a capacity of up to 408 MW. The anticipated commercial operations date for the windfarm is in January 2024. On May 28, 2019, at an open meeting, the RIPUC approved the contract without remuneration. The written order approving the agreement and that Company will be able to recover the cost incurred under the agreement was issued by the RIPUC on June 7, 2019.

Annual Solicitations

The 2009 Rhode Island law also requires that, beginning on July 1, 2010, the Company conduct four annual solicitations for proposals from renewable energy developers and, provided commercially reasonable proposals have been received, enter into long-term contracts for the purchase of capacity, energy, and attributes from newly developed renewable energy resources. The Company's four solicitations have resulted in four PPAs that have been approved by the RIPUC:

- First Solicitation: On July 28, 2011, the RIPUC approved a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW anaerobic digester biogas project.
- Second Solicitation: On May 11, 2012, the RIPUC approved a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW run-of-river hydroelectric plant located in Orono, Maine. The facility reached commercial operation on November 22, 2013.
- Third Solicitation: On October 25, 2013, the RIPUC approved a 15-year PPA with Champlain Wind, LLC for a 48 MW land-based wind project located in Carroll Plantation and Kossuth Township, Maine. The PPA was terminated on January 23, 2017 because one of the required permits for the project was rejected. The impact of this termination is that the Company will need to backfill the MW capacity from that project to meet the 90 MW minimum long-term capacity requirements under the state statute.
- Fourth Solicitation: On October 29, 2015, the RIPUC approved a 15-year PPA with Copenhagen Wind Farm, LLC for an 80 MW land-based wind project located in Denmark, New York.

As approved by the RIPUC, the Company is allowed to pass through commodity-related / purchased power costs to customers. The cost of these contracts is accounted for as part of these costs.

Aquidneck Island

On January 21, 2019, the Company suspended gas service to approximately 7,100 gas customers on Aquidneck Island due to a gas transmission supply issue. The recovery effort took approximately nine days, with service restored to essentially all customers by January 30, 2019. On February 28, 2019, the RIPUC opened an investigation into the causes of the outage, in order to comport with the United State Senate's request to do so per Senate Resolution 188 passed on January 31, 2019. On June 4, 2019, the RIPUC issued a "Status Report on the Aquidneck Island Loss of Gas Investigation." In the report, the RIPUC noted that there may have been multiple contributing factors leading to the outage, and that a final report would be released before the upcoming heating season. The RIPUC also noted that following the release of the report, if it is found that the Company contributed to the incident through imprudent management decisions, a subsequent regulatory process would be initiated, through which fines or disallowed costs could be assessed. At this time, the Company is unable to predict or estimate any impact to earnings.

Legal Matters

The Company is subject to various legal proceedings arising out of the ordinary course of its business. The Company does not consider any of such proceedings to be material, individually or in the aggregate, to its business or likely to result in a material adverse effect on its results of operations, financial position, or cash flows.

Other Contingencies

At March 31, 2019 and 2018, the Company had accrued workers compensation, auto, and general insurance claims which have been incurred but not yet reported ("IBNR") of $2.1 million and $2.9 million, respectively. IBNR reserves have been established for claims and/or events that have transpired, but have not yet been reported to the Company for payment.

12. RELATED PARTY TRANSACTIONS

Accounts Receivable from and Accounts Payable to Affiliates

NGUSA and its affiliates provide various services to the Company, including executive and administrative, customer services, financial (including accounting, auditing, risk management, tax, and treasury/finance), human resources, information technology, legal, and strategic planning, that are charged between the companies and charged to each company.

The Company records short-term receivables from, and payables to, certain of its affiliates in the ordinary course of business. The amounts receivable from, and payable to, its affiliates do not bear interest and are settled through the intercompany money pool. A summary of outstanding accounts receivable from affiliates and accounts payable to affiliates is as follows:

	Accounts Receivable from Affiliates		Accounts Payable to Affiliates	
	March 31,		March 31,	
	2019	2018	**2019**	2018
	(in thousands of dollars)			
New England Power Company	**$ 14,212**	$ 22,221	**$ 21,679**	$ -
NGUSA Service Company	**5,196**	-	**28,024**	12,224
Other	**671**	-	**2,441**	2,206
Total	**$ 20,079**	$ 22,221	**$ 52,144**	$ 14,430

As discussed in Note 4 "Rate Matters," NEP operates the pooled transmission facilities of MECO, the Company, and NEP as a single integrated system ("NEPOOL") under NEP's Tariff No. 1. These transmission services are regulated by both ISO-NE and by the FERC. NEP charges ISO-NE for these transmission services. As NEP is the sole operator of NEPOOL assets, ISO-NE revenues are remitted from NEP to the Company representing the substantial portion of the affiliated accounts receivable due from NEP.

In turn, ISO-NE charges the Company for regional network services ("RNS") with some of those charges being associated with the Company-owned transmission assets in the NEPOOL. As of March 31, 2019, $17.6 million of the unpaid charges from ISO-NE to the Company have been presented as an affiliated payable to NEP related to these Company-owned transmission assets. Additionally, NEP also charges the Company local network service ("LNS") rates. Amounts paid to NEP for LNS for the years ended March 31, 2019, 2018 and 2017 were $46.5 million, $47.3 million and $33.5 million, respectively. These amounts are presented within operations and maintenance expense within the accompanying statements of income.

Advances from Affiliates

Since December 2008, the Company had FERC and board authorization to borrow up to $250 million as deemed necessary for working capital needs. The advance is non-interest bearing. At March 31, 2019 and 2018, the Company had no outstanding advances from affiliates.

Intercompany Money Pool

The settlement of the Company's various transactions with NGUSA and certain affiliates generally occurs via the intercompany money pool in which it participates. The Company is a participant in the Regulated Money Pool and can both borrow and invest funds. Borrowings from the Regulated Money Pool bear interest in accordance with the terms of the Regulated Money Pool Agreement. As the Company fully participates in the Regulated Money Pool rather than settling intercompany charges with cash, all changes in the intercompany money pool balance are reflected as investing or financing activities in the accompanying statements of cash flows. For the purpose of presentation in the statements of cash flows, it is assumed all amounts settled through the intercompany money pool are constructive cash receipts and payments, and therefore, are presented as such.

The Regulated Money Pool is funded by operating funds from participants. NGUSA has the ability to borrow up to $3.0 billion from National Grid plc for working capital needs, including funding of the Regulated Money Pool, if necessary. The Company had short-term intercompany money pool borrowings of $56.5 million and $307.5 million at March 31, 2019 and 2018, respectively. The average interest rates for the intercompany money pool were 2.4%, 1.6%, and 1.1% for the years ended March 31, 2019, 2018, and 2017, respectively.

Service Company Charges

The affiliated service companies of NGUSA provide certain services to the Company at their cost. The service company costs are generally allocated to associated companies through a tiered approach. First and foremost, costs are directly charged to the benefited company whenever practicable. Secondly, in cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. Lastly, all other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant, and equipment, and operations and maintenance expense.

Charges from the service companies of NGUSA to the Company are mostly related to traditional administrative support functions, and for the years ended March 31, 2019, 2018, and 2017 were $229.7 million, $201.3 million, and $229.9 million, respectively.

Division 1-7

Request:

The Application states that there is currently $380 million of unused long-term debt issue authority from the amount approved in Division Docket No. D-17-36. Please state whether the $830 million requested in the instant Application is inclusive of that $380 million or whether the $850 million is incremental to that unused amount? That is, if the full $850 million is approved, would the total authorization then be $850 million plus the unused (to date) $380 million? Please explain.

Response:

The application request of $850 million is inclusive of the $380 million of unused long-term debt issue authority provided by the Division in Docket No. D-17-36. If the application is approved, the total authorization will not exceed $850 million.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-8

Request:

Please state whether it would be technically or administratively feasible to extinguish the outstanding legacy Providence Gas debt through either market purchases or a tender offer.

Response:

Redeeming or extinguishing the outstanding legacy Providence Gas debt is considered uneconomic due to the make whole provision, which is explained in more detail in the Company's response to Division Data Request 1-10.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-9

Request:

Please provide Narragansett's monthly balance of short-term debt and interest rate for each month January 2017 – July 2019. (End of month balance would be adequate as a response.)

Response:

Please see Attachment DIV 1-9 for The Narragansett Electric Company's month end short-term debt balance and interest rate for the period January 2017 through July 2019.

Prepared by or under the supervision of: Jonathan Cohen

Month	Borrowing Balance	Int Rate
January-17	(170,186,872.89)	1.32%
February-17	(132,967,933.96)	1.35%
March-17	(125,658,929.33)	1.28%
April-17	(111,124,665.76)	1.26%
May-17	(78,185,578.90)	1.29%
June-17	(110,130,714.57)	1.23%
July-17	(115,161,969.73)	1.50%
August-17	(115,483,070.77)	1.52%
September-17	(134,947,702.66)	1.39%
October-17	(147,204,163.49)	1.72%
November-17	(150,987,457.90)	1.71%
December-17	(193,151,960.78)	1.71%
January-18	(191,843,865.74)	1.73%
February-18	(274,071,546.14)	1.88%
March-18	(292,035,181.93)	1.91%
April-18	(287,424,871.32)	2.23%
May-18	(271,690,142.94)	2.32%
June-18	(297,001,067.07)	2.25%
July-18	37,459,962.49	2.31%
August-18	39,685,675.74	2.28%
September-18	(546,948.73)	2.24%
October-18	17,786,892.46	2.36%
November-18	11,450,456.59	2.48%
December-18	(70,687,741.19)	2.59%
January-19	(50,511,989.61)	2.84%
February-19	(57,443,482.35)	2.77%
March-19	(45,883,769.69)	2.71%
April-19	(44,855,366.02)	2.73%
May-19	(8,793,690.70)	2.70%
June-19	(47,292,542.94)	2.67%
July-19	(49,098,797.73)	2.58%

Division 1-10

Request:

Please state whether Narragansett has conducted any analyses of refinancing any of its existing long-term debt issues prior to maturity as a means of lowering its embedded cost of long-term debt. If so, please explain why such economic refinancings have not been considered.

Response:

Treasury periodically reviews its debt portfolio for opportunities to economically replace high cost debt. Call provisions can vary for each debt instrument in its portfolio. Narragansett's existing long-term debt has make whole call provisions that typically make it uneconomic to refinance or redeem prior to maturity. A make whole call provision is a type of call provision that allows the issuer to pay off the remaining debt early with a lump sum cash payment, which is derived from a formula based on the net present value (NPV) of future interest payments that will not be paid because of the call, combined with the principal payment that the investor would have received at maturity. Because of the nature of the make whole provision, the Company has determined qualitatively that it is not economic to retire its existing debt.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-11

Request:

Per Exhibit D of the Application, the common equity balance appears to increase by $203 million as of March 31, 2020. Please identify how much of this is from retained earnings accumulation and how much is from parent company equity infusions.

Response:

The common equity balance increase of $203 million is based on the projected retained earnings accumulation through March 31, 2020. The amount does not include any equity infusion from the parent company.

Division 1-12

Request:

Please provide a copy of Mr. Cohen's testimony and any supporting exhibits submitted to the New York Public Service Commission as referenced at page 2 of his direct testimony.

Response:

Please see Attachments DIV 1-12-1 through DIV 1-12-4 for Mr. Cohen's testimony and supporting exhibits submitted to the New York Public Service Commission.

Before the Public Service Commission

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Direct Testimony

of

Jonathan Cohen

Dated: April 2019

TABLE OF CONTENTS

I.	Introduction and Qualifications	1
II.	Ratemaking Capital Structure	4
III.	Cost of Debt and Overall Rate of Return	12
IV.	Financial Protections	15
V.	Service Company Asset Recovery Charge	15

1 **I. <u>Introduction and Qualifications</u>**

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

3 A. My name is Jonathan Cohen. My business address is One MetroTech Center, Brooklyn,
4 New York 11201.

5

6 **Q. By whom are you employed and in what position?**

7 A. I am employed by National Grid USA Service Company, Inc. ("Service Company"), a
8 subsidiary of National Grid USA ("National Grid"), as Director of US Treasury, Planning,
9 and Strategy (New York).

10

11 **Q. Please describe your educational background and professional experience.**

12 A. I am a qualified accountant with the Institution for Chartered Accountants in England and
13 Wales and a qualified Treasurer with the Association of Corporate Treasurers. From 2006
14 to 2012, I worked at BDO LLP, an accounting, tax, audit, and consulting services firm. I
15 worked in audit, specializing in financial services companies, including banks, brokers,
16 and fund managers. I joined National Grid in 2012 as a member of the Corporate Banking
17 Group. In that role, I was responsible for managing the bank relationships, including
18 associated borrowings and revolving credit facilities. I was also responsible for analyzing
19 and monitoring National Grid's credit ratings and managing its interactions with debt
20 investors. I joined National Grid's Debt Capital Markets group in 2015, participating in
21 public bond issuances and managing the associated currency and interest rate risks. I also
22 participated in the sale of significant assets in one of National Grid plc's largest operating
23 companies in the United Kingdom. I began my current position in 2017, where I am

1 focused on business partnering to determine the efficiency of operations and obtain
2 identified value opportunities. In my current position, I am familiar with the financing
3 activities of KeySpan Gas East Corporation d/b/a National Grid ("KEDLI" or the
4 "Company").
5
6 **Q. What is the purpose of your testimony?**
7 A. The purpose of my testimony is to present and support KEDLI's proposed capital structure
8 and overall cost of capital in this proceeding. My testimony provides information for the
9 test year ended December 31, 2018 ("Historic Test Year"), the forecast year ending March
10 31, 2021 ("Rate Year"), and the years ending March 31, 2022 ("Data Year 1"), March 31,
11 2023 ("Data Year 2"), and March 31, 2024 ("Data Year 3") (collectively "Data Years").
12 In addition, I will discuss KEDLI's proposal to continue the currently effective financial
13 protection provisions adopted by the New York State Public Service Commission
14 ("Financial Protections"). Finally, I discuss and support the cost of capital component
15 included in the service company asset recovery charge that is charged to affiliates, such as
16 KEDLI, to recover the costs of shared assets financed and owned by Service Company.
17
18 **Q. Do you sponsor any exhibits as part of your testimony in this proceeding?**
19 A. Yes. Schedule 1 of Exhibit __ (JC-1) sets forth KEDLI's cost of long-term debt. Schedule
20 2 contains the projected capitalization and weighted average cost of capital that is proposed
21 to be adopted for KEDLI in this proceeding. Schedule 3 sets forth an analysis of KEDLI's
22 credit metric projections. Schedule 4 sets forth KEDLI's weighted cost of capital for both
23 the Rate Year and the term of a multi-year rate plan. Schedule 5 sets forth a forecast sources

and uses of funds statement. These exhibits were prepared or compiled under my supervision and direction.

