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September 9, 2022

VIA HAND DELIVERY & ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 22-19-EL Rhode Island Energy's Electric Pension Adjustment Factor Filing For the Twelve-Month Period Ending March 31, 2022
Responses to PUC Data Requests – Set 1

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a Rhode Island Energy ("Rhode Island Energy" or the "Company"), I have enclosed the Company's responses to the First Set of Data Requests issued by the Public Utilities Commission in the above-referenced docket.

Thank you for your attention to this matter. If you have any questions, please contact me at (401) 709-3337.

Sincerely,

Leticia Pimentel

Leticia C. Pimentel

Enclosure

cc: Docket 22-19-EL Service List
Leo Wold, Esq.
John Bell, Division
Al Mancini, Division

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.

Heidi J. Seddon

September 9, 2022
Date

Docket No. 22-19-EL – The Narragansett Electric Company d/b/a Rhode Island Energy Pension Adjustment Factor
Service List as of 8/19/2022

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File an original & five (5) copies w/: Luly E. Massaro, Commission Clerk Cynthia Wilson-Frias, Esq. Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	Luly.massaro@puc.ri.gov; Cynthia.WilsonFrias@puc.ri.gov; Todd.bianco@puc.ri.gov; Alan.nault@puc.ri.gov;	401-780-2107

PUC 1-1

Request:

On page 8 of the testimony of Oliveira and Allen, the witnesses state: "…liabilities and service cost are required to be measured using rates of return on high quality corporate bonds…".

a. Please explain the significance of this process.
b. Please provide the origin of this process.
c. Please provide the rationale for this process.
d. Please identify the pool of corporate bonds used.

Response:

a. Due to the long-term nature of the pension and other postretirement employee benefits ("OPEB"), liabilities and service cost are required to be measured using rates of return on high quality corporate bonds. Consequently, the discount rate is a key assumption when measuring the associated costs and liabilities.

   In the process of measuring and calculating pension and OPEB costs, the Company follows United States Generally Accepted Accounting Principles ("US GAAP"), Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 715 Compensation – Retirement Benefits ("ASC 715"), formerly Financial Accounting Standards Number 87 and Number 106 ("FAS 87" and "FAS 106"). Under ASC 715, the measurement of pension and OPEB costs and liabilities must include a discount rate assumption to reflect the time value of money.

b. The origin of this process comes from the guidance set forth under ASC 715. Setting the discount rate by using a yield curve based on high quality corporate bonds is a standard process undertaken by many companies.

   ASC715 Section 30, Subsection 3, Paragraphs 43-44, provide guidance/rationale for setting the discount rate assumption as highlighted in below excerpts from ASC715.

   715-30-35-43:
   Assumed discount rates shall reflect the rates at which the pension benefits could be effectively settled. It is appropriate in estimating those rates to look to available information about rates implicit in current prices of annuity contracts that could be used to effect settlement of the obligation (including information

about available annuity rates published by the Pension Benefit Guaranty Corporation). In making those estimates, employers may also look to rates of return on high-quality fixed-income investments currently available and expected to be available during the period to maturity of the pension benefits. Assumed discount rates are used in measurements of the projected, accumulated, and vested benefit obligations and the service and interest cost components of net periodic pension cost.

715-30-35-44:
The preceding paragraph permits an employer to look to rates of return on high-quality fixed-income investments in determining assumed discount rates. The objective of selecting assumed discount rates using that method is to measure the single amount that, if invested at the measurement date in a portfolio of high-quality debt instruments, would provide the necessary future cash flows to pay the pension benefits when due. Notionally, the single amount, the projected benefit obligation, would equal the fair value of a portfolio of high-quality zero coupon bonds whose maturity dates and amounts would be the same as the timing and amount of the expected future benefit payments. Because cash inflows would equal cash outflows in timing and amount, there would be no reinvestment risk in the yields to maturity of the portfolio. However, in other than a zero coupon portfolio, such as a portfolio of long-term debt instruments that pay semiannual interest payments or whose maturities do not extend far enough into the future to meet expected benefit payments, the assumed discount rates (the yield to maturity) need to incorporate expected reinvestment rates available in the future. Those rates shall be extrapolated from the existing yield curve at the measurement date. The determination of the assumed discount rate is separate from the determination of the expected rate of return on plan assets whenever the actual portfolio differs from the hypothetical portfolio described in this paragraph. Assumed discount rates shall be reevaluated to each measurement date. If the general level of interest rates rises or declines, the assumed discount rates shall change in a similar manner.

c. Please refer to the Company's response to subsection b above.

d. National Grid's external actuary Aon assists their clients with setting this assumption by constructing proprietary yield curves that meet the standards of ASC 715, Section 30 (pension) and Section 60 (OPEB). National Grid has selected Aon's AA Only Bond

Universe to set the discount rate. The AA Only Bond Universe is constructed based on upon bonds that meet the following criteria:

- An average rating of double-A, when averaging all available ratings by Moody's Investor Services, Standard & Poor's, and Fitch.
- Non-callable, non-putable, and non-sinkable.
- At least $300 million par outstanding.
- Between 3 months and 30 years to maturity.
- Fixed coupon payments and one principal payment at maturity.