BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF AVANGRID, INC., AVANGRID NETWORKS, INC., NM GREEN HOLDINGS, INC., PUBLIC SERVICE COMPANY OF NEW MEXICO AND PNM RESOURCES, INC. FOR APPROVAL OF THE MERGER OF NM GREEN HOLDINGS, INC. WITH PNM RESOURCES, INC.; APPROVAL OF A GENERAL DIVERSIFICATION PLAN; AND ALL OTHER AUTHORIZATIONS AND APPROVALS REQUIRED TO CONSUMMATE AND IMPLEMENT THIS TRANSACTION	**) Case No. 20-00222-UT**
AVANGRID, INC., AVANGRID NETWORKS, INC., NM GREEN HOLDINGS, INC., PUBLIC SERVICE COMPANY OF NEW MEXICO AND PNM RESOURCES, INC.,	**)**
JOINT APPLICANTS.	**)**

JULY 29, 2021 REBUTTAL TESTIMONY

OF

ELLEN LAPSON, CFA

July 29, 2021

NMPRC CASE NO. 20-00222-UT
INDEX TO THE JULY 29, 2021 REBUTTAL
TESTIMONY OF ELLEN

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Ellen Lapson. I am the founder and principal of Lapson Advisory, a division of Trade Resources Analytics, LLC. My business address is 370 Riverside Dr., New York, NY 10025.

Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS MATTER?

A. Yes. I submitted Direct Testimony on behalf of the Joint Applicants on November 23, 2020 and Rebuttal Testimony on April 21, 2021.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My purpose is to respond to erroneous and misleading comments regarding financial aspects of the Proposed Transaction made by Mr. Christopher K. Sandberg appearing on behalf of New Energy Economy ("NEE") in his testimony of July 16, 2021.[1] Specifically, I focus upon his Issue 7 (Cost of Capital). His testimony demonstrates a faulty understanding of the debt and equity funding of PNM with or without the planned Transaction. I will respond to his erroneous

[1] Testimony and Exhibits in Opposition to the Proposed Transaction and Second Amendment Stipulation, Christopher K. Sandberg, on behalf of New Energy Economy, July 16, 2021.

assertions regarding the cost and amounts of debt issuance and the equity needs of Public Service Company of New Mexico ("PNM").

III. REBUTTAL

Q. PLEASE SUMMARIZE MR. SANDBERG'S ALLEGED ISSUES REGARDING PNM'S COST OF CAPITAL AND YOUR REACTION TO HIS ISSUES.

A. In his Issue 7, Mr. Sandberg asserts that commitments by Avangrid to issue no new debt in conjunction with the proposed Transaction and to extinguish the debt of PNM Resources ("PNMR") are "insufficient".[2] Mr. Sandberg also asserts that there are inconsistencies in various responses by the Joint Applicants to questions about the amounts and costs of debt financing.[3] Mr. Sandberg misinterprets statements by the Joint Applicants regarding "replacement debt", and he asserts that the cost of refinancing existing short-term debt with long-term debt will result in higher capital costs.[4] Mr. Sandberg also claims to find inconsistencies in the Joint Applicants' responses regarding common equity issuance.[5] I disagree with Mr. Sandberg on all the points he raises in his Issue 7, and I reiterate my view expressed in my Direct Testimony and my prior Rebuttal Testimony that the proposed Transaction will improve PNM's future access to capital and the greater financial strength of the combined company will benefit PNM customers by permitting the

[2] Ibid. at 44-45.
[3] Ibid. at 45-46.
[4] Ibid. at 46-48.
[5] Ibid. at 49.

funding of its needs for debt capital at lower costs than would be the case under the current ownership structure with PNM Resources alone.

Q. PLEASE RESPOND TO WITNESS SANDBERG'S CLAIM THAT THE COMMITMENT IN THE SECOND AMENDED STIPULATION REGARDING THE EXTINGUISHMENT OF ALL DEBT AT PNMR IS MEANINGLESS.