Q. What is the weighted average cost of capital that you are recommending be adopted for KEDLI in this proceeding?

A. KEDLI's proposed Rate Year weighted average cost of capital, as shown on Schedule 4 of Exhibit __ (JC-1), is 6.74 percent. This overall rate of return is based on the following capitalization ratios and cost rates:

Table 1: One-Year Weighted Cost of Capital

	One-Year Rate Plan		
	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.37%	4.06%	2.09%
Customer Deposits	0.63%	2.45%	0.02%
Common Equity	48.00%	9.65%	4.63%
Total	100.00%		6.74%

If rates were to be established in a multi-year settlement in this proceeding, the Company proposes the following rates of return, including a stay-out premium on its cost of equity, as shown on Schedule 4 of Exhibit __ (JC-1).

Table 2: Multi-Year Weighted Cost of Capital

	Four-Year Rate Plan (ROE includes stay-out premium, forecasted cost of debt)											
	Rate Year (FY21)			Data Year 1 (FY22)			Data Year 2 (FY23)			Data Year 3 (FY24)		
	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.37%	4.06%	2.09%	50.45%	4.15%	2.09%	49.54%	4.15%	2.06%	49.60%	4.14%	2.05%
Customer Deposits	0.63%	2.45%	0.02%	0.55%	2.45%	0.01%	0.46%	2.45%	0.01%	0.40%	2.45%	0.01%
Common Equity	48.00%	10.15%	4.87%	49.00%	10.15%	4.97%	50.00%	10.15%	5.08%	50.00%	10.15%	5.08%
Total	100.00%		6.98%	100.00%		7.07%	100.00%		7.15%	100.00%		7.14%

In calculating the capitalization ratios shown above, all of the goodwill recorded on KEDLI's books was excluded from its total capitalization and common equity balances.

1 **II. Ratemaking Capital Structure**

2 **Q. What capital structure does KEDLI propose to use for ratemaking purposes in this**
3 **proceeding?**

4 A. For a utility that is part of a holding company structure, New York Public Service
5 Commission ("Commission") precedent supports setting rates using the utility's stand-
6 alone capital structure where the utility can demonstrate that it is financially insulated from
7 its parent and its capital structure is reasonable and in line with its own financial and
8 business risks. KEDLI is proposing for ratemaking purposes to use a capital structure that
9 contains 48 percent common equity for the Rate Year. However, as shown in the table
10 above, should this proceeding result in a settlement where rates are established for multiple
11 years, KEDLI proposes that the capital structure should reflect 49 percent common equity
12 in Data Year 1 and 50 percent common equity in Data Years 2 and 3.

13

14 KEDLI believes an increase in common equity in the Data Years is appropriate given the
15 interest of maintaining its credit ratings and achieving continued favorable financing for
16 the benefit of customers. KEDLI's cash flow metrics have declined from March 2016
17 levels and are expected to decline further according to the credit rating agency Moody's
18 Investor Services, Inc. ("Moody's"). In addition, Moody's does not envision cash flow
19 generation to improve in the medium term, citing the impact of the passage of the Tax Cuts
20 and Jobs Act of 2017 ("Tax Reform Act") as the main contributing factor. Higher common
21 equity will improve cash generation during a period when Moody's sees limited prospects
22 for improvement, reducing risks of further credit rating downgrades.

23

1 Moody's has recognized that changes in utility capital structures to reflect more equity
2 could act as an offset to the negative cash flow impact arising from the Tax Reform Act.
3 It is important that the rates established in this proceeding ensure that KEDLI's cash flow
4 metrics do not continue to decline to a level that would not support its current A3 rating.
5

6 **Q. Is KEDLI part of a holding company corporate structure?**

7 A. Yes. KEDLI is indirectly owned by National Grid, which is owned by National Grid plc,
8 the ultimate parent of KEDLI.
9

10 **Q. Is KEDLI financially insulated from National Grid plc?**

11 A. Yes. KEDLI is financially insulated from National Grid plc, and this insulation is
12 recognized by the financial marketplace. Illustrating this point, in its February 2018 ratings
13 report on KEDLI, Moody's explained that:

14 …the strong ring-fencing provisions applicable to New York
15 utilities reduces the potential for debt to be pushed down into
16 KEDLI. In particular, we view the explicit leverage restriction for
17 KEDLI (to maintain a debt to capitalization ratio of less than 56%)
18 as providing the greatest credit support at the current rating level.
19 This provision compares favorably against other New York utilities
20 within the NG group. Additional ring-fencing provisions imposed
21 by the NYSPC for KEDLI that we view as credit supportive include:
22 (1) the "special preferred share" provision that reduces the
23 probability of bankruptcy in a distressed situation and (2) the
24 requirement for KEDLI to hold an investment grade rating.

25 Similarly, in its September 2018 report on KEDLI, Standard & Poor's ("S&P") stated that:

26 We assess the group status of KGE ["KeySpan Gas East" aka
27 "KEDLI"] as core to National Grid PLC. At the same time, we
28 assess KGE as insulated, with existing insulation measures
29 supporting a one-notch separation between the subsidiary and its
30 parent. Key insulating measures include:

- Prohibition of dividend distributions if the company does not maintain investment grade credit ratings with at least two of the three major ratings agencies.
- Prohibition of dividend increases and payments if the company's debt-to-capital ratio exceeds a certain amount.
- A golden share whose vote is required to file the utility into a voluntary bankruptcy.
- Clear economic and strategic incentive from the parent to maintain KGE's financial strength.

KEDLI issues debt on a stand-alone basis and has a credit rating separate from National Grid plc and its affiliates. Specifically, while KEDLI has senior unsecured ratings of A3, A-, and A- from Moody's, S&P, and Fitch Ratings, Inc. ("Fitch"), respectively, Moody's, S&P, and Fitch rate National Grid plc as Baa1, BBB+, and BBB+, respectively. Moreover, KEDLI has distinct business risks from National Grid plc. KEDLI operates a gas distribution business in downstate New York, whereas National Grid plc is an international energy company with operations in the United Kingdom and the US, and operates in an array of markets and lines of business.

Q. On average, did KEDLI's capital structure include at least 48 percent common equity in the Historic Test Year?

A. Yes. KEDLI's average capital structure during the Historic Test Year consisted of at least 48 percent common equity.

Q. Please describe KEDLI's current credit ratings.

A. KEDLI has long-term issuer ratings of A3, A-, and BBB+ from Moody's, S&P, and Fitch, respectively. KEDLI's senior unsecured debt ratings are A3, A-, and A- from Moody's, S&P, and Fitch, respectively. In November 2014, Fitch downgraded KEDLI's long-term

1 issuer rating. In October 2015, S&P downgraded KEDLI, lowering its issuer credit and
2 senior unsecured debt ratings one notch from A to A-. In January 2018, Moody's issued a
3 negative ratings outlook for KEDLI alongside several other utilities, including the
4 Company's affiliates KEDNY and Niagara Mohawk Power Corporation ("Niagara
5 Mohawk"), following enactment of the Tax Reform Act. National Grid's New York
6 utilities were subsequently downgraded to A3 from A2 following Moody's annual review
7 in February and March 2019.
8
9 **Q. Are KEDLI's current credit ratings consistent with the credit rating goals outlined in**
10 **the "Generic Financing Proceeding" that is often referred to by the Commission in**
11 **determining the cost of capital in utility rate proceedings?**
12 A. What is referred to as the "Generic Financing Proceeding" – Case 91-M-0509 – resulted in
13 a 1994 Recommended Decision that, although never formally adopted by the Commission,
14 has often been referenced by the Commission when determining the cost of capital to be
15 used in setting rates. The Recommended Decision in the Generic Financing Proceeding
16 proposed that the "A" rating should continue to be the long-term target for utilities and that
17 the Commission should continue to offer utilities ratemaking support for an "A" rating.
18 The Commission recently reaffirmed the importance of strong credit ratings for utilities in
19 Case 17-M-0815, which considered the impact of the Tax Reform Act on utilities, finding
20 that "strong investment grade credit ratings benefit both utilities and their customers."
21
22 KEDLI's current ratings are in the "A" rating range, but any further downgrades would
23 move KEDLI into the "Baa/BBB" rating range. KEDLI has limited headroom to maintain

1 an A3 rating under cashflow metric guidance released by Moody's in April 2019,
2 highlighting the importance of credit enhancing provisions like a higher equity percentage
3 in the Company's ratemaking capital structure.
4
5 **Q. Do customers benefit from "A" credit ratings?**
6 A. Yes. Higher-rated utilities can issue debt at lower costs and better terms, which benefits
7 customers by lowering the overall rate of return charged to them. The ability of KEDLI to
8 access the debt market and/or obtain credit on favorable terms may also be affected if
9 KEDLI's rating falls below the "A" range as certain debt investors do not invest in the debt
10 of non-"A" rated entities.
11
12 **Q. What is the impact of the recent downgrade by Moody's?**
13 A. While difficult to quantify, the downgrade from Moody's in March 2019 from A2 to A3
14 will likely result in modestly higher borrowing costs for customers.
15
16 **Q. Will KEDLI's proposed capital structure and overall rate of return support its**
17 **current credit ratings?**
18 A. While I cannot speak for the rating agencies, an analysis of the metrics that the agencies
19 themselves calculate indicates that if the Commission authorizes the rate relief requested
20 by KEDLI in this proceeding, then KEDLI will still have tight metrics under the current
21 rating guidelines. In the latest credit report published in April 2019, Moody's noted that a
22 key contributing factor to a further downgrade would be "CFO pre-WC/debt consistently
23 below the high teens". CFO pre-WC/debt is the ratio of cash flow from operations before

1 consideration of working capital to the Company's debt. There is little headroom in credit
2 metrics for further reductions in cash flow as compared to what is being proposed in the
3 Company's rate filing herein due to KEDLI's planned capital expenditures and the negative
4 cashflow impacts from the Tax Reform Act. The analysis of the effect of the proposed
5 capital structure and rate of return on KEDLI's credit ratings is shown in Schedule 3 of
6 Exhibit __ (JC-1).
7
8 **Q. Could the Commission's decision in this proceeding adversely impact KEDLI's**
9 **ability to maintain its current credit ratings?**
10 A. Yes. Failure to authorize a reasonable and achievable return-on-equity ("ROE") or
11 adoption of a revenue requirement that fails to provide support for KEDLI's credit metrics
12 could put it at risk of credit downgrades to the detriment of customers. Rating agencies
13 indicate that they are particularly focused on cash flow metrics, with the Moody's February
14 2018 report saying:

15 The outlook for KEDLI's rating is negative, reflecting our
16 expectation that financial metrics will be at the bottom of our
17 guidance range following US tax reform, absent significant
18 mitigating actions by the company or additional allowances offered
19 by the NYPSC.

20 Moody's has also released an updated report in March 2019, stating:

21 Under its current rate plan, which began in January 2017, KEDLI's
22 achieved returns have steadily improved to 10.1 percent in the
23 financial year ended March 2018, which is 110 basis points higher
24 than the allowed regulatory returns. Despite this improvement, and
25 as a result of US tax reforms, the decline in KEDLI's revenue
26 starting January 2019 from the level agreed upon in its current rate
27 plan is likely to lead to key credit metrics that will become weakly
28 positioned for its current A2 rating.

Moody’s subsequently downgraded KEDLI (in combination with Niagara Mohawk “NIMO”) at the end of March 2019, stating:

> The downgrade of the ratings to A3 from A2 reflects Moody's assessment that underlying CFO pre-WC/debt at both KEDLI and NiMo is likely to fall short of Moody's revised guidance for an A2 rating of at least the low-20s, in percentage terms. This assessment takes into account the impact the New York Public Service Commission's order of August 2018, reflecting tax reforms in the United States, which will reduce both companies' revenue starting in January 2019 from the level agreed in its current rate plan. Revenue allowances will also be lower from January 2021, compared to previous expectations, due to the pass-back of excess deferred taxes.

Q. Are there any other factors that could impact KEDLI’s credit ratings?

A. Yes. The Tax Reform Act has adversely affected KEDLI’s cash flow and played a significant role in the downgrade of KEDLI from A2 to A3 by Moody’s in March 2019. The reduction of the maximum corporate tax rate from 35 percent to 21 percent and the new rules regarding bonus depreciation adversely affect KEDLI’s cash flow. The reduction in the corporate tax rate will also require KEDLI to return to customers the difference between taxes that have been collected at the 35 percent tax rate and the new 21 percent tax rate. With regard to the impacts of the Tax Reform Act, Moody’s commented in February 2018:

> We expect KEDLI's allowed revenues to be reduced following US tax reforms announced in December 2017. Because we did not expect KEDLI to pay significant cash taxes, the reduced revenues will translate directly into lower cash flow from operations pre-working capital (CFO pre-WC). Our negative outlook reflects our expectation that CFO pre-WC to gross debt will remain at the lower end of our mid- to high-teens guidance range as a result of the change.

