

**BEFORE THE STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Verified Petition of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Storm Securitization Financing Orders for Authorization Pursuant to Section 3 of the New York Utility Corporation Securitization Act to use Securitization to Recover Certain Recovery Costs and Approval of Tariffs Creating Each Company's Recovery Charge to Recover Recovery Costs)
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**VERIFIED PETITION OF
NEW YORK STATE ELECTRIC & GAS CORPORATION AND
ROCHESTER GAS AND ELECTRIC CORPORATION
FOR STORM SECURITIZATION FINANCING ORDERS FOR AUTHORIZATION
PURSUANT TO SECTION 3 OF THE NEW YORK UTILITY CORPORATION
SECURITIZATION ACT TO USE SECURITIZATION TO RECOVER CERTAIN
RECOVERY COSTS AND APPROVAL OF TARIFFS CREATING EACH COMPANY'S
RECOVERY CHARGE TO RECOVER RECOVERY COSTS**

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Dated: August 23, 2024

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New York State Electric & Gas Corporation (“NYSEG”) and Rochester Gas and Electric Corporation (“RG&E”), each individually a “Company” and together the “Companies,” hereby petition the New York State Public Service Commission (“Commission”) for Company-specific Storm Securitization Financing Orders (the “Financing Orders”), pursuant to subdivision 1 of Section 3 of the New York Utility Corporation Securitization Act (the “Act”),¹ to allow the Companies to finance their Recovery Costs and Financing Costs using securitization structures authorized by the Act, as further described below. Specifically, the Companies request the Commission:

(1) Grant authorization for the financing of each Company’s Recovery Costs found

¹ Chapter 224 of the Laws of 2024.

to have been reasonably and appropriately incurred using the securitization structure proposed by such Company and permitted by the Act;

(2) Find that each Company's Recovery Costs and upfront Financing Costs are appropriately financed by debt secured by its Recovery Property;

(3) Issue the Financing Orders proposed by the Companies, which will authorize the Companies to accomplish such securitization transactions, so that the Companies may recover their appropriately incurred Recovery Costs;

(4) Approve the Recovery Charges imposed under each Financing Order;

(5) Approve the language in the proposed tariffs with respect to each Financing Order's Recovery Charges;

(6) Approve that the Recovery Charges imposed by each Financing Order are to be adjusted at least semi-annually (quarterly beginning 12 months prior the scheduled final payment date for the latest maturing tranche of Recovery Bonds issued pursuant to such Financing Order) to correct any over-collection or under-collection to ensure recovery of the amounts sufficient to provide timely payment of principal and interest on the respective Recovery Bonds and ongoing Financing Costs and to replenish amounts drawn down from the Capital Subaccount² of each Company's special purpose entity ("SPE") and that Recovery Charges created by each Financing Order may be adjusted on an interim basis at any time if the Servicer forecasts that collections will be insufficient to timely pay scheduled principal and interest on the respective Recovery Bonds or other ongoing Financing Costs or to replenish amounts drawn down from the respective Capital Subaccount;

² Capitalized terms not otherwise defined herein have the same meaning set forth in the Act or the Proposed Financing Orders attached hereto.

(7) Provide and pledge that after the earlier of the transfer of each Company's Recovery Property to each of the SPEs or the issuance of the respective Recovery Bonds, each Financing Order will become irrevocable until the indefeasible payment in full of the respective Recovery Bonds and associated Financing Costs and that except as provided in subdivision 8 of Section 3 of the Act or as required by the true-up mechanism (as described herein) the Commission will not amend, modify or terminate the Financing Orders by any subsequent action or reduce, impair, postpone, terminate or otherwise adjust the Recovery Charges collected pursuant to the Financing Orders until full compensation, including full cost recovery, is made for the full protection of the Recovery Charges collected pursuant to the Financing Orders and the full protection of the holders of the respective Recovery Bonds and any assignees or financing parties;

(8) Provide, as permitted by subdivision 9 of Section 4 of the Act, that the respective Recovery Property be created by operation of law upon the issuance of the respective Recovery Bonds; and

(9) Grant any other and further relief which the Commission deems appropriate and necessary to allow the Companies to accomplish such financing using securitization structures authorized by the Act, so that each Company may recover its appropriately incurred Recovery Costs.

Finally, the Companies specifically request that the Commission's Financing Orders in this proceeding incorporate the findings of fact, conclusions of law, and proposed ordering paragraphs set forth in the Proposed Financing Orders, attached hereto as Attachment A (for NYSEG) and Attachment B (for RG&E).³

³ The Proposed Financing Orders are not intended to prejudge the outcome of this proceeding but instead are being provided as an aid to the Commission given that this is a matter of first impression and due to the extremely specific nature of the findings and conclusions required by the Act and those required by the credit

For the reasons discussed in detail below, the relief requested in this Petition is prudent and would provide a net benefit to customers. Accordingly, the Companies respectfully request the Commission expeditiously grant the Petition in its entirety.

I. BACKGROUND AND EXECUTIVE SUMMARY

Destructive storms that once occurred every 100 years are now occurring regularly in New York State. These damaging storms have wreaked havoc on the state’s infrastructure, including electric transmission and distribution systems, and have significantly increased the number of storm-related customer outages, which in turn has significantly increased storm restoration expense for utility companies. The Companies have not been immune from the havoc wrought by these storms nor the associated significant increases in their storm restoration costs. After each storm, the Companies engage in extensive and expensive repair activities needed to fix the storm damage and return customers to service.

Over nearly the last decade, the Companies have incurred approximately \$750 million (\$680 at NYSEG and \$70 million at RG&E) of expense to serve customers during and after storms that has yet to be collected from customers. The Companies are greatly appreciative of the Commission’s and New York State Department of Public Service Staff’s (“Staff”) support for the Companies’ critical rate plan in Cases 22-E-0317 and 22-E-0319 (“2023 Rate Plan”)⁴

rating agencies to award the Recovery Bonds the highest possible credit rating. While the form of the Proposed Financing Orders varies from a typical Commission Order, the credit rating agencies are familiar with this format and it provides all the findings of fact, conclusions of law and ordering paragraphs that the credit rating agencies are expected to need to award the Recovery Bonds the highest possible credit rating. Accordingly, to the extent the Commission does not adopt the form of the Proposed Financing Orders, as noted above, the Companies respectfully request that the findings of fact, conclusions of law, and ordering paragraphs set forth in the Proposed Financing Orders be incorporated into and/or included as appendices to any Commission Financing Order granting the Companies the authority requested herein.

⁴ Cases 22-E-0317 and 22-E-0319 – Proceedings on Motion of the Commission as to the Rates, Charges, Rules and Regulations of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Electric Service, Order Adopting Joint Proposal (Oct. 12, 2023).

which, among other things, increased rate support for storm costs. However, even with the relief provided in the 2023 Rate Plan, the rate allowances for storms have not kept pace with paying back the legacy storm costs and covering going forward storm costs. Moreover, given the current level of major storm activity, storm-related expenses are expected to continue to outpace the amount provided for in the Companies' rates, thus causing the Companies' major storm regulatory assets to continue to grow. Ultimately, these legacy storm costs need to be addressed and collected from customers through rates.

In recognition of this fact and in response to the impacts of the storms, on August 14, 2024, Governor Kathy Hochul signed the Act into law creating a new tool (securitization) to enable New York utilities to finance storm Recovery Costs at an expected lower rate than would otherwise be possible under traditional ratemaking, resulting in lower costs for customers. The Act was supported by 21 labor, business, and economic development organizations from across New York State.⁵ Through this Petition, and the supporting Attachments, the Companies seek to take advantage of the Act by obtaining Financing Orders that will allow for the recovery of each Company's Recovery Costs through securitization.

Specifically, securitization will enable financing of each Company's Recovery Costs at a much lower cost than traditional ratemaking would allow (i.e., approximately 4.78% based on market conditions as of August 6, 2024, versus 8.08% and 8.27%, the weighted average cost of capital for NYSEG and RG&E, respectively). All of these benefits will flow directly to customers. The Companies estimate that recovery of the Recovery Costs and associated upfront Financing Costs through securitization will result in expected customer cost-saving benefits of

⁵ See Attachment L.

approximately \$91.6 million for NYSEG customers and approximately \$5.7 million for RG&E customers on a net present value basis.

If the Companies' Recovery Costs are recovered through securitization, on an annualized basis, the average SC1 (residential) customer using 600 kilowatt-hours per month would see a 5.97% total increase at NYSEG and a 1.43% total increase at RG&E in the first year,⁶ and on average a 4.31% total increase at NYSEG and a 1.01% total increase at RG&E over the ten-year period,⁷ compared to bills under Rate Year 3 of the 2023 Rate Plan.⁸ These bill impacts compare favorably to the higher bill impacts that would occur if the Companies' Recovery Costs were recovered under a three-year or ten-year amortization of such costs using the weighted average cost of capital. Such a three-year amortization would result in total bill impacts of 12.44% and 2.72% for the average SC1 (residential) customer at NYSEG and RG&E, respectively. A ten-year amortization of the costs using the weighted average cost of capital would result in total bill impacts of 4.78% and 1.06% for the average SC1 (residential) customer at NYSEG and RG&E, respectively.

Securitization of the Recovery Costs is also expected to help address the substantial, deleterious impact that storm restoration expense has had on the Companies' cash flow, which in turn, has had a negative impact on the Companies' credit ratings. Before the 2023 Rate Plan was approved by the Commission, NYSEG and RG&E had CFO Pre-WC/Debt ratios of 2.6% and

⁶ The annualized first year increases reflect an average of the Rate Period 1 and Rate Period 2 monthly increases that are set forth in Attachment I (Schedule 1, page 1 and Schedule 2, page 1 for NYSEG; and Schedule 3, page 1 and Schedule 4, page 1 for RG&E).

⁷ This differential is due to a timing issue as discussed further in Section VI.D.2 below.

⁸ As further described in Section VI.D.2 below, since a portion of the storm regulatory assets to be securitized are currently included within rate base pursuant to the 2023 Rate Plan, once the storm regulatory asset is financed using securitization, NYSEG and RG&E will begin creating a regulatory liability equivalent to the revenue requirement of the storm regulatory assets that were previously amortized and included in base rates.

