

September 8, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Application and Statement by The Narragansett Electric Company d/b/a
National Grid Regarding Issuance of New Long-Term Debt**

Dear Ms. Massaro:

On behalf of National Grid,¹ I am filing an original and four copies of the Application and Statement by The Narragansett Electric Company d/b/a National Grid Regarding Issuance of New Long-Term Debt (Application). This filing consists of the Company's Application, the direct testimony of Charles V. DeRosa and supporting Exhibits B, C, D, and E. This filing also includes a proposed public notice of the filing and an attached certificate of service noticing the service of this filing on the Department of the Attorney General.

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: Peter F. Kilmartin, Attorney General, State of Rhode Island
Leo Wold, Esq., Office of Attorney General
Macky McCleary, Administrator, Division of Public Utilities & Carriers
Steve Scialabba, Division of Public Utilities & Carriers
Cynthia Wilson-Frias, Esq., Public Utilities Commission

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

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Division of Public Utilities and Carriers.

A paper copy is also being hand delivered to the Rhode Island Attorney General, Peter F. Kilmartin.



Joanne M. Scanlon

September 8, 2017
Date

**National Grid – Debt Filing, Docket No. _____
Service List as of 9/7/17**

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Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	John.spirito@dpuc.ri.gov ;	
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS

Application and Statement by)
The Narragansett Electric Company)
Regarding Issuance of New) Docket No. _____
Long-Term Debt)

The Applicant, The Narragansett Electric Company (“Narragansett Electric” or the “Company”), respectfully represents that:

(1) The Company seeks authorization to issue and sell one or more series and/or issues of new long-term debt, pursuant to the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17.

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

Jennifer Brooks Hutchinson
Senior Counsel
National Grid
280 Melrose Street
Providence, Rhode Island 02907

(3) Pursuant to the provisions of its Charter and approval of the Division of Public Utilities and Carriers (the “Division”), or its predecessors, the Company had authorized and outstanding as of March 31, 2017 the following:

<u>Capital Stock</u>		<u>Number of Shares</u>	
Common Stock, \$50 par value		1,132,487	
Cumulative Preferred Stock, \$50 par value 4.50% Series		49,089	
 <u>First Mortgage Bonds (*)</u>			
<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount</u>
Providence Gas FMB S	6.82%	April 1, 2018	14,464,000
Providence Gas FMB N	9.63%	May 30, 2020	10,000,000
Providence Gas FMB O	8.46%	September 30, 2022	12,500,000
Providence Gas FMB P	8.09%	September 30, 2022	3,750,000
Providence Gas FMB R	7.50%	December 15, 2025	6,750,000

(*) An Indenture, dated as of January 1, 1922, by and between the U.S. Bank National Association (successor to State Street Bank and Trust Company, successor to BankBoston, N.A., successor to Rhode Island Hospital Trust National Bank, successor to Rhode Island Hospital Trust Company), as trustee, and the Company, successor to Southern Union Company, successor to Providence Gas Company, as heretofore supplemented and amended, secures these First Mortgage Bonds assumed by the Company in connection with the acquisition of certain Rhode Island gas assets of Southern Union Company.

<u>Senior Unsecured Notes</u>			
<u>Series</u>	<u>Percent</u>	<u>Due</u>	<u>Amount</u>
Senior Notes	4.534%	March 15, 2020	250,000,000
Senior Notes	5.638%	March 15, 2040	300,000,000
Senior Notes	4.170%	December 10, 2042	250,000,000

(4) It is in the public interest, and the Company hereby seeks Division authorization, to:

(a) issue, from time to time, new long-term debt not to exceed an aggregate principal amount of \$925 million outstanding at any one time through the period ending three years after the Division approves the Company’s application in this case (“New Debt”), with an option for a

two-year extension provided that the Company demonstrates that the purpose of the issuances continues to serve a legitimate utility purpose. The purpose of the New Debt is to accomplish one or more of the following: (i) to refinance short-term debt with long-term debt; (ii) to finance the Company's capital needs; (iii) to construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company's capitalization and consisting of taxable bonds, medium or long-term notes, revolving credit loans, and term or bank loans and similar securities, and

(b) enter into evidences of indebtedness and related instruments in connection with New Debt, including, but not limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit agreements, participation agreements, underwriting or similar agreements, bond purchase agreements, remarketing agreements, and security agreements and instruments, insurance agreements, or their equivalent and amendments, restatements, modifications, or supplements thereto (collectively, the "Instruments"). The terms of each Instrument will be substantially similar to the terms for comparable transactions available in credit market, at the time of New Debt issuance, to companies having a credit rating substantially equivalent to the Company's credit rating.

The owners of New Debt issued to or through third parties may have the right to tender the New Debt for purchase upon specified notice periods. The New Debt may be subject to redemption at the option of the Company in accordance with the terms of the applicable agreement and otherwise as required by such agreement.

(5) To ensure adequate flexibility in meeting market conditions at the time of issuance, the Company is requesting authorization to issue New Debt as unsecured debt, taxable

or tax-exempt debt, bonds, medium- or long-term notes, revolving credit loans or bank loans, or similar securities or some combination thereof. The New Debt will have a term exceeding one year and maturity dates will not exceed 30 years from the date of issuance with either an adjustable interest rate or a fixed interest rate not exceeding an effective rate of seven percent per annum (unless an order of the Division is issued approving a higher rate). Further, the New Debt may be issued internally to an affiliate or through third parties, in public offerings, private placements, or Rule 144(a) transactions, and with or without investment bankers.