1 The cash flow issues created by the Tax Reform Act and their resulting potential impact
2 on KEDLI's credit metrics and ratings make it particularly important that the Commission
3 mitigate the downward pressure by authorizing an equity ratio that is sufficient to support
4 KEDLI's current investment grade rating.
5
6 **Q. Has the Commission acknowledged the challenges to utility creditworthiness created**
7 **by the Tax Reform Act?**
8 A. Yes. In the Commission's "Order Determining Rate Treatment of Tax Changes" in Case
9 17-M-0815, the Commission acknowledged the challenges that the Tax Reform Act
10 presented for the credit metrics and cash flow of New York utilities, specifically noting
11 that cash flow concerns arising from the Tax Reform Act resulted in negative ratings
12 outlooks for KEDLI and other New York utilities.
13
14 Additionally, in the Commission's "Order Adopting Terms of Joint Proposal and
15 Establishing Electric and Gas Rate Plan" in Central Hudson's recent rate case (Cases 17-
16 E-0459 and 17-G-0460), the Commission approved the Joint Proposal's use of equity ratios
17 of 49 percent and 50 percent in Rate Years 2 and 3, stating that

18 [g]iven the degree of uncertainty regarding the ultimate impact of
19 the Tax Act on the Company's creditworthiness, we find the JP's
20 use of higher common equity ratios in Rate Year 2 and Rate Year 3
21 to be a responsible and reasonable measure to forestall, or at least
22 diminish, the prospect of higher future borrowing costs attributable
23 to a diminution in Central Hudson's creditworthiness over the next
24 several years.
25

1 **Q. What have other jurisdictions done to offset the negative cashflow impact of the Tax**
2 **Reform Act?**
3 A. Moody's noted in a June 2018 report that Georgia and Alabama increased authorized equity
4 ratios following passage of the Tax Reform Act, which showed the supportive nature of
5 these jurisdictions. This was noted as a credit positive.
6
7 **Q. How does a higher equity percentage improve credit metrics?**
8 A. As shown on Schedule 3 of Exhibit __ (JC-1) Moody's and S&P have set cash flow metric
9 expectations for KEDLI. The current rate filing request produces cashflow metrics
10 consistent with these guidelines, albeit without a great deal of headroom. One of the
11 contributing factors of meeting these cashflow guidelines will be the higher equity ratio in
12 years following the Rate Year in the event a multi-year rate plan is authorized.
13
14 **III. <u>Cost of Debt and Overall Rate of Return</u>**
15 **Q. Please outline the planned financing activity reflected in the projected costs of capital**
16 **for the Rate Year and Data Years.**
17 A. On August 29, 2018, KEDLI filed a financing petition (Case 18-G-0558) requesting multi-
18 year authority to issue new long-term debt securities. On February 8, 2019, the
19 Commission issued an Order authorizing KEDLI to issue and sell up to $400 million of
20 new long-term debt for the following purposes specified in the Order:

21 (a) the acquisition of property, the construction, completion,
22 extension or improvement of [KEDLI's] facilities or the
23 improvement or maintenance of the Company's service within New
24 York State (to the extent such expenditures exceed funds originating
25 from credits to the accumulated provision for depreciation, net
26 salvage and accumulated deferred income taxes); (b) for the

> discharge or lawful refunding of the Company's obligations; or (c) to reimburse [KEDLI's] treasury for equivalent moneys expended for those purposes prior to March 31, 2019, provided that the Company has kept its accounts and vouchers of such expenditures in such a manner as to enable us to ascertain the amount of moneys so expended and the purposes for which such expenditures were made.

With this financing authority, KEDLI intends to issue $400 million of long term debt in September 2021 and $500 million in September 2023. These issuances will reduce/repay short-term debt and fund KEDLI's capital expenditure program. The issuance of additional debt will not prevent KEDLI from maintaining the capital structure proposed in this testimony. The projected costs of capital assume that KEDLI will issue new long-term debt as 30 year and then ten year senior unsecured debt at forecast interest rates of 4.40 percent and 4.06 percent, respectively. KEDLI assumes that the costs to issue this debt will be 0.935 percent and 0.51 percent, respectively, of the principal amounts issued and that these costs will be amortized over the lives of the debt.

Q. How were the cost rates of long-term debt for KEDLI shown on Exhibit __ (JC-1), Schedule 4 derived?

A. The long-term debt component of KEDLI's capital structure consists of fixed-rate taxable bonds. Included in the cost of these bonds are the direct coupon expense, the amortization of debt discounts or premiums, and the amortization of issuance costs where applicable.

1 **Q. How were the balances and the cost rates for customer deposits shown on Exhibit __**
2 **(JC-1), Schedule 4 determined?**
3 A. KEDLI's forecast balances of customer deposits were assumed to remain equal to the
4 actual monthly balance as of December 31, 2018, the end of the Historic Test Year. In
5 Case 18-M-0611, the Commission set the customer deposits rate for investor-owned
6 utilities to be 2.45 percent, effective January 1, 2019.
7
8 **Q. What cost rate does KEDLI propose for the common equity component of the capital**
9 **structure?**
10 A. KEDLI proposes a cost of common equity of 9.65 percent for the Rate Year that is within
11 the range supported by Company Witness Bulkley in her testimony. This proposed cost of
12 equity is at the low end of Ms. Bulkley's recommended range of reasonable returns for her
13 proxy group. If a multi-year settlement is reached, a 10.15 percent cost of common equity
14 should be used to reflect the appropriate stay-out premium recommended by Ms. Bulkley
15 for all years covered by the settlement.
16
17 **Q. Does the Company propose to update its projections of both new debt issuances and**
18 **cost rates later in this proceeding?**
19 A. Yes. While KEDLI has provided its best forecast of the cost of planned debt issuances and
20 their specific timing, forecasts and assumptions can change over time. KEDLI will
21 endeavor to time its debt issuances to secure the most favorable terms, given capital market
22 conditions, in the interest of minimizing costs for customers. As such, KEDLI will provide
23 updated projections of the cost of new long-term debt during the rate case process and

1 provide the actual terms and costs of any debt issuances completed during the course of
2 the rate case.
3
4 **IV. Financial Protections**

5 **Q. Is KEDLI presently subject to any financial protection provisions adopted by the**
6 **Commission?**

7 A. Yes. The Commission has previously adopted Financial Protection provisions that
8 generally address the payment of dividends and the components of KEDLI's capital
9 structure.
10
11 **Q. Does KEDLI believe that the Financial Protections should remain in effect?**

12 A. Yes. The current Financial Protections should continue without modification.
13
14 **V. Service Company Asset Recovery Charge**

15 **Q. What is the service company asset recovery charge?**

16 A. Service Company owns or leases a number of shared assets that are used either by Service
17 Company employees to provide services to affiliates or are used by the affiliates on a shared
18 basis. These are primarily shared office facilities and information technology equipment
19 and software. When Service Company finances and owns the shared assets, it charges the
20 affiliates an asset recovery charge based on a pre-tax return on the asset (net of deferred
21 taxes) and booked depreciation expense. This charge is recovered in the Company's rent
22 expense, as set forth in the Revenue Requirements Panel's testimony.
23

1 **Q. What cost of equity does KEDLI propose to use for the service company asset**
2 **recovery charge?**
3 A. KEDLI proposes to use the same cost of equity for the service company asset recovery
4 charge as for its cost of equity - i.e., 9.65 percent or 10.15 percent for a four-year rate plan.
5
6 **Q. What overall weighted average cost of capital does KEDLI propose to use for the**
7 **service company asset recovery charge and how was it derived?**
8 A. KEDLI proposes to use an assumed 50/50 long-term debt/equity capital structure and the
9 actual cost of long-term debt for the service company asset recovery charge. The table
10 below illustrates the overall weighted average cost of capital for the service company asset
11 recovery charge, assuming KEDLI's requested 9.65 percent cost of equity.

Service Company	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	50.00%	4.2900%	2.15%
Common Equity	50.00%	9.6500%	4.83%
Total	100.00%		6.98%

12
13 **Q. Does this conclude your testimony?**
14 A. Yes, it does.

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending December 31, 2018
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	2.742%	8/2/2016	8/15/2026	700,000	19,200	292	19,492	2.78%
Senior Unsecured Debt due 2041	5.819%	3/28/2011	4/1/2041	500,000	29,102	113	29,215	5.84%
				1,200,000	**48,302**	**406**	**48,708**	**4.06%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Total Long-Term Debt				**1,200,000**	**48,302**	**406**	**48,708**	**4.06%**

Notes

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2021
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	2.742%	8/2/2016	8/15/2026	700,000	19,200	292	19,492	2.78%
Senior Unsecured Debt due 2041	5.819%	3/28/2011	4/1/2041	500,000	29,102	113	29,215	5.84%
				1,200,000	**48,302**	**406**	**48,708**	**4.06%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Total Long-Term Debt				**1,200,000**	**48,302**	**406**	**48,708**	**4.06%**

Notes

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2022
($000)

3/31/2022

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	2.742%	8/2/2016	8/15/2026	700,000	19,200	292	19,492	2.78%
Senior Unsecured Debt due 2041	5.819%	3/28/2011	4/1/2041	500,000	29,102	113	29,215	5.84%
				1,200,000	**48,302**	**406**	**48,708**	**4.06%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Senior Unsecured Debt due 2051	4.400% NOTE 1	9/1/2021	9/1/2051	231,233	10,180	52	10,233	4.43%
Total Long-Term Debt				**1,431,233**	**58,482**	**458**	**58,941**	**4.12%**

Notes
NOTE 1: This rate has been calculated using the recent KEDNY issuance in February 2019. From this we use the 142bps spread for a thirty year issuance and then add the US 30 year Treasury forward rate for

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2023
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	2.742%	8/2/2016	8/15/2026	700,000	19,200	292	19,492	2.78%
Senior Unsecured Debt due 2041	5.819%	3/28/2011	4/1/2041	500,000	29,102	113	29,215	5.84%
Senior Unsecured Debt due 2052	4.400%	9/1/2021	9/1/2051	400,000	17,606	91	17,697	4.42%
				1,600,000	**65,908**	**497**	**66,405**	**4.15%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Total Long-Term Debt				**1,600,000**	**65,908**	**497**	**66,405**	**4.15%**

Notes

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2024
($000)

3/31/2024

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	2.742%	8/2/2016	8/15/2026	700,000	19,200	292	19,492	2.78%
Senior Unsecured Debt due 2041	5.819%	3/28/2011	4/1/2041	500,000	29,102	113	29,215	5.84%
Senior Unsecured Debt due 2052	4.400%	9/1/2021	9/1/2051	400,000	17,606	91	17,697	4.42%
				1,600,000	**65,908**	**497**	**66,405**	**4.15%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Senior Unsecured Debt due 2051	4.060% NOTE 1	9/1/2023	9/1/2033	290,411	11,797	66	11,863	4.08%
Total Long-Term Debt				**1,890,411**	**77,705**	**563**	**78,267**	**4.14%**

Notes
NOTE 1: This rate has been calculated using the recent KEDNY issuance in February 2019. From this we use the 117bps spread for a ten year issuance and then add the US 10 year Treasury forward rate for

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
ESTIMATED COST OF CAPITAL (RATE YEAR)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2021

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of December 31, 2018	1,200,000	2,032,916	259,693	1,018,408	1,274,201	14,962	2,489,163
Changes to December 31, 2019	-	-	117,534	-	117,534	-	117,534
Balance as of December 31, 2019	1,200,000	2,032,916	377,227	1,018,408	1,391,735	14,962	2,606,697
Changes to March 31, 2020	0		(260,564)	0	(260,564)	0	(260,564)
Balance as of March 31, 2020	1,200,000	2,032,916	116,663	1,018,408	1,131,171	14,962	2,346,133
April 2020	1,200,000	2,032,916	132,419	1,018,408	1,146,927	14,962	2,361,889
May 2020	1,200,000	2,032,916	143,540	1,018,408	1,158,048	14,962	2,373,010
June 2020	1,200,000	2,032,916	138,771	1,018,408	1,153,279	14,962	2,368,241
July 2020	1,200,000	2,032,916	133,443	1,018,408	1,147,951	14,962	2,362,913
August 2020	1,200,000	2,032,916	128,743	1,018,408	1,143,251	14,962	2,358,213
September 2020	1,200,000	2,032,916	120,066	1,018,408	1,134,574	14,962	2,349,536
October 2020	1,200,000	2,032,916	124,391	1,018,408	1,138,899	14,962	2,353,861
November 2020	1,200,000	2,032,916	144,973	1,018,408	1,159,481	14,962	2,374,443
December 2020	1,200,000	2,032,916	167,760	1,018,408	1,182,268	14,962	2,397,230
January 2021	1,200,000	2,032,916	204,029	1,018,408	1,218,537	14,962	2,433,499
February 2021	1,200,000	2,032,916	206,785	1,018,408	1,221,293	14,962	2,436,255
March 2021	1,200,000	2,032,916	122,369	1,018,408	1,136,877	14,962	2,351,839
Twelve Months Total	14,400,000	24,394,992	1,767,291	12,220,896	13,941,387	179,544	28,520,931
13 month average over the year	1,200,000	2,032,916	147,036	1,018,408	1,161,544	14,962	2,376,506
Capitalization Ratios	50.5%				48.9%	0.6%	100.0%
Capitalization Ratios for Ratesetting	51.4%				48%	0.6%	100.0%
Cost Rates	4.06%				10.15%	2.45%	
Return Components	**2.09%**				**4.87%**	**0.02%**	**6.98%**

Notes: ROE is assumed for a one-year rate case.