6%, respectively – levels that could fall into the category of “below investment grade” or “junk bond” status based on rating agency credit metrics. The 2023 Rate Plan was expected to improve cash flow to debt ratios assuming normal conditions (i.e., no increased storm activity). Unfortunately, the Companies have continued to see increased storm activity. Thus, despite the 2023 Rate Plan, NYSEG and RG&E have not seen improvement in their credit metrics due to persistently high storm-related expenses. Essentially, NYSEG and RG&E have each been self-financing the excessive differentials between actual Recovery Costs and the amount collected in rates, which has dramatically reduced cash flows. Consequently, the annual expenses for storm restoration continue to negatively impact each Company’s credit metrics.

For example, on August 1, 2024, Fitch downgraded NYSEG’s outlook from “stable” to “negative.” Fitch explained in its press release (provided in Attachment H) that its revision “reflects persistently weak FFO leverage that Fitch expects will average 5.3x through 2025-2026.” Fitch observed, however, that “if approved, the use of securitization to recover excess storm costs [beyond those currently being collected in rates] ... are also beneficial. Discussions between NYSEG and [Staff] to reduce regulatory lag and allow timely recovery of capital investments and storm expenses are ongoing. A constructive outcome can lead to strengthening of NYSEG’s financial profile.”

For these reasons, the Companies respectfully request that the Commission issue Financing Orders and make the requisite findings of fact and conclusions of law to allow the Companies to individually proceed with the securitization of the Recovery Costs and Financing Costs as described herein.

In further support of this Petition, the Companies have attached hereto, and made part of this Petition, the following: (1) Proposed Financing Orders for NYSEG and RG&E

(Attachments A and B, respectively); (2) proposed tariff language for NYSEG and RG&E (Attachments C and D, respectively); (3) an Affidavit and associated Exhibits from Marquis Gilmore, a Managing Director with J.P. Morgan Securities LLC (“J.P. Morgan”) (Attachment E); (4) Financing Costs for each Company (Attachment F); (5) Recovery Costs for each Company (Attachment G); (6) Press Release of Fitch Ratings (Attachment H); (7) Securitization Total Bill Impacts for NYSEG and RG&E (Attachment I); (8) Securitization Delivery Bill Impacts for NYSEG and RG&E (Attachment J); (9) Illustration of Net Present Value (“NPV”) Benefit to Customers of Recovery of Recovery Costs Through Securitization Compared to Recovery of Recovery Costs Through Traditional Method of Financing (Attachment K); and (10) Letters in Support of the Act (Attachment L).

II. NAME AND ADDRESS OF COMPANIES

The correct name and post office addresses of the Companies are:

New York State Electric & Gas Corporation
18 Link Drive
Binghamton, New York 13904

and

Rochester Gas and Electric Corporation
Three City Center
180 South Clinton Avenue
Rochester, New York 14604

III. NOTICES AND COMMUNICATIONS

Legal counsel for the Companies in this proceeding are as follows:

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Copies of all pleadings, orders and correspondence in this proceeding should be served upon the attorneys listed above.

IV. DESCRIPTION OF THE COMPANIES

NYSEG is an electric and gas corporation organized under the laws of the State of New York in 1852. RG&E is a gas and electric corporation organized under the laws of the State of New York in 1848.⁹ NYSEG and RG&E are indirect wholly-owned subsidiaries of Avangrid Networks, Inc. Avangrid Networks is a wholly-owned subsidiary of Avangrid, Inc., which in turn is a majority-owned subsidiary of Iberdrola S.A. Iberdrola S. A. owns 81.6% of the outstanding shares of Avangrid, Inc. common stock, and the remaining 18.4% of the outstanding shares are traded on the New York Stock Exchange under the ticker AGR.¹⁰ NYSEG’s and RG&E’s Restated Certificates of Incorporation, as amended, are on file with the Commission in Case 12-M-0066.

⁹ NYSEG and RG&E are each a “utility corporation” under the Act.

¹⁰ Iberdrola S.A. is currently seeking Commission authorization to re-acquire the remaining approximately 18.4% of the stock of Avangrid so that Iberdrola again owns 100% of Avangrid’s stock. See Case 24-M-0327 – Joint Petition of Iberdrola, S.A. and Avangrid Inc. for Expedited Approval of a Stock Acquisition Pursuant to Section 70 of the New York Public Service Law, Verified Joint Petition of Iberdrola, S.A. and Avangrid Inc. for Expedited Approval of a Stock Acquisition Pursuant to Section 70 of the New York Public Service Law (filed May 31, 2024).

V. OVERVIEW OF THE STORM SECURITIZATION PROCESS

Securitization is a process by which storm costs, which public utilities are entitled to recover by law, are not financed directly by the Companies at their overall cost of capital (currently, 8.08% for NYSEG and 8.27% for RG&E). Instead, securitization makes use of lower cost bonds (expected to be approximately 4.78% based on market conditions as of August 6, 2024), which are secured by the Recovery Property, including any and all right, title and interest in an irrevocable right to bill and collect Recovery Charges via service-class specific surcharges (“Recovery Charge”) established pursuant to a financing order and to obtain periodic adjustments to such charges to ensure they are sufficient to pay debt service on the bonds and related costs. These Recovery Charges are separate and distinct from the Companies’ base rates. The Recovery Property is sold to a bankruptcy remote SPE¹¹ that is the issuer of the bonds (“Recovery Bonds”).

More specifically, the Recovery Property of NYSEG and RG&E to be sold to the SPEs includes, but is not limited to, any and all right, title, and interest: (i) in and to the Recovery Charge established pursuant to each Financing Order, as approved by the Commission and adjusted from time to time in accordance with such Financing Order; (ii) in and to all revenues, collections, claims, payments, money, or proceeds of or arising from each Recovery Charge or constituting Recovery Charges that are the subject of each Company’s Financing Order, regardless of whether such revenues, collections, claims, payments, money, or proceeds are imposed, billed, received, collected, or maintained together with or commingled with other revenues, collections, claims, payments, money, or proceeds; and (iii) in and to all rights to obtain true-up adjustments to each Recovery Charge pursuant to the terms of each Company’s Financing Order.

¹¹ In this instance, there will be two SPEs – one a wholly-owned subsidiary of NYSEG and one a wholly-owned subsidiary of RG&E.

Each SPE's credit quality will be separated from that of the applicable Company to achieve higher credit ratings and lower overall costs of financing. In order to accomplish this, each Company will sell its Recovery Property and other entitlements created by the Financing Orders to its respective SPE in a transaction which, consistent with the Act, will be a "true sale" for bankruptcy purposes.¹² This sale insulates the Recovery Property from the creditors of each Company and, thereby, from the credit risk of each Company.

The sale of the Recovery Property to the SPEs allows each SPE to then issue bonds secured by the Recovery Property and certain "other collateral" to investors/bondholders.¹³ Each Company will perform the necessary servicing and administrative functions (e.g., routine billing, collection, and reporting duties) as the initial servicer (each Company, a "Servicer" and "Administrator") for each SPE pursuant to a servicing agreement and an administrative agreement between the applicable Company and the applicable SPE. The Affidavit of Marquis Gilmore (Attachment E) discusses the securitization process and structure in greater detail.

Because of the nature of the Recovery Property pledged to support the Recovery Bonds, the securitization process results in the issuance of highly rated bonds (usually AAA(sf) or equivalently rated) to raise the capital necessary to reimburse a utility corporation for its previously incurred Recovery Costs and to pay the associated Financing Costs relating to issuing bonds and maintaining the structure to ensure timely payment of debt service on the Recovery Bonds. This approach makes it possible to reduce the overall revenue requirement associated with each Recovery Charge, thereby reducing costs to customers. The revenue requirement is lower because securitization

¹² In the event the SPE's Recovery Property is subsequently transferred to a third party as provided in the Indenture, such transfer would not require Commission approval as the SPE is not a utility corporation under the Public Service Law. See Act § 10.

¹³ A trustee acts on behalf of bondholders, remits payments to bondholders and ensures bondholders' rights are protected in accordance with the terms of the financing documents.

results in a lower cost method of financing for each Company's Recovery Costs in comparison to traditional cost recovery and ratemaking methods.

To ensure maximum cost-saving benefits from securitization for customers, it is necessary to obtain AAA equivalent credit ratings for the Recovery Bonds. To do that, the credit rating agencies require, among other things, the following major elements in the design of the securitization structure:

- (1) Non-bypassability of the Recovery Charge (meaning it will be non-waivable);
- (2) A true sale of the Recovery Property to a bankruptcy remote issuer, which in this case will be NYSEG's and RG&E's respective SPE;
- (3) A mandatory periodic formula-based true up mechanism (at least semi-annually) to adjust Recovery Charges to ensure that the SPEs are able to make timely payment of principal of and interest on their Recovery Bonds and ongoing Financing Costs and to replenish amounts drawn from their Capital Subaccounts;
- (4) Explicit recognition that the Commission will not amend, modify, or terminate the Financing Order or otherwise adjust Recovery Charges, except for periodic true-ups;
- (5) A statutory pledge to the holders of the respective Recovery Bonds, any assignee and all financing parties, pursuant to Section 9 of the Act, that the State will not in any way take or permit any action that limits, alters or impairs the value of the Recovery Property created by each Financing Order or, except as required by the true-up mechanism described in each Financing Order, reduce, alter or impair the Recovery Charges that are imposed, collected and remitted for the benefit of the owners of the respective Recovery Bonds, any assignee, and all financing parties, until all principal, interest and redemption premium in respect of the respective Recovery Bonds, all

other Financing Costs and all amounts to be paid to an assignee or financing party under an ancillary agreement are paid or performed in full;

(6) Provisions for successor servicers and related fees; and

(7) A demonstration that the proposed securitization transaction structures are fully self-sustaining and will produce necessary cash flows to fully pay their debt schedules on time and as expected (all determined by the rating agencies via cash flow stress test analyses).