(6) As of March 31, 2017, the Company has approximately \$843.3 million of long-term debt and \$125.7 million of short-term debt outstanding. The Company may refinance the short-term debt with New Debt depending upon market conditions and the terms of such debt.

(7) In determining the timing and amount of issuance of the New Debt, the Company intends to maintain a ratio of total long-term debt to total capitalization (excluding goodwill) of approximately 47 to 50 percent.

(8) In accordance with Section 14 of the Division's Rules of Practice and Procedure, written testimony and supporting exhibits are attached hereto including the written testimony of the Company's Vice President and Treasurer, Charles V. DeRosa.

(9) Because of volatility in the debt markets, it is in the public interest that the Company have the flexibility to choose the timing of and to select purchasers of the long-term debt securities on the basis of standards and criteria that in management's judgment will result in benefits to the Company and its customers, including, but not limited to, the terms and interest rate. Because the precise terms of the proposed New Debt issuances are not known at this time, the Company seeks a waiver of the Division's Rules of Practice and Procedure 14 (a) (1) (ii), (iii) and (iv) to the extent that it would require the Company to provide investment memoranda,

prospectuses, information or registration statements or other documents to describe the transactions or potential funding sources.

(10) It is in the public interest that the Company have the flexibility to adjust the face value of New Debt Instruments to reflect the final pricing of the security, including a discount to the face value of a particular security.

(11) Exhibit B contains the Company's current estimate of the costs and expenses of issuing New Debt; however, this is an estimate only and the actual costs and expenses may differ from this estimate. The Company requests that the actual costs and expenses of issuing New Debt be deferred and amortized over the life of the New Debt.

(12) The Company currently anticipates issuing New Debt as early as the first half of calendar year 2018. The Company respectfully requests that the Division act on this Application as expeditiously as possible and issue a final order by December 31, 2017.

(13) Exhibit C of this Application comprises the actual balance sheet of the Company at March 31, 2017.

(14) In accordance with Section 14 of the Division's Rules of Practice and Procedure a copy of this application has been filed with the Rhode Island Office of Attorney General.

Accordingly, the Company, under the General Laws of Rhode Island, Sections 39-3-15 and 39-3-17, requests the entry of an order:

A. Authorizing, approving and consenting to the issuance and sale of the New Debt by the Company, from time to time (including internally to an affiliate or through third parties, and including, but not limited to, through public offerings or private placements, or Rule 144(a) transactions and with or without investment banks), through the period ending three years after the Division approves the Company's application in this case not exceeding \$925 million in

aggregate principal amount outstanding at any one time, upon such terms, at such rates of interest, with such maturities and at such prices, as the Company may determine, and if the price of any such long-term debt securities is below the face amount of such long-term debt securities, find that the issuance and sale below face amount is in the public interest and if any such long-term debt security is sold at less than face value, authorize and approve the amortization of the discount over the life of such security; provided that, each issue of New Debt shall (a) mature in not more than 30 years from the date of issuance, (b) bear interest at a fixed rate or an adjustable rate, which will vary with a market index designated at the time of each such issuance, not exceeding an effective rate of 7 percent per annum (unless an order of the Division is issued approving a higher rate), and (c) shall be sold through one or more of (i) competitive bidding, (ii) negotiation with underwriters, (iii) negotiation directly with investors, (iv) through one or more agents, (v) to one or more agents as principal for resale to investors, (vi) in private or public offerings, (vii) in connection with the establishment of loan facilities with a bank or syndicate of banks, or (viii) internally to an affiliate. Narragansett Electric also seeks Division authorization for an option for a two-year extension to issue New Debt pursuant to the terms contained in the Company's application provided the Company demonstrates to the Division that the debt securities and the purpose of the issuances continue to serve a legitimate utility purpose;

B. Authorizing, approving and consenting to the execution and delivery by the Company of the Instruments in connection with the issuance and sale of such New Debt.

C. Authorizing, approving and consenting to the use of the proceeds of the issue and sale of such New Debt for the repayment or terming out of short-term debt; for the payment of capital expenditures incurred by the Company for the acquisition of property, the construction, completion, extensions, additions, maintenance and improvements to the Company's plant and

properties or for the payment of obligations of the Company incurred for such purposes; for the refinancing of existing debt and/or previously redeemed issues of debt (including, without limitation, previously redeemed issues); for general working capital; for reimbursement of the treasury and for other general corporate purposes, including, but not limited to, restructuring of the Company's capitalization in connection therewith.

D. Authorizing, approving and consenting that the Company may, from time to time in one or more transactions, refinance some or all of the New Debt , in one or more series and/or issues;

E. Authorizing, approving and consenting to the execution and delivery by the Company of such other financing and security agreements or instruments as may be reasonably necessary in the view of the Company in connection with the issuance of the New Debt described in this Application, and also authorize, approve, and vote that the New Debt described in this Application may be guaranteed by a direct or indirect parent of the Company, as necessary and appropriate to complete a debt issuance;

F. Reciting the purposes to which the proceeds of such New Debt may be applied and reciting that the money to be procured by such series and/or issues of New Debt is reasonably required for the purpose specified in such order; and

G. Authorizing, approving and consenting to such other and further orders and approvals as the Division may deem proper in the circumstances.

