

Division 1-54

Request:

Referencing the testimony of Mr. Sorgi's testimony at 9:10-12, in which he states: "We also believe that infrastructure investments and a more localized operating model under PPL's ownership will create jobs and support economic development in Rhode Island," please:

- a. Explain PPL's "localized operating model,"
- b. Provide any analyses or comparisons performed assessing the PPL model against how Narragansett is currently managed;
- c. Quantify the number of jobs PPL expects that will be created, including any supporting data, studies, workpapers, reports, and information; and
- d. Please provide any data, studies, workpapers, reports, and information to support PPL's claim that the Transaction will result in economic development.

Response:

- a. PPL's localized operating model can best be described as the people who are responsible to ensure the safe and reliable electric and gas service to customers will be present locally in Rhode Island and will have the appropriate decision making authority commensurate with those responsibilities. In addition, the President will work directly with the EVP and COO and other members of PPL's Executive team, as necessary, to ensure that Narragansett has the resources and support necessary to provide this service to Rhode Island customers as having the appropriate resources necessary to carry out that mission. Also see PPL and PPL RI's response to data request Division 1-19.
- b. No such analyses or comparisons have been performed or documented. PPL and National Grid continue to work out the details to ensure a smooth transition.
- c. As stated in b. above, PPL and National Grid continue to develop the organization structure and number of employees needed as we transition off the TSA over the two-year transition period. Certain functions that are currently provided by National Grid that are planned to be created in Rhode Island are Customer Contact and back office functions, Electric dispatch and control room operations, gas control and dispatch functions, gas and electric training operations and miscellaneous service company functions. Total number of employees in these areas has not been determined at this time.

PPL CORPORATION, PPL RHODE ISLAND HOLDINGS, LLC,  
NATIONAL GRID USA, and THE NARRAGANSETT ELECTRIC COMPANY

Docket No. D-21-09

PPL Corporation and PPL Rhode Island Holdings, LLC's  
Responses to Division's First Set of Data Requests

Issued on June 8, 2021

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- d. We did not perform any studies or reports on the resulting economic impact of this transaction. A key component of utility operations is investments in infrastructure. If the Transaction is approved, PPL expect to submit plans for approval that increases the amount of infrastructure investments in Rhode Island, which will have a direct impact on the Rhode Island economy through direct and indirect purchases, use of contractors and service providers. In addition, PPL plans to create certain functions in Rhode Island that will require investments in facilities, construction, professional services and purchases (see item c. above) Also, PPL has a long history of investing in the communities they serve. In Pennsylvania & Kentucky for 2020 PPL provided more than \$12M in charitable giving, had 60-80K hours of volunteer work, supported over 300 nonprofits, had \$275M spend on diverse suppliers, had 60% of the corporate spend on locally based suppliers, provided over \$2M to support COVID relief, donated 20k N95 masks to health care workers and donated \$100K to support racial injustice initiatives.

Supplemental Response:

- (b) PPL and PPL RI refer to Attachment PPL-DIV 1-54-1 for additional information responsive to this request.

## Analysis of PPL's Cost to Operate The Narragansett Electric Company

- I. Introduction
- II. Assumptions and Approach
- III. National Grid's current costs to operate Narragansett
  - a. Direct Opex
  - b. Indirect Opex
  - c. Benefits Costs
  - d. Allocated Depreciation
  - e. Total National Grid Managed Cost Summary
- IV. PPL's expected costs to operate Narragansett
  - a. Rhode Island Direct Labor
  - b. Rhode Island Direct Non-Labor
  - c. PPL Allocations
  - d. Allocated Depreciation
  - e. Total PPL Managed Cost Summary
- V. Cost Summary Comparison
  - a. Total Cost Summary Comparison
  - b. Operational Cost Summary Comparisons
  - c. Corporate Cost Summary Comparisons
- VI. Conclusion
- VII. Appendix
  1. Complete FY21 National Grid Narragansett Cost Structure
  2. Reconciliation of FY21 National Grid Narragansett Cost Structure to Published Financial Statements
  3. PPL Rhode Island Direct Organizational Structure
  4. PPL Rhode Island Aligned Corporate Support

## **I. Introduction**

PPL Corporation (“PPL”) has prepared an analysis of the anticipated costs to operate The Narragansett Electric Company (“Narragansett”) if the Rhode Island Division of Public Utilities and Carriers (the “Division”) approves the proposed acquisition of Narragansett (the “Transaction”). This analysis compares these anticipated costs to National Grid USA’s (“National Grid”) current costs to operate Narragansett. This analysis demonstrates that the Transaction will not result in increased costs to operate Narragansett and therefore will not increase rates for the current electric and gas distribution services.

## **II. Assumptions and Approach**

PPL does not currently own and operate Narragansett and does not have the ability to fully assess each and every aspect of its future operations. When preparing this cost comparison, PPL thus relied on the information it received from National Grid – both with regard to its current costs to operate and with regard to the operations and functions necessary for PPL to operate Narragansett after the Transaction is approved and a closing occurs.

The purpose of this analysis is to provide a current view of PPL’s reasonable expectation of the comparison between National Grid’s current costs to operate Narragansett and PPL’s anticipated costs to operate Narragansett at the conclusion of the transition period. If the Division approves the Transaction, when PPL takes over control and operation of Narragansett and obtains firsthand knowledge of its operations the anticipated costs will change to some extent. This analysis, therefore, is not a budget for PPL costs in future years; it is a cost comparison based on the best information currently available and estimates generated from that information.

PPL made several structural assumptions preparing this analysis. First, PPL assembled National Grid’s actual Fiscal Year (“FY”) 2021 costs to operate Narragansett. PPL then developed its anticipated

costs to operate Narragansett after the transition services<sup>1</sup> expire approximately two years after Transaction close. This approach allows PPL to compare its anticipated 'steady state' operating costs to National Grid's "steady state" operating costs as they exist today.

Second, PPL limited this analysis to operating and maintenance costs plus allocated depreciation from service company assets that support Narragansett. These costs are deemed "managed" costs. PPL excluded pass-through costs from the analysis because they do not reflect the cost of operating the core electric and gas businesses. These pass-through costs include purchased power and gas, transmission wheeling costs, asset depreciation, taxes and other non-operational related costs.<sup>2</sup> The comparison of "managed" operating costs provides a basis to compare the operating model differences resulting from the change in control. A detailed view of total costs is included in the Appendix.

Third, PPL evaluated and considered the impact of the structural differences between National Grid's and PPL's operating models. For example, as explained later, PPL intends to establish a dedicated Rhode Island organization to provide operational functions (i.e., electric and gas operations and maintenance) serving the customers of Rhode Island, while National Grid uses a shared services model across its jurisdictions for similar functions. Both PPL and National Grid have service companies that provide centralized corporate and administrative services functions, but they differ in their composition (e.g., certain subfunctions are categorized differently between PPL and National Grid) making functional cost comparisons difficult. As a result, PPL's analysis compares National Grid's current operating model and related costs to PPL's anticipated operating costs under its expected operating model.