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
ESTIMATED COST OF CAPITAL (DATA YEAR 1)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2022

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2021	1,200,000	2,032,916	122,369	1,018,408	1,136,877	14,962	2,351,839
April 2021	1,200,000	2,032,916	140,651	1,018,408	1,155,159	14,962	2,370,121
May 2021	1,200,000	2,032,916	153,554	1,018,408	1,168,062	14,962	2,383,024
June 2021	1,200,000	2,032,916	148,020	1,018,408	1,162,528	14,962	2,377,490
July 2021	1,200,000	2,032,916	141,839	1,018,408	1,156,347	14,962	2,371,309
August 2021	1,200,000	2,032,916	136,386	1,018,408	1,150,894	14,962	2,365,856
September 2021	1,600,000	2,282,916	126,318	1,018,408	1,390,826	14,962	3,005,788
October 2021	1,600,000	2,282,916	131,336	1,018,408	1,395,844	14,962	3,010,806
November 2021	1,600,000	2,282,916	155,216	1,018,408	1,419,724	14,962	3,034,686
December 2021	1,600,000	2,282,916	181,655	1,018,408	1,446,163	14,962	3,061,125
January 2022	1,600,000	2,282,916	223,737	1,018,408	1,488,245	14,962	3,103,207
February 2022	1,600,000	2,282,916	274,018	1,018,408	1,538,526	14,962	3,153,488
March 2022	1,600,000	2,282,916	315,964	1,018,408	1,580,472	14,962	3,195,434
Twelve Months Total	17,200,000	26,144,992	2,128,696	12,220,896	16,052,792	179,544	33,432,336
13 month average over the year	1,416,667	2,168,333	169,325	1,018,408	1,319,250	14,962	2,750,878
Capitalization Ratios	51.5%				48.0%	0.5%	100.0%
Capitalization Ratios for Ratesetting	50.5%				49.0%	0.5%	100.0%
Cost Rates	4.15%				10.15%	2.45%	
Return Components	**2.09%**				**4.97%**	**0.01%**	**7.07%**

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
ESTIMATED COST OF CAPITAL (DATA YEAR 2)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2023

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2022	1,600,000	2,282,916	315,964	1,018,408	1,580,472	14,962	3,195,434
April 2022	1,600,000	2,282,916	336,266	1,018,408	1,600,774	14,962	3,215,736
May 2022	1,600,000	2,282,916	350,595	1,018,408	1,615,103	14,962	3,230,065
June 2022	1,600,000	2,282,916	344,450	1,018,408	1,608,958	14,962	3,223,920
July 2022	1,600,000	2,282,916	337,586	1,018,408	1,602,094	14,962	3,217,056
August 2022	1,600,000	2,282,916	331,530	1,018,408	1,596,038	14,962	3,211,000
September 2022	1,600,000	2,282,916	320,349	1,018,408	1,584,857	14,962	3,199,819
October 2022	1,600,000	2,282,916	325,922	1,018,408	1,590,430	14,962	3,205,392
November 2022	1,600,000	2,282,916	352,441	1,018,408	1,616,949	14,962	3,231,911
December 2022	1,600,000	2,282,916	381,802	1,018,408	1,646,310	14,962	3,261,272
January 2023	1,600,000	2,282,916	428,533	1,018,408	1,693,041	14,962	3,308,003
February 2023	1,600,000	2,282,916	483,817	1,018,408	1,748,325	14,962	3,363,287
March 2023	1,600,000	2,282,916	358,817	1,018,408	1,623,325	14,962	3,238,287
Twelve Months Total	19,200,000	27,394,992	4,352,109	12,220,896	19,526,205	179,544	38,905,749
13 month average over the year	1,600,000	2,282,916	360,890	1,018,408	1,625,398	14,962	3,240,360
Capitalization Ratios	49.4%				50.2%	0.5%	100.0%
Capitalization Ratios for Ratesetting	49.5%				50.0%	0.5%	100.0%
Cost Rates	4.15%				10.15%	2.45%	
Return Components	**2.06%**				**5.08%**	**0.01%**	**7.15%**

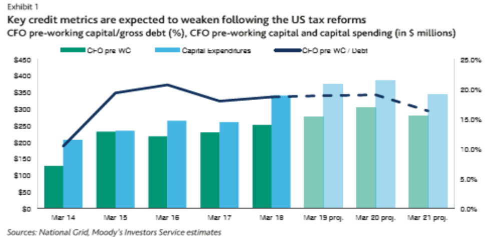
KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
ESTIMATED COST OF CAPITAL (DATA YEAR 2)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2024

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2023	1,600,000	2,282,916	358,817	1,018,408	1,623,325	14,962	3,238,287
April 2023	1,600,000	2,282,916	381,139	1,018,408	1,645,647	14,962	3,260,609
May 2023	1,600,000	2,282,916	396,894	1,018,408	1,661,402	14,962	3,276,364
June 2023	1,600,000	2,282,916	390,137	1,018,408	1,654,645	14,962	3,269,607
July 2023	1,600,000	2,282,916	382,590	1,018,408	1,647,098	14,962	3,262,060
August 2023	1,600,000	2,282,916	375,931	1,018,408	1,640,439	14,962	3,255,401
September 2023	2,100,000	2,557,916	363,639	1,018,408	1,903,147	14,962	4,018,109
October 2023	2,100,000	2,557,916	369,766	1,018,408	1,909,274	14,962	4,024,236
November 2023	2,100,000	2,557,916	398,924	1,018,408	1,938,432	14,962	4,053,394
December 2023	2,100,000	2,557,916	431,206	1,018,408	1,970,714	14,962	4,085,676
January 2024	2,100,000	2,557,916	482,587	1,018,408	2,022,095	14,962	4,137,057
February 2024	2,100,000	2,557,916	537,871	1,018,408	2,077,379	14,962	4,192,341
March 2024	2,100,000	2,557,916	579,817	1,018,408	2,119,325	14,962	4,234,287
Twelve Months Total	22,700,000	29,319,992	5,090,502	12,220,896	22,189,598	179,544	45,069,142
13 month average over the year	1,870,833	2,431,874	415,000	1,018,408	1,828,467	14,962	3,714,262
Capitalization Ratios	50.4%				49.2%	0.4%	100.0%
Capitalization Ratios for Ratesetting	49.6%				50.0%	0.4%	100.0%
Cost Rates	4.14%				10.15%	2.45%	
Return Components	**2.05%**				**5.08%**	**0.01%**	**7.14%**

Moody's and S&P credit metric commentary (please scroll down)
KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID

Extract from Moody's report in April 2019:



Extract from Moody's report in April 2019:

Rating outlook

KEDLI's CFO pre-WC/debt may fall below the high teens, in percentage terms, as a result of factors including US tax reforms. The stable outlook reflects our expectation that, following the approval of a new rate plan, KEDLI will be able to achieve CFO pre-WC/debt trending towards the high-teens in percentage terms.

Factors that could lead to a downgrade

» CFO pre-WC/debt consistently below the high teens

» Decrease in the New York Public Services Commission's (NYPSC) overall supportiveness

» Any rating downgrade would also take into consideration the credit quality of the wider National Grid group

KEDLI credit metric projections

Business plan projections based on initial rate case filing with the PSC:

CFO pre-WC to debt:

Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
17.42%	17.87%	18.95%	18.71%	18.31%	17.78%

National Grid commentary:

Moody's are indicating that they expect CFO pre-WC/debt to trend above the mid-teens for KEDLI, towards the high-teens. If metrics trend at or below the mid-teens, KEDLI could be at risk of a further downgrade. The current requests to the PSC in the rate filing ensure that KEDLI has sufficient cashflow to maintain its current ratings.

Extract from S&P report in September 2018:

Financial Risk: Significant

We assess KGE's financial measures using our medial volatility table, reflecting the company's low-risk regulated gas distribution operations and effective management of regulatory risk. Our base-case scenario assumptions include: generally flat load growth, U.S. corporate tax reform, the company's three-year rate increase, a future rate increase, and capital spending averaging about $350 million annually. As such, we expect the company's financials will remain within the higher half of the range for the significant financial risk profile category. Specifically, we expect FFO to debt to average about 18%-22%.

KEDNY credit metric projections

Business plan projections based on initial rate case filing with the PSC:

FFO to debt:

Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
17.51%	18.04%	19.74%	19.41%	18.94%	18.36%

National Grid commentary:

S&P are indicating that they expect FFO/debt to average between 18%-22% going forward. The current requests to the PSC in the rate filing ensure that KEDLI has sufficient cashflow to be within this target and maintain its current ratings.

Impacts of a downgrade to Baa1/BBB+

If ratings were to decline to the Baa1/BBB+ range, we would expect the cost of borrowing to increase by c.15-20bps.
On the anticipated issuances noted in this exhibit, this equates to (based on 17.5bps):

September 2021 issuance	Additional	$ 700,000 p.a
September 2023 issuance	Additional	$ 875,000 p.a

In the long term, if the additional costs were to be applied to the whole debt book anticipated as at 2024, we would expect an additional $ 3,675,000 cost for customers per annum

KEDLI

KEYSPAN GAS EAST CC

One-Year Rate Plan

	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.37%	4.06%	2.09%
Customer Deposits	0.63%	2.45%	0.02%
Common Equity	48.00%	9.65%	4.63%
Total	100.00%		6.74%

Four-Year Rate Plan (ROE includes stay-out premium, forecasted cost of debt)

	Rate Year (FY21)			Data Year 1 (FY22)			Data Year 2 (FY23)			Data Year 3 (FY24)		
	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.37%	4.06%	2.09%	50.46%	4.15%	2.09%	49.54%	4.15%	2.06%	49.60%	4.14%	2.05%
Customer Deposits	0.63%	2.45%	0.02%	0.54%	2.45%	0.01%	0.46%	2.45%	0.01%	0.40%	2.45%	0.01%
Common Equity	48.00%	10.15%	4.87%	49.00%	10.15%	4.97%	50.00%	10.15%	5.08%	50.00%	10.15%	5.08%
Total	100.00%		6.98%	100.00%		7.07%	100.00%		7.15%	100.00%		7.14%

KEYSPAN GAS EAST CORPORATION d/b/a NATIONAL GRID
SOURCES AND USES OF FUNDS STATEMENT AND CREDIT METRICS
($000)

		Rate Year Ending 3/31/21	Data Year Ending 3/31/22	Data Year Ending 3/31/23	Data Year Ending 3/31/24
Sources of Funds					
Internal					
Net Income		146,571	176,602	195,560	205,579
Depreciation & Amortization		131,442	137,792	144,410	151,680
Deferred Taxes		55,888	67,338	66,705	63,888
Changes in Working Capital / Other		(3,933)	(1,674)	(6,647)	(5,582)
Total Internal Sources		329,968	380,059	400,028	415,565
External					
Equity Issuances		-	250,000	-	300,000
Long-Term Debt		-	400,000	-	500,000
Change in MP Balance (Borrowings)		267,281	-	242,918	-
Total External Sources		267,281	650,000	242,918	800,000
Total Sources of Funds		597,248	1,030,059	642,947	1,215,565
Uses of Funds					
Capital Expenditures		522,248	516,249	542,947	584,587
Reimbursement of Treasury		75,000	-	100,000	-
Redemptions					
Long-Term Debt		-	-	-	-
Change in MP Balance (Repayments)			513,811		630,978
Total Uses of Funds		597,248	1,030,059	642,947	1,215,565
	Mar 2020 Bal.				
MP Balance	(299,706)*	(566,987)	(53,176)	(296,094)	334,884

MP = Money Pool

****Balance reflects the consolidated net debt from Business Plan 2018 and the Estimated Cost of Capital exhibit for the period ending March 31, 2020***

Before the Public Service Commission

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY

Direct Testimony

of

Jonathan Cohen

Dated: April 2019

TABLE OF CONTENTS

I.	Introduction and Qualifications	1
II.	Ratemaking Capital Structure	4
III.	Cost of Debt and Overall Rate of Return	12
IV.	Financial Protections	15
V.	Service Company Asset Recovery Charge	16

1 **I. Introduction and Qualifications**

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

3 A. My name is Jonathan Cohen. My business address is One MetroTech Center, Brooklyn,
4 New York 11201.
5
6 **Q. By whom are you employed and in what position?**

7 A. I am employed by National Grid USA Service Company, Inc. ("Service Company"), a
8 subsidiary of National Grid USA ("National Grid"), as Director of US Treasury, Planning,
9 and Strategy (New York).
10
11 **Q. Please describe your educational background and professional experience.**

12 A. I am a qualified accountant with the Institution for Chartered Accountants in England and
13 Wales and a qualified Treasurer with the Association of Corporate Treasurers. From 2006
14 to 2012, I worked at BDO LLP, an accounting, tax, audit, and consulting services firm. I
15 worked in audit, specializing in financial services companies, including banks, brokers,
16 and fund managers. I joined National Grid in 2012 as a member of the Corporate Banking
17 Group. In that role, I was responsible for managing the bank relationships, including
18 associated borrowings and revolving credit facilities. I was also responsible for analyzing
19 and monitoring National Grid's credit ratings and managing interactions with its debt
20 investors. I joined National Grid's Debt Capital Markets group in 2015, participating in
21 public bond issuances and managing the associated currency and interest rate risks. I also
22 participated in the sale of significant assets in one of National Grid plc's largest operating
23 companies in the United Kingdom. I began my current position in 2017, where I am

1 focused on business partnering to determine the efficiency of operations and obtain
2 identified value opportunities. In my current position, I am familiar with the financing
3 activities of The Brooklyn Union Gas Company d/b/a National Grid NY ("KEDNY" or the
4 "Company").
5
6 **Q. What is the purpose of your testimony?**
7 A. The purpose of my testimony is to present and support KEDNY's proposed capital
8 structure and overall cost of capital in this proceeding. My testimony provides information
9 for the test year ended December 31, 2018 ("Historic Test Year"), the forecast year ending
10 March 31, 2021 ("Rate Year"), and the years ending March 31, 2022 ("Data Year 1"),
11 March 31, 2023 ("Data Year 2"), and March 31, 2024 ("Data Year 3") (collectively "Data
12 Years"). In addition, I will discuss KEDNY's proposal to continue the currently effective
13 financial protection provisions adopted by the New York State Public Service Commission
14 ("Financial Protections"). Finally, I discuss and support the cost of capital component
15 included in the service company asset recovery charge that is charged to affiliates, such as
16 KEDNY, to recover the costs of shared assets financed and owned by Service Company.
17
18 **Q. Do you sponsor any exhibits as part of your testimony in this proceeding?**
19 A. Yes. Schedule 1 of Exhibit __ (JC-1) sets forth KEDNY's cost of long-term debt. Schedule
20 2 contains the projected capitalization and weighted average cost of capital that is proposed
21 to be adopted for KEDNY in this proceeding. Schedule 3 sets forth an analysis of
22 KEDNY's credit metric projections. Schedule 4 sets forth KEDNY's weighted cost of
23 capital for both the Rate Year and for the term of a multi-year rate plan. Schedule 5 sets

forth a forecast sources and uses of funds statement. These exhibits were prepared or compiled under my supervision and direction.

Q. What is the weighted average cost of capital that you are recommending be adopted for KEDNY in this proceeding?

A. KEDNY's proposed Rate Year weighted average cost of capital, as shown on Schedule 4, of Exhibit __ (JC-1), is 6.76 percent. This overall rate of return is based on the following capitalization ratios and cost rates:

Table 1: One-Year Weighted Cost of Capital

	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.57%	4.11%	21.12%
Customer Deposits	0.43%	2.45%	0.01%
Common Equity	48.00%	9.65%	4.63%
Total	100.00%		6.76%

If rates were to be established in a multi-year settlement in this proceeding, the Company proposes the following rates of return, including a stay-out premium on its cost of equity, as shown on Schedule 4 of Exhibit __ (JC-1).