Exhibit List

Exhibit A	Pre-Filed Direct Testimony of Charles V. DeRosa, Vice President and Treasurer
Exhibit B	Estimated Expenses of Issue
Exhibit C	Balance Sheet
Exhibit D	Impact of Proposed Financing Plan to Restructure Capitalization
Exhibit E	Interest Rates

PRE-FILED DIRECT TESTIMONY

OF

CHARLES V. DEROSA

September 8, 2017

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1 **I. Introduction and Qualifications**

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

3 A. My name is Charles V. DeRosa. I am Vice President and Treasurer of National Grid
4 USA Service Company, Inc. (“National Grid”). My business address is One MetroTech
5 Center, Brooklyn, New York 11201.

6

7 **Q. On whose behalf are you testifying?**

8 A. I am testifying on behalf of The Narragansett Electric Company d/b/a National Grid
9 (“Narragansett Electric” or the “Company”) in this proceeding.

10

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

12 A. I graduated from Long Island University in 1991 with a Bachelor of Science degree in
13 Accounting and a Master of Science degree in Taxation in 1996. I joined National Grid in
14 2008 as Vice President of our Tax Department, where I was responsible for all tax activities
15 for National Grid, including audit management and controversy resolution, financial
16 reporting, and regulatory reporting. I became Chief Accounting Officer and Vice President
17 Controller in 2013, where I was responsible for all accounting activities, including financial
18 reporting, regulatory reporting, controllership, and compliance. I was named to my current
19 role, Vice President and Treasurer, in 2015, responsible for all treasury-related activities for
20 National Grid USA, including debt capital markets, cash and investment management, and

1 risk management. Prior to National Grid, I held various tax leadership roles at American
2 International Group (“AIG”) and North Fork Bank Corporation.

3
4 **Q. Have you previously testified before the Rhode Island Division of Public Utilities and**
5 **Carriers (the “Division”) or the Rhode Island Public Utilities Commission?**

6 A. No, I have not.

7
8 **Q. Have you previously testified before any other state public utilities commission?**

9 A. Yes, I have appeared before the Massachusetts Department of Public Utilities in D.P.U.
10 16-171 in support of a petition filed on behalf of New England Power Company d/b/a
11 National Grid requesting authority to issue long-term debt. I have also appeared before the
12 Massachusetts Department of Public Utilities in D.P.U. 17-36 and D.P.U. 17-37,
13 supporting the petition filed on behalf of Boston Gas Company and Colonial Gas Company
14 d/b/a National Grid requesting authority to issue long-term debt.

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

17 **Q. Mr. DeRosa, would you please give a brief description of Narragansett Electric?**

18 A. Narragansett Electric is a combined electric and gas distribution company. The Company
19 is a Rhode Island corporation and is a subsidiary of National Grid USA. National Grid
20 USA is a Delaware corporation, and an indirect wholly-owned subsidiary of National
21 Grid plc. The principal business of Narragansett Electric is selling and distributing

1 electricity and natural gas within Rhode Island, which makes it a public utility as defined
2 by R.I. General Laws § 39-1-2, and the Company has a place of business at 280 Melrose
3 Street, Providence, Rhode Island.

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

6 A. The purpose of this testimony is to support the Company's request to the Division for
7 authorization to issue from time to time, through the period ending three years after the
8 Division approves the Company's application in this proceeding, new long-term debt not
9 to exceed an aggregate principal amount of \$925 million outstanding at any one time
10 ("New Debt") with an option for a two-year extension provided that the Company
11 demonstrates that the issuances continue to serve a legitimate utility purpose. The
12 purpose of the New Debt is to accomplish one or more of the following: (i) to refinance
13 short-term debt with long-term debt; (ii) to finance the Company's capital needs; (iii) to
14 construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing
15 debt; and (vi) other general corporate purposes, including but not limited to the
16 restructuring of the Company's capitalization and consisting of taxable bonds, medium or
17 long-term notes, revolving credit loans, and term or bank loans and similar securities.
18 The New Debt may be issued internally to an affiliate or through third parties, in public
19 offerings, private placements, or Rule 144(a) transactions, and with or without investment
20 bankers.

21

1 Narragansett Electric also seeks Division authorization to enter into evidences of
2 indebtedness and related instruments in connection with the New Debt, including, but not
3 limited to, loan agreements, indentures, supplemental indentures, promissory notes, credit
4 agreements, participation agreements, underwriting or similar agreements, bond purchase
5 agreements, remarketing agreements, security agreements, and instruments, insurance
6 agreements, or their equivalent, and amendments, restatements, modifications, or
7 supplements thereto (collectively, the “Instruments” and individually, an “Instrument”).
8 The terms of each Instrument will be substantially similar to the terms for comparable
9 transactions available in the credit market, at the time of New Debt issuance, to
10 companies having a credit rating substantially equivalent to the Company’s credit rating.

11
12 **Q. Are current market conditions favorable for issuing long-term financing?**

13 A. Since 2012, interest rates for 30-Year A-rated (Moody’s) Utility Yield have been under
14 5.0 percent and currently are approximately 4.0 percent. Over the past year, interest rates
15 have been rising and, while very difficult to predict, many analysts expect a continued
16 rise in interest rates.