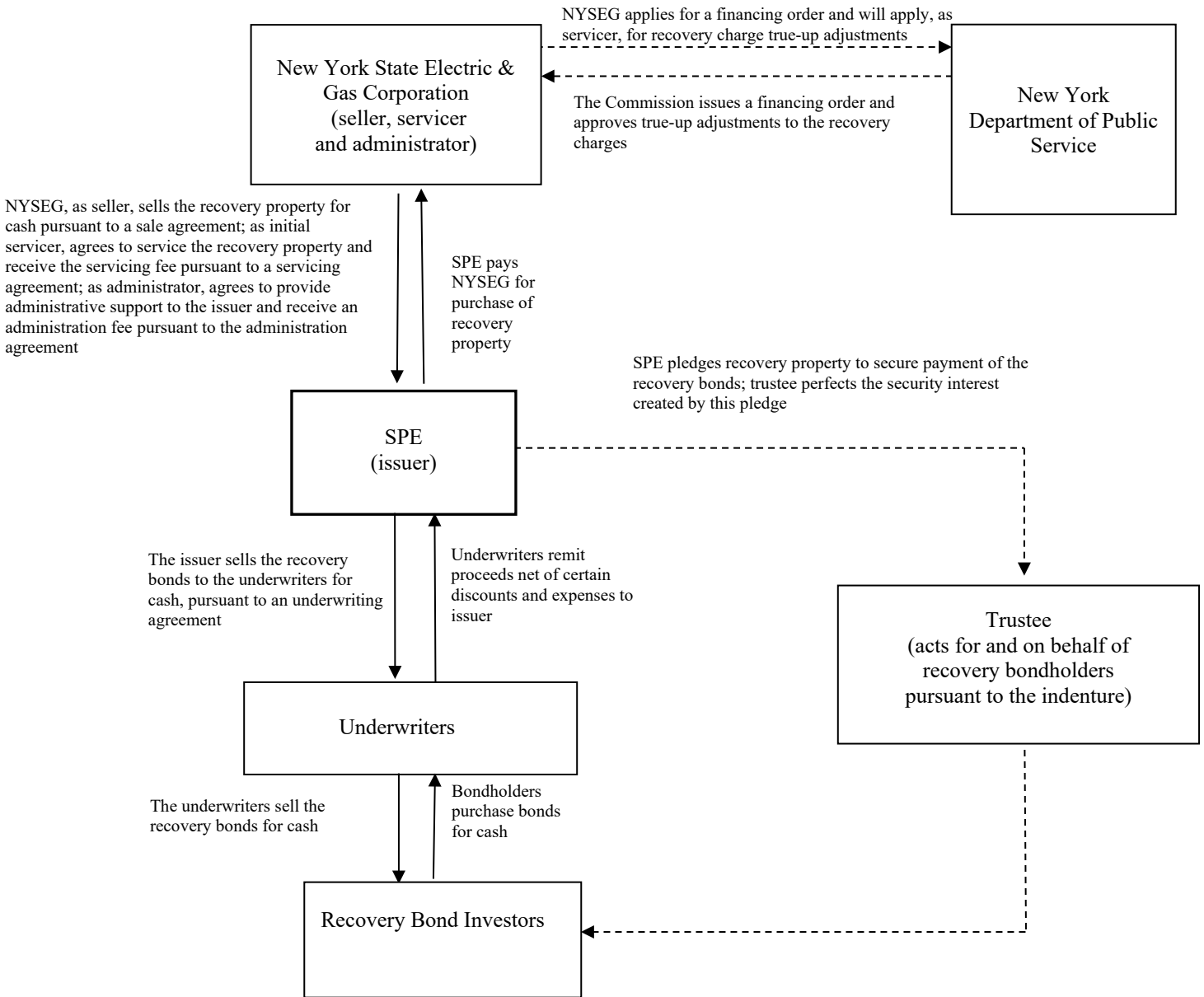
The Companies have carefully structured the proposed securitization transactions, as well as the Proposed Financing Orders attached as Attachments A and B hereto, to provide these requisite and critical assurances to the rating agencies, which, in turn, should permit the Recovery Bonds to achieve AAA equivalent credit ratings, which is essential to optimizing the customer benefits of securitization. The Companies will also structure the Recovery Bonds transaction to meet Internal Revenue Service (“IRS”) revenue procedures. Specifically, IRS Revenue Procedure 2005-62, as modified by IRS Revenue Procedure 2024-15, provides a “safe harbor” for public utility companies, such as NYSEG and RG&E, that, pursuant to specified cost recovery legislation, receive an irrevocable Financing Order permitting the utility to recover certain specified costs through a qualifying securitization. Under the IRS revenue procedure, NYSEG and RG&E will not recognize taxable income upon: (1) the receipt of the applicable Financing Order; (2) the transfer of their rights under the applicable Financing Order to the wholly-owned SPE; or (3) the receipt of cash in exchange for the issuance of the Recovery Bonds.

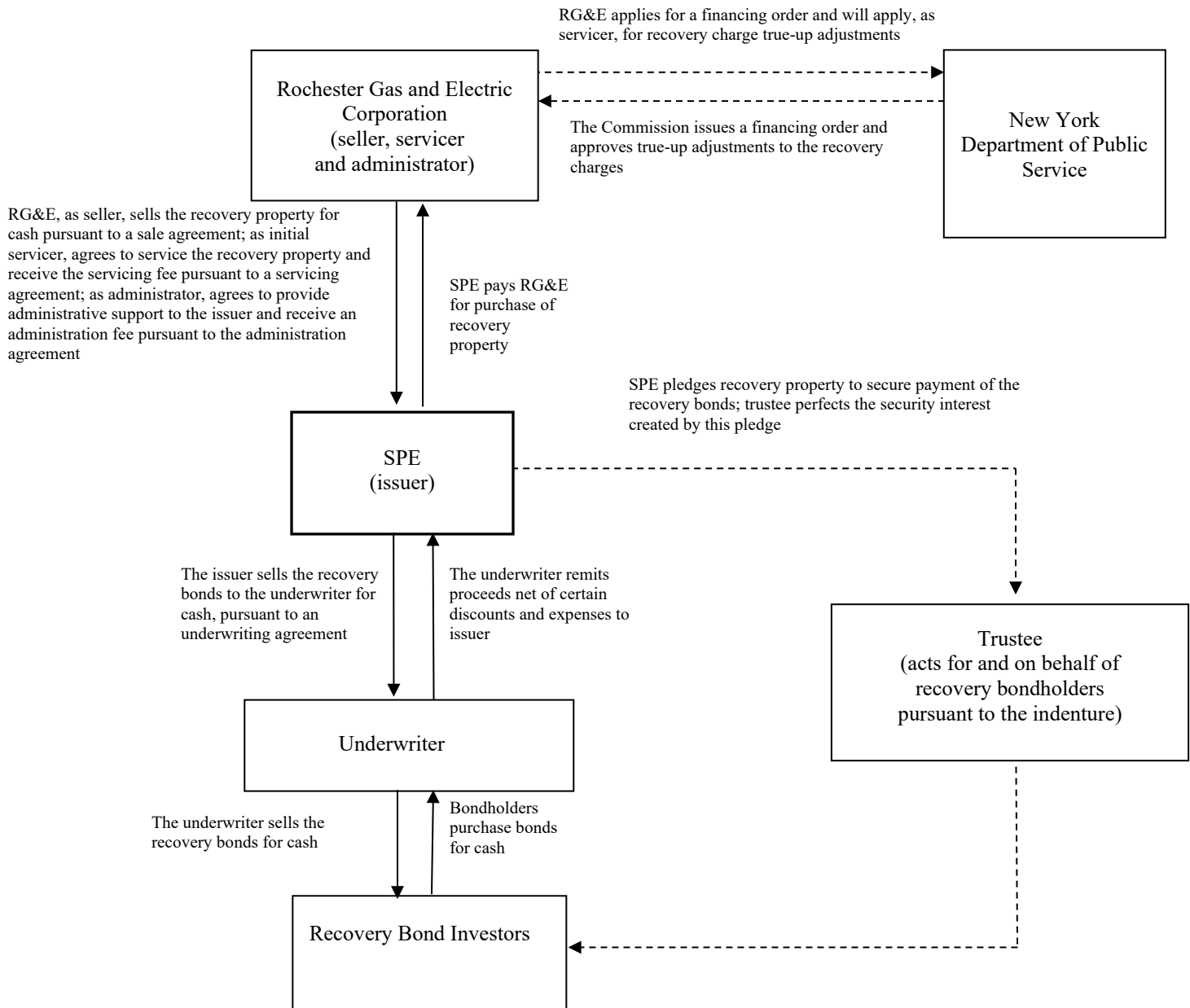
Once the Commission issues each Company its individual Financing Order in this proceeding, the Companies will proceed with structuring and pricing the Recovery Bonds in accordance with the Financing Orders and then proceed with the issuances of the Recovery Bonds. Each SPE, upon issuance of its Recovery Bonds, will transfer the net proceeds from the sale of its

Recovery Bonds to the respective Company as consideration for the transfer of each Company's Recovery Property. Thus, each SPE will be a transferee, purchaser, acquirer, assignee or pledgee of the applicable Recovery Property as provided for in subdivision 2 of Section 2 of the Act. After the issuances of its respective Recovery Bonds, each Company will implement its Recovery Charge as approved by the Commission.

The following diagrams depict the proposed structure for each transaction:

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The proposed structures will ensure a true sale of the Recovery Property to a bankruptcy-remote issuer pursuant to Section 5 of the Act and help ensure that the securitization of the Recovery Costs provides quantifiable benefits to customers, as discussed further below.

Each Company, based on prior experience and knowledge of the industry, intends for its Recovery Bonds to be issued in a registered public offering in order to reach a wide number of potential investors and ultimately result in the lowest Recovery Charge consistent with market conditions at the time of pricing and the terms of the respective Financing Order, but requests flexibility to offer its Recovery Bonds through other sales options, including pursuant to Rule 144A/Regulation S if such other options would result in a better outcome for customers. Each Company, based on prior experience, knowledge of the utility industry and with the advice of experienced underwriters/initial purchasers will structure the offering with the goal of achieving the highest possible credit rating for this type of securitization (i.e., AAA(sf) ratings) from applicable rating agencies. There will be extensive marketing of the respective Recovery Bonds to ensure broad solicitation of potential investors, as further described in the Affidavit of Marquis Gilmore (Attachment E).