Table 2: Multi-Year Weighted Cost of Capital

	Rate Year (FY21)			Data Year 1 (FY22)			Data Year 2 (FY23)			Data Year 3 (FY24)		
	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.57%	4.11%	2.12%	50.61%	4.11%	2.08%	49.62%	4.11%	2.04%	49.68%	4.16%	2.06%
Customer Deposits	0.43%	2.45%	0.01%	0.39%	2.45%	0.01%	0.38%	2.45%	0.01%	0.32%	2.45%	0.01%
Common Equity	48.00%	10.15%	4.87%	49.00%	10.15%	4.97%	50.00%	10.15%	5.08%	50.00%	10.15%	5.08%
Total	100.00%		7.00%	100.00%		7.06%	100.00%		7.13%	100.00%		7.15%

In calculating the capitalization ratios shown above, all of the goodwill recorded on KEDNY's books was excluded from its total capitalization and common equity balances.

1 **II. <u>Ratemaking Capital Structure</u>**

2 **Q. What capital structure does KEDNY propose to use for ratemaking purposes in this**
3 **proceeding?**

4 A. For a utility that is part of a holding company structure, New York State Public Service
5 Commission ("Commission") precedent supports setting rates using the utility's stand-
6 alone capital structure where the utility can demonstrate that it is financially insulated from
7 its parent and its capital structure is reasonable and in line with its own financial and
8 business risks. KEDNY is proposing for ratemaking purposes to use a capital structure
9 that contains 48 percent common equity for the Rate Year. However, as shown in the table
10 above, should this proceeding result in a settlement where rates are established for multiple
11 years, KEDNY proposes that the capital structure should reflect 49 percent common equity
12 in Data Year 1 and 50 percent common equity in Data Years 2 and 3.
13
14 KEDNY believes an increase in common equity in the Data Years is appropriate given the
15 interest of maintaining its credit ratings and achieving continued favorable financing for
16 the benefit of customers. KEDNY's cash flow metrics have been declining over the last
17 few years and it is important that the rates established in this proceeding ensure that those
18 metrics do not continue to decline further. As discussed more fully below, the credit rating
19 agency Moody's Investor Services, Inc. ("Moody's") has reviewed the Company's
20 business and financial forecasts and does not envision cash flow generation to improve in
21 the medium term, citing the impact of the passage of the Tax Cuts and Jobs Act of 2017
22 ("Tax Reform Act") and environmental remediation spending as two main contributing
23 factors. Higher common equity will improve cash generation during a period when

1 Moody's sees limited prospects for improvement, reducing risks of credit rating
2 downgrades.
3 Moody's has recognized that changes in utility capital structures to reflect more equity
4 could act as an offset to negative cash flow impacts. It is important that the rates established
5 in this proceeding ensure that KEDNY's cash flow metrics do not decline to a level that
6 would not support its current A3 rating.
7
8 **Q. Is KEDNY part of a holding company corporate structure?**
9 A. Yes. KEDNY is indirectly owned by National Grid, which is owned by National Grid plc,
10 the ultimate parent of KEDNY.
11
12 **Q. Is KEDNY financially insulated from National Grid plc?**
13 A. Yes. KEDNY is financially insulated from National Grid plc, and this insulation is
14 recognized by the financial marketplace. Illustrating this point, in its February 2018 ratings
15 report on KEDNY, Moody's explained that:

16 …the strong ring-fencing provisions applicable to New York
17 utilities reduces the potential for debt to be pushed down into
18 KEDNY. In particular, we view the explicit leverage restriction for
19 KEDNY (to maintain a debt to capitalization ratio of less than 56%)
20 as providing the greatest credit support at the current rating level.
21 This provision compares favorably against other New York utilities
22 within the NG group. Additional ring-fencing provisions imposed
23 by the NYSPC for KEDNY that we view as credit supportive
24 include: (1) the "special preferred share" provision that reduces the
25 probability of bankruptcy in a distressed situation and (2) the
26 requirement for KEDNY to hold an investment grade rating.

27 Similarly, in its September 2018 report on KEDNY, Standard & Poor's ("S&P") stated
28 that:

1 We assess the group status of BUG ["Brooklyn Union Gas" aka
2 "KEDNY"] as core to National Grid PLC. At the same time, we
3 assess BUG as insulated, with existing insulation measures
4 supporting a one-notch separation between the subsidiary and its
5 parent. Key insulating measures include:

6 • Prohibition of dividend distributions if the company does not
7 maintain investment grade credit ratings with at least two of
8 the three major ratings agencies.

9 • Prohibition of dividend increases and payments if the
10 company's debt-to-capital ratio exceeds a certain amount.

11 • A golden share whose vote is required to file the utility into
12 a voluntary bankruptcy.

13 • Clear economic and strategic incentive from the parent to
14 maintain BUG's financial strength.

15 KEDNY issues debt on a stand-alone basis and has a credit rating separate from National
16 Grid plc and its affiliates. Specifically, while KEDNY has senior unsecured ratings of A3,
17 A-, and A- from Moody's, S&P, and Fitch Ratings, Inc. ("Fitch"), respectively, Moody's,
18 S&P, and Fitch rate National Grid plc as Baa1, BBB+, and BBB+, respectively. Moreover,
19 KEDNY has distinct business risks from National Grid plc. KEDNY operates a gas
20 distribution business in downstate New York, whereas National Grid plc is an international
21 energy company with operations in the United Kingdom and the US, and operates in an
22 array of markets and lines of business.

23

24 **Q. On average, did KEDNY's capital structure include at least 48 percent common**
25 **equity in the Historic Test Year?**

26 A. Yes. KEDNY's average capital structure during the Historic Test Year consisted of at least
27 48 percent common equity.

28

1 **Q. Please describe KEDNY's current credit ratings.**

2 A. KEDNY has long-term issuer ratings of A3, A-, and BBB+ from Moody's, S&P, and Fitch,
3 respectively. KEDNY's senior unsecured debt ratings are A3, A-, and A- from Moody's,
4 S&P, and Fitch, respectively. In November 2014, Fitch downgraded KEDNY's long-term
5 issuer rating. In October 2015, S&P downgraded KEDNY, lowering its issuer credit and
6 senior unsecured debt ratings one notch from A to A-. In January 2018, Moody's issued a
7 negative ratings outlook for KEDNY alongside several other utilities, including the
8 Company's affiliates KEDLI and Niagara Mohawk Power Corporation ("Niagara
9 Mohawk"), following the enactment of the Tax Reform Act. National Grid's New York
10 utilities were subsequently downgraded to A3 from A2 following Moody's annual reviews
11 in February and March 2019.

12

13 **Q. Are KEDNY's current credit ratings consistent with the credit rating goals outlined**
14 **in the "Generic Financing Proceeding" that is often referred to by the Commission in**
15 **determining the cost of capital in utility rate proceedings?**

16 A. What is referred to as the "Generic Financing Proceeding" – Case 91-M-0509 – resulted in
17 a 1994 Recommended Decision that, although never formally adopted by the Commission,
18 has often been referenced by the Commission when determining the cost of capital to be
19 used in setting rates. The Recommended Decision in the Generic Financing Proceeding
20 proposed that the "A" rating should continue to be the long-term target for utilities and that
21 the Commission should continue to offer utilities ratemaking support for an "A" rating.
22 The Commission recently reaffirmed the importance of strong credit ratings for utilities in

1 Case 17-M-0815, which considered the impact of the Tax Reform Act on utilities, finding
2 that "strong investment grade credit ratings benefit both utilities and their customers."
3 KEDNY's current ratings are in the "A" rating range, but any further downgrades would
4 move KEDNY into the "Baa/BBB" rating range. KEDNY has limited headroom to
5 maintain an A3 rating under cashflow metric guidance released by Moody's in April 2019,
6 highlighting the importance of credit enhancing provisions like a higher equity percentage
7 in the Company's ratemaking capital structure.
8
9 **Q. Do customers benefit from "A" credit ratings?**
10 A. Yes. Higher-rated utilities can issue debt at lower costs and on better terms, which benefits
11 customers by lowering the overall rate of return charged to them. The ability of KEDNY
12 to access the debt markets and/or obtain credit on favorable terms may also be affected if
13 KEDNY's rating falls below the "A" range as certain debt investors do not invest in the
14 debt of non-A entities.
15
16 **Q. What is the impact of the recent downgrade by Moody's?**
17 A. While difficult to quantify, the downgrade from Moody's in February 2019 from A2 to A3
18 will likely result in modestly higher borrowing costs for customers.
19
20 **Q. Will KEDNY's proposed capital structure and overall rate of return support its**
21 **current credit ratings?**
22 A. While I cannot speak for the rating agencies, an analysis of the metrics that the agencies
23 themselves calculate, indicates that if the Commission authorizes the rate relief requested

1 by KEDNY in this proceeding, then KEDNY will still have tight metrics under the current
2 rating guidelines. In the latest credit report published in April 2019, Moody's noted that a
3 key contributing factor to a further downgrade would be if "CFO pre-WC/debt that no
4 longer appears likely to trend toward the mid-teens in percentage terms in the near term,
5 and to the high teens over the longer term." CFO pre-WC/debt is the ratio of cash flow
6 from operations before consideration of working capital to the Company's debt. There is
7 little headroom in credit metrics for further reduction in cash flow as compared to what is
8 being proposed in the Company's rate filing herein due to KEDNY's planned capital
9 expenditures and the negative cashflow impacts from the Tax Reform Act. The analysis
10 of the effect of the proposed capital structure and rate of return on KEDNY's credit ratings
11 is shown in Schedule 3 of Exhibit __ (JC-1).

12

13 **Q. Could the Commission's decision in this proceeding adversely impact KEDNY's**
14 **ability to maintain its current credit ratings?**

15 A. Yes. Failure to authorize a reasonable and achievable return-on-equity ("ROE") or
16 adoption of a revenue requirement that fails to provide support for KEDNY's credit metrics
17 could put it at risk of further credit downgrades to the detriment of customers. Rating
18 agencies indicate that they are particularly focused on cash flow metrics, with the Moody's
19 report covering the downgrade of KEDNY in February 2019, stating:

20 Today's rating action reflects the persistent weakness of KEDNY's
21 key credit metrics and Moody's assessment that there is limited
22 likelihood of a recovery over the medium term. KEDNY's ratio of
23 cash from operations before working capital (CFO pre-WC) to debt
24 was 9.8% in the year to March 2018 and is expected to remain weak
25 for the assigned rating.

1 Moody's also suggests that KEDNY's credit metrics could "come under significant
2 pressure from increasing expenditure on environmental remediation that will not be
3 immediately recovered through revenues," and that regulatory lag for environmental
4 recoveries could result in weaker cash flows and higher leverage for several years. In their
5 latest credit report in March 2019, following the downgrade of KEDNY, Moody's also
6 commented that:

7 KEDNY's current rate plan contains an SIR Recovery Surcharge
8 mechanism that would allow it to begin recovering excess SIR
9 expense once cumulative spend exceeds $25 million, a threshold
10 that has not yet been reached. However, recovery in any year is
11 limited to 2.0 percent of revenue, around $30 million-$35 million.
12 KEDNY's next rate plan may provide for immediate recovery of
13 future costs as they are incurred, which would be credit positive. If,
14 however, it instead provides a mechanism similar to the current SIR
15 Recovery Surcharge, there may be a significant lag between pending
16 and eventual recovery. The impact of this lag will depend on the
17 ultimate cost of the projects and the profile of spending, but we
18 estimate that it could reduce KEDNY's CFO pre-WC to debt by 2-3
19 percentage points in the early 2020s.

20 As discussed by KEDNY witness Charles F. Willard, the Company is proposing to increase
21 its recovery of SIR costs in the Rate Year and Data Years. Moody's recent pronouncement
22 highlights the critical importance of this proposal to KEDNY's ability to maintain its
23 current credit ratings.

24

25 **Q. Are there any other factors that could impact KEDNY's credit ratings?**

26 A. Yes. The Tax Reform Act has adversely affected KEDNY's cash flow and played a
27 significant role in the downgrade of KEDNY from A2 to A3 by Moody's in February 2019.
28 The reduction of the maximum corporate tax rate from 35 percent to 21 percent and the
29 new rules regarding bonus depreciation adversely affect KEDNY's cash flow. The
30 reduction in the corporate tax rate will also require KEDNY to return to customers the

1 difference between taxes that have been collected at the 35 percent tax rate and the new 21
2 percent tax rate. With regard to the impacts of the Tax Reform Act, Moody's commented
3 in February 2019:

> 4 This assessment takes into account the impact the New York Public
> 5 Service Commission's order of August 2018, reflecting tax reforms
> 6 in the United States, which will reduce KEDNY's revenue starting
> 7 in January 2019 from the level agreed in its current rate plan.
> 8 Revenue allowances will also be lower from January 2021,
> 9 compared to previous expectations, due to lower recovery of
> 10 deferred taxes.

11 The cash flow issues created by the Tax Reform Act and their resulting potential impact
12 on KEDNY's credit metrics and ratings make it particularly important that the Commission
13 mitigate the downward pressure by authorizing an equity ratio that is sufficient to support
14 KEDNY's current investment grade rating.