17
18 **Q. How do the market conditions for long-term debt securities impact the Company’s
19 ability to determine the timing and structure of any debt issuance?**

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

1 capital investment. Because of volatility in the debt markets, it is in the public interest
2 that the Company have the flexibility to choose the timing of and to select purchasers of
3 the long-term debt securities on the basis of standards and criteria that in management's
4 judgment will result in benefits to the Company and its customers, including, but not
5 limited to, the terms and interest rate. As a result, the Company is not reasonably able to
6 identify in advance details of its proposed debt issuance such as: (1) the type of debt
7 instrument to be utilized; (2) the term of the debt instrument; and (3) the interest rate to
8 be paid to investors. Given the need to respond to market conditions to achieve the best
9 value, it is necessary for the Company to obtain a waiver of the Division's Rules of
10 Practice and Procedure 14 (a) (1) (ii), (iii), and (iv), to the extent that those provisions
11 require the Company to provide investment memoranda, prospectuses, information or
12 registration statements or other documents to describe the transactions or potential
13 funding sources as part of this application.

14
15 **Q. Are you familiar with Exhibit C, the Balance Sheet dated March 31, 2017?**

16 A. Yes, I am.

17
18 **Q. What does Exhibit C show with respect to the capital structure of the Company?**

19 A. Exhibit C shows that at March 31, 2017 the Company's total capitalization was
20 composed of approximately \$969 million of debt (\$126 million percent short-term debt

1 and \$843 million long-term debt), \$1.2 billion common equity (exclusive of goodwill),
2 and \$2.5 million percent preferred stock.

3
4 **Q. Are you familiar with Exhibit D, Impact of Proposed Financing Plan to Restructure**
5 **Capitalization?**

6 A. Yes, I am.

7
8 **Q. What does Exhibit D show with respect to the Company's capital structure and the**
9 **initial use of New Debt?**

10 A. Exhibit D shows that, as of March 31, 2017, the Company's capitalization was composed
11 of approximately 39.21 percent long-term debt, 5.84 percent short-term debt, 0.11 percent
12 preferred stock, and 54.84 percent common equity (excluding goodwill). The Company
13 intends to maintain a ratio of total common equity to total capitalization (excluding
14 goodwill) of approximately 50 to 51 percent. The Company's anticipated immediate
15 financing need is the issuance of at least \$250 million of long-term debt to repay its
16 current short-term debt and maintain its targeted capital structure. Combined with the
17 illustrated changes forecasted for short-term debt and common equity balances, this
18 financing activity would result in a capital structure of approximately 50.48 percent
19 common equity and 48.42 percent long-term debt.

20

1 **Q. What are the factors driving the Company's request for authorization to issue new**
2 **long-term financing?**

3 A. Narragansett Electric is seeking authorization to issue the New Debt to meet the need to
4 finance investments in new utility plant. For example, Narragansett Electric's annual
5 capital spending has totaled approximately \$760 million over Fiscal Years 2014, 2015
6 and 2016. During this time, the Company has used internally generated funds and short-
7 term debt to finance the construction and replacement of the Company's plant-in-service,
8 which represents long-lived assets that should be financed, in part, with debt issuances
9 having maturities closer to or matching the average expected life of the underlying asset.
10 Replacement of short-term debt with long-term debt will have the corollary effect of
11 freeing up short-term debt capacity for its intended purposes of financing day-to-day
12 working capital needs and, on a temporary basis, new construction work in progress until
13 the time that these projects are placed in service. It is in the interests of customers for the
14 Company to have a capital structure that appropriately supports its operations because,
15 over the long run, the Company will maintain access to vital capital resources at a
16 reasonable cost.
17 Further, Narragansett Electric needs to fund approximately \$14.5 million of bonds that
18 are due to mature April 1, 2018, \$250 million of bonds that are due to mature March 15,
19 2020, and \$10 million of bonds that are due to mature May 30, 2020.

20

1 **III. Description of New Debt**

2 **Q. The Company's request contemplates the issuance of up to \$925 million of New Debt**
3 **securities from time to time in order to satisfy its projected financing needs. Please**
4 **describe on what basis this amount was determined.**

5 A. Narragansett Electric made that determination by taking into account the financing needs
6 to fund its future capital expenditures and maturing long-term debt as well as restructuring
7 its capitalization so that it is more aligned with its industry and risk profile. Specifically,
8 Narragansett Electric is seeking approval to issue up to \$925 million to ensure that it has
9 adequate flexibility to refinance short-term debt with long-term debt, finance its capital
10 needs, align its capital structure, and accomplish other general corporate purposes. The
11 Company's requested borrowing authority provides for flexibility to address financing
12 needs under a reasonable range of potential scenarios (e.g., higher than presently
13 anticipated capital investment needs) during the borrowing authorization period.

14
15 **Q. What ratings have been assigned to the Company's outstanding senior unsecured**
16 **long-term debt by the major rating agencies?**

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

19

1 **Q. What is the maximum interest rate that Narragansett Electric proposes at this time?**

2 A. The interest rate payable on the New Debt will vary depending on market conditions at the
3 time of issuance. Based on a review of historical rates over the past few years, current
4 market conditions, including the Company's experiences and future market expectations,
5 the Company has concluded that a seven percent maximum interest rate for a 30-year bond
6 is a realistic expectation.

7
8 **Q. How does this interest rate compare to the approximate current market for long-term
9 debt securities for Narragansett Electric or similarly rated companies?**

10 A. Based on the Moody's A-rated 30-year utility bond index, the current interest rate for 30-
11 year "A" rated utility bonds is around four percent (30-day average as of June 30,
12 2017). The yield history from July 1, 2012 through June 30, 2017, for long-term debt
13 issues for utilities with similar ratings is provided in Exhibit E. Over the past five years
14 (July 1, 2012 to June 30, 2017), the yield on long-term debt has varied between
15 approximately 3.4 to 4.9 percent.