A. In the Second Amended Stipulation, the Joint Applicants commit to extinguish all debt at PNMR, reduce it to zero within 90 days following the closing of the Proposed Transaction, and maintain it at zero going forward for as long as Avangrid has an indirect ownership interest in PNMR (unless authorized in advance by the Commission). NEE witness Sandberg asserts that this commitment is meaningless for two reasons: first, because this commitment was made in prior filings by the Joint Applicants and is not novel, and second, because "1978 NMSA § 62-6-6 requires Commission approval of new debt." However, Mr. Sandberg's critique is wrong on both counts. First, the commitment by Avangrid to eliminate PNMR's debt and keep PNMR debt-free thereafter is an important and profound benefit of the Proposed Transaction, even if it existed before the Second Amended Stipulation. The elimination of PNMR debt will be the basis for improved credit ratings of PNMR, and that in turn will allow for a credit upgrade for PNM by S&P Global Ratings, as I testified previously.[6]

[6] Lapson Rebuttal Testimony, April 21, 2021, at 5:13-20.

Furthermore, the commitment refers to PNMR, the holding company. PNMR is not regulated by the NMPRC and thus there is no statute or rule that requires the NMPRC to authorize new debt at PNMR or prevents PNMR from issuing new debt absent such authorization. Therefore, the commitment by Avangrid and the Joint Applicants is significant and meaningful, contrary to Mr. Sandberg's claim.

Q. PLEASE COMMENT ON THE ASSERTIONS OF MR. SANDBERG RELATING TO THE COST OF DEBT CAPITAL AND INCONSISTENCIES IN THE JOINT APPLICANTS' RESPONSES.

A. Mr. Sandberg asserts that any benefit of lower cost of debt from the Proposed Transaction is speculative at best and he further claims that there are various inconsistencies in the responses by Joint Applicants on this point. I strongly disagree with these assertions. It appears to me that his errors derive from his poor understanding of utilities' typical treasury practices and the conventions of the capital markets regarding utility finance.

Mr. Sandberg refers to a question to the Joint Applicants asking if the Joint Applicants will commit to hold customers harmless from increases in the cost of replacement debt.[7] He cites the response from Messrs. Azagra and Tarry that the Joint Applicants do not foresee any need to replace the outstanding debt of PNM resulting from the Transaction. By that, the respondents meant that there are no

[7] Sandberg at 46:10-21.

terms or covenants in the existing debt of PNM that requires an early redemption (prepayment) of the PNM bonds because of a change of control. If there was such a mandatory prepayment, it could give rise to costly pre-payment penalties called "make-whole" payments to the holders. But Messrs. Azagra and Tarry correctly stated in their response that since no such early redemptions are required, there will not be any higher costs associated with "replacement debt".

Mr. Sandberg asserts that this is inconsistent with a later response by Mr. Tarry regarding PNM's plan to issue $160 million of senior unsecured notes to refinance maturing bonds and $192 million of new bonds in 2021 and 2023 to fund new investment projects. Mr. Sandberg charges, "PNM clearly does intend to issue replacement debt; it is related to an existing issuance coming due, retirement of short-terms debt, and construction projects, not the proposed transaction."[8] There is no inconsistency in the response of Messrs. Azagra and Tarry, who were accurate in their response, but some confusion on the part of Mr. Sandberg regarding what was meant by "replacement debt."

Q. MR. SANDBERG CLAIMS THAT ISSUING LONG-TERM BONDS AS PERMANENT LONG-TERM FINANCING AT A COST OF 3% TO 3.8% RATHER THAN CONTINUING TO FUND WITH SHORT-TERM DEBT AT 2.19% WILL INCREASE PNM'S COST OF CAPITAL AND RAISE

[8] Ibid. at 46:17-20.