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<sup>1</sup> National Grid will continue to provide certain services ("Transition Services") to support Narragansett during the transition to PPL to allow PPL to establish the infrastructure required to operate Narragansett independently. It is expected that these transition services will not exceed two years in duration.

<sup>2</sup> PPL is an experienced operator of electric and gas companies and will apply its expertise to effectively and efficiently control these pass-through costs (e.g., effective procurement of electricity and gas, management of bad debt expense, and conduct of storm response), to the extent possible.

For this analysis, National Grid provided its FY21 actual costs to operate Narragansett, including both direct and indirect operating costs assigned and allocated to Narragansett, as defined in National Grid's internal management reporting. Direct operating costs ("Direct Opex") are costs related to electric and gas operations, as well as directly associated support costs (e.g., Operations Support and Energy Procurement). Indirect operating costs ("Indirect Opex") are service company costs (e.g., Customer Operations, Legal, HR, Finance) assigned and allocated to Narragansett. National Grid accumulates benefits (e.g., medical, dental, pension, etc.) costs in aggregate; so, these amounts are shown separately rather than assigned to individual functional salary levels. The cost analysis also included depreciation costs from the service company to reflect shared assets (e.g., IT, facilities) that are allocated to Narragansett.

PPL integration teams developed a Rhode Island organizational structure by functional area that reflects the staffing levels expected to operate the business once fully transitioned from National Grid. PPL also developed the corporate and administrative services and associated costs necessary to operate Narragansett.

### **III. National Grid Narragansett Costs**

#### **a. Direct Opex**

The Direct Opex costs assigned and allocated to the Narragansett utility are identified in **Table 1** below.

National Grid utilizes 17 cost centers, which PPL aggregated into functional categories (e.g., New England Electric costs and New York Electric costs (providing support to Narragansett) were consolidated to the Electric function). Cost types include Base Labor costs plus other nonlabor costs such as Contractors, Materials, Consultants, and Other Expenses). In total, National Grid's Direct Opex for Narragansett is \$113.6M, which includes \$51.0M in Base Labor Costs and \$62.6M in Non-Base Labor costs.

	Base Labor	Contractors	Other Expenses	Transportation	Consultants	Materials	Overtime	Employee Expenses	Total
Electric	\$20.4M	\$13.4M	\$1.5M	\$3.2M	\$0.6M	\$2.6M	\$1.7M	\$0.7M	<b>\$44.0M</b>
Gas	\$22.7M	\$7.0M	\$2.7M	\$4.0M	\$0.9M	\$2.4M	\$4.4M	\$0.6M	<b>\$44.7M</b>
Transformation	\$2.5M	\$0.4M	\$0.3M	\$0.0M	\$1.4M	\$0.0M	\$0.0M	\$0.0M	<b>\$4.6M</b>
Operations Support	\$1.7M	\$4.0M	\$6.8M	\$0.3M	\$0.2M	\$0.4M	\$0.3M	\$0.0M	<b>\$13.6M</b>
Energy Procurement	\$1.0M	\$0.0M	\$0.0M	-	\$0.0M	\$0.0M	-	\$0.0M	<b>\$1.1M</b>
Safety, Health & Environment	\$0.6M	\$1.1M	\$0.1M	\$0.0M	\$0.1M	\$0.1M		\$0.0M	<b>\$2.0M</b>
Regulation	\$1.5M	\$0.0M	\$0.0M	-	\$0.0M	\$0.0M	\$0.0M	\$0.0M	<b>\$1.5M</b>
Business Planning & Perf	\$0.3M	-	\$0.0M	-	\$0.0M	\$0.0M	-	\$0.0M	<b>\$0.3M</b>
President	\$0.4M	\$0.9M	\$0.1M	-	\$0.1M	\$0.0M	-	\$0.0M	<b>\$1.7M</b>
<b>Total</b>	<b>\$51.0M</b>	<b>\$26.8M</b>	<b>\$11.6M</b>	<b>\$7.6M</b>	<b>\$3.4M</b>	<b>\$5.5M</b>	<b>\$6.3M</b>	<b>\$1.4M</b>	<b>\$113.6M</b>

**b. Indirect Opex**

National Grid’s Indirect Opex categories include the assigned and allocated costs for corporate and administrative services provided to Narragansett from National Grid’s service company. These services and associated costs include functions such as IT, Customer Operations, Finance, and Legal.

PPL summarized National Grid’s 12 Indirect Opex cost centers, as identified by National Grid, in **Table 2** below. This table summarizes the Indirect Opex cost types, which include Base Labor costs plus other nonlabor costs such as Consultants, Contractors, and Other Expenses. In total, National Grid’s Indirect Opex for Narragansett is \$86.9M which includes \$32.0M in Base Labor Costs and \$54.9M in Non-Base Labor costs.

	Base Labor	Contractors	Other Expenses	Transportation	Consultants	Materials	Overtime	Employee Expenses	Total
IT	\$8.0M	\$5.7M	\$10.8M	\$0.0M	\$9.5M	\$0.0M	\$0.8M	\$0.0M	<b>\$34.9M</b>
Customer Operations	\$8.7M	\$5.4M	\$5.6M	\$0.0M	\$1.7M	\$0.3M	\$0.7M	\$0.1M	<b>\$22.5M</b>
Audit	\$0.4M	\$0.1M	\$0.0M	-	\$0.1M	\$0.0M	-	\$0.0M	<b>\$0.6M</b>
Corporate Cost Center	\$0.0M		\$2.2M		\$0.2M	\$0.0M	\$0.0M	\$0.3M	<b>\$2.6M</b>
EBS, Procurement, Transformation	\$3.4M	\$0.6M	\$0.1M	-	\$0.3M	\$0.0M	\$0.0M	\$0.0M	<b>\$4.4M</b>
Finance	\$5.0M	\$0.5M	\$3.3M	-	\$2.0M	\$0.0M	\$0.0M	\$0.0M	<b>\$10.8M</b>
Global Legal	\$2.0M	\$0.4M	\$0.1M	-	\$1.3M	\$0.0M	\$0.0M	\$0.0M	<b>\$3.9M</b>
Human Resources	\$1.4M	\$0.2M	\$0.1M	\$0.0M	\$0.0M	\$0.1M	\$0.0M	\$0.0M	<b>\$1.9M</b>
NGV Jurisdiction	-	-	\$0.2M	-	\$0.0M	-	-	\$0.0M	<b>\$0.2M</b>
President US Utilities	\$0.2M	\$0.1M	\$0.3M	-	\$0.0M	\$0.0M	\$0.0M	\$0.0M	<b>\$0.7M</b>
Strategy & External Affairs	\$2.3M	\$0.1M	\$0.9M	\$0.0M	\$0.6M	\$0.0M	-	\$0.1M	<b>\$4.0M</b>
Transformation Office	\$0.3M	\$0.1M	\$0.0M	-	\$0.0M	\$0.0M	\$0.0M	\$0.0M	<b>\$0.5M</b>
<b>Total</b>	<b>\$32.0M</b>	<b>\$13.0M</b>	<b>\$23.6M</b>	<b>\$0.0M</b>	<b>\$15.7M</b>	<b>\$0.4M</b>	<b>\$1.5M</b>	<b>\$0.6M</b>	<b>\$86.9M</b>

**c. Benefits Costs, Pension and OPEB**

National Grid captures employee benefits and pension costs at the service company level and allocates those costs to Narragansett. These costs represent benefits such as medical insurance, retirement benefits, flexible spending accounts, etc. as well as pension, retiree medical and retiree life insurance costs, where applicable. As shown in **Table 3** below, these benefits costs assigned and allocated to Narragansett are \$55.4M.