16
17 **Q. How is the proposed maximum interest rate of seven percent reasonable in light of
18 the current and anticipated market conditions?**

19 A. Since the start of 2010, the average yield on "A" rated utility 30-year debt, per Moody's
20 relevant index, has reached a maximum of six percent. While 30-year Treasury bonds are
21 yielding approximately three percent in current market conditions, it is expected that this

1 yield will increase over the coming years as the Federal Reserve continues to normalize its
2 monetary policy and to raise its benchmark interest rate. The credit spread for “A” rated
3 utilities is a reasonable proxy for Narragansett Electric. Looking back over the past 15
4 years, the maximum increase in “A” rated utilities’ 30-year bond yields in a single year has
5 been approximately 200 basis points. Recent analysts’ forecasts of 30-year Treasury yields
6 covering the timeframe for which the Company requests long-term borrowing authority
7 (including a two-year extension) range as high as 5.0 percent, while the most recently
8 realized credit spread to 30-year Treasuries realized by one of the Company’s similarly
9 rated affiliates was 181 basis points. Taken together, the present utility bond yields, the
10 Federal Reserve’s anticipated action to increase interest rates, the historical rate of increase
11 in utility bond yields, recent analyst interest rate forecasts, and comparable credit spreads
12 support a maximum interest rate of seven percent for the New Debt.

13
14 **Q. Would you please describe in more detail the types of New Debt securities**
15 **Narragansett Electric may enter into pursuant to this financing request?**

16 A. Narragansett Electric proposes to issue New Debt Instruments with a maturity greater than
17 one year, and not to exceed 30 years, from the date of issuance. The securities would carry
18 either a fixed interest rate not to exceed the rate established by the Division or an
19 adjustable rate, which will vary with a market index to be designated at the time of
20 issuance but not to exceed the maximum rate of seven percent. The New Debt may be

1 issued internally to an affiliate or through third parties, in public offerings, private
2 offerings, or private placements, and with or without investment bankers.

3
4 **Q. If and when Narragansett Electric determines to issue and sell New Debt securities,**
5 **how would it plan to market the New Debt?**

6 A. Depending on the type of New Debt security proposed to be issued, such New Debt
7 securities would be sold from time to time in light of the Company's cash requirements
8 and market conditions. These securities may be sold in one or more offerings through one
9 or more of the following methods: competitive bidding; negotiation with underwriters;
10 negotiation directly with investors, through one or more agents; to one or more agents as
11 principal for resale to investors, in private or public offerings; or in connection with the
12 establishment of loan facilities with a bank or syndicate of banks; or internally to an
13 affiliate. The benefits of a competitive solicitation process for customers can be
14 duplicated through the negotiated public offering process without the additional cost and
15 time associated with a competitive solicitation process. Negotiated transactions benefit
16 customers and are more appropriate than competitive bid transactions, especially during
17 periods of fluctuating securities markets.

18
19 In addition, issuing debt securities below par value offers a company enhanced flexibility
20 in entering the market quickly to take advantage of prevailing market rates. Further,

1 underwriters may wish to receive their compensation as a discount from face value of
2 such New Debt.

3
4 **Q. Please describe the offering options available to Narragansett Electric.**

5 A. The most common platforms for issuance are through public offerings registered with the
6 Securities and Exchange Commission (“SEC”), ‘144A’ private offerings, or the 4(2)
7 private placement market. SEC-registered transactions reach a wide investor base but
8 reports are required to be filed with the SEC on a periodic basis. 144A transactions are
9 sold to qualified institutional buyers, and so do not require any reporting to the SEC.
10 While transactions can be secured against particular assets, Narragansett Electric only
11 anticipates issuing debt on an unsecured basis. Revolving credit loans, term loans and
12 banks loans are all potential offering options and could be specifically tailored to the
13 Company’s needs. In addition, Narragansett Electric could issue New Debt internally
14 from an affiliate.

15
16 **Q. Please describe the offering options Narragansett Electric is considering and the**
17 **advantages of each option.**

18 A. Narragansett Electric is not subject to SEC periodic reporting, which makes 144A
19 transactions a cost-effective approach with relative ease of execution. A 144A
20 transaction involves stand-alone documentation that would enable Narragansett Electric
21 to issue bonds to qualified investors. An alternative approach with similar ease of

1 execution that also avoids some of the costs associated with external debt issuances is
2 issuance of debt internally to an affiliate.

3
4 Narragansett Electric will always assess the various options at the time of planned
5 issuance to ensure that the best value is achieved, whether that is issuing via the debt
6 capital markets, internally to an affiliate, or through bank loans.

7
8 **Q. Will the New Debt be secured?**

9 A. At this time the Company does not intend to issue secured debt. Depending on market
10 conditions at the time of the issuance of the New Debt, the New Debt may contain a
11 credit enhancement mechanism required to support the marketing and pricing of the New
12 Debt. The Company also may execute and deliver other related financing and security
13 agreements, as may be reasonably necessary in the view of the Company, to issue or
14 refinance the New Debt.