NYSEG and RG&E will work with underwriter(s) to determine the best time to bring the transactions to the market and whether they should be issued on the same day, week or sequentially. Currently, the underwriter expects to market the two transactions in separate weeks. However, the ultimate decision on timing will be made based on market conditions at the time to achieve the statutory objective that the issuances of the respective Recovery Bonds result in the lowest Recovery Charge consistent with market conditions at the time the respective Recovery Bonds are priced and the terms set forth in the applicable Financing Order.

VI. PETITION INFORMATION REQUIRED BY THE ACT

Pursuant to subdivision 2 of Section 3 of the Act, the Companies' Petition must include the following six elements:

- (1) A description of the storm recovery activities that each Company has undertaken and the reasons for undertaking the activities;
- (2) The Recovery Costs that each Company has determined would be appropriate to recover through the issuance of its Recovery Bonds and is seeking to recover, and the level that each Company is funding or will seek to fund through other means, together with a description of the factors and calculations used in determining such amounts and methods of recovery;
- (3) Whether each Company proposes to finance all or a portion of its Recovery Costs through the issuance of its Recovery Bonds. If the respective Company proposes to finance a portion of such Recovery Costs, such Company must identify the specific portion in the petition;
- (4) An estimate of each Company's Financing Costs related to its Recovery Bonds;
- (5) An estimate of the Recovery Charges necessary to recover each Company's Recovery Costs and related Financing Costs and the period for recovery of such costs; and
- (6) A comparison between the net present value of the costs to each Company's customers that are estimated to result from the issuance of its Recovery Bonds and the result from the application of the traditional method of financing and recovering Recovery Costs from such customers. The comparison should demonstrate that the issuance of each SPE's Recovery Bonds and the imposition of its Recovery Charges are expected to provide quantifiable benefits to its customers.¹⁴

The Companies address the six filing requirements in turn below.

A. Description of the Storm Recovery Activities

The first required element for the filing is a description of the Storm Recovery Activities that each Company has undertaken and the reasons for undertaking such activities. Storm Recovery Activities has been defined in the Act to include activities "in connection with the restoration of

¹⁴ While the Act references "consumers," the Companies utilize the more common term of "customers" and the two words are used interchangeably herein.

service and infrastructure associated with electric power outages affecting consumers of a utility corporation as the result of a storm or storms, including but not limited to mobilization, staging, and construction, reconstruction, replacement, or repair of electric generation, transmission, or distribution facilities.”

Under the Act, a “Storm” means a period of adverse weather during which service interruptions affect at least 10% of customers in an operating area and/or results in customers being without electric service for durations of at least 24 hours. In addition to the activities defined by the Act, the Companies’ Storm Recovery Activities include the following types of incremental restoration costs that have been deferred: incremental labor and the related applicable payroll taxes; and incremental accounts payable. Incremental labor is overtime paid to union and non-union employees consistent with corporate pay policies in conjunction with the storm event. Incremental accounts payable includes, but is not limited to, the following: tree trimming; mutual aid; other contractor/temporary employees; communication (excluding communication costs for cell phone usage); dry ice; water; lodging; food; miscellaneous employee expenses; transportation expenses that do not originate from the Companies; use taxes; and materials and supplies costs that the Companies would not have incurred except for the Storm event.

The Companies undertook the Storm Recovery Activities referenced above to address storm damage and restore power to customers after an outage due to a Storm event.

B. The Recovery Costs

The second required element for the filing is identification of the Recovery Costs each Company has determined would be appropriate to recover through the issuance of the respective Recovery Bonds and is seeking to recover, and the level that each Company is funding or will seek to fund through other means, together with a description of the factors and calculations used in

determining such amounts and methods of recovery. The third required element is whether each Company proposes to finance all or a portion of its Recovery Costs using Recovery Bonds. As shown in Attachments F and G, the Recovery Costs as of July 1, 2024 and associated upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and including July 1, 2024 through the proposed issuance of each SPE's Recovery Bonds) for NYSEG were approximately \$707 million, and the Recovery Costs as of July 1, 2024 and associated upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and including July 1, 2024 through the proposed issuance of each SPE's Recovery Bonds) for RG&E were approximately \$75 million.¹⁵ Each Company seeks to finance through securitization the entire amount of the Recovery Costs plus upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and including July 1, 2024, through the proposed issuance of the Recovery Bonds at each Company's Rate Year 2 weighted average cost of capital, which are 8.08% for NYSEG and 8.27% for RG&E), to ensure customers get the benefit of reduced Financing Costs for all Storms incurred through July 1, 2024 (i.e., the full benefit of the Act). The Companies are looking to recover these costs over an approximate ten-year period which is consistent with other storm cost recovery amortization periods.¹⁶

¹⁵ If the Commission identifies any unsupported major storm expense requiring downward adjustment in either Company's Storm regulatory asset balance as of June 30, 2024 subsequent to securitization, the applicable Company will establish a regulatory liability equivalent to the adjustment to be refunded to customers in the applicable Company's next base rate case, provided that no such adjustment or refund shall impact the Recovery Bonds, the Recovery Property or the Recovery Charges. Any such regulatory liability will accrue carrying charges at the weighted average cost of capital.

¹⁶ In order to achieve the highest possible credit rating, there is typically a period of approximately two to three additional years between when the Recovery Bonds are expected to be repaid and their legal maturity date. Therefore, the Companies request authority to bill the Recovery Charge on customers for no more than an additional three years.

C. The Estimated Financing Costs

The fourth required element for the filing is the estimate of the Financing Costs related to the Recovery Bonds. The estimated Financing Costs include upfront and ongoing Financing Costs associated with the recovery of the Recovery Costs through securitization. These costs include: (1) interest on and principal of and redemption premiums, if any, that are payable on Recovery Bonds; (2) any payment approved in the applicable Financing Order and required under an ancillary agreement or other accounts established under the terms of any indenture, ancillary agreement, or other financing documents pertaining to Recovery Bonds; and (3) any other cost related to issuing, supporting, repaying, and servicing Recovery Bonds, including but not limited to servicing fees, accounting and auditing fees, trustee fees, legal fees, consulting fees, administration fees, placement and underwriting fees, capitalized interest, original issue discount, rating agencies fees, stock exchange listing and compliance fees, and filing fees, including costs related to obtaining each Financing Order. Financing Costs may also include any federal, state or local taxes, payments in lieu of taxes, franchise fees or license fees imposed on Recovery Charge revenues. Each Company's estimated upfront and ongoing Financing Costs are set forth in Attachment F.

1. Upfront Financing Costs

The Companies estimate the upfront Financing Costs associated with their issuances of Recovery Bonds to be approximately \$27.2 million for NYSEG and \$4.9 million for RG&E, based on the estimates developed through comparisons to similar transactions. These details are provided in Attachment F. These estimates are subject to change, as the costs are dependent on the timing of issuance, market conditions at the time of issuance, the outcome of requests for proposals for certain fees and other events outside the control of the Companies, such as possible litigation, incremental legal fees resulting from protracted resolution of issues, possible extended review by the Securities

and Exchange Commission (“SEC”) and rating agencies’ fee changes and requirements. The primary upfront Financing Costs are discussed in greater detail below.

a. Underwriter Fees

Underwriting fees and expenses (excluding underwriters’ counsel fees) for each transaction are shown in Attachment F and represent the amount that the underwriters will receive for underwriting and selling the Recovery Bonds, assuming the Recovery Bonds are issued in the manner previously discussed. This estimate of fees and expenses is consistent with those paid under recent, similar transactions. Assuming the Recovery Bonds are issued in a similar manner to other utility securitization transactions, underwriting fees will be incurred for the services previously discussed. The final amount of underwriters’ fees will be updated through the respective issuance advice letter (“IAL”) process, discussed below, after the Recovery Bonds are priced. Underwriters’ fees of 40 basis points of the principal amount of the Recovery Bonds are consistent with similar individual utility securitization transactions with comparable issuance sizes that have occurred in the market, based on the Company’s review of comparable transactions. Because the level of underwriting fees is uncertain at this time, the actual costs will be updated through the IAL process.

b. Legal Fees

Legal fees are a function of the legal work necessary to issue the Recovery Bonds. External legal fees are based upon the review of similar transactions of similar size. This category includes the fees and expenses of external counsel for each of the Companies and each SPE, the underwriters and the Company’s advisors. Counsel will advise on each Recovery Bond transaction structure, including bankruptcy, regulatory and tax matters; issue various transaction opinions, including bankruptcy opinions; and draft most other documents related to each financing, including, among other tasks, drafting each SEC registration statement, the property purchase and sale agreements, the

indenture, the servicing agreements, the administration agreements, each SPE's organizational documents, and any other necessary agreements. This category also includes fees for external counsel to represent the Companies in this proceeding. These estimated expenses are based on discussion with our internal legal counsel and estimates from external counsel. Legal counsel also advise on the transaction structures, review all Recovery Bond transaction documents, and perform due diligence reviews of the transactions in connection with the underwriters' initial purchase of the Recovery Bonds. The legal fees (over and above those incurred to date) will be affected by events between the date of the filing of the Petition and the date of Recovery Bond issuances, including the extent to which this proceeding is contested by intervenors, the scope of appeals, if any, the extent of any comments received during the SEC review, the requirements of underwriters, trustees, rating agencies, or regulators, if applicable, for any requested revisions to documents, the use of additional credit enhancements, and other factors that cannot be foreseen. Thus, the aggregate amount of legal fees and expenses to be financed will not be known until closing. However, these costs will be estimated to the best of the Companies' ability and updated through the IAL process.