COSTS TO RATEPAYERS.[9] **IS THIS A VALID CRITICISM OF THE PROPOSED TRANSACTION?**

A. No, not at all. It is well known in the field of finance and economics that during most parts of the interest rate cycle, the cost of borrowing for short-term maturities is lower than the interest cost for long-term loans. This is known as an upward-sloping yield curve. PNM cannot continually fund only on a short-term basis. If it sourced all its debt with short-term debt maturities, PNM would be subject to severe liquidity risk. It appears that Mr. Sandberg believes that PNM can or should permanently fund with only short-term debt to reduce customers' rates. This is an impossibility. His analysis makes little sense and reveals a poor understanding of finance.

Q. DO YOU AGREE WITH MR. SANDBERG'S CONTENTION THAT ANY FUTURE FINANCIAL SAVINGS DUE TO LOWER COST OF DEBT CAPITAL AS A RESULT OF THE PROPOSED TRANSACTION ARE SPECULATIVE, UNPROVEN, OR UNLIKELY?

A. No. The interest rates that PNM pays for its short-term borrowings and for long-term debt issuances are influenced primarily by several factors: the level of interest rates for various maturities at the time of the issuance (market rates on US Treasury securities of various maturities), the prevailing market yield spreads between US Treasury securities and the average utility securities of similar maturities, and a

[9] Ibid. at 48:1-9.

credit risk factor that correlates with PNM's credit ratings issued by leading rating agencies. There is no way for any corporation to control changes in the market yield curve over time or the credit spread between utility bonds on average and U.S Treasury bonds, but the likely and predicted result of the Proposed Transaction is a higher credit rating by S&P for PNM, which is likely to improve the pricing of PNM's short-term and new or refunding long-term debt issuance. I stated in my April 2021 rebuttal testimony that "when PNMR is relieved of its parent-level debt, both agencies [S&P and Moody's] will upgrade the credit ratings of PNMR. In the case of S&P, the upgrade for PNMR will lead to an automatic upgrade in S&P's rating of PNM, which will result in lower borrowing costs for PNM when it raises new money in the bond market and credit markets."[10] I still foresee the same benefit today.

Q. DO YOU AGREE WITH MR. SANDBERG'S ASSERTION THAT PMR'S PLANS TO FINANCE ITS FUTURE CAPITAL BUDGETS WITH NEW BONDS IS INCONSISTENT WITH COMMITMENTS THAT THE JOINT APPLICANTS WILL NOT FUND THE ACQUISITION WITH DEBT?

A. No. The Joint Applicants have committed that PNM will not take on any new debt in conjunction with the Proposed Transaction. The future issuance of new debt to retire short-term debt and support PNM's ongoing construction projects is unrelated to the Proposed Transaction. The cost of new or refinanced debt would be

[10] Lapson Rebuttal, April 21, 2021, at 5:17-20.

recoverable in PNM's rates if no Transaction occurs or with the Proposed Transaction. Mr. Sandberg's concerns should properly be restricted to comparing the likely cost of debt to PNM absent the Transaction or with the Transaction. In other words, will PNM's cost of debt as part of the Avangrid family be higher than PNM's cost of debt as a subsidiary of PNM Resources alone? The Joint Applicants responded to this in their reply to NEE Interrogatory 8-22: "Avangrid and Iberdrola have stronger financial profiles and credit ratings than PNM, and therefore, PNM's cost of capital will not be increased as a result of the Proposed Transaction. Moreover, Avangrid intends to extinguish all debt at PNMR after closing."

Mr. Sandberg errs in comparing the amount of PNM's existing (pre-merger) debt to PNM's future (post-merger) debt. PNM will issue new debt regardless of the status of the merger transaction. The appropriate comparison is between the interest rates on PNM's future debt issuance as part of the Avangrid family, compared to the interest rates on future debt PNM would face without being part of Avangrid.