15

16 **Q. Has the Commission acknowledged the challenges to utility creditworthiness created**
17 **by the Tax Reform Act?**

18 A. Yes. In the Commission's "Order Determining Rate Treatment of Tax Changes" in Case
19 17-M-0815, the Commission acknowledged the challenges that the Tax Reform Act
20 presented for the credit metrics and cash flow of New York utilities, specifically noting
21 that cash flow concerns arising from the Tax Reform Act resulted in negative ratings
22 outlooks for New York utilities. Additionally, in the Commission's "Order Adopting
23 Terms of Joint Proposal and Establishing Electric and Gas Rate Plan" in Central Hudson's
24 recent rate case (Cases 17-E-0459 and 17-G-0460), the Commission approved the Joint
25 Proposal's use of equity ratios of 49 percent and 50 percent in Rate Years 2 and 3, stating
26 that

1 [g]iven the degree of uncertainty regarding the ultimate impact of
2 the Tax Act on the Company's creditworthiness, we find the JP's
3 use of higher common equity ratios in Rate Year 2 and Rate Year 3
4 to be a responsible and reasonable measure to forestall, or at least
5 diminish, the prospect of higher future borrowing costs attributable
6 to a diminution in Central Hudson's creditworthiness over the next
7 several years.
8

9 **Q. What have other jurisdictions done to offset the negative cashflow impact of Tax**
10 **Reform Act?**

11 A. Moody's noted in a June 2018 report that Georgia and Alabama increased authorized equity
12 ratios following passage of the Tax Reform Act, which showed the supportive nature of
13 these jurisdictions. This was noted as a credit positive.
14

15 **Q. How does a higher equity percentage improve credit metrics?**

16 A. As shown on Schedule 3 of Exhibit __ (JC-1) Moody's and S&P have set cash flow metric
17 expectations for KEDNY. The current rate filing request produces cashflow metrics
18 consistent with these guidelines, albeit without a great deal of headroom. One of the
19 contributing factors of meeting these cashflow guidelines will be the higher equity ratio in
20 years following the Rate Year in the event a multi-year rate plan is authorized.
21

22 **III. <u>Cost of Debt and Overall Rate of Return</u>**

23 **Q. Please outline the planned financing activity reflected in the projected costs of capital**
24 **for the Rate Year and Data Years.**

25 A. On August 29, 2018, KEDNY filed a financing petition (Case 18-G-0559) requesting
26 multi-year authority to issue new long-term debt securities. On February 8, 2019, the

1 Commission issued an Order authorizing KEDNY to issue and sell up to $1.4 billion of
2 new long-term debt for the following purposes specified in the Order:

3 (a) the acquisition of property, the construction, completion,
4 extension or improvement of [KEDNY's] facilities or the
5 improvement or maintenance of the Company's service within New
6 York State (to the extent such expenditures exceed funds originating
7 from credits to the accumulated provision for depreciation, net
8 salvage and accumulated deferred income taxes); (b) for the
9 discharge or lawful refunding of the Company's obligations; or (c)
10 to reimburse [KEDNY's] treasury for equivalent moneys expended
11 for those purposes prior to March 31, 2019, provided that the
12 Company has kept its accounts and vouchers of such expenditures
13 in such a manner as to enable us to ascertain the amount of moneys
14 so expended and the purposes for which such expenditures
15 were made.
16
17 With this financing authority, KEDNY issued $1 billion of long term debt in February 2019
18 ($550 million in a ten year tenor and $450 million in a thirty year tenor). KEDNY currently
19 plans to issue an additional $400 million of long-term debt in March 2021 and an additional
20 $500 million of long-term debt in March 2023. These issuances will reduce/repay short-
21 term debt, and fund KEDNY's capital expenditure program. The issuance of additional
22 debt will not prevent KEDNY from maintaining the capital structure proposed in this
23 testimony. The projected costs of capital assume that KEDNY will issue new long-term
24 debt as ten-year and thirty-year senior unsecured debt at forecast interest rates of 3.83
25 percent in March 2021 and 4.46 percent in March 2023, respectively. KEDNY assumes
26 that the costs to issue this debt will be 0.510 percent and 0.935 percent, respectively, of the
27 principal amounts issued and that these costs will be amortized over the lives of the debt.
28

1 **Q. How were the cost rates of long-term debt for KEDNY shown on Exhibit __ (JC-1),**
2 **Schedule 4 derived?**
3 A. The long-term debt component of KEDNY's capital structure consists of fixed-rate taxable
4 bonds, all of which support gas investments. Included in the cost of these bonds are the
5 direct coupon expense, the amortization of debt discounts or premiums, and the
6 amortization of issuance costs where applicable.
7
8 **Q. How were the balances and the cost rates for customer deposits shown on Exhibit __**
9 **(JC-1), Schedule 4 determined?**
10 A. KEDNY's forecast balances of customer deposits were assumed to remain equal to the
11 actual monthly balance as of December 31, 2018, the end of the Historic Test Year. In
12 Case 18-M-0611, the Commission set the customer deposits rate for investor-owned
13 utilities to be 2.45 percent, effective January 1, 2019.
14
15 **Q. What cost rate does KEDNY propose for the common equity component of the capital**
16 **structure?**
17 A. KEDNY proposes a cost of common equity of 9.65 percent for the Rate Year that is within
18 the range supported by Company Witness Bulkley in her testimony. This proposed cost of
19 equity is at the low end of Ms. Bulkley's recommended range of reasonable returns for her
20 proxy group. If a multi-year settlement is reached, a 10.15 percent cost of common equity
21 should be used to reflect the appropriate stay-out premium recommended by Ms. Bulkley
22 for all years covered by the settlement.
23

1 **Q. Does KEDNY propose to update its projections of both new debt issuances and cost**
2 **rates later in this proceeding?**
3 A. Yes. While KEDNY has provided its best forecast of the cost of planned debt issuances
4 and their specific timing, forecasts and assumptions can change over time. KEDNY will
5 endeavor to time its debt issuances to secure the most favorable terms, given capital market
6 conditions, in the interest of minimizing costs for customers. As such, KEDNY will
7 provide updated projections of the cost of new long-term debt during the rate case process
8 and provide the actual terms and costs of any debt issuances completed during the course
9 of the rate case.
10
11 **IV. <u>Financial Protections</u>**
12 **Q. Is KEDNY presently subject to any financial protection provisions adopted by the**
13 **Commission?**
14 A. Yes. The Commission has previously adopted Financial Protection provisions that
15 generally address the payment of dividends and the components of KEDNY's capital
16 structure.
17
18 **Q. Does KEDNY believe that the Financial Protections should remain in effect?**
19 A. Yes. The current Financial Protections should continue without modification.
20

1 **V. <u>Service Company Asset Recovery Charge</u>**

2 **Q. What is the service company asset recovery charge?**

3 A. Service Company owns or leases a number of shared assets that are used either by Service
4 Company employees to provide services to affiliates or are used by the affiliates on a shared
5 basis. These are primarily shared office facilities and information technology equipment
6 and software. When Service Company finances and owns the shared assets, it charges the
7 affiliates an asset recovery charge based on a pre-tax return on the asset (net of deferred
8 taxes) and booked depreciation expense. This charge is recovered in KEDNY's rent
9 expense, as set forth in the Revenue Requirements Panel's testimony.

10

11 **Q. What cost of equity does KEDNY propose to use for the service company asset**
12 **recovery charge?**

13 A. KEDNY proposes to use the same cost of equity for the service company asset recovery
14 charge as for its cost of equity - *i.e.,* 9.65 percent or 10.15 percent for a four-year rate plan.

15

16 **Q. What overall weighted average cost of capital does KEDNY propose to use for the**
17 **service company asset recovery charge and how was it derived?**

18 A. KEDNY proposes to use an assumed 50/50 long-term debt/equity capital structure and the
19 actual cost of long-term debt for the service company asset recovery charge. The table
20 below illustrates the overall weighted average cost of capital for the service company asset
21 recovery charge, assuming KEDNY's requested 9.65 percent cost of equity.

Service Company	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	50.00%	4.2900%	2.15%
Common Equity	50.00%	9.6500%	4.83%
Total	100.00%		6.98%

1

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

3 A. Yes, it does.

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending December 31, 2018
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
NYSERDA Variable 2005 Series B Due 2025	0.983%	11/1/2005	3/23/2018	55,000	541	273	814	1.48%
NYSERDA Variable 1991 Series D Due 2026	0.601%	7/1/1991	3/26/2018	50,000	301	128	429	0.86%
NYSERDA Variable 1997 Series Due 2020 A-1	0.619%	1/16/1997	3/29/2018	75,000	465	425	890	1.19%
NYSERDA Variable 1997 Series Due 2020 A-2	0.547%	1/16/1997	3/23/2018	50,000	274	235	509	1.02%
Senior Unsecured Debt due 2026	3.407%	3/7/2016	3/10/2026	500,000	17,041	210	17,251	3.45%
Senior Unsecured Debt due 2046	4.504%	3/7/2016	3/10/2046	500,000	22,526	128	22,654	4.53%
Senior Unsecured Debt due 2048	4.273%	3/9/2018	3/15/2048	650,000	21,994	147	22,141	3.41%
				1,880,000	**63,141**	**1,548**	**64,689**	**3.44%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:		Original Maturity	Actual Maturity					
NYSERDA Variable 2005 Series B Due 2025	0.983%	6/1/2025	3/23/2018	(55,000)			-	0.00%
NYSERDA Variable 1991 Series D Due 2026	0.601%	7/1/2026	3/26/2018	(50,000)			-	0.00%
NYSERDA Variable 1997 Series Due 2020 A-1	0.619%	12/1/2020	3/29/2018	(75,000)			-	0.00%
NYSERDA Variable 1997 Series Due 2020 A-2	0.547%	12/1/2020	3/23/2018	(50,000)			-	0.00%
New Issuances:								
Total Long-Term Debt				**1,650,000**	**63,141**	**1,548**	**64,689**	**3.92%**

Notes

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2021
($000)

3/31/2021

LONG-TERM DEBT		RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026		3.407%	3/7/2016	3/10/2026	500,000	17,041	210	17,251	3.45%
Senior Unsecured Debt due 2046		4.504%	3/7/2016	3/10/2046	500,000	22,526	128	22,654	4.53%
Senior Unsecured Debt due 2048		4.273%	3/9/2018	3/15/2048	650,000	27,781	180	27,961	4.30%
					1,650,000	**67,348**	**519**	**67,867**	**4.11%**
Post Test-Year / Pre-Rate Year Repayments and Issuances									
Repayments:									
New Issuances:									
Senior Unsecured Debt due 2029		3.865%	3/4/2019	3/4/2029	550,000	21,264	327	21,590	3.93%
Senior Unsecured Debt due 2049		4.487%	3/4/2019	3/4/2049	450,000	20,198	89	20,287	4.51%
Senior Unsecured Debt due 2029	NOTE 1	3.830%	3/1/2021	3/1/2031	32,877	1,265	17	1,282	3.90%
Total Long-Term Debt					**2,682,877**	**110,074**	**952**	**111,025**	**4.11%**

Notes
NOTE 1: This rate has been calculated using the recent KEDNY issuance in February 2019. From this we use the 117bps spread for a ten year issuance and then add the US 10 year Treasury forward rate for March 1st 2021,

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2022
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	3.407%	3/7/2016	3/10/2026	500,000	17,041	210	17,251	3.45%
Senior Unsecured Debt due 2046	4.504%	3/7/2016	3/10/2046	500,000	22,526	128	22,654	4.53%
Senior Unsecured Debt due 2048	4.273%	3/9/2018	3/15/2048	650,000	27,781	180	27,961	4.30%
Senior Unsecured Debt due 2029	3.865%	3/4/2019	3/4/2029	550,000	21,264	89	21,353	3.88%
Senior Unsecured Debt due 2049	4.487%	3/4/2019	3/4/2049	450,000	20,198	327	20,524	4.56%
Senior Unsecured Debt due 2029	3.830%	3/1/2021	3/1/2031	400,000	15,326	203	15,529	3.88%
				3,050,000	**124,135**	**1,138**	**125,272**	**4.11%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Total Long-Term Debt				**3,050,000**	**124,135**	**1,138**	**125,272**	**4.11%**

Notes

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2023
($000)

3/31/2023

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	3.407%	3/7/2016	3/10/2026	500,000	17,041	210	17,251	3.45%
Senior Unsecured Debt due 2046	4.504%	3/7/2016	3/10/2046	500,000	22,526	128	22,654	4.53%
Senior Unsecured Debt due 2048	4.273%	3/9/2018	3/15/2048	650,000	27,781	180	27,961	4.30%
Senior Unsecured Debt due 2029	3.865%	3/4/2019	3/4/2029	550,000	21,264	89	21,353	3.88%
Senior Unsecured Debt due 2049	4.487%	3/4/2019	3/4/2049	450,000	20,198	327	20,524	4.56%
Senior Unsecured Debt due 2029	3.830%	3/1/2021	3/1/2031	400,000	15,326	203	15,529	3.88%
				3,050,000	**124,135**	**1,138**	**125,272**	**4.11%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Senior Unsecured Debt due 2029	4.460% NOTE 1	3/1/2023	3/1/2053	41,096	1,839	21	1,860	4.53%
Total Long-Term Debt				**3,091,096**	**125,973**	**1,159**	**127,132**	**4.11%**

Notes
NOTE 1: This rate has been calculated using the recent KEDNY issuance in February 2019. From this we use the 142bps spread for a thirty year issuance and then add the US 30 year Treasury forward rate for March

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
WEIGHTED AVERAGE COST OF LONG-TERM DEBT
For 12 months period Ending March 31, 2024
($000)

LONG-TERM DEBT	RATE %	ISSUANCE DATE	MATURITY DATE	PRINCIPAL AMOUNT	ANNUAL INTEREST & FEES	ANNUAL AMORTIZATION DEBT DISCOUNT AND EXPENSE	TOTAL INTEREST AND ANNUAL AMORTIZATION	EFFECTIVE RATE
Senior Unsecured Debt due 2026	3.407%	3/7/2016	3/10/2026	500,000	17,041	210	17,251	3.45%
Senior Unsecured Debt due 2046	4.504%	3/7/2016	3/10/2046	500,000	22,526	128	22,654	4.53%
Senior Unsecured Debt due 2048	4.273%	3/9/2018	3/15/2048	650,000	27,781	180	27,961	4.30%
Senior Unsecured Debt due 2029	3.865%	3/4/2019	3/4/2029	550,000	21,264	89	21,353	3.88%
Senior Unsecured Debt due 2049	4.487%	3/4/2019	3/4/2049	450,000	20,198	327	20,524	4.56%
Senior Unsecured Debt due 2029	4.070%	3/1/2021	3/1/2031	400,000	16,286	203	16,489	4.12%
Senior Unsecured Debt due 2029	4.210%	3/1/2023	3/1/2053	500,000	21,056	254	21,310	4.26%
				3,550,000	**146,151**	**1,391**	**147,542**	**4.16%**
Post Test-Year / Pre-Rate Year Repayments and Issuances								
Repayments:								
New Issuances:								
Total Long-Term Debt				**3,550,000**	**146,151**	**1,391**	**147,542**	**4.16%**

Notes

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
ESTIMATED COST OF CAPITAL (RATE YEAR)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2021