c. Rating Agency Fees

In order to sell the Recovery Bonds at the most favorable interest rate reasonably achievable, the Recovery Bonds should be rated by up to two of the three major rating agencies. A fee is required by each of the rating agencies to rate the Recovery Bonds. The fees charged by the rating agencies are subject to change at any time and are typically a function of the size and structure of the offering. The fees are typically calculated by applying a base charge to the initial principal balance, subject to a required minimum fee. Neither the Companies nor the Commission has any effective control over the fees charged by the rating agencies, however, the Companies will use commercially reasonable means to negotiate the lowest possible rating agencies fees. The

amounts shown in Attachment F reflect an estimate of the rating agencies fees to be incurred for transactions of the sizes contemplated by the Companies. The combined fee is estimated at 18 basis points (or 0.18 percent) on the aggregate principal amount of Recovery Bonds issued, based on the assumption that two rating agencies are engaged to rate the Recovery Bonds. This estimate assumes no additional fees charged for the issuance from each SPE. Accordingly, the possibility of a change due to either the size of the offering, or modification of the agencies' fee requirements must be taken into account in determining the level of rating agencies fees, and any increase in these fees should be recoverable by the Companies, pursuant to the IAL process.

d. Advisor Fees

The Companies selected J.P. Morgan to act as its structuring agent in connection with structuring the transaction(s). All structuring fees are expected to be earned upon issuance of each Financing Order. The fees and related expenses to be paid to J.P. Morgan have been agreed upon and reflect the required payments under the contract. These fees and related expenses are consistent with the amounts in recent transactions that have taken place in the market. To the extent J.P. Morgan's fees exceed the estimate, the Company will update this amount through the IAL process.

e. Auditor Fees

Auditor fees relate to the Companies' independent auditor or other recognized accounting or consulting firm and include the costs of agreed-upon procedures related to the issuance of each SPE's Recovery Bonds.

f. Securities and Exchange Commission Fees

The SEC has specific formulas for calculating registration fees based upon the initial principal amount. The current fee is \$147.60 per million dollars registered or 0.014760%. That registration fee, however, is updated annually on October 1. The fees are mandatory for registered

offerings, and the Companies have no control over such charges. The estimated amount included in Attachment F will either increase or decrease proportionately as a result of any increase or decrease in the sizes of the Recovery Bond financings, and/or as a result of any change in the SEC registration fee structure.

g. Operational & IT Development Costs (Servicer Set Up Fees)

In order to be able to act as Servicer, each Company must make modifications to its systems to bill, monitor, collect, and remit the Recovery Charges. The Act permits recovery of these costs as they are necessary to support and service each SPE's Recovery Bonds. The amounts included in Attachment F represent the Companies' current estimate of the costs of these information technology systems modifications. This amount will be updated through the IAL process described in greater detail below.

h. Carrying Costs

Carrying costs represent the accrued carrying charges on the Recovery Costs from and including July 1, 2024 through the proposed issuance of the Recovery Bonds. This amount will be updated through the IAL process.

2. The IAL Process

In the Proposed Financing Orders submitted as Attachments A and B hereto, the Companies have included forms of IALs.

Under the proposed IAL process, each Company will submit to Staff a draft IAL in substantially the form attached to its Proposed Financing Order, not later than two weeks before the expected date of the commencement of marketing of the Recovery Bonds and Staff will optimally provide feedback to each Company on their draft IAL within seven days of such submission. Each Company's final IAL will contain the final terms of each SPE's Recovery Bonds, final estimates of

each Company's Financing Costs and a calculation of the Recovery Charges for each Company and will be submitted to the Secretary to the Commission no later than one day after each SPE's Recovery Bonds are priced. The Companies propose that they shall be authorized to proceed with the issuance of the Recovery Bonds unless, prior to noon on the fourth business day after the pricing of each SPE's Recovery Bonds, the Commission issues an order directing that the Recovery Bonds as proposed shall not be issued and the basis for that disapproval.

3. Reconciliation of Actual Upfront Financing Costs

A portion of proceeds of the Recovery Bond issuance will be used to pay (or reimburse) each Company for the actual upfront Financing Costs incurred. If the actual upfront Financing Costs for either or both Companies are below the amount financed through the issuance of such SPE's Recovery Bonds, the excess amount shall be reflected in such Company's first true-up adjustment. If the actual upfront Financing Costs incurred are in excess of the amount financed, then each Company will have the right to collect such excess amounts through the establishment of a regulatory asset.

4. Ongoing Financing Costs

The ongoing Financing Costs for each Company are described in Attachment F. In addition to debt service on the Recovery Bonds, there will be expenses that will be incurred throughout the life of each SPE's Recovery Bonds to support the ongoing operations of each SPE. These ongoing Financing Costs are estimated at approximately \$928,000 and \$396,000 annually for each of NYSEG and RG&E respectively, and include: servicing fees; return on the capital contribution; administration fees; accounting and auditing fees; regulatory fees; legal fees; rating agency surveillance fees; trustee fees; SPE independent director or manager fees; and other miscellaneous fees associated with the servicing of the Recovery Bonds. These ongoing cost items are considered

Financing Costs under the Act. Certain of these ongoing Financing Costs, such as the administration fees and the amount of the servicing fee for the Companies (as the initial Servicers) may be determinable, either by reference to an established dollar amount or a percentage, on or before the issuance of any series of Recovery Bonds. Other ongoing Financing Costs will vary over the term of the Recovery Bonds. The primary ongoing Financing Costs are discussed in greater detail below.

a. Servicing Fees

In consideration for its servicing responsibilities, the Servicers, which are expected to be NYSEG and RG&E, will receive the periodic servicing fee included in Attachment F, which will be recovered through the Recovery Charge. To support the bankruptcy analysis necessary to achieve the highest credit rating, the servicing fees must be at arm's length terms and at market-based rates. Such servicing responsibilities will include, without limitation: (i) billing, monitoring, collecting and remitting Recovery Charges; (ii) reporting requirements imposed by the servicing agreement; (iii) implementing the true-up mechanism; (iv) procedures required to coordinate required audits related to NYSEG and RG&E's roles as servicer; (v) legal and accounting functions related to the servicing obligation; and (vi) communication with rating agencies. The annual servicing fee to be paid by the SPE to NYSEG is currently estimated to be 0.05 percent of the original principal balance of the SPE's Recovery Bonds, payable on each Recovery Bond payment date. Due to the small relative size of the Recovery Bonds for RG&E, it is necessary to adjust the servicing fee percentage so that the overall dollar value of fees more appropriately reflects a market-based rate at arm's length terms. Taking into account the size of RG&E's customer base, which is roughly 43% of NYSEG's customer base, the annual servicing fee to be paid by the applicable SPE to RG&E is currently estimated to be 0.10 percent of the original principal balance of such SPE's Recovery

Bonds, payable on each Recovery Bond payment date. Alternatively, if NYSEG and/or RG&E ceases to service the Recovery Bonds and a successor servicer is appointed, its servicer fee should be set at a level not to exceed 0.60 percent of such original balance unless a higher rate is approved by the Commission. The servicing fees reflected appear to the Companies to be consistent with the fees paid in other recent securitizations. Since the servicing fee is based on the estimated original principal balance, the final amount will be known only when the transaction is priced and will be updated through the IAL process.

b. Return on Invested Capital

When the Recovery Bonds are issued, NYSEG and RG&E will each make a capital contribution to their respective SPE, which the SPE will deposit into a Capital Subaccount. The Recovery Bond proceeds will not be used to fund this capital contribution. The amount of the capital contribution will be at least 0.50 percent of the original principal amount of the Recovery Bonds. This is the minimum amount necessary in order for each Company to qualify for the tax “safe harbor” provided by IRS Revenue Procedure 2005-62, as modified by IRS Revenue Procedure 2024-15. These revenue procedures will be discussed in greater detail below. Each Capital Subaccount will serve as collateral to facilitate timely payment of principal of and interest on the respective Recovery Bonds and associated ongoing Financing Costs. The funds in each Capital Subaccount will be invested in short-term high-quality investments. To the extent that the Capital Subaccount (including investment earnings) must be drawn upon by the Indenture Trustee to pay the principal of and interest on the Recovery Bonds and the ongoing Financing Costs payable by each SPE due to a shortfall in the Recovery Charge collections, it will be replenished to the required level through the true-up process. NYSEG and RG&E request to earn a rate of return on their invested capital equal to their respective weighted average cost of capital, which for Rate Year 2 is

8.08% for NYSEG and 8.27% for RG&E. NYSEG and RG&E request that their respective return on invested capital be a component of ongoing Financing Costs, and accordingly, be recovered through the applicable Recovery Charge. This return amount will be adjusted from time to time as a result of changes authorized to each Company's cost of capital in future rate cases. Upon payment of the principal amount of all Recovery Bonds and the discharge of all obligations in respect thereof, all amounts in the Capital Subaccount, will be released to the SPE for payment to each Company, with any investment earnings on funds in the Capital Subaccount to be accounted for in a future reconciliation proceeding.

c. Administration Fees

The annual administration fee for each Company of \$62,500 per annum payable in installments on each Recovery Bond payment date, together with the reimbursement of expenses incurred by the Administrator in the performance of its duties as Administrator is included in Attachment F and is meant to cover expenses associated with administrative functions that NYSEG and RG&E, respectively, will be providing to the relevant SPE. These functions will include, among others, maintaining the general accounting records, preparation of financial statements, arranging for annual audits of each SPE's financial statements, preparing all required external financial filings, preparing any required income or other tax returns, and related support, including but not limited to administration of tariff and billing processes. Neither of the SPEs will have any employees, so each Administrator will perform these functions for the respective SPE. These functions are separate from those of the Servicer. Each SPE will also have an independent director or manager to oversee its operation, and he or she will receive a fee for their services and will be entitled to indemnification.

d. Other Ongoing Financing Costs

The accounting and auditing fees of each Company are included in Attachment F and are meant to represent costs for each Company's activities such as providing periodic reports to the respective Indenture Trustee¹⁷ and reviewing/certifying SEC filings. These fees will be paid to each Company's independent auditor or other recognized accounting firm. Each SPE will incur periodic legal fees. The annual estimates for each Company are included in Attachment F. The rating agencies will assess ongoing fees associated with monitoring the credit rating of each Recovery Bond issuance of each SPE. The annual estimate of the fees for each Company is included in Attachment F. Each Indenture Trustee will be responsible for and earn a fee for, among other things: (i) maintaining a record of investors; (ii) calculating and remitting interest and principal payments to investors; (iii) otherwise fulfilling its obligations under the indenture and other documents; and (iv) reporting as required by the Commission or any other regulatory body. The annual estimate of the fees for each Company is included in Attachment F. Each Indenture Trustee is also entitled to be reimbursed for certain expenses and other obligations. Other miscellaneous costs are any costs that may be incurred but that have not been specifically identified at this time and are included in Attachment F. Such types of costs have been identified by other utility companies for similar transactions. Other than the servicing fee and the administration fee, it is difficult to predict the level of such costs to be incurred by each SPE over the term of its Recovery Bonds. It is virtually certain these fees will increase over the term, not only because service