Q. PLEASE ESTIMATE OR QUANTIFY THE BENEFIT OF LOWER INTEREST RATES FOR PNM.

A. I discussed the benefits of lower interest rates in my earlier rebuttal testimony that I filed on April 21. Historically, there has been a difference in 10-year utility bond yield spreads (the difference between the interest yield on a 10-year utility bond and a 10-year U.S. Treasury bond) between PNM's current S&P bond rating of

BBB and BBB+, one notch higher; that is the upgrade that I anticipate for PNM because of the Transaction. If the difference going forward is equivalent to the average difference in those credit spreads from 2007 to 2020, the improvement in PNM's interest rate for 10-year bonds would be 23.5 basis points (0.235%). This may seem like a small number, but PNM is expected to issue new or refinanced debt of almost $1 billion over the period 2022-2025. The difference in the credit spread due to a one-notch upgrade in PNM's credit rating could equate to more than $21 million in savings over the 10-year period that the bonds are assumed to remain outstanding, as indicated in the example in Table EL-1 below.

Table EL-1 Quantifying Benefits to PNM ($000)

Estimated Debt Issuance 2022 -2025 and Related Ten-Year Savings (1)

	New LT Debt	Notes Retired & Refinanced	Tax-Exempt Remarketed (Refinanced)	Total Debt Issued/ Refinanced (2)	Annual savings (3)	Interest Expense Saving 10 Years
2022	-	-	104,500	**104,500**	245.6	2,456
2023	50,000	55,000	130,000	**235,000**	552.3	5,523
2024	-	-	125,000	**125,000**	293.8	2,938
2025	100,000	354,000	-	**454,000**	1,066.9	10,669
2022-2025	**150,000**	**409,000**	**359,500**	**918,500**		**21,585**

(1) Assumes 23.5 basis point benefit with a one-notch increase in PNM's credit rating.
(2) Excludes securitization bond issuances or remarketing of weekly pollution control bonds.
(3) Estimated ten-year effect of bonds issued or refinanced in each year 2022-25.

Thus, I stated in Rebuttal Testimony of April 2021: "When a utility issues bonds with maturities of 10 years or longer, the interest costs will be reflected in customers' rates for decades, and a change in credit ratings that produces a small incremental benefit in year 1 will have a very material aggregate impact as more bonds are issued over a longer time frame."[11]

Q. MR. SANDBERG ASSERTS THAT THE JOINT APPLICANTS HAVE GIVEN INCONSISTENT ANSWERS REGARDING PNM'S FUTURE PLANS TO ISSUE EQUITY. DO YOU AGREE?

A. No, I see no inconsistency. Mr. Sandberg cites one source in which the Joint Applicants responded to an interrogatory by stating that it is not anticipated that PNM will issue any equity securities in the future, by which their intended meaning is that PNM is not publicly listed and does not issue equity securities to the public, nor will it do so in the future. PNM relies on equity infusions from its parent to balance its capital structure, and the Joint Applicants' response reflects this fact. In a response to another interrogatory, the Joint Applicants stated they plan to keep PNM's capital structure in similar proportions going forward, and Mr. Sandberg infers correctly that the capital construction budget and the planned issuance of debt will require more equity at PNM to maintain the same capital structure. This is basic utility finance. Without the Transaction, the needed equity to balance the capital structure would have to come from PNMR and would generally be contributed at year-end. With the Transaction, equity would be contributed by Avangrid and Iberdrola and, per a commitment from the Joint Applicants to further protect PNM's customers, would be contributed when PNM issues new debt in

[11] Lapson Rebuttal, April 21, 2021, at 11:23 to 12:2.

order to maintain PNM's capital structure on a trailing 13-month average. This is not evidence of inconsistency by the Joint Applicants.

Q. MR. SANDBERG EXPRESSES CONCERN THAT INCREASING PNM'S EQUITY BY $155 MILLION OVER SEVERAL YEARS TO KEEP THE CAPITAL STRUCTURE BALANCED WILL ADD NEARLY $20 MILLION PER YEAR IN ADDITIONAL COST OF CAPITAL. SHOULD THIS BE CONSIDERED A PROBLEM RELATED TO THE TRANSACTION?

A. No. As I understand it, the forward capital budget is the same with or without the Transaction, and if PNM plans to maintain the same capital structure with or without the Transaction, then adding equity to PNM is not a product of the Transaction. I cannot speak to the accuracy of Mr. Sandberg's estimate of the future equity needed to balance PNM's capital structure or his estimate of the future cost of equity capital.

Q. WAS THERE A RECENT CHANGE IN MOODY'S CREDIT RATING OF AVANGRID ON JULY 20?

A. Yes. On July 20, 2021 Moody's announced that it has lowered Avangrid's senior unsecured credit rating from Baa1 to Baa2. Moody's announced that Avangrid's rating outlook after the rating downgrade is Stable; previously it was Negative.[12]

[12] Moody's, "Rating Action: "Rating Action: Moody's Downgrades Avangrid to Baa2; NYSEG and RGE to Baa1," July 20, 2021. (See JA Exhibit EL-1 (July 29, 2021))

The following table EL-2 shows the relative credit ratings and rating outlooks of PNMR, Avangrid and Iberdrola earlier in this proceeding and currently.

Table EL-2: Comparative Ratings for Transaction Entities

	PNM	PNMR	Avangrid		Iberdrola
			PRIOR (a)	**NEW (b)**	
S&P					
Issuer Rating	BBB	BBB	BBB+	BBB+	BBB+
Senior Unsecured Notes	BBB	BBB-	BBB	BBB	BBB*
Short-term debt	A-2	--	A-2	A-2	A-2
Outlook before 10/21/20	Stable	Stable	Stable	Stable	Stable
Outlook 10/21/20	Positive	Positive	Stable	Stable	Stable
Current Outlook	Positive	Positive	Stable	Stable	Stable
Moody's					
Issuer Rating	Baa2	Baa3	Baa1	**Baa2**	Baa1
Senior Unsecured Notes	Baa2	Baa3	Baa1	**Baa2**	Baa1
Short-term debt	A-2	--	P-2	P-2	P-2
Outlook before 10/21/20	Stable	Stable	Negative	--	Stable
Outlook 10/21/20	Stable	Stable	Negative	--	Stable
Current Outlook	Stable	Stable	--	**Stable**	Stable
Notes					
(a) Moody's ratings before 7/20/21.					
(b) Moody's ratings as of 7/20/21.					

The resulting Moody's rating of Baa2 is equivalent to S&P's current rating for Avangrid's senior unsecured notes of BBB. S&P's Issuer Rating and Group Rating for Avangrid are BBB+. I do not expect any change by S&P regarding Avangrid. Currently, Avangrid's ratings by each agency is one notch higher than their rating of PNMR.

Q. IS YOUR VIEW OF THE TRANSACTION OR THE PROSPECT FOR AN IMPROVED CREDIT RATING FOR PNM UPON MERGER WITH AVANGRID ALTERED AFTER MOODY'S RATING ACTION?

A. No, I have not changed my favorable view of the financial benefits of the Proposed Transaction for PNM. It remains true that Avangrid's financial condition and credit ratings are stronger than those of PNMR. I have consistently viewed two important financial benefits of the Transaction to be: (1) I expect S&P to upgrade PNM's rating by one-notch to BBB+ from BBB, as well as a one-notch upgrade in PNMR's rating; and (2) Avangrid and Iberdrola are stronger and more diversified than PNMR. I still have great confidence in both these benefits.

IV. CONCLUSIONS

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. The financial issues NEE Witness Sandberg raises in his Issue #7 are groundless. I find that the inconsistencies that he alleges are likely a product of his inexperience in financial matters. Contrary to Mr. Sandberg's objections, the Proposed Transaction offers real and quantifiable financial benefits for PNM customers and PNM will be a stronger and more financially flexible utility.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

GCG#528640

MOODY'S
INVESTORS SERVICE

Rating Action: Moody's downgrades Avangrid to Baa2, NYSEG and RG&E to Baa1 and upgrades CNG to A2; all outlooks stable.

20 Jul 2021

New York, July 20, 2021 -- Moody's Investors Service ("Moody's") today downgraded the long-term ratings of Avangrid, Inc. to Baa2 from Baa1 and the long-term ratings of its two New York utilities, New York State Electric and Gas Corporation (NYSEG) and Rochester Gas & Electric Corporation (RG&E) to Baa1 from A3.

At the same time, Moody's affirmed Avangrid's P-2 commercial paper rating and upgraded Connecticut Natural Gas Corporation (CNG) to A2 from A3. A list of all affected debt securities can be found toward the end of this press release.

The outlooks for Avangrid, NYSEG, RG&E and CNG are stable.

RATINGS RATIONALE

"Avangrid's financial profile exhibits a sustained period of higher leverage amid a period of high execution-risk capital projects" said Ryan Wobbrock, Vice President -- Senior Credit Officer. "Despite the strategic and financial support evidenced by its majority owner, Iberdrola S.A. (Baa1 stable), Avangrid's targeted ratio of CFO pre-WC to debt of about 14.5% is consistent with the Baa2 rating category for a low-risk, diversified utility holding company" added Wobbrock.

The downgrade of Avangrid reflects 1) weaker financial ratios, such as cash flow from operations before changes in working capital (CFO pre-WC) to debt of 16% through LTM Q1 2021 (normalized to exclude a now-retired term loan), which has declined from an average of approximately 23% during the 2015-2018 timeframe and is expected to decline to about 13% in 2022, 2) a $4 billion higher-risk capital program through 2025, $3.1 billion of which is for first-time construction of utility-scale offshore wind generation resources in the US and $1.0 billion for a contested 1,200 megawatt electric transmission line in Maine, and 3) heightened political influence and uncertainty in utility rate making, including financial penalties, in Avangrid's two largest regulatory environments, New York (representing about 30% of total utility rate base) and Connecticut (roughly 20% of consolidated rate base).

Since Avangrid's 2015 initial public offering (IPO) of 18.5% ownership, the company has maintained a more standalone financing approach for organic operations, including the issuance of about $2.1 billion of public long-term holding company debt, and maintains its own $2.5 billion revolving credit facility. Since the IPO, the company has also been paying a consistent dividend to its owners, now targeting a 65-75% payout ratio.

At the same time, we recognize the supportive ownership and sizeable balance sheet of Iberdrola, which has shown considerable influence in Avangrid's bid to acquire PNM Resources, Inc. (PNMR, Baa3 stable), including the infusion of $3.26 billion of equity (which replaced an intercompany $3.0 bridge loan) and helping to facilitate the remaining $740 million equity purchase with an external party. We view Iberdrola's efforts to maintain 81.5% ownership of Avangrid as further evidence of the strategic importance that US investments play for Iberdrola and its earnings growth targets.

We recognize Iberdrola's influence and support in the financial thresholds for factors that could change Avangrid's Baa2 rating (i.e., consistently below 13% for a downgrade to Baa3 or above 16% to be upgraded to Baa1), which are more lenient than most Baa2-peer ratios. We also see limits in Iberdrola's support, since there is no formal guarantee of Avangrid's debt obligations.

New York Utilities

The downgrade of NYSEG and RG&E reflect the financial implications of their combined three year rate plan, which will keep CFO pre-WC to debt ratios in the mid-teen's range over the next two years, in addition to heightened political intervention into New York's utility rate making and financial performance.

For both utilities, we expect financial ratios to improve over their LTM Q1 2021 levels (e.g., about 7% for NYSEG and 14% for RG&E) due to backloaded revenue increases for the April 2020 -- April 2023 rate plan, as a way to help customers face the 2020 economic hardships of the COVID-19 pandemic. Despite the year-over-year revenue improvement, cash flow growth will be mitigated by other rate features, such as excess depreciation reserves and amortization of regulatory assets and liabilities. We expect the net effect of these rate features will result in CFO pre-WC to debt ranging between 12-16% for both companies over the next two-to-three years.

These financial ratios are down from historical levels while political intervention into utility finances has increased. Over the past two years, we have observed heightened gubernatorial rhetoric, regulatory investigations, and legislative proposals that risk higher financial penalties for utility underperformance and challenge utility franchise rights. These efforts undermine the consistency and predictability of the state's regulatory framework, at minimum, and could also hurt the legislative and judicial underpinnings of the New York utility regulatory environment if punitive laws are passed.

Connecticut Natural Gas

CNG's upgrade to A2 reflects the company's strong financial performance, underpinned by strong cost recovery provisions for operating and capital expenditures and the ability to earn solid returns.

Despite greater uncertainty within Connecticut regarding the future regulatory framework (e.g., legislation has been passed that includes the potential for a performance-based rate paradigm) and greater uncertainty associated with political and regulatory support of some utilities (mostly electric distribution companies), we believe that CNG is better positioned than most peers to continue its strong financial performance. This is due to CNG's gas distribution asset profile, 55% equity capitalization and ongoing rate recovery of about $25 million of infrastructure replacement investments that will be maintained after its rate plan expires in 2021. As such, we believe that CNG will produce CFO pre-WC to debt metrics at or above 25% over the next 12-18 months.

Outlooks

Avangrid's Baa2 rating and stable outlook reflects its market position as a diversified utility holding company, underpinned by its low-risk Networks business and highly contracted Renewables segment that should generate ratios of CFO pre-WC to debt between 13% and 15% over the next three years, assuming some balanced funding of major projects with debt and equity. The stable outlook also incorporates the prospects for further geographic diversity and lower business risk due to its $8 billion acquisition of PNMR. The acquisition is still pending and requires approval from the Public Service Commission of New Mexico, which Avangrid expects to receive by year-end 2021.

NYSEG and RG&E's stable outlooks incorporate a view that currently weak financial metrics should improve over the next two years to the mid-teen's percent range. The outlooks also consider a more unpredictable political environment in New York, which could result in more financial penalties on state utilities in the coming years.

CNG's stable outlook reflects CFO pre-WC to debt ratios expected to remain above 25% and the strong regulatory provisions inherent in its current rate plan, which will remain intact until the company files for new general rates.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Factors that could lead to an upgrade

Avangrid's rating could be upgraded if CFO pre-WC to debt were to improve to 16% or higher, with a significant portion of large capital projects having been completed.

NYSEG and RG&E's ratings could be upgraded if CFO pre-WC to debt ratios achieved 19% on a sustainable basis and political intervention moderated.

CNG's rating could be upgraded if stability and supportiveness in the Connecticut regulatory framework were to be maintained while the company's financial metrics were to improve, such as CFO pre-WC to debt in the high 20% range on an ongoing basis.

Factors that could lead to a downgrade

Avangrid's rating could be downgraded if CFO pre-WC to debt were to fall further, below 13% for a sustained period; if the large capital projects experience significant cost overruns or delays; or if regulatory and political support for the Networks business deteriorates further.

NYSEG and RG&E's ratings could be downgraded if CFO pre-WC to debt ratios decline consistently below 14% or if the New York regulatory and political environment become incrementally more punitive.

CNG's rating could be downgraded if the Connecticut regulatory framework and the company's cost recovery provisions were to become less supportive, or if CNG's financial metrics were to decline, such that the ratio of CFO pre-WC to debt were closer to 20%.

Headquartered in Orange, CT with approximately $39 billion in assets and operations in 24 U.S. states, AVANGRID has two primary lines of business: Avangrid Networks and Avangrid Renewables. Avangrid Networks owns eight electric and natural gas utilities, serving more than 3.3 million customers in New York and New England. Avangrid Renewables owns and operates a portfolio of renewable energy generation facilities across the United States.

Iberdrola, S.A., a corporation organized under the laws of the Kingdom of Spain, owns 81.5% of the outstanding common stock of Avangrid. The remaining outstanding shares are publicly traded on the New York Stock Exchange and owned by various shareholders.

Affirmations:

..Issuer: Avangrid, Inc.

....Senior Unsecured Commercial Paper, Affirmed P-2

Downgrades:

..Issuer: Avangrid, Inc.

.... Issuer Rating , Downgraded to Baa2 from Baa1

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa2 from Baa1

....Senior Unsecured Shelf, Downgraded to (P)Baa2 from (P)Baa1

..Issuer: New York State Electric and Gas Corporation

.... Issuer Rating, Downgraded to Baa1 from A3

....Senior Unsecured Regular Bond/Debenture, Downgraded to Baa1 from A3

..Issuer: Indiana County I.D.A., PA

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: New York State Energy Research & Dev. Auth.

....Senior Secured Revenue Bonds, Downgraded to A2 from A1

....Underlying Senior Secured Revenue Bonds, Downgraded to A2 from A1

....Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

....Underlying Senior Unsecured Revenue Bonds, Downgraded to Baa1 from A3

..Issuer: Rochester Gas & Electric Corporation

.... Issuer Rating, Downgraded to Baa1 from A3

....Senior Secured First Mortgage Bonds, Downgraded to A2 from A1

....Underlying Senior Secured First Mortgage Bonds, Downgraded to A2 from A1

Upgrades:

..Issuer: Connecticut Natural Gas Corporation

....Senior Unsecured Regular Bond/Debenture, Upgraded to A2 from A3

Outlook Actions:

..Issuer: Avangrid, Inc.

....Outlook, Changed To Stable From Negative

..Issuer: Connecticut Natural Gas Corporation

....Outlook, Changed To Stable From Positive

..Issuer: New York State Electric and Gas Corporation

....Outlook, Changed To Stable From Negative

..Issuer: Rochester Gas & Electric Corporation

....Outlook, Changed To Stable From Negative

The principal methodology used in these ratings was Regulated Electric and Gas Utilities published in June 2017 and available at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1072530 . Alternatively, please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE JOINT APPLICATION OF AVANGRID, INC., NM GREEN HOLDINGS, INC., PUBLIC SERVICE COMPANY OF NEW MEXICO AND PNM RESOURCES, INC. FOR APPROVAL OF THE MERGER OF NM GREEN HOLDINGS, INC. WITH PNM RESOURCES, INC.; APPROVAL OF A GENERAL DIVERSIFICATION PLAN; AND ALL OTHER AUTHORIZATIONS AND APPROVALS REQUIRED TO CONSUMMATE AND IMPLEMENT THIS TRANSACTION	**) Case No. 20-00222-UT**
AVANGRID, INC., NM GREEN HOLDINGS, INC., PUBLIC SERVICE COMPANY OF NEW MEXICO AND PNM RESOURCES, INC.,	
JOINT APPLICANTS.	

SELF AFFIRMATION

ELLEN LAPSON, CFA, founder, and principal of Lapson Advisory, a division of Trade Resources Analytics, LLC., upon penalty of perjury under the laws of the State of New Mexico, affirm and state: I have read the foregoing **July 29, 2021 Rebuttal Testimony of Ellen Lapson, CFA** and it is true and correct based on my personal knowledge and belief.

DATED this 29th day of July, 2021.

/s/ Ellen Lapson, CFA
ELLEN LAPSON, CFA

GCG # 528636