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of December 31, 2018	1,650,000	2,204,706	1,110,352	1,451,140	1,863,918	23,413	3,537,331
Changes to December 31, 2019	1,000,000	500,000	150,277	-	650,277	-	1,650,277
Balance as of December 31, 2019	2,650,000	2,704,706	1,260,629	1,451,140	2,514,195	23,413	5,187,608
Changes to March 31, 2020	0	0	121,594	0	121,594	0	121,594
Balance as of March 31, 2020	2,650,000	2,704,706	1,382,223	1,451,140	2,635,789	23,413	5,309,202
April 2020	2,650,000	2,704,706	1,406,909	1,451,140	2,660,475	23,413	5,333,888
May 2020	2,650,000	2,704,706	1,419,555	1,451,140	2,673,121	23,413	5,346,534
June 2020	2,650,000	2,704,706	1,415,073	1,451,140	2,668,639	23,413	5,342,052
July 2020	2,650,000	2,704,706	1,406,780	1,451,140	2,660,346	23,413	5,333,759
August 2020	2,650,000	2,704,706	1,400,630	1,451,140	2,654,196	23,413	5,327,609
September 2020	2,650,000	2,704,706	1,390,636	1,451,140	2,644,202	23,413	5,317,615
October 2020	2,650,000	2,704,706	1,396,102	1,451,140	2,649,668	23,413	5,323,081
November 2020	2,650,000	2,704,706	1,420,468	1,451,140	2,674,034	23,413	5,347,447
December 2020	2,650,000	2,704,706	1,460,098	1,451,140	2,713,664	23,413	5,387,077
January 2021	2,650,000	2,704,706	1,517,627	1,451,140	2,771,193	23,413	5,444,606
February 2021	2,650,000	2,704,706	1,574,742	1,451,140	2,828,308	23,413	5,501,721
March 2021	3,050,000	2,704,706	1,622,223	1,451,140	2,875,789	23,413	5,949,202
Twelve Months Total	32,200,000	32,456,472	17,430,842	17,413,679	32,473,635	280,956	64,954,591
13 month average over the year	2,666,667	2,704,706	1,442,570	1,451,140	2,696,136	23,413	5,386,216
Capitalization Ratios	49.5%				50.1%	0.4%	100.0%
Capitalization Ratios for Ratesetting	51.6%				48%	0.4%	100.0%
Cost Rates	4.11%				10.15%	2.45%	
Return Components	**2.12%**				**4.87%**	**0.01%**	**7.00%**

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
ESTIMATED COST OF CAPITAL (DATA YEAR 1)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2022

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2021	3,050,000	2,704,706	1,622,223	1,451,140	2,875,789	23,413	5,949,202
April 2021	3,050,000	2,704,706	1,651,949	1,451,140	2,905,515	23,413	5,978,928
May 2021	3,050,000	2,704,706	1,667,177	1,451,140	2,920,743	23,413	5,994,156
June 2021	3,050,000	2,704,706	1,661,780	1,451,140	2,915,346	23,413	5,988,759
July 2021	3,050,000	2,704,706	1,651,794	1,451,140	2,905,360	23,413	5,978,773
August 2021	3,050,000	2,704,706	1,644,388	1,451,140	2,897,954	23,413	5,971,367
September 2021	3,050,000	2,704,706	1,632,354	1,451,140	2,885,920	23,413	5,959,333
October 2021	3,050,000	2,704,706	1,638,936	1,451,140	2,892,502	23,413	5,965,915
November 2021	3,050,000	2,704,706	1,668,277	1,451,140	2,921,843	23,413	5,995,256
December 2021	3,050,000	2,704,706	1,715,997	1,451,140	2,969,563	23,413	6,042,976
January 2022	3,050,000	2,704,706	1,785,271	1,451,140	3,038,838	23,413	6,112,251
February 2022	3,050,000	2,704,706	1,854,048	1,451,140	3,107,614	23,413	6,181,027
March 2022	3,050,000	2,704,706	1,711,223	1,451,140	2,964,789	23,413	6,038,202
Twelve Months Total	36,600,000	32,456,472	20,283,193	17,413,679	35,325,986	280,956	72,206,942
13 month average over the year	3,050,000	2,704,706	1,686,558	1,451,140	2,940,124	23,413	6,013,537
Capitalization Ratios	50.7%				48.9%	0.4%	100.0%
Capitalization Ratios for Ratesetting	50.6%				49.0%	0.4%	100.0%
Cost Rates	4.11%				10.15%	2.45%	
Return Components	**2.08%**				**4.97%**	**0.01%**	**7.06%**

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
ESTIMATED COST OF CAPITAL (DATA YEAR 2)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2023

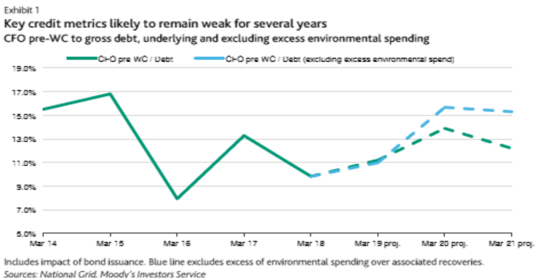
	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2022	3,050,000	2,704,706	1,711,223	1,451,140	2,964,789	23,413	6,038,202
April 2022	3,050,000	2,704,706	1,744,447	1,451,140	2,998,013	23,413	6,071,426
May 2022	3,050,000	2,704,706	1,761,466	1,451,140	3,015,032	23,413	6,088,445
June 2022	3,050,000	2,704,706	1,755,433	1,451,140	3,008,999	23,413	6,082,412
July 2022	3,050,000	2,704,706	1,744,272	1,451,140	2,997,839	23,413	6,071,252
August 2022	3,050,000	2,704,706	1,735,995	1,451,140	2,989,561	23,413	6,062,974
September 2022	3,050,000	2,704,706	1,722,546	1,451,140	2,976,112	23,413	6,049,525
October 2022	3,050,000	2,704,706	1,729,902	1,451,140	2,983,468	23,413	6,056,881
November 2022	3,050,000	2,704,706	1,762,695	1,451,140	3,016,261	23,413	6,089,674
December 2022	3,050,000	2,704,706	1,816,030	1,451,140	3,069,596	23,413	6,143,009
January 2023	3,050,000	2,704,706	1,893,454	1,451,140	3,147,020	23,413	6,220,433
February 2023	3,050,000	2,704,706	1,970,321	1,451,140	3,223,887	23,413	6,297,300
March 2023	3,550,000	3,004,706	2,034,223	1,451,140	3,587,789	23,413	7,161,202
Twelve Months Total	37,100,000	32,756,472	21,670,784	17,413,679	37,013,577	280,956	74,394,533
13 month average over the year	3,070,833	2,717,206	1,792,440	1,451,140	3,058,506	23,413	6,152,753
Capitalization Ratios	49.9%				49.7%	0.4%	100.0%
Capitalization Ratios for Ratesetting	49.6%				50.0%	0.4%	100.0%
Cost Rates	4.11%				10.15%	2.45%	
Return Components	**2.04%**				**5.08%**	**0.01%**	**7.13%**

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
ESTIMATED COST OF CAPITAL (DATA YEAR 2)
AND RATE OF RETURN
($000)
For 12-month period ending March 31, 2024

	Long-Term Debt	Common Stock	Retained Earnings	Less Goodwill	Total Common Equity	Customer Deposits	Total Capitalization
Balance as of March 31, 2023	3,550,000	3,004,706	2,034,223	1,451,140	3,587,789	23,413	7,161,202
April 2023	3,550,000	3,004,706	2,070,635	1,451,140	3,624,201	23,413	7,197,614
May 2023	3,550,000	3,004,706	2,089,288	1,451,140	3,642,854	23,413	7,216,267
June 2023	3,550,000	3,004,706	2,082,676	1,451,140	3,636,243	23,413	7,209,656
July 2023	3,550,000	3,004,706	2,070,444	1,451,140	3,624,010	23,413	7,197,423
August 2023	3,550,000	3,004,706	2,061,373	1,451,140	3,614,939	23,413	7,188,352
September 2023	3,550,000	3,004,706	2,046,632	1,451,140	3,600,198	23,413	7,173,611
October 2023	3,550,000	3,004,706	2,054,695	1,451,140	3,608,261	23,413	7,181,674
November 2023	3,550,000	3,004,706	2,090,635	1,451,140	3,644,201	23,413	7,217,614
December 2023	3,550,000	3,004,706	2,149,088	1,451,140	3,702,655	23,413	7,276,068
January 2024	3,550,000	3,004,706	2,233,943	1,451,140	3,787,509	23,413	7,360,922
February 2024	3,550,000	3,004,706	2,318,188	1,451,140	3,871,754	23,413	7,445,167
March 2024	3,550,000	3,004,706	2,038,223	1,451,140	3,591,789	23,413	7,165,202
Twelve Months Total	42,600,000	36,056,472	25,305,822	17,413,679	43,948,615	280,956	86,829,571
13 month average over the year	3,550,000	3,004,706	2,108,652	1,451,140	3,662,218	23,413	7,235,631
Capitalization Ratios	49.1%				50.6%	0.3%	100.0%
Capitalization Ratios for Ratesetting	49.7%				50.0%	0.3%	100.0%
Cost Rates	4.16%				10.15%	2.45%	
Return Components	**2.06%**				**5.08%**	**0.01%**	**7.15%**

Moody's and S&P credit metric commentary (please scroll down)

Extracts from Moody's report in April 2019:



Rating outlook

KEDNY's CFO pre-WC/debt may remain in the low teens in percentage terms for several years as a result of the lag between anticipated spending on environmental remediation and associated revenue. The stable outlook reflects our expectation that, excluding this effect and once recoveries and spending are more balanced, KEDNY will be able to achieve CFO pre-WC/debt trending towards the mid-teens in percentage terms.

Factors that could lead to a downgrade

» CFO pre-WC/debt that no longer appears likely to trend toward the mid-teens in percentage terms in the near term, and to the high teens over the longer term

» Agreement of rate plans that do not provide for reasonably certain and timely recovery of environmental remediation costs

» Decrease in the New York Public Services Commission's (NYPSC) overall supportiveness

» Any rating downgrade would also take into consideration the credit quality of the wider National Grid group

KEDNY credit metric projections

Business plan projections based on initial rate case filing with the PSC:

CFO pre-WC to debt:

Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
15.47%	14.42%	18.59%	18.94%	18.98%	18.81%

National Grid commentary:

Moody's are indicating that if CFO pre-WC/debt does not trend towards the mid-teens in the short term and to the high teens in the long term, then KEDNY could be at risk of a further downgrade. The current requests to the PSC in the rate filing ensure show that KEDNY can maintain its current ratings, albeit with minimal headroom

Extract from S&P report in September 2018:

Financial Risk: Significant

We assess BUG's financial measures using our medial volatility table, reflecting BUG's low-risk regulated gas distribution operations and effective management of regulatory risk. Our base-case scenario assumptions include: generally flat load growth, U.S. corporate tax reform, the company's three-year rate increase, a future rate increase, and capital spending averaging about $650 million annually. As such, we expect the company's financials will remain within the middle of the range for its financial risk profile category. Specifically, we expect FFO to debt to average about 16%-20%.

KEDNY credit metric projections

Business plan projections based on initial rate case filing with the PSC:

FFO to debt:

Mar-19	Mar-20	Mar-21	Mar-22	Mar-23	Mar-24
15.53%	14.41%	19.14%	19.46%	19.46%	19.26%

National Grid commentary:

S&P are indicating that they expect FFO/debt to average between 16%-20% going forward. The current requests to the PSC in the rate filing show KEDNY is expected to be within this range following new rates.

Impacts of a downgrade to Baa1/BBB+

If ratings were to decline to the Baa1/BBB+ range, we would expect the cost of borrowing to increase by c.15-20bps.
On the anticipated issuances noted in this exhibit, this equates to (based on 17.5bps):

March 2021 issuance	Additional	$	700,000 p.a
March 2023 issuance	Additional	$	875,000 p.a

In the long term, if the additional costs were to be applied to the whole debt book anticipated as at 2024, we would expect an additional $ 6,212,500 cost for customers per annum

KEDNY

One-Year Rate Plan

	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.57%	4.11%	2.12%
Customer Deposits	0.43%	2.45%	0.01%
Common Equity	48.00%	9.65%	4.63%
Total	100.00%		6.76%

Four-Year Rate Plan (ROE includes stay-out premium, forecasted cost of debt)

	Rate Year (FY21)			Data Year 1 (FY22)			Data Year 2 (FY23)			Data Year 3 (FY24)		
	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost	Capitalization Ratio	Cost Rate	Weighted Cost
Long-Term Debt	51.57%	4.11%	2.12%	50.61%	4.11%	2.08%	49.62%	4.11%	2.04%	49.68%	4.16%	2.06%
Customer Deposits	0.43%	2.45%	0.01%	0.39%	2.45%	0.01%	0.38%	2.45%	0.01%	0.32%	2.45%	0.01%
Common Equity	48.00%	10.15%	4.87%	49.00%	10.15%	4.97%	50.00%	10.15%	5.08%	50.00%	10.15%	5.08%
Total	100.00%		7.00%	100.00%		7.06%	100.00%		7.13%	100.00%		7.15%

THE BROOKLYN UNION GAS COMPANY d/b/a NATIONAL GRID NY
SOURCES AND USES OF FUNDS STATEMENT AND CREDIT METRICS
($000)

		Rate Year Ending 3/31/21	Data Year Ending 3/31/22	Data Year Ending 3/31/23	Data Year Ending 3/31/24
Sources of Funds					
Internal					
Net Income		227,722	279,453	311,265	309,303
Depreciation & Amortization		177,026	193,118	207,145	221,582
Deferred Taxes		86,830	106,555	118,685	117,937
Changes in Working Capital / Other		(14,000)	(4,000)	(22,000)	(8,000)
Total Internal Sources		477,578	575,127	615,095	640,822
External					
Equity Issuances		-	-	300,000	-
Long-Term Debt		400,000	-	500,000	-
Change in MP Balance (Borrowings)		-	473,316	-	571,635
Total External Sources		400,000	473,316	800,000	571,635
Total Sources of Funds		877,578	1,048,443	1,415,095	1,212,457
Uses of Funds					
Capital Expenditures		866,227	848,443	844,783	912,457
Reimbursement of Treasury		-	200,000	-	300,000
Redemptions					
Long-Term Debt		-	-	-	-
Change in MP Balance (Repayments)		11,351		570,313	
Total Uses of Funds		877,578	1,048,443	1,415,095	1,212,457
	Mar 2020 Bal.				
MP Balance	526,325*	537,676	64,360	634,673	63,038

MP = Money Pool

****Balance reflects the consolidated net debt from Business Plan 2018 and the Estimated Cost of Capital exhibit for the period ending March 31, 2020***

Division 1-13

Request:

Please provide Narragansett's projections of its Sources and Uses of Funds for the current fiscal year plus the next three fiscal years.

Response:

Please see Attachment DIV 1-13.

Prepared by or under the supervision of: Jonathan Cohen

THE NARRAGANSETT ELECTRIC COMPANY d/b/a NATIONAL GRID NY
SOURCES AND USES OF FUNDS
($000)

Fiscal Year	2020	2021	2022	2023
Sources of Funds				
Internal				
Net Income	120,637	132,961	134,126	145,565
Depreciation & Amortization	111,067	115,744	121,958	128,048
Changes in Working Capital / Other	717	(4,269)	(2,940)	(2,851)
Total Internal Sources	232,421	244,436	253,144	270,762
External				
Equity Issuances	-	-	-	-
Long-Term Debt	500,000	-	350,000	-
Money Pool Borrowings	-	205,214	-	235,938
Total External Sources	500,000	205,214	350,000	235,938
Total Sources of Funds	**732,421**	**449,650**	**603,144**	**506,700**
Uses of Funds				
Capital Expenditures	313,435	324,650	298,000	306,700
Dividends on Common Stock	75,000	125,000	-	200,000
Redemptions				
Long-Term Debt	250,000	-	-	-
Short-Term Debt	93,986	-	305,144	-
Total Uses of Funds	**732,421**	**449,650**	**603,144**	**506,700**

Division 1-15

Request:

Please provide the source documents for the Moody's single A utility bond yields (both current and prevailing since January 2010) as referenced at page 10 of Mr. Cohen's testimony and Exhibit E.

Response:

Please see Confidential Attachment DIV 1-15 for the Moody's 30-year A-rated utility bond index as sourced from Bloomberg Professional Services. The raw data provided in this attachment is not publicly available and is, therefore, deemed confidential and proprietary; hence the Company is seeking confidential treatment of the attachment in its entirety.

Attachment DIV 1-15

REDACTED

Prepared by or under the supervision of: Jonathan Cohen

Division 1-16

Request:

Please state whether Narragansett believes that during the next three years it will have the authority and/or capability to issue tax-exempt long-term debt. If so, does Narragansett intend to do so?

Response:

Currently, The Narragansett Electric Company (Narragansett) does not have any available tax exempt capacity allocated to it. Consistent with previously filed applications, Narragansett has requested the ability to issue tax exempt securities in the event that opportunity becomes available during the next three to five years.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-17

Request:

Please state the basis, including any supporting data, for Narragansett's estimate of 15 to 20 basis points for the yield spread for issuing secured versus unsecured long-term debt.

Response:

Please see Confidential Attachment DIV 1-17 for bond yield data from Bloomberg Professional Services that supports the Company's estimated basis point spread differential between secured versus unsecured debt. The Bloomberg data shows the secondary trading levels of secured and unsecured USD bonds across US utilities and was used in the Company's analysis to estimate the yield spread. The data provided in this attachment is not publicly available and is, therefore, deemed confidential and proprietary; hence, the Company is seeking confidential treatment of the attachment in its entirety.

Attachment DIV 1-17

REDACTED

Prepared by or under the supervision of: Jonathan Cohen

Division 1-18

Request:

Narragansett apparently expects or intends to issue unsecured long-term debt according to Witness Cohen. Please provide an estimate of the legal and administrative expenses that Narragansett would incur to be able to proceed with the issuance of secured debt. Please itemize each such expense. If the Company has a cost/benefit study pertaining to the decision to utilize unsecured instead of secured debt, please provide that study.

Response:

The Company does not have a specific cost/benefit study pertaining to the decision to utilize unsecured versus secured debt. The incremental amount of time and cost to issue secured debt could offset the gain from issuing secured debt, especially during this current period when the spread between secured and unsecured is narrow, i.e. 15 to 20 basis points, as indicated in the Company's response to Division Data Request 1-17 and as shown in Confidential Attachment DIV 1-17. However, the characteristics of debt issuances will be driven by market conditions and investor demand at the time of the issuance. For this reason, it is difficult to quantify the estimated legal and administrative expense that would be incurred with a secured debt issuance. The existing secured debt (2006 acquisition of Providence Gas from Southern Union), for which The Narragansett Electric Company (referred to as Narragansett or the Company) has a blanket lien on its assets, requires any future issuances to take note of this ringfence. A new secured issuance would also create additional legal rights and obligations causing additional administrative cost and burdens to Narragansett to maintain the status of lien priority granted to secured debt holders (e.g. bankruptcy, debt acceleration, foreclosure rights, etc.). Moreover, there would be additional costs over time because future debt issuances would require higher spreads to compensate investors for having a more subordinate claim on the Company's cash flows relative to the existing secure debt issuance. The amount of that incremental cost would be driven by market conditions at the time of future issuances, and, therefore, is difficult to quantify at this time.

Based on the context above the decision to issue secured versus unsecured bonds should not be conditioned solely on obtaining the minimum interest rate. As discussed above, the incremental amount of time and cost to issue secured debt due to the complexity of Narragansett's current mortgage structure, combined with the consequences associated with preferential treatment to the Company's current and future investors, could offset the gain from lower interest rates, especially during this current period when the spread between secured and unsecured is narrow, i.e., 15-20 basis points.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-19

Request:

Please provide a description of the procedures Narragansett will use to ensure that it issues new long-term debt at the lowest reasonable cost (e.g., competitive selection of underwriters, etc.).

Response:

The Company plans to run a selection process to evaluate the fees and capabilities of potential underwriters to deliver the lowest reasonable cost debt for the prevailing market conditions.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-20

Request:

Does the Company anticipate that its long-term debt issues will be private placement? If so, please explain why this is preferable to a public issuance registered with the SEC. Does private placement provide a savings relative to public issuance?

Response:

The Company anticipates that it will continue to issue new long-term debt in 144A/RegS format, in line with its prior three bond issuances in 2018, 2012, and 2010, and bonds issued from the majority of National Grid's other US operating companies. This issuance format enables the Company to sell bonds to US qualified institutional buyers, as well as global investors. While there is a small amount of investor money that is more focused on SEC-registered bonds, the Company finds that the vast majority of investors are all able to invest in and support the Company's bond issuance. The slightly larger SEC-registered bond investor universe means that these bonds can sometimes price at a small discount to 144A bonds; however, complying with SEC registration requirements would result in an increased administrative burden with a corresponding increase in costs. In addition, maintaining the 144A issuance format means that the documentation for new offerings can be based on the prior issuance, helping to keep legal costs down.

Division 1-21

Request:

The Application seeks authority for new debt issuance such that the amount shall not exceed $850 million. Please provide the analysis, including all data and calculations showing how the $850 million ceiling amount was determined by Narragansett to be the appropriate and necessary debt issuance authority.

Response:

Please refer to Attachment DIV 1-21, which demonstrates the Company's four-year forecasted financial needs and proposed financing activity. As explained in the pre-filed direct testimony of Jonathan Cohen, the $850 million amount was determined by the forecasted financing needs to fund the Company's future capital expenditures and maturing long-term debt, as well as to restructure its capitalization so that it is more aligned with the Company's credit and risk profile, and sound utility and rate setting practices.

Prepared by or under the supervision of: Jonathan Cohen

($000)	Actual	Projected based on 10-year financial plan			
Balance Sheet	3/31/2019	3/31/2020 [1]	3/31/2021	3/31/2022	3/31/2023
LTD	$1,180,250	$1,430,250	$1,420,250	$1,770,250	$1,757,750
STD	$45,884	($59,884)	$135,430	($182,765)	$66,994
Preferred Stock	$2,454	$2,454	$2,454	$2,454	$2,454
Common Equity	$2,058,300	$2,186,015	$2,283,949	$2,513,626	$2,562,218
Goodwill	$724,810	$724,810	$724,810	$724,810	$724,810
Ratemaking Cap Structure (excl. goodwill)					
LTD	46.1%	49.4%	45.6%	49.7%	48.0%
STD	1.8%	0.0%	4.3%	0.0%	1.8%
Preferred Stock	0.1%	0.1%	0.1%	0.1%	0.1%
Common Equity	52.0%	50.5%	50.0%	50.2%	50.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Financing Activity [2] & [3]					
Financing needed per 10-year financial plan		$319,232	$70,314	$31,805	$49,759
Equity Contribution [3]		$0	$0	$0	$0
New LTD		$500,000	$0	$350,000	$0
STD Change		($105,768)	$195,314	($318,195)	$249,759

Notes:

[1] Projected balance sheet based on FY19 actuals and forecast from 10-year plan.

[2] Financing needed reflects projected post-investment cash flow, interest expense, cash taxes paid, and maturing LTD; Excludes dividend payments.

[3] Projected equity contributions and new LTD issuances restructure FY20 capitalization to align with ~50% ratemaking equity ratio and maintain that in future years while also providing for the financing need projected by the 10-year financial plan.

Division 1-22

Request:

Please state whether Narragansett commits that all $850 million of requested long-term debt authority will be used for the benefit of the Company's electric and gas retail and FERC wholesale transmission customers. Will any funds from debt issuance be used for the benefit of corporate affiliates or non utility operations? Please explain.

Response:

The Narragansett Electric Company (referred to as Narragansett or the Company) commits that the entire $850 million of requested long-term debt authority is intended for the sole use and benefit of the Company's electric and gas customers (including electric transmission customers) and will not be used by any other affiliate or non-regulated operations. As discussed in the pre-filed direct testimony of Company Witness Jonathan Cohen, the factors driving the request for authorization to issue new long-term debt include Narragansett's forecasted need of financing investments in new utility plant and replacement of short-term debt that was used for prior construction and replacement of the Company's plant-in-service.

Division 1-23

Request:

Please explain the circumstances under which Narragansett would issue variable rate (indexed) debt instead of fixed rate debt. Has Narragansett issued any variable rate long-term debt within the last ten years? If so, please describe.

Response:

The Company has not yet determined if it would issue variable rate or fixed rate debt; such a determination will depend upon market conditions at the time of each issuance.

The use of variable rate debt creates financial risk for the Company and its customers as the interest due can increase, in some cases substantially. Circumstances under which the Company may issue long-term debt with a variable rate rather than a fixed rate would include when variable rate funding is more advantageous than fixed rate funding available at that time. For example, if the Company can enter into a contract with a bank whereby the fixed rate the Company pays to the bank in return for receiving the variable rate from the bank (to match that on the bond) would be lower than the fixed rate that could be achieved from issuing a fixed rate bond to market at that time, then it would be advantageous to issue the variable rate debt.

This example can be illustrated as follows: the Company is faced with the choice of issuing a 5-year bond at 4% or at a variable rate plus a margin of 1%. The Company would evaluate this choice by calculating the fixed rate equivalent of the variable rate plus the margin of 1%. This is achieved by calculating the net present value of the variable rate cash flows (including margin) and finding the fixed rate cash flows, which would give the same net present value. If this fixed rate is lower than 4%, it would be advantageous to issue the variable rate bond. The discount rate used to calculate the net present value would come from the yield curve known as the swap curve, and the variable rates are projected using the swap curve.

Another circumstance where the Company may issue variable rate bonds instead of fixed rate bonds would be when there is little or no investor demand for Company fixed rate bonds, but there is investor interest in Company variable rate bonds. If the Company wants to pay a fixed rate instead, this should not be a problem if the Company enters into a contract with a bank to convert the variable rate payments into fixed rate payments.

The Company has not issued any variable rate long-term debt within the past ten years.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-24

Request:

Witness Cohen states that a new debt issue may be "issued internally to an affiliate." Please explain why such a procedure would be employed. Also, has Narragansett used this method for any of its existing outstanding debt? If so, please identify.

Response:

Funding internally through an affiliate will involve consideration of flexibility in execution and relative economics. For example, internal funding may be appropriate for smaller, shorter-term requirements, where an equivalent public or private placement deal may be less economical; in addition, internal funding can be less costly if other group companies are able to take advantage of pricing benefits in other currencies at short notice.

The Company has not issued any existing outstanding debt under this method.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-25

Request:

The Division's most recent order for Narragansett authorizing new long-term debt issues included several "conditions accompanying approval." Please state whether Narragansett objects to any of those approval conditions (i.e., other than dates and dollar amounts of new debt) for purposes of this docket. If so, please identify each such objectionable condition and the reasons for any objections.

Response:

For purposes of this response, the Company assumes that the reference to "conditions accompanying approval" refers to the terms and conditions of the Settlement Agreement between the Company and the Division Staff Advocacy Section dated February 15, 2018 in Docket No. D-17-36 and incorporated by reference in the Division's written order dated February 19, 2018 in that docket.

In the Company's application that it submitted in this proceeding, the Company proposed certain variations in the timing and structure of the anticipated debt issuance(s) from that which was agreed to in 2018 based on current market conditions and the current financing needs of the Company. For example, the Company has requested authorization through March 31, 2023, which will result in a term slightly longer than the fixed three-year term. Other variations in the proposed structure of the debt issuance as compared to that which was agreed to in the 2018 Settlement Agreement include the maturity dates, and maximum interest rate. In addition, the Company has proposed to issue unsecured debt for the reasons discussed in its response to Division Data Request 1-18. In the 2018 Settlement Agreement, the Company agreed to certain conditions for issuing unsecured debt, which the Company would like to have an opportunity to revisit in connection with the current Application.

Subject to the above and without limiting any of its rights with respect to the Application submitted in this proceeding, the Company does not object to similar conditions of approval as contained in the 2018 Settlement Agreement and is open to discussing these terms with the Division and/or its consultant in the interest of working towards a mutually acceptable agreement.

Prepared by or under the supervision of: Jonathan Cohen

Division 1-26

Request:

Does Narragansett anticipate or project long-term interest rates to increase over the next three years? If so, please provide the evidence the Company is relying upon concerning expectations of rising long-term interest rates.

Response:

The Company's financing requirements are driven by operational requirements and not forecasts of interest rates.

The external market does project interest rates, which can be useful in conducting economic analysis of future cashflows. Please see Confidential Attachment DIV 1-26 for the Blue Chip Financial Forecast published by Wolters Kluwer on June 1, 2019. The information provided in this attachment is available only through a subscription service and is, therefore, deemed confidential and proprietary pursuant to the terms of that service; hence the Company is seeking confidential treatment of the attachment in its entirety.

Prepared by or under the supervision of: Jonathan Cohen

Attachment DIV 1-26

REDACTED

Prepared by or under the supervision of: Jonathan Cohen

Division 1-27

Request:

With regard to Narragansett's existing outstanding long-term unsecured senior notes, please state which issues involved public offerings versus private placements.

Response:

All of Narragansett's outstanding long-term unsecured senior notes are private placements.