¹⁷ Each Company, as Servicer, will file these periodic reports within 15 days after each Recovery Bond payment date with the Commission and the Indenture Trustee. The reports will show the billing and collection of Recovery Charges, remittances to the Indenture Trustee, the application of Recovery Charge revenues to debt service on the Recovery Bonds and other ongoing Financing Costs and replenishment of the Capital Subaccount, if any, by the Indenture Trustee as directed by the Servicer, and the balances in the collection account, including all subaccounts, as of a particular date. The Companies propose that the failure to file any periodic report shall not affect the validity of the Recovery Bonds, the Recovery Property or the Recovery Charges.

providers periodically increase their fees, but also because of inflation. For these reasons there should be no cap on the ongoing Financing Costs. Moreover, each SPE must recover all of its ongoing Financing Costs in order to preserve its bankruptcy remoteness and to secure targeted AAA(sf) or equivalent credit ratings on its Recovery Bonds.

5. Reconciliation of Ongoing Costs

Because ongoing Financing Costs become due and payable over the lifetime of each SPE's Recovery Bonds, they are payable from Recovery Charges. The amount of ongoing Financing Costs due during a particular payment period will be included as part of the calculation for the adjustment of each Company's Recovery Charge through its true-up mechanism, as described below.

D. The Estimated Recovery Charges

The Act requires petitions to include an estimate of the Recovery Charge necessary to recover the Recovery Costs and Financing Costs and the period for recovery of such costs. As defined in the Act:

“Recovery Charge” means the amounts authorized by the commission to recover recovery costs and financing costs. If provided for in a financing order, such amounts shall be imposed on consumer bills and collected by a utility corporation or its successors or assignees or a collection agent, in full, through a charge paid by existing and future consumers receiving transmission or distribution service, or both, from the utility corporation or its successors or assignees under rate schedules or special contracts approved by the commission. The recovery charge shall be non-bypassable and imposed on all consumers in the service area and collected by the utility corporation or its successor, agent, subcontractor, assignee, or collection agent or any other entity designated under the financing order.

Each Company's Recovery Costs shall be collected through a charge paid by their respective existing and future customers receiving transmission or distribution service, or both. As set forth in the definition above, each Company's Recovery Charge shall be non-bypassable and

imposed on all existing and future customers (including net metered customers) in its or its successors' service territory.

The annual debt service and ongoing financing costs for NYSEG are estimated to be approximately \$88.9 million and the annual debt service and ongoing financing costs for RG&E are estimated to be approximately \$9.8 million, as set forth in Exhibit MG-4 to the Affidavit of Marquis Gilmore (Attachment E).¹⁸ The period for recovery of such costs for each Company is estimated to be approximately ten years.¹⁹

Attached hereto as Attachments C and D is proposed tariff language for NYSEG and RG&E, respectively, that establishes the expected Recovery Charge associated with financing and recovery of the Recovery Costs as proposed by each Company. The tariff approval process is set forth in more detail below. The Recovery Charge imposed on each Company's customers will only reflect the debt service payments, ongoing Financing Costs, and required replenishments of the Capital Subaccount, if any, related to its associated SPE's Recovery Bonds. Each Company proposes to implement the Recovery Charges upon the issuance of the Recovery Bonds. Each Recovery Charge will remain in effect, and be subject to the true-up mechanism, until the related Recovery Bonds have been paid in full or legally discharged and the related Financing Costs and other charges associated with such Recovery Bonds have been paid in full or fully recovered.

Recovery Charges will be reflected by each Company as a separate line item, non-bypassable surcharge on each customer's bill. The service-class specific surcharges associated with this proceeding will be titled "Storm Recovery Surcharge" for NYSEG and "Storm Recovery Surcharge" for RG&E or a similar title. Each line will include both the Recovery Charge rate

¹⁸ These estimates are based on market conditions as of August 6, 2024.

¹⁹ See footnote 16.

element and the total amount charged on each bill. In addition, all customer bills will state that, as approved in the relevant Financing Order, the rights to each Company's Recovery Charge are owned by the relevant SPE and that the particular Company is acting as a collection agent or servicer for such SPE.

1. Tariff Approval Process

The Companies propose a two-step tariff approval process. In the first step, each Company requests that the language of the proposed tariffs provided as Attachments C and D – with the proviso that the rate elements in the proposed Storm Recovery Surcharge Statements for the applicable service classes be shown as blank (i.e., with no numbers) – be approved by the Commission as a part of the relevant Financing Order and become effective through a compliance tariff filing immediately after the issuance of such Financing Order. Each Company's Recovery Charges will be developed and made effective in the next step. As mentioned above, each Company's initial Recovery Charge to pay principal and interest and ongoing Financing Costs will not be calculated until after the final terms of each Company's issuance of Recovery Bonds have been established. Once each Company's initial Recovery Charge is calculated, the Companies will revise the Recovery Charges to be included in the Storm Recovery Surcharge Statements calculated on the basis of the final terms of its Recovery Bond issuance. More specifically, contemporaneously with the submission of their respective IAL, NYSEG and RG&E shall submit a compliance tariff statement, bearing an effective date no earlier than four business days after such submission, containing the Recovery Charge for each of their service classes. That compliance tariff statement shall become effective on the date such SPE's Recovery Bonds are issued with no further action of the Commission unless the

Commission issues an order as described in Ordering Paragraph 23 of the Proposed Financing Orders attached as Attachments A and B hereto.

2. Recovery Charge Calculation

Each Company's Recovery Charge shall be initially allocated to service classes based on NYSEG's and RG&E's respective Rate Year delivery service revenues from the 2023 Rate Plan. The allocated amounts shall be recovered on a per kWh basis for non-demand billed customers, on a per kW basis for demand billed customers, and on an as-used demand basis for standby service customers and optional demand service customers. Each Company's Recovery Charge will not be fixed and will be allocated to service classes based on delivery service revenues under each Company's rate plan in accordance with the allocation effective at the start of each succeeding rate year.

The Recovery Charge is designed to recover amounts such that each SPE has sufficient collections to timely pay scheduled principal of, and interest on, the Recovery Bonds and other ongoing Financing Costs and to replenish amounts drawn down from its SPE's Capital Subaccount. As noted earlier, the total amount to be financed with Recovery Bonds is estimated to be \$707 million for NYSEG and \$75 million for RG&E. Each Company's Recovery Charge is designed to recover those amounts on a timely basis. The annual Recovery Charge requirement, inclusive of ongoing Financing Costs, for NYSEG is approximately \$88.9 million per year and for RG&E approximately \$9.8 million per year.

For NYSEG, on an annualized basis, the estimated initial year's Recovery Charge is \$7.51 per month, representing a 5.97% total bill increase for the average NYSEG residential customer

using 600 kWh per month.²⁰ For RG&E, on an annualized basis, the estimated initial year's Recovery Charge is \$1.73 per month, representing a 1.43% total bill increase for the average RG&E residential customer using 600 kWh per month.²¹ NYSEG and RG&E, as Servicers, will collect the revenues from the Recovery Charge and remit the funds to a collection account for the benefit of the SPEs held by the trustee. If any customer does not pay the full amount of any bill to them, the amount paid by the customer will be applied to all charges on the bill, including without limitation all Recovery Charges, other similar securitization charges, if applicable, and other billed amounts on a pro-rata basis.

Consistent with other utility securitization transactions, for the initial collection period, the Recovery Charges will be higher than the estimated average because there is a delay between when Recovery Charges are placed on customers' bills, when customer's remit payment and when each SPE receives such payment. The calculation of the Recovery Charge is described in each Company's proposed tariff language provided in Attachments C and D. When calculating the Recovery Charge each Company will use the most recent information of the Company regarding write offs, delinquencies, average days sales outstanding data, collection lags, or other collection data, to determine the amount of Recovery Charge revenue that must be billed is sufficient to satisfy all scheduled (or legally due) payments of principal (including, if any, prior scheduled but unpaid principal payments), interest, replenishment of the Capital Subaccount (if any), and other ongoing Financing Costs. Under-collections and over-collections will be monitored on a monthly basis to

²⁰ The annualized first year increase reflects an average of the Rate Period 1 and Rate Period 2 monthly increases. See Attachment I (Schedule 1, page 1 and Schedule 2, page 1).

²¹ The annualized first year increase reflects an average of the Rate Period 1 and Rate Period 2 monthly increases. See Attachment I (Schedule 3, page 1 and Schedule 4, page 1).

determine whether any interim adjustments are required pursuant to the authorized true-up mechanism.

Since a portion of the storm regulatory assets were included within rate base in the 2023 Rate Plan, once the storm regulatory asset is financed using securitization, NYSEG and RG&E will begin creating a regulatory liability equivalent to the revenue requirement of the storm regulatory assets that were previously amortized and included in base rates. The regulatory liability will be a refund owed to customers to represent the revenue requirement associated with the storm regulatory assets that were included within base rates between securitization and the end of the 2023 Rate Plan period. Carrying charges will be applied to the regulatory liability.

3. Recovery Charge True-Up Mechanism

Each Company's Recovery Charge will be revised periodically via a true-up mechanism, which will be formula based. The formula-based true-up mechanism will allow for any necessary revisions to the respective Recovery Charge consistent with the provisions and requirements of the Act.