15
16 **Q. Does the Company intend to engage in any hedging activities in connection with the
17 New Debt?**

18 A. The Company does not plan to engage in any hedging activities in connection with the
19 New Debt at this time; however, in the event that the Company decides to employ any
20 hedging instruments related to the New Debt, the Company will limit such hedging
21 instruments to cross currency swaps, interest rate swaps, Treasury locks, forward rate

1 swaps, and call provisions (“Hedging Instruments”). Hedging Instruments would be
2 entered into only with counterparties whose senior debt ratings are investment grade as
3 determined by Standard & Poor's, Moody's Investors Service, Inc. or Fitch Ratings, Ltd.
4 The Company would not enter into transactions in Hedging Instruments for speculative
5 purposes. In the event that the Company decides to employ a Hedging Instrument, the
6 Company will consult with the Division prior to doing so.
7

8 **Q. When does the Company plan to issue the proposed New Debt?**

9 A. The Company plans to issue from time to time during the proposed authorization period.
10 However, depending on when an authorization is granted, capital market conditions, and
11 other circumstances, the Company anticipates issuing New Debt as early the first half of
12 calendar year 2018. The Company anticipates issuing multiple tranches of new debt
13 under the requested authority, given the near-term need for long-term debt warranting an
14 initial tranche, and the \$250 million of bonds that are due to mature March 15, 2020,
15 warranting at least one subsequent tranche. The Company therefore respectfully requests
16 that the Division issue a final order by December 31, 201 authorizing the issuance.
17

18 **Q. Has Narragansett Electric estimated the costs associated with issuing New Debt?**

19 A. Yes. The Company’s current estimate of the costs and expenses of issuing New Debt is
20 indicated on Exhibit B; however, this is an estimate only and the actual costs and
21 expenses may differ from this estimate. Narragansett Electric requests that the actual

1 costs and expenses of issuing New Debt be deferred and amortized over the life of the
2 New Debt.

3
4 **Q. Is the Company's application substantially similar to financing applications filed in**
5 **the past?**

6 A. Yes, with two exceptions. In prior applications, the Company included a self-imposed
7 limit that each issue of New Debt be sold at a price not less than 95 percent or more than
8 100 percent of its principal amount. However, in this application, the Company has
9 expressly removed the discount limit to allow the Company increased flexibility to
10 evaluate financial instruments, such as zero-coupon bonds, which, depending on investor
11 appetite and other circumstances, can in some cases prove to yield more cost-effective
12 financing options. Also, the Company is seeking authorization in this application for an
13 option for a two-year extension to issue New Debt pursuant to the terms contained in the
14 Company's application, provided the Company demonstrates to the Division that the debt
15 securities and the purpose of the issuances continue to serve a legitimate utility purpose.
16 The reason for seeking a two-year extension as part of this application is to provide
17 flexibility and allow the Company the opportunity to issue new debt prior to interest rates
18 rising as anticipated. Such extension also eliminates the need to submit an additional
19 financing application.

20

1 **IV. Conclusion**

2 **Q. Mr. DeRosa, in view of your detailed knowledge of Narragansett Electric and its**
3 **finances, is it your opinion that the proposed Long-Term Debt securities not to**
4 **exceed \$925 million are reasonably necessary for the purposes which you have**
5 **stated and are in the public interest?**

6 A. Yes, it is. During the requested authorization period, the Company needs to both finance
7 investments in long-lived assets that provide safe, reliable, affordable service to its
8 customers with similarly long-term capital, and the Company needs to replace maturing
9 long-term debt. With interest rates rising from historical lows, and analysts projecting a
10 continued rise in interest rates, the Company can lock in today's relatively lower interest
11 rates for the benefit of customers by issuing a tranche of new long-term debt in the near
12 term. By providing the Company with the requested borrowing authority over the
13 proposed three-year period (or five-year period including a two-year extension), the
14 Division can give the Company the ability to respond to financing needs and capital
15 market conditions quickly to secure required financing at the best value for customers,
16 while also limiting the Division's administrative costs and burden associated with the
17 multiple financing petitions that the Company would otherwise need to file.


18

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

20 A. Yes, it does.

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

By 
Timothy F. Horan, President

By _____
Ronald J. Macklin, Secretary

Dated: 9/6/17

- Exhibit A - Direct Testimony of Charles V. DeRosa, Vice President and Treasurer, US Treasury
- Exhibit B - Estimated Expenses of Issue
- Exhibit C - Balance Sheet
- Exhibit D - Impact of Proposed Financing Plan to Restructure Capitalization

STATE OF RHODE ISLAND, COUNTY OF PROVIDENCE

Sworn to and subscribed before me this 6th day of September, 2017 by Timothy F. Horan, President of The Narragansett Electric Company d/b/a National Grid.

 Notary Public
My Commission Expires: 10-22-2017
ELIZABETH FRIESCHWE

STATE OF NEW YORK)
 : ss.:
COUNTY OF NEW YORK)

On the ____ day of September, 2017, before me, the undersigned, a Notary Public in and for said State, personally appeared Ronald J. Macklin, Secretary of The Narragansett Electric Company d/b/a National Grid personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual or the person on behalf of which the individual acted, executed the instrument.

Notary Public

Respectfully submitted,

THE NARRAGANSETT ELECTRIC COMPANY
d/b/a NATIONAL GRID

By _____
Timothy F. Horan, President

By Ronald J. Macklin
Ronald J. Macklin, Secretary

Dated: 9/1/17

- Exhibit A - Direct Testimony of Charles V. DeRosa, Vice President and Treasurer, US Treasury
- Exhibit B - Estimated Expenses of Issue
- Exhibit C - Balance Sheet
- Exhibit D - Impact of Proposed Financing Plan to Restructure Capitalization

STATE OF RHODE ISLAND, COUNTY OF PROVIDENCE

Sworn to and subscribed before me this ____ day of September, 2017 by Timothy F. Horan, President of The Narragansett Electric Company d/b/a National Grid.

Notary Public
My Commission Expires: _____

STATE OF NEW YORK)

NASSAU : ss.:

COUNTY OF ~~NEW YORK~~)

On the 1st day of September, 2017, before me, the undersigned, a Notary Public in and for said State, personally appeared Ronald J. Macklin, Secretary of The Narragansett Electric Company d/b/a National Grid personally known to me or proved to me on the basis of satisfactory evidence to be the individual whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his capacity, and that by his signature on the instrument, the individual or the person on behalf of which the individual acted, executed the instrument.

EILEEN P. COLEMAN
NOTARY PUBLIC - STATE OF NEW YORK
NO. 4815634
QUALIFIED IN NASSAU COUNTY 18
COMMISSION EXPIRES JUNE 30, 2018

Eileen P. Coleman
Notary Public

Estimated Expenses of Issue for Narragansett Electric Company Expressed as a Percentage of Principal:

Maturity in years	2	3	5	7	10	20	30
Underwriting Commissions	0.200%	0.250%	0.350%	0.400%	0.450%	0.750%	0.875%
Other Issuance Expenses*	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%	0.060%
Total Issuance Expenses	0.260%	0.310%	0.410%	0.460%	0.510%	0.810%	0.935%

* Other issuance expenses are usually approximately \$0.3 million per issue. This equates to 0.06% for a principal amount of \$500 million, but this proportion would rise for smaller issuances.

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

	March 31,	
	2017	2016
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,803	\$ 14,410
Restricted cash	956	15,113
Accounts receivable	212,572	196,654
Allowance for doubtful accounts	(25,192)	(25,404)
Accounts receivable from affiliates	6,354	18,689
Unbilled revenues	57,817	52,063
Inventory	24,216	32,458
Regulatory assets	52,446	104,033
Derivative instruments	6,189	1,316
Prepaid taxes	9,821	5,587
Other	1,805	3,434
Total current assets	354,787	418,353
Property, plant and equipment, net	2,785,811	2,576,636
Other non-current assets:		
Regulatory assets	464,135	526,590
Goodwill	724,810	724,810
Derivative instruments	167	398
Other	13,905	12,738
Total other non-current assets	1,203,017	1,264,536
Total assets	\$ 4,343,615	\$ 4,259,525

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

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

	March 31,	
	2017	2016
LIABILITIES AND CAPITALIZATION		
Current liabilities:		
Accounts payable	\$ 124,895	\$ 127,141
Accounts payable to affiliates	80,085	29,109
Current portion of long-term debt	1,375	1,375
Taxes accrued	29,624	19,972
Customer deposits	12,514	13,496
Interest accrued	5,434	5,450
Regulatory liabilities	106,788	76,126
Intercompany money pool	125,659	195,208
Derivative instruments	392	18,154
Renewable energy certificate obligations	11,841	17,839
Other	20,701	20,031
Total current liabilities	519,308	523,901
Other non-current liabilities:		
Regulatory liabilities	245,856	222,710
Asset retirement obligations	10,150	10,080
Deferred income tax liabilities, net	538,229	510,222
Postretirement benefits	121,799	181,829
Environmental remediation costs	135,529	132,651
Derivative instruments	1,224	2,289
Other	25,230	17,111
Total other non-current liabilities	1,078,017	1,076,892
Capitalization:		
Shareholders' equity	1,904,300	1,815,660
Long-term debt	841,990	843,072
Total capitalization	2,746,290	2,658,732
Total liabilities and capitalization	\$ 4,343,615	\$ 4,259,525

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

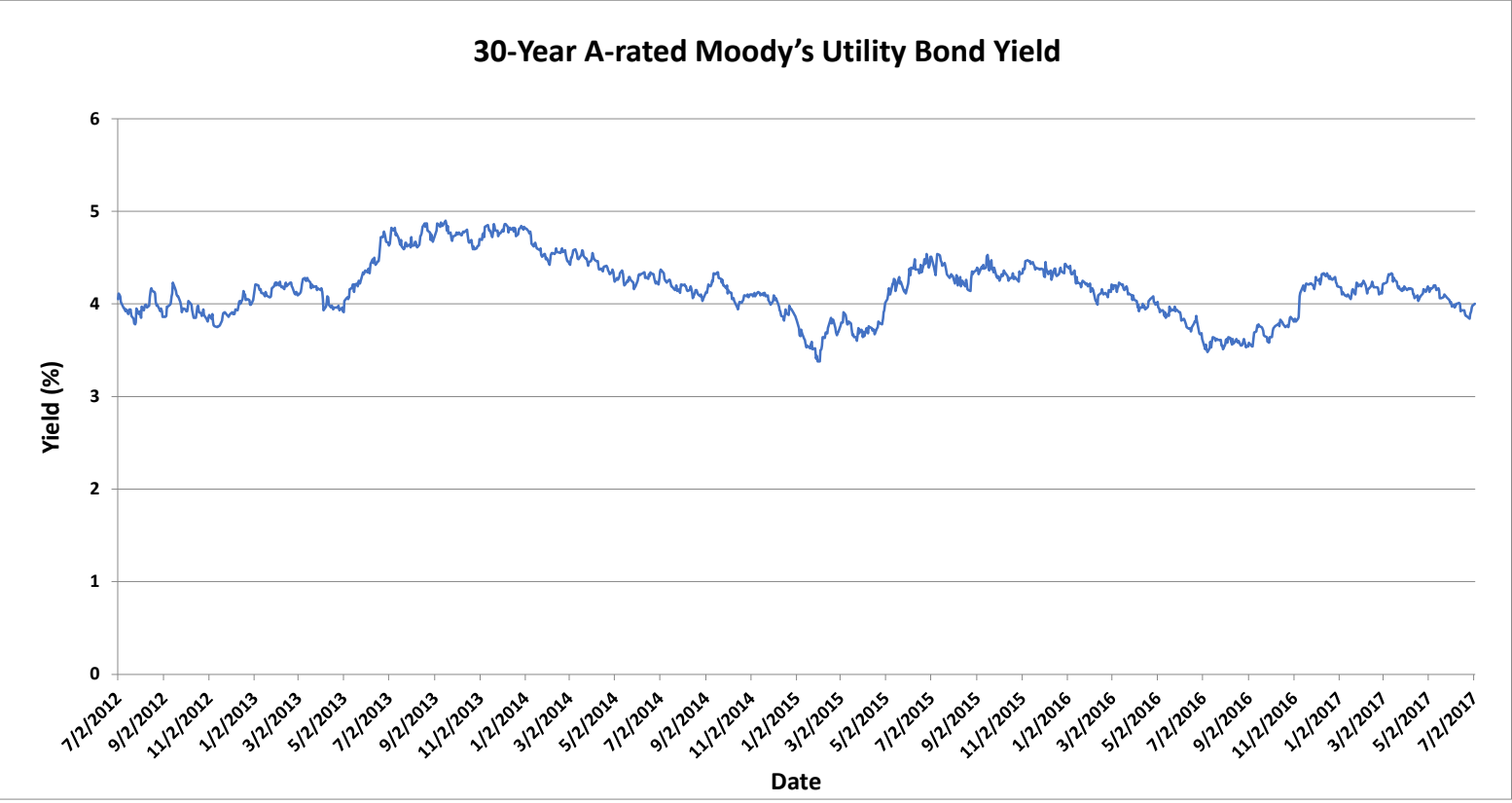
The Narragansett Electric Company Capital Structure (\$000)

	Capital Structure As of 3/31/2017		Ratemaking Adjustments	Capital Structure for Ratemaking As of 3/31/2017		Financing Plan	Other Changes	Capital Structure After Financing As of 3/31/2018	
	Balance	Ratio		Balance	Ratio			Balance	Ratio
	Long-Term Debt	\$843,365		29.33%				\$843,365	39.21%
Short-Term Debt	125,659	4.37%		125,659	5.84%	(\$125,000)	\$21,589 (b)	22,248	0.99%
Preferred Stock	2,454	0.09%		2,454	0.11%			2,454	0.11%
Common Equity	1,904,300	66.22%	(\$724,810) (a)	1,179,490	54.84%	(\$125,000)	\$85,358 (c)	1,139,848	50.48%
Total Capitalization	<u>\$2,875,778</u>	<u>100%</u>		<u>\$2,150,969</u>	<u>100%</u>			<u>\$2,257,915</u>	<u>100%</u>

(a) Exclude goodwill

(b) Including forecasted increase in short-term debt from 3/31/17 to 3/31/18

(c) Including forecasted increase in retained earnings from 3/31/17 to 3/31/18



The Narragansett Electric Company d/b/a National Grid
APPLICATION FOR BORROWING AUTHORITY
NOTICE OF FILING
Division Docket No. D-17-_____

On September 8, 2017, pursuant to the Rhode Island General Law § 39-3-15, §39-3-17 and Section 14 of the Division of Public Utilities and Carriers' ("Division") Rules of Practice and Procedure, The Narragansett Electric Company d/b/a National Grid ("National Grid" or the "Company ") hereby gives notice that it has filed with the Division an Application to issue, from time to time, new long-term debt not to exceed an aggregate principal amount of \$925 million outstanding at any one time through the period ending three years after the Division approves the Company's Application ("New Debt"), with an option for a two-year extension provided that the Company demonstrates that the purpose of the issuances continues to serve a legitimate utility purpose. The purpose of the New Debt is to accomplish one or more of the following: (i) to refinance short-term debt with long-term debt; (ii) to finance the Company's capital needs; (iii) to construct utility plant and properties; (iv) to reimburse the treasury; (v) to fund maturing debt; and (vi) other general corporate purposes, including but not limited to the restructuring of the Company's capitalization and consisting of taxable bonds, medium or long-term notes, revolving credit loans, and term or bank loans and similar securities.

A copy of the application is on file for examination at National Grid, 280 Melrose Street, Providence, Rhode Island, and at the offices of the Division, 89 Jefferson Boulevard, Warwick, Rhode Island. A copy of the filing was also provided to the Rhode Island Attorney General's Department, Consumer Division. Reference is made to Chapters 39-3-15 and 39-3-17 of the Rhode Island General Laws.

Please note that the Division is accessible to the handicapped, and that individuals requesting interpreter services for the hearing impaired must contact the Clerk seventy-two hours in advance of the hearing.

National Grid