	Total
Other Employee Benefits	<b>\$45.1M</b>
Pension & OPEB	<b>\$10.3M</b>
<b>Total</b>	<b>\$55.4M</b>

**d. Allocated Depreciation**

Allocated depreciation refers to depreciation related to National Grid corporate assets that has been assigned and allocated to Narragansett. This depreciation is primarily related to Information Technology assets, but also includes a portion of facilities-related assets as well. As described earlier,

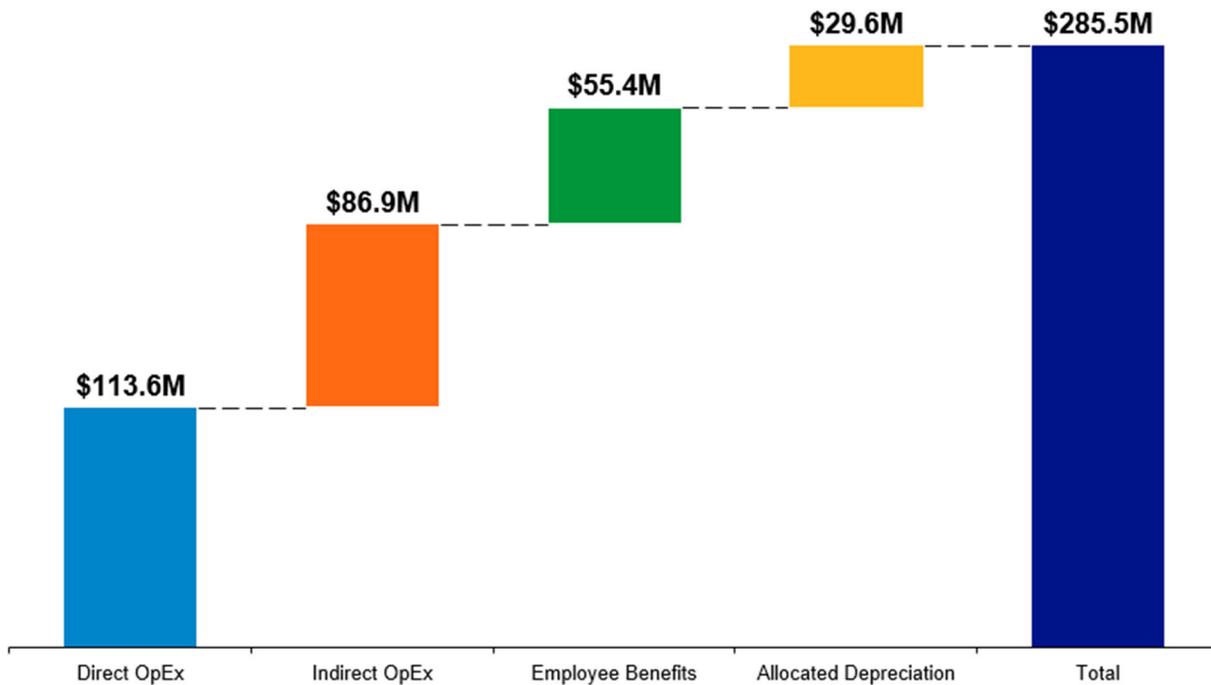
National Grid tracks depreciation and amortization related to Narragansett transmission and distribution infrastructure separately, and PPL did not consider those costs as part of this analysis as they reflect capital investment decisions made by National Grid in prior years. As shown in **Table 4** below, the depreciation National Grid assigned and allocated to Narragansett totals \$29.6M.

<b>Table 4. Allocated Depreciation</b>	
Allocated Depreciation	<b>Total</b> <b>\$29.6M</b>
<b>Total</b>	<b>\$29.6M</b>

**e. Total Managed Cost Summary**

National Grid’s total managed costs assigned and allocated to Narragansett in Direct Opex, Indirect Opex, Employee Benefits, Pension and PBOP, and Allocated Depreciation are summarized in **Figure 1** below.

**Figure 1. National Grid Managed Cost Structure, FY2021 Actuals**



#### **IV. PPL Narragansett Costs**

In developing PPL's anticipated costs to operate Narragansett, PPL first refined its intended operating model for the Rhode Island utility. PPL will employ a dedicated Rhode Island organization to provide a high level of service focused on Rhode Island customers. This Rhode Island-focused operating model will also drive additional investment in the State. PPL will supplement this organization with appropriate centralized corporate and operations services.

##### **a. Rhode Island Direct Labor**

In developing its Rhode Island organization, PPL collaborated with National Grid to ensure it understood the specific work, activities, and staffing levels required to operate Narragansett across electric, gas, customer and corporate functions. PPL then developed its own bottom-up staffing model, utilizing PPL's operating practices. In addition, PPL named its planned Rhode Island leadership team, and those leaders participated in these staffing decisions. These staffing levels are based on PPL's current understanding of Rhode Island requirements and could change as PPL operates Narragansett during the transition period. It is also important to note that the union labor force supporting Narragansett today will transition to PPL upon approval of the Transaction providing continuity in knowledge of electric and gas system operations.

Under PPL, Narragansett will be led by a local President with accountability for Rhode Island operations across Electric Operations, Gas Operations, Customer, Business Services, Regulatory and Government Affairs, Human Resources and Finance. PPL will locate leaders for each of these functions in Rhode Island. The high-level organizational structure for the Rhode Island business is highlighted in **Figure 2** below with a more detailed depiction provided in the Appendix.

**Figure 2. PPL RI Organizational Structure**



A brief description of these functions, with associated headcount is provided below:

**Electric Operations:** A Senior Director will lead the electric operations organization, which will include 498 positions comprising the following subfunctions and staffing levels:

Subfunction	Description	Staffing
Asset Management & Engineering	Includes activities such as regional field engineering, protection & control, Telecom, metering engineering, distribution design, distribution planning & asset management	61
Field Operations	Includes overhead and underground crews, customer meter services, substation and relay test, resource coordination and forestry management	399
Project Management	Includes construction, supervision and project management for transmission, substation, and complex distribution capital projects	13
Distribution Control Center	Includes a stand-alone distribution control center	25

PPL’s service company will provide certain operational support subfunctions like Transmission Control, and Transmission/Substation planning, engineering, and asset management.

**Gas Operations:** A Vice President level individual will lead the Gas Operations organization of 554 positions comprising the following subfunctions and staffing levels:

Subfunction	Description	Staffing
Engineering & Asset Management	Includes support for gas engineering, asset information mapping (Geographic Information System), corrosion control, integrity planning and investment planning	42
Gas Construction & Complex Capital	Includes project management and planning, and contract management and cost control for large, complex capital projects	15
Gas Operations	This organization will lead the gas field operations, customer meter services, leak survey, damage prevention and construction and inspection teams	346
Gas System Control & LNG Operations	Includes gas control, instrumentation and regulation and LNG operations	66
Gas Procurement	Responsible for forecasting gas demand and ensuring gas supply to Narragansett customers.	14
Pipeline Safety & Compliance	This team is responsible for compliance programs and compliance assurance as well as quality assurance	24
Work & Resource Planning	Will include planning/scheduling and coordination as well as dispatch operations	47

**Customer:** A Senior Director will lead customer service / operations overseeing an organization of 153 positions comprising the following subfunctions and staffing levels:

Subfunction	Description	Staffing
Business Services	This team will manage electric and gas connections as well as interconnections	26
Customer Center Operations	Will include customer service representatives and exception management representatives	93
Operations Support	This team will provide a variety of activities, such as billing operations, credit and collections, billing, vendor management, workforce and configuration management as well as call center training / Quality Assurance and metrics and reporting	27
Programs	This organization will support the various programs in Rhode Island, such as energy efficiency and conservation, customer assistance programs and Distributed Energy Resources & electric vehicles	7 <sup>1</sup>

Note 1: Additional resources to support the energy efficiency and conservation programs are required but not represented here as their cost is captured through a separate regulatory mechanism

PPL's service company, working in conjunction with Rhode Island leadership, will support strategic programs, such as customer experience strategy and digital transformation.

**Business Services:** A senior director will lead business services overseeing functions that support the core electric and gas operations in Rhode Island. This team of 61 positions includes the following subfunctions and staffing levels:

<b>Subfunction</b>	<b>Description</b>	<b>Staffing</b>
Fleet	Includes vehicle maintenance and asset performance	22
Property Services	This team will support facility operations and maintenance across the various sites in Rhode Island	12
Supply Chain	This team is responsible for procurement of materials as well as inventory and warehouse management	12
Emergency Response	This team will manage the Rhode Island emergency response plan and oversee the command structure	2
Environmental	This team will support environmental permitting, reporting, and manage site investigation & remediation efforts	2
Safety	This team will manage the Dig Safe and field safety programs	3
Security	Physical security operations across the various Rhode Island sites	2
Technical Training	This team will design and execute training programs for the Rhode Island operations	6

**Regulatory and Government Affairs:** This team will oversee local and regional government and community activities in Rhode Island. A senior director will lead this team overseeing 10 positions that will include the following subfunctions and staffing levels:

<b>Subfunction</b>	<b>Description</b>	<b>Staffing</b>
Regulatory Strategy	These teams will focus on overall regulatory strategy, supporting rate structuring / rate cases and proceedings	2
Rhode Island Community and Economic Development	This team will support development and execution of local community and economic development programs	4
Rhode Island External / Internal Communications	This team will manage both internal and external communications for PPL Rhode Island	2
Rhode Island State Government Relations	This function will manage relationships with Rhode Island state governmental bodies	1
Rhode Island State Regulatory Affairs	This function will manage interactions with Rhode Island state regulatory bodies	1

**Human Resources:** Although PPL’s service company will provide many strategic and programmatic Human Resource functions, and PPL will charge the costs for those resources through allocations to Narragansett, there also will be dedicated resources to support the employees and operations in Rhode Island. This includes a local HR manager and 2 positions to support labor relations:

**Finance:** The Narragansett finance organization will provide management reporting to support leadership decision making across the Rhode Island business. A Director-level individual will lead this team and will oversee 12 positions, including the following subfunctions and staffing levels:

Subfunction	Description	Staffing
Finance Business Partnering & Key Performance Indicators	This team will manage Rhode Island business unit financial planning and analysis activities, and support financial performance reporting	7
Property Accounting	This team will support Rhode Island plant / asset accounting	5

In total, PPL has identified 1,298 positions that will support the Rhode Island utility, inclusive of both management (414) and union (884) employees. To derive a labor cost estimate, PPL grouped the positions by function and applied average PPL salaries for management and union positions. PPL also applied its average benefits loading rates for both management (64%) and union (36%) positions. PPL also applied labor capitalization rates for direct labor to reflect the estimated O&M portion based on a review of PPL and National Grid capitalization rates to determine the rates that best reflect the business and infrastructure requirements inherent in Rhode Island. The resulting labor and benefits O&M costs totaling \$107.0M are shown in **Table 5**, below.

	O&M %	Union			Management			Total
		Avg. Salary	FTEs	Fully Loaded Labor, O&M	Avg. Salary	FTEs	Fully Loaded Labor, O&M	Fully Loaded Labor, O&M
Management (VP+)	100%	-	-	-	\$316.0K	2	\$1.3M	<b>\$1.3M</b>
Customer	95%	\$72.9K	84	\$7.9M	\$109.3K	70	\$11.9M	<b>\$19.8M</b>
Electric	37%	\$99.4K	377	\$18.9M	\$112.8K	122	\$8.3M	<b>\$27.2M</b>
Finance	100%	-	-	-	\$117.4K	13	\$2.5M	<b>\$2.5M</b>
Gas	64%	\$82.7K	385	\$27.7M	\$101.4K	169	\$18.0M	<b>\$45.7M</b>
Human Resources	95%	-	-	-	\$123.0K	3	\$0.6M	<b>\$0.6M</b>
Business Services	85%	\$87.7K	38	\$3.9M	\$112.5K	24	\$3.8M	<b>\$7.6M</b>
Regulatory and Government Affairs	100%	-	-	-	\$126.3K	11	\$2.3M	<b>\$2.3M</b>
<b>Total</b>			<b>884</b>	<b>\$58.4M</b>		<b>414</b>	<b>\$48.6M</b>	<b>\$107.0M</b>

**b. Rhode Island Direct Non-Labor**

In addition to direct labor costs, under PPL Rhode Island Holdings, LLC ownership, Narragansett will have numerous non-labor costs, such as the use of outside contractors and/or consultants, supplies and materials, and transportation expenses. Although PPL anticipates it will have the ability to optimize these costs in the intermediate and long-term as it leverages its scale and operating practices,<sup>3</sup> for purposes of this analysis PPL assumed that non-labor costs would closely mirror those currently incurred under National Grid ownership.