The true-up mechanism is designed to allow for each SPE's Recovery Charge to be reviewed and adjusted at least semi-annually to correct any over-collection or under-collection during the period since the issuance of the Recovery Bonds or the last preceding adjustment, as applicable, and to ensure that the respective Recovery Charge shall be sufficient to pay the principal of and interest on the respective Recovery Bonds when due and payable as well as ongoing Financing Costs and to replenish amounts drawn down from the relevant SPE's Capital Subaccount. As the transaction nears its ultimate maturity, it has become the market standard for semi-annual true-ups to be done quarterly to ensure collections are sufficient to make the remaining debt service payments and ongoing Financing Costs. The Companies, therefore, propose that Servicers be

permitted to start quarterly true-ups beginning 12 months prior to the scheduled final payment date for the latest maturing tranche of their Recovery Bonds. In addition to the semi-annual true-up, the Companies propose that the Servicer be permitted to submit an interim true-up at any time if the Servicer forecasts that collections will be insufficient to timely pay principal and interest on the respective Recovery Bonds or other ongoing Financing Costs or to replenish amounts drawn down from the respective Capital Subaccount. The Companies request that each adjustment to the Recovery Charge Statement setting forth the Storm Recovery Surcharge rates shall be filed with the Commission not less than five days prior to the effective date of the tariff statement and automatically become effective on the effective date set forth on the tariff statement. Consistent with the credit rating agencies' requirements, the Companies further request that the Commission's review of any adjustment pursuant to the true-up mechanism be limited to mathematical or clerical errors and any such errors discovered in such review shall be addressed in a subsequent true-up adjustment filing.

The true-up mechanism identified above is also necessary to receive the highest possible credit rating for the Recovery Bonds.

E. Securitization Benefits

The Act requires that the Companies provide a "comparison between the net present value of the costs to consumers that are estimated to result from the issuance of Recovery Bonds and the result from the application of the traditional method of financing and recovering Recovery Costs from [customers]" demonstrating that "the issuance of Recovery Bonds and the imposition of Recovery Charges are expected to provide quantifiable benefits to [customers]." As described herein and in Attachment K, the recovery of each Company's Recovery Costs and associated upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and

including July 1, 2024 through the proposed issuance of the respective Recovery Bonds) through securitization will benefit each Company's customers.

1. Benefits to the Companies' Credit Metrics

Recovery of the respective Recovery Costs and associated upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and including July 1, 2024 through the proposed issuance of the Recovery Bonds) through securitization will increase cash flows for NYSEG and RG&E and decrease debt, thereby strengthening each Company's credit rating profile.

Over the past three years, Recovery Costs at NYSEG totaled \$111 million in 2023, \$162 million in 2022, and \$60 million in 2021. As of June 30, 2024, NYSEG has incurred \$188 million in Recovery Costs this year. Similarly, RG&E incurred Recovery Costs of \$10 million in 2023, \$26 million in 2022, and \$15 million in 2021. As of June 30, 2024, RG&E has incurred \$24 million in Recovery Costs this year. Pursuant to the 2023 Rate Plan, NYSEG is allowed to recover approximately \$31.5 million in Rate Year 1, \$41.5 million in Rate Year 2, and \$46.5 million in Rate Year 3 for new major storms. RG&E's recovery amounts are approximately \$4.5 million, \$6 million, and \$7.6 million for the respective rate years. Essentially, NYSEG and RG&E have each been self-financing the excessive differentials between actual Recovery Costs and the amount collected in rates. Consequently, the annual expenses for storm restoration continue to negatively impact each Company's credit metrics.

On August 1, 2024, Fitch downgraded NYSEG's outlook from "stable" to "negative," as detailed in Attachment H. Fitch explained that its revision "reflects persistently weak FFO leverage that Fitch expects will average 5.3x through 2025-2026." Fitch further observed "[a]dditionally, if approved, the use of securitization to recover excess storm costs [beyond those currently being collected in rates] ... are also beneficial. Discussions between NYSEG and [Staff] to reduce

regulatory lag and allow timely recovery of capital investments and storm expenses are ongoing. A constructive outcome can lead to strengthening of NYSEG's financial profile.”

2. Benefits to Customers

As shown in Attachment K hereto, recovery of the Recovery Costs and associated upfront Financing Costs (including accrued carrying charges on the Recovery Costs from and including July 1, 2024 through the proposed issuance of the respective Recovery Bonds) through securitization will benefit each Company's customers. In order to calculate the net present value of securitization, each Company compared what the charge to its customers would be if it recovered the Recovery Costs plus carrying charges under the “as is” methodology over ten years and compared it to its customer charge using securitization. The “before securitization” assumed each Company would continue to incur carrying charges on the storm regulatory asset at its weighted average cost of capital over the ten-year recovery period. This was then compared to the costs that would be incurred if each Company used securitization to finance the Recovery Costs (including upfront and ongoing Financing Costs) at the expected cost of debt. A discount rate equivalent of the debt rate of 4.78% was used. The discounted difference in customer charges was then compared.

Each Company's comparison of the net present value of the costs to customers that are estimated to result from the issuance of its SPE's Recovery Bonds and the result from the application of the traditional method of financing and recovering the Recovery Costs from customers shows that the customer charges using securitization are less than the customer charge under the traditional collection method. The discounted customer cost-saving benefits for NYSEG is approximately \$91.6 million and the discounted customer cost-saving benefits for RG&E is approximately \$5.7 million.

The Companies can also show that the net present value of the costs to its customers that are estimated to result from the financing through issuance of Recovery Bonds is less than the net present value of costs of the application of the traditional method of financing and recovering Recovery Costs from customers at a higher discount rate. Even if the note rate increases from 4.78% to 6.03% (an increase of 1.25% which represents an estimate for potential increases in benchmark interest rates and/or spreads due to market driven factors), using the discount rate equivalent to the note rate (of 6.03%), there are still net present value savings to customers.

Likewise, the issuance of Recovery Bonds by each Company's SPE and the imposition of its SPE's Recovery Charge are expected to provide quantifiable benefits to customers as compared to the costs that would have been incurred absent the issuance of such Recovery Bonds. The quantifiable benefits are that the "before securitization" balance has carrying charges applied against it which is a higher rate than the securitization debt rate.

Moreover, the structuring and pricing of the respective Recovery Bonds are expected to result in the lowest Recovery Charges consistent with market conditions at the time such Recovery Bonds are priced and the terms set forth in its Financing Order. Although these transactions will be the first utility securitization transactions for the Companies, Avangrid Inc., and the Companies' affiliated utility operating companies, the Companies and its parents and affiliates have many years of experience in issuing long-term debt in both the public and private markets. Avangrid Inc. currently has more than \$9.8 billion in outstanding debt in the public and private debt markets and has issued nearly \$6 billion in those markets over the last five years. All of these debt instruments have been authorized, marketed, and issued by the Companies with the assistance of their advisors and underwriters utilizing practices that are standard for the issuance of such instruments in recognized markets for long-term debt. In every case, the fundamental terms applicable to these

borrowings were established at the time of issuance of the securities and, in every case, the Companies utilized their best efforts to minimize the costs inherent in these borrowings, which are ultimately paid for by their customers. Each Company will approach issuing the Recovery Bonds with the same level of diligence it applies to all its securities offerings.

VII. REQUIREMENTS OF COMMISSION FINANCING ORDERS

The Commission is authorized to grant a petition under the Act if the proposed financing is prudent and would provide a net benefit to the customer. When issuing a Financing Order for each Company approving the issuance of Recovery Bonds under the Act as described herein, pursuant to subdivision 3(a) of Section 3, the Commission shall consider whether:

- i. the proposed issuance of recovery bonds and the imposition and collection of a recovery charge are expected to provide quantifiable benefits to consumers as compared to the costs that would have been incurred absent the issuance of recovery bonds; and
- ii. the proposed structuring, expected pricing, and financing costs of the recovery bonds are reasonably expected to result in the lowest recovery charges consistent with market conditions at the time the recovery bonds are priced and the terms of the financing order or would avoid or mitigate rate impacts to consumers as compared with traditional methods of financing or recovering recovery costs.

As established herein, each Company has met the applicable standards to allow the Commission to issue the requested Financing Orders.

In addition, pursuant to subdivision 5 of Section 3 of the Act, Financing Orders issued by the Commission for each Company shall:

- (a) Specify the amount of storm recovery costs, taking into consideration, to the extent the commission deems appropriate, any other methods used to recover these costs and any offsets or credits to those costs, and provide with respect to the amount of financing costs which may be recovered through recovery charges;
- (b) Provide that the proposed financing through issuance of recovery bonds and the imposition and collection of recovery charges are expected to provide quantifiable benefits to consumers as compared to the costs that would have been incurred absent the issuance of the recovery bonds and that the net present value of the costs to consumers

that are estimated to result from the financing through issuance of recovery bonds is less than the net present value of costs of the application of the traditional method of financing and recovering recovery costs from consumers;

- (c) Provide that the structuring and pricing of the recovery bonds are expected to result in the lowest recovery charges consistent with market conditions at the time the recovery bonds are priced and the terms set forth in such financing order;
- (d) Specify and create the recovery property of a utility corporation or its successors or assignees that may be used to pay or secure recovery bonds and financing costs;
- (e) Provide that such recovery property may be: (i) sold, assigned, or transferred by the utility corporation to (A) a subsidiary which is wholly owned, directly or indirectly, by the utility corporation and which will be the issuer of the recovery bonds or (B) another assignee which will be the issuer of the recovery bonds; or (ii) created or recognized as property of an assignee which will be the issuer of the recovery bonds;
- (f) Provide that the recovery charges shall be sufficient at all times to pay the principal of and interest on the recovery bonds as the same shall become due and payable and all other financing costs and establish a true-up mechanism requiring that the recovery charges be reviewed and adjusted at least annually to correct any overcollection or undercollection during the period since the issuance or preceding adjustment and to ensure the projected recovery of amounts sufficient to provide timely payment of all principal, interest and other financing costs. Each adjustment to the recovery charge, in amounts as calculated by or on behalf of the owner of recovery property, pursuant to a method established in the financing order, shall automatically become effective 60 days following the date on which the periodic adjustment is filed with the commission unless the commission approves an earlier effective date requested by the issuer of recovery bonds;²²
- (g) Provide and pledge that after the earlier of the transfer of recovery property to an assignee or the issuance of recovery bonds authorized thereby, a financing order is irrevocable until the indefeasible payment in full of the recovery bonds and the financing costs and, provided that, except as provided in subdivision 8 of this section or to implement any true-up mechanism adopted by the commission as described in paragraph (f) of this subdivision, the commission may not amend, modify, or terminate the financing order by any subsequent action or reduce, impair, postpone, terminate, or otherwise adjust recovery charges approved in the financing order, provided nothing shall preclude limitation or alteration if and when full compensation, including full cost recovery, is made for the full protection of the recovery charges collected pursuant to a

²² As discussed above, the Companies are requesting at least semi-annual true-up adjustment mechanisms and that each adjustment to the Recovery Charge shall be filed no less than five days prior to the effective date of the tariff statement and automatically become effective on the effective date set forth on the tariff statement.

financing order and the full protection of the holders of recovery bonds and any assignee or financing party;

- (h) Specify how amounts collected from consumers shall be allocated between recovery charges and other charges;
- (i) Provide that a financing order remains in effect until the recovery bonds issued pursuant to the order have been indefeasibly paid in full and the financing costs of such bonds have been recovered in full;
- (j) Provide that a financing order shall remain in effect and unabated notwithstanding the reorganization, bankruptcy, or other insolvency proceedings, or merger or sale, of the applicable utility corporation or its successors or assignees;
- (k) Authorize and require the utility corporation, to the extent that any interest in recovery property is sold or assigned, shall contract with the assignee or any financing party to continue to operate its system to provide service to its consumers, collect amounts in respect of the recovery charges for the benefit and account of such assignee or financing party, and account for and remit such amounts to or for the account of such assignee or financing party, including pursuant to a sequestration order authorized by subdivision 6 of section four or subdivision 7 of section six of this act; and
- (l) Provide that any cost to the consumer in connection with the financing order, that is not identified in and provided for in such financing order, shall not be recovered through any rates or recovery charges, and shall solely be the obligation of the utility corporation or its successors or assignees.

Finally, under subdivision 6 of Section 3 of the Act, Financing Orders issued by the Commission shall:

- (a) Prescribe any limitations on potential assignees of recovery property;
- (b) Authorize an assignee which is a subsidiary of a utility corporation and which issues recovery bonds or another assignee which issues recovery bonds to provide and establish in its organizational documents, partnership agreement, or operating agreement, as applicable, that in order for a person to file a voluntary bankruptcy petition on behalf of such assignee, the prior unanimous consent of the directors, partners, or managers, as applicable, shall be required. If so authorized in a financing order, any such provision set forth in the organizational documents, partnership agreement, or operating agreement of such an assignee shall constitute a legal, valid, and binding agreement of the shareholders, partners, or members, as applicable, of such assignee and shall be enforceable against such shareholders, partners, or members; and

- (c) Provide that the creation of the recovery property ... shall be conditioned upon, and shall be simultaneous with either: (i) the sale, assignment, or other transfer of the recovery property to an assignee; or (ii) the issuance of the recovery bonds and the security interest created in the recovery property to secure recovery bonds.

For the Commission's convenience, these requirements are generally reflected in the Proposed Financing Orders (Attachments A and B).

VIII. CONCLUSION

WHEREFORE, for the reasons stated above, the relief requested in this Petition is prudent and would provide a net benefit to customers and therefore the Company respectfully requests the Commission:

(1) Grant authorization for the financing of each Company's Recovery Costs found to have been reasonably and appropriately incurred using the securitization structure proposed by such Company and permitted by the Act;

(2) Find that each Company's Recovery Costs and upfront Financing Costs are appropriately financed by debt secured by its Recovery Property;

(3) Issue the Financing Orders proposed by the Companies, which will authorize the Companies to accomplish such securitization transactions, so that the Companies may recover their appropriately incurred Recovery Costs;

(4) Approve the Recovery Charges imposed under each Financing Order;

(5) Approve the language in the proposed tariffs with respect to each Financing Order's Recovery Charges;

(6) Approve that the Recovery Charges imposed by each Financing Order are to be adjusted at least semi-annually (quarterly beginning 12 months prior the scheduled final payment date for the latest maturing tranche of Recovery Bonds issued pursuant to such Financing Order) to correct any over-collection or under-collection to ensure recovery of the amounts sufficient to


provide timely payment of principal and interest on the respective Recovery Bonds and ongoing Financing Costs and to replenish amounts drawn down from the Capital Subaccount of each Company's SPE and that Recovery Charges created by each Financing Order may be adjusted on an interim basis at any time if the Servicer forecasts that collections will be insufficient to timely pay scheduled principal and interest on the respective Recovery Bonds or other ongoing Financing Costs or to replenish amounts drawn down from the respective Capital Subaccount;

(7) Provide and pledge that after the earlier of the transfer of each Company's Recovery Property to each of the SPEs or the issuance of the respective Recovery Bonds, each Financing Order will become irrevocable until the indefeasible payment in full of the respective Recovery Bonds and associated Financing Costs and that except as provided in subdivision 8 of Section 3 of the Act or as required by the true-up mechanism (as described herein) the Commission will not amend, modify or terminate the Financing Orders by any subsequent action or reduce, impair, postpone, terminate or otherwise adjust the Recovery Charges collected pursuant to the Financing Orders until full compensation, including full cost recovery, is made for the full protection of the Recovery Charges collected pursuant to the Financing Orders and the full protection of the holders of the respective Recovery Bonds and any assignees or financing parties;

(8) Provide, as permitted by subdivision 9 of Section 4 of the Act, that the respective Recovery Property be created by operation of law upon the issuance of the respective Recovery Bonds; and

(9) Grant any other and further relief which the Commission deems appropriate and necessary to allow the Companies to accomplish such financing using securitization structures authorized by the Act, so that each Company may recover its appropriately incurred Recovery Costs.

**NEW YORK STATE ELECTRIC & GAS
CORPORATION AND ROCHESTER
GAS AND ELECTRIC CORPORATION**

BY: 

Michael Panichi
Treasurer

Dated: August 23, 2024

**BEFORE THE STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Verified Petition of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Storm Securitization Financing Orders for Authorization Pursuant to Section 3 of the New York Utility Corporation Securitization Act to use Securitization to Recover Certain Recovery Costs and Approval of Tariffs Creating each Company's Recovery Charge to Recover Recovery Costs)
)
) **Case 24-E-_____**
)
)

VERIFICATION

COMMONWEALTH OF MASSACHUSETTS)
COUNTY OF Barnstable) SS:

Michael Panichi, being duly sworn, deposes and says:

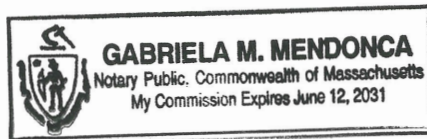
1. I am Vice President and Treasurer of New York State Electric & Gas Corporation ("NYSEG") and Rochester Gas and Electric Corporation ("RG&E"), the corporations on whose behalf the foregoing petition is submitted.
2. I am authorized to make this affidavit on behalf of NYSEG and RG&E.
3. I have read the foregoing petition and attachments thereto and know the contents thereof.
4. All of the facts and matters set forth therein are true and correct to the best of my knowledge, information, and belief.



Sworn to and subscribed before me
this 19th day of August, 2024



Notary Public



BEFORE THE STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

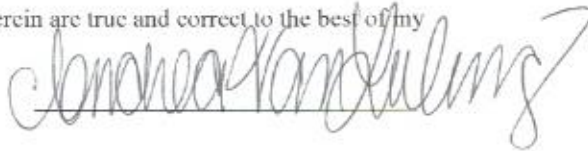
Verified Petition of New York State Electric & Gas)
Corporation and Rochester Gas and Electric)
Corporation for Storm Securitization Financing) Case 24-E-_____
Orders for Authorization Pursuant to Section 3 of)
the New York Utility Corporation Securitization)
Act to use Securitization to Recover Certain)
Recovery Costs and Approval of Tariffs Creating)
each Company's Recovery Charge to Recover)
Recovery Costs)

VERIFICATION

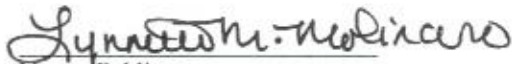
STATE OF Maine)
) SS:
COUNTY OF York)

Andrea Vanluling, being duly sworn, deposes and says:

1. I am Vice President and Controller for Avangrid Networks, Inc.
2. I am authorized to make this affidavit on behalf of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation, the corporations on whose behalf the foregoing petition is submitted.
3. I have read the foregoing petition and attachments thereto and know the contents thereof.
4. All of the facts and matters set forth therein are true and correct to the best of my knowledge, information, and belief.



Sworn to and subscribed before me
this 20th day of August, 2024


Notary Public

LYNNETTE M. MOLINARO
NOTARY PUBLIC
State of Maine
My Commission Expires
June 7, 2026



**BEFORE THE STATE OF NEW YORK
PUBLIC SERVICE COMMISSION**

Verified Petition of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation for Storm Securitization Financing Orders for Authorization Pursuant to Section 3 of the New York Utility Corporation Securitization Act to use Securitization to Recover Certain Recovery Costs and Approval of Tariffs Creating each Company's Recovery Charge to Recover Recovery Costs)
)
) **Case 24-E-_____**
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VERIFICATION

STATE OF NEW YORK)
) SS:
COUNTY OF Monroe)

Mark Marini, being duly sworn, deposes and says:

1. I am Senior Director – Regulatory for Avangrid Networks, Inc.
2. I am authorized to make this affidavit on behalf of New York State Electric & Gas Corporation and Rochester Gas and Electric Corporation, the corporations on whose behalf the foregoing petition is submitted.
3. I have read the foregoing petition and attachments thereto and know the contents thereof.
4. All of the facts and matters set forth therein are true and correct to the best of my knowledge, information, and belief.

Mark Marini

Sworn to and subscribed before me
this 20th day of August, 2024

Heather D. Halstead
Notary Public

**HEATHER D. HALSTEAD
NOTARY PUBLIC, STATE OF NEW YORK
QUALIFIED IN MONROE CO, #01HA6301185
COMMISSION EXPIRES APRIL 14, 2026**