PPL utilized National Grid’s existing non-labor costs to operate Narragansett as a baseline. PPL held costs relating to National Grid’s “Direct” functions and its Customer Operations functions constant unless it identified specific costs that could be avoided or deemed a one-time cost. As an example, in Customer Operations, PPL eliminated costs related to Payment Processing because PPL will perform those activities at the service company and not directly charge them to Narragansett. PPL captured these costs in the PPL allocations. PPL will generally avoid costs relating to National Grid’s “Indirect” functions because PPL’s allocations of corporate and administrative costs will generally capture National Grid’s “Indirect”

<sup>3</sup> This includes, but is not limited to, purchasing economies gained from consolidating common materials and contractor spend across Pennsylvania, Kentucky and Rhode Island and standardization of processes resulting in lower costs.

functions. PPL reviewed the National Grid indirect nonlabor costs and confirmed that PPL’s own corporate allocations capture those costs as well. As an example, IT nonlabor costs were eliminated because they are accounted for in PPL’s IT allocations.

A summary of anticipated Rhode Island Direct Non-Labor costs of \$64.2M is shown in <b>Table 6</b> , below. <b>Table 6. PPL RI Non-Labor Cost Estimation, Summary by Function</b>								
	Contractors	Other Expenses	Transportation	Consultants	Materials	Overtime	Employee Expenses	Total
Electric	\$13.1M	\$0.9M	\$3.0M		\$2.3M	\$1.1M	\$0.7M	<b>\$20.8M</b>
Gas	\$7.0M	\$2.7M	\$4.0M	\$0.9M	\$2.3M	\$4.1M	\$0.6M	<b>\$21.7M</b>
Operations Support	\$1.4M	\$0.2M	\$0.1M	\$0.1M	\$0.0M	\$0.2M	\$0.0M	<b>\$2.1M</b>
Other Direct Opex	\$0.4M	\$0.3M	\$0.0M	\$0.3M		\$0.0M	\$0.0M	<b>\$1.0M</b>
Customer Operations	\$5.3M	\$4.4M	\$0.0M	\$1.2M	\$0.3M	\$0.6M	\$0.1M	<b>\$12.0M</b>
Finance	\$0.3M	\$2.8M	-	\$0.3M	\$0.0M	\$0.0M	\$0.0M	<b>\$3.3M</b>
Global Legal	\$0.1M	\$0.1M	-	\$1.3M	\$0.0M	\$0.0M	\$0.0M	<b>\$1.5M</b>
Strategy & External Affairs	\$0.1M	\$0.9M	\$0.0M	\$0.6M	\$0.0M	-	\$0.1M	<b>\$1.7M</b>
<b>Total</b>	<b>\$27.7M</b>	<b>\$12.3M</b>	<b>\$7.2M</b>	<b>\$4.4M</b>	<b>\$5.0M</b>	<b>\$6.0M</b>	<b>\$1.5M</b>	<b>\$64.2M</b>

**c. PPL Allocations**

In addition to direct labor and non-labor costs, PPL will assign and allocate costs for activities performed by the PPL service company to support Narragansett. A description of the activities that PPL will perform on a centralized basis to support Narragansett is outlined below.

**Information Technology:** costs include PPL’s information technology infrastructure, applications, and related service and support.

**Finance:** costs include Budgeting and Planning Services, Tax Compliance and Planning, Tax Accounting and Reporting, Corporate Accounting, Regulatory Accounting and Reporting, Internal Reporting, Cash Management, Miscellaneous Billing, Remittance Processing, Employee Compensation and Benefits, Financial Training, and related activities.

**Office of General Counsel:** costs for all legal support, including but not limited to general corporate legal support, labor and employment legal support, state regulatory legal support, federal regulatory legal

support, supply chain support, environmental and real estate related legal support and claims/litigation legal support, as well as Corporate Compliance, Board Services, and related matters.

**Transmission & Substation Operations:** costs include electric transmission support costs, including asset strategy and management, line design, substation design, project development, and related costs.

**Human Resources:** costs include employee communications, corporate HR business partner services, HR regulatory/compliance, talent management and diversity, equity and inclusion services, employee training, security services (e.g., background checks), and related costs.

**Supply Chain:** costs include strategic sourcing, contract administration, supply programs and supplier diversity, staff augmentation, office supplies, printing, travel, investment recovery, and related costs.

**Regulatory Affairs:** costs include regulatory strategy, electric procurement, electric load forecasting and settlement, and related costs.

**Corporate Operations and Integration:** costs include data analytics capabilities, primarily related to applying predictive analytics to asset management.

**Corporate Systems:** costs primarily include finance-related information technology systems, including the UIP budget and model system, treasury systems, financial reporting systems, and related costs.

**Communications:** costs include market research, customer communications, external/internal communications and graphic design.

**Transmission Control Center:** costs include full transmission control center support for Narragansett.

**Enterprise Security:** costs include corporate cyber security risk management, as well as related business line support.

**Public Affairs:** costs include providing community relations functions, communicating public information to local organizations, and providing oversight for communications to employees.

**Customer Service:** costs include support for electric meter data and operations, as well as customer strategy and digital transformation.

**Corporate Audit Services:** costs include Audit-SOX testing and compliance, and general auditing services.

**Executive Office:** includes the allocated portion of certain executive costs, including the Office of President and Strategic Development.

**Distribution Operations:** costs include certain electric distribution support costs, including distribution line standards, third-party attachments, and related costs.

**Facilities:** costs include real estate tax services, project and contract management services, and related costs.

**Technical Development & Instruction:** costs include technical development and instruction costs, including costs related to environmental contracts, safety equipment training, training recordkeeping, eLearning development, and fleet standards.

**PPL Services:** costs include non-support group specific PPL Services' costs, including rent, stock and incentive compensation, and high-level benefits adjustments.

PPL developed an estimate of the costs in each of these functions that includes any incremental costs to support Narragansett. PPL then applied its cost allocation methodology to assign and allocate costs to Narragansett. This methodology includes direct charges when identified, utilization of causal factors where appropriate, and application of a composite factor (e.g., number of employees, amount of invested capital, and operation and maintenance expenses) when costs cannot be directly charged or causally allocated. PPL derived this estimate based on input from the integration planning teams as to the level of incremental costs required to support Narragansett as well as PPL finance personnel responsible for business planning.

An estimate of the costs PPL anticipates assigning and allocating to Narragansett is shown in

**Table 7.**

	<b>Total</b>
IT	\$33.8M
Finance	\$9.8M
Office of General Counsel	\$4.7M
Transmission & Substation	\$4.4M
Human Resources	\$5.0M
Supply Chain	\$3.8M
Regulatory Affairs	\$1.9M
Corporate Operations and Integration	\$1.8M
Corporate Systems	\$1.4M
Communications	\$1.0M
Transmission Control Center	\$1.0M
Enterprise Security	\$0.8M
Public Affairs	\$0.7M
Customer Service	\$0.6M
Audit Services	\$0.6M
Executive Office	\$0.6M
Distribution Operations	\$0.4M
Facilities	\$0.3M
Technical Development & Instruction	\$0.3M
PPL Services	\$10.2M
<b>Total Allocated Costs</b>	<b>\$83.4M</b>

**d. Allocated Depreciation**

PPL also estimated the depreciation for PPL corporate investments that benefit Narragansett. For example, PPL assigned and allocated the depreciation from PPL’s IT applications and infrastructure, as well as corporate facilities, to Narragansett utilizing the cost allocation methodology described earlier<sup>4</sup>.

**Table 8** below summarizes PPL’s depreciation allocation.

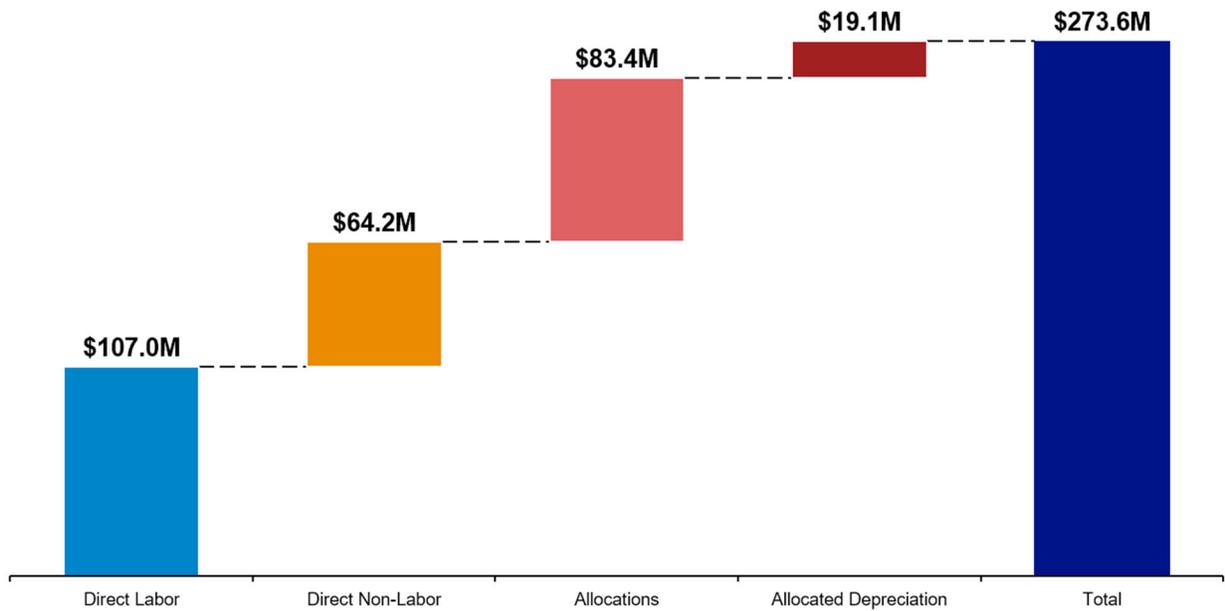
	<b>Total</b>
Allocated Depreciation	\$19.1M
<b>Total</b>	<b>\$19.1M</b>

<sup>4</sup> PPL has not included depreciation resulting from incremental IT and other infrastructure investment to maintain a comparable basis to National Grid allocated depreciation.

**e. Total PPL Managed Cost Summary**

PPL’s anticipated assigned and allocated costs to operate Narragansett in direct labor, direct non-labor, allocations and depreciation are summarized in **Figure 3** below.

**Figure 3. PPL Managed Cost Structure, 2022 Anticipated**

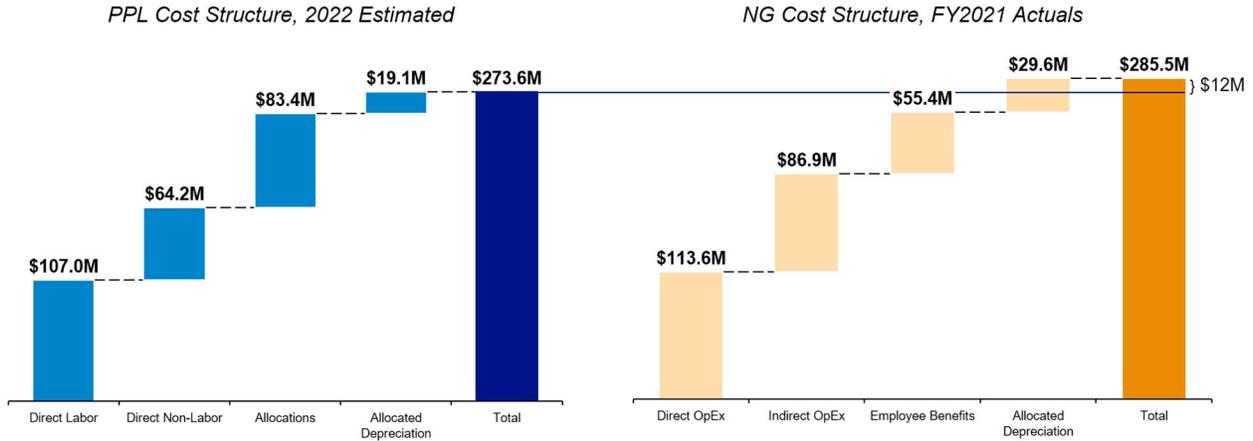


**V. Cost Summary Comparison**

**a. Total Cost Summary Comparison**

Using the methodologies described in this document, PPL’s anticipated Narragansett operating costs of \$273.6M are approximately \$12M lower than National Grid’s current Narragansett operating costs of \$285.5 M as summarized in **Figure 4** below.

**Figure 4. Comparison: NG and PPL Managed Cost Builds**

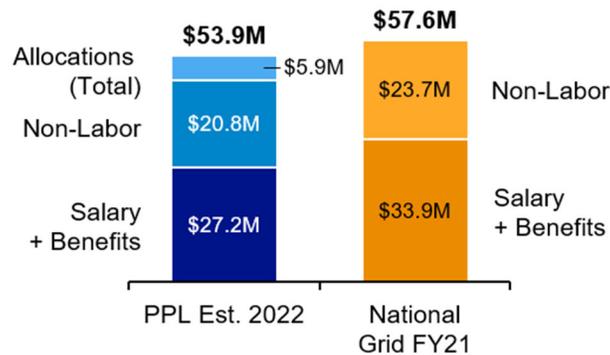


To provide further context into the differences between PPL and National Grid operating costs, PPL developed functional comparisons across the major operating areas of electric, gas, customer and corporate. Developing these comparisons required PPL to make certain assumptions to derive comparable costs bases (e.g., PPL proportionately allocated National Grid benefit costs to functions to derive a fully loaded functional labor cost).

**b. Functional Cost Summary Comparisons**

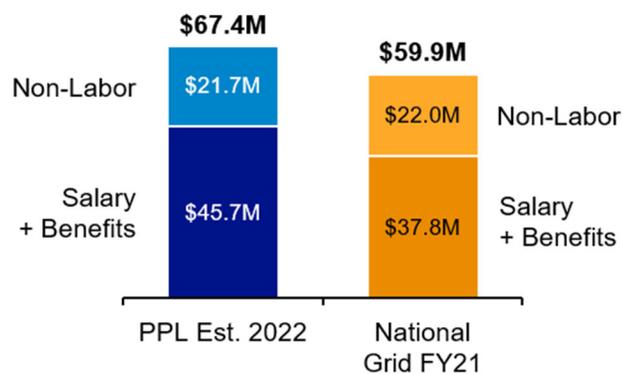
**Electric Operations:** PPL’s cost build-up estimates total direct labor and non-labor cost to operate the Narragansett electric business to be \$53.9M. This includes the costs associated with the direct operations as well as those electric operation support costs assigned and allocated from PPL’s service company. This compares to National Grid’s electric operations costs of \$57.6M. The establishment of a dedicated Rhode Island electric organization that applies PPL’s operating practices results in slightly lower costs relative to National Grid. A comparison of these costs is provided in **Figure 5** below:

**Figure 5. Electric Cost Comparison**



**Gas Operations:** PPL’s cost build-up estimates the total direct labor and non-labor cost to operate the Narragansett gas business to be \$67.4M. This compares to National Grid costs of \$59.9M. This higher cost reflects the establishment of a dedicated gas organization described earlier that includes functions such as gas control, pipeline safety and gas procurement – functions currently shared in National Grid’s model. The Rhode Island Division of Public Utilities and Carriers, in its report on its investigation into the January 2019 gas service interruption on Aquidneck Island, recommended the establishment of more local, direct control of gas operations, including these functions. **Figure 6** below illustrates a comparison of these costs:

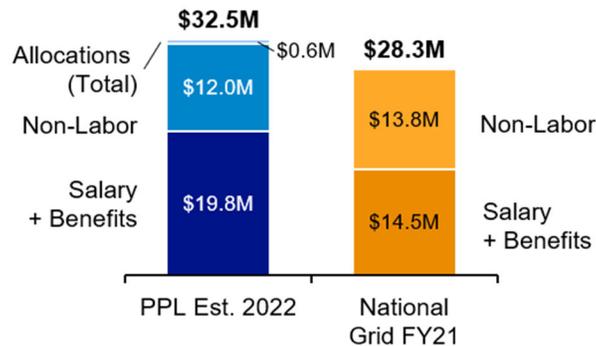
**Figure 6. Gas Cost Comparison**



**Customer:** PPL’s cost build-up estimates the total direct labor and non-labor cost to support Narragansett customer operations to be \$32.5M. This compares to \$28.3M for comparable services under National Grid. PPL is planning to invest in a Rhode Island-based customer care center and back-office operations and program support, resulting in a dedicated presence to support these functions, whereas National

Grid’s back-office and program support is provided on a shared basis. Establishing a customer care center in Rhode Island will provide Rhode Island customers with Rhode Island-dedicated customer service employees who are familiar with the service territory and issues specific to Rhode Island customers. As a result, the costs to support the customer function in Rhode Island are anticipated to be higher than those under National Grid. **Figure 7** below compares these costs:

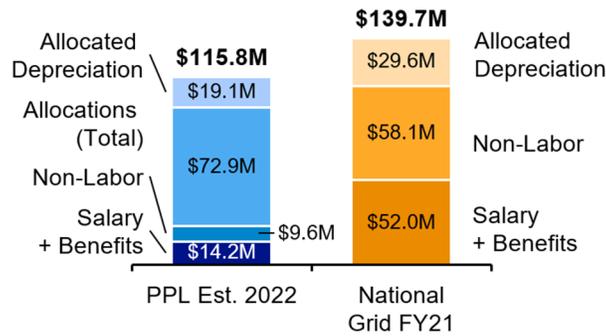
**Figure 7. Customer Cost Comparison**



**c. Corporate Cost Summary Comparisons**

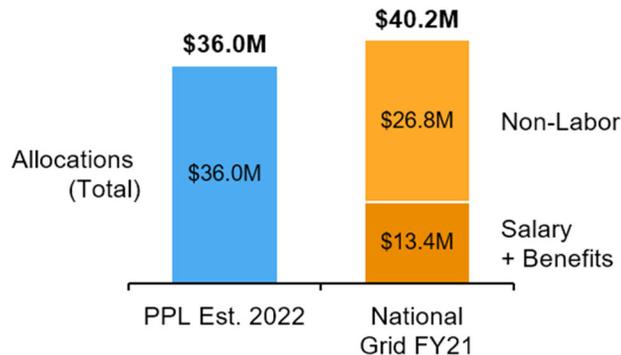
**Total Corporate:** For purposes of this comparison, Total Corporate costs are all costs, excluding Electric Ops, Gas Ops, and Customer costs. These costs include the total estimated labor and non-labor costs from activities provisioned from the service company inclusive of the allocated depreciation of corporate owned assets supporting Rhode Island. PPL estimates total corporate costs to be \$119.8. This compares with \$139.7M under National Grid for comparable functions and services. A high-level comparison of these costs is provided in **Figure 8**, with further analysis and comparison for select functions provided below:

**Figure 8. Total Corporate Cost Comparison**



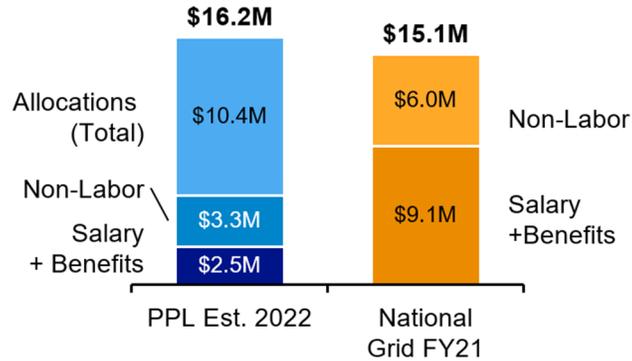
**IT:** PPL IT costs are inclusive of labor, service and maintenance contracts, licensing fees and other related expenses. PPL’s total estimated cost to provide IT support to Narragansett is \$36.0M compared to \$40.2M under National Grid as shown in **Figure 9**. PPL intends to provide IT services on a centralized basis that allows for scale benefits to be extended to Narragansett.

**Figure 9. IT Cost Comparison**



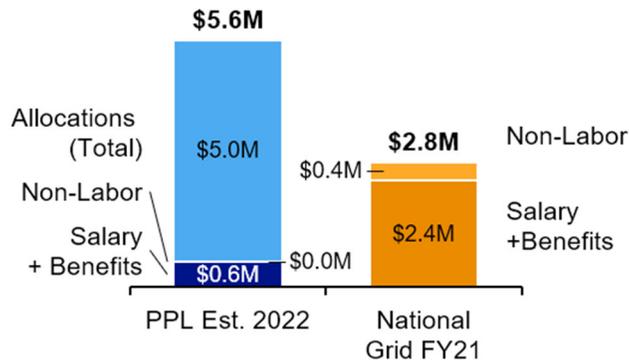
**Finance:** PPL’s total estimated costs for Finance support to Narragansett are \$16.2M. These costs include both assigned and allocated costs from the service company (such as accounting and tax support, audit, budgeting and planning activities, etc.) as well as the direct Finance organization costs incurred in Rhode Island (including financial performance reporting and property accounting). This compares to National Grid Finance costs of \$15.1M as shown in **Figure 10**.

**Figure 10. Finance Cost Comparison**



**HR:** PPL’s total estimated costs to provide HR support to Narragansett is \$5.6M. These costs include both the assigned and allocated costs from the service company (such as talent management, employee training and employee communications) as well as the direct HR organization costs incurred in Rhode Island, including dedicated labor relations support. This compares to National Grid HR costs of \$2.8M as shown in **Figure 11**.

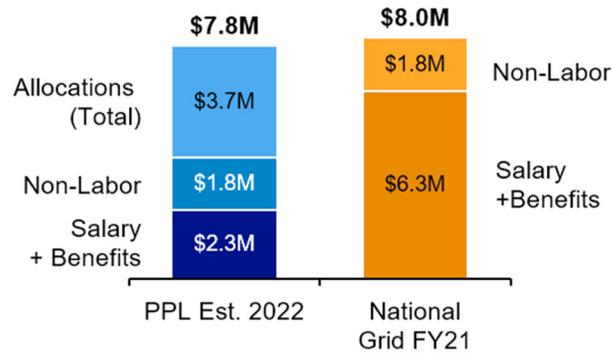
**Figure 11. HR Cost Comparison**



**Regulatory/Government Affairs:** PPL’s total estimated costs to provide Regulatory and Government Affairs support to Narragansett is \$7.8M. These costs include both the assigned and allocated costs from the service company (including electric forecasting, electric procurement and settlement, and community relations support) as well as the direct Regulatory/Government Affairs costs incurred in Rhode Island

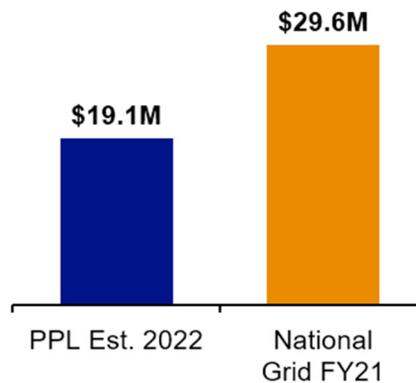
(including Rhode Island government relations and economic and community development). This compares to the National Grid costs of \$8.0M as shown in **Figure 12**.

**Figure 12. Regulatory/Government Affairs Cost Comparison**



**Allocated Depreciation:** PPL has estimated charging a total of \$19.1M in allocated depreciation to Narragansett. These costs reflect the share of existing corporate investments, such as IT infrastructure and corporate facilities that benefit Rhode Island. This compares to \$29.6M under National Grid. This comparison is shown in **Figure 13**.

**Figure 13. Allocated Depreciation Comparison**



## **VI. Cost Summary Comparison**

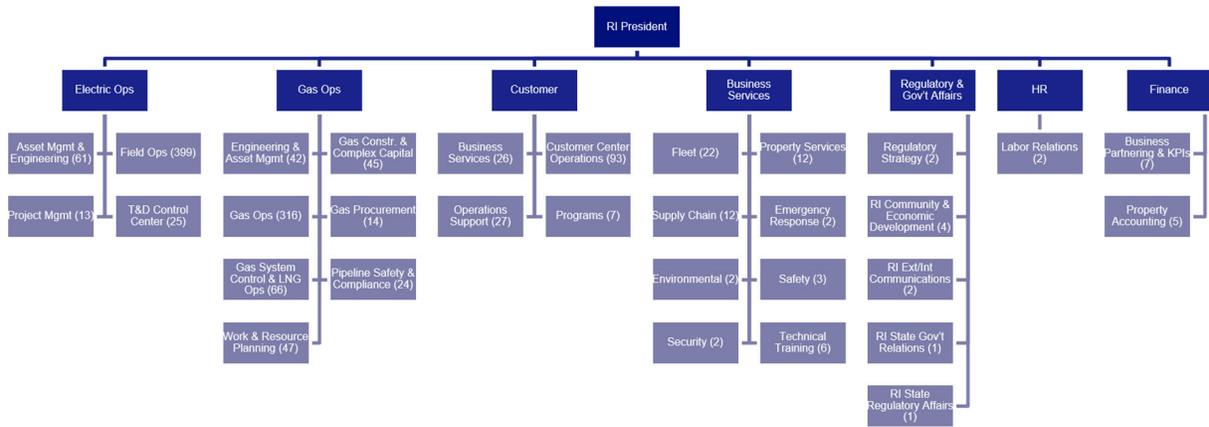
PPL developed this analysis based on its review of National Grid's current costs to operate Narragansett and meetings with National Grid subject matter experts. PPL's intended operating model for Narragansett provided the basis from which PPL developed its anticipated costs to operate Narragansett. Input from PPL's integration planning teams, finance and business planning teams and other subject matter experts was provided based on the best information available at this time to derive an estimate of anticipated costs to operate. Based on the operating model differences between National Grid and PPL, the functional cost differences observed are both explainable and reasonable. PPL believes the implementation of a dedicated organization to serve the customers of Rhode Island with a renewed focus on local control and management, and safe, reliable operations will not increase costs to operate Narragansett.

<b>Appendix 1. National Grid RI Narragansett Total Cost Structure, FY2021</b>	
<b>Pass-Through Costs</b>	
Commodity	\$523.7M
DSM	\$115.7M
GET Expenses	\$54.7M
Wheeling	\$221.3M
Less Trans. Credit from Associate	(\$159.9M)
<b>Total Pass-Through Costs</b>	<b>\$755.5M</b>
<b>Managed Costs</b>	
Total Direct Opex	\$113.6M
Total Indirect Opex	\$86.9M
Total Employee Benefits	\$55.4M
Allocated Depreciation	\$29.6M
<b>Total Managed Costs</b>	<b>\$285.5M</b>
<b>Depreciation &amp; Amortization</b>	<b>\$134.2M</b>
<b>Total Operating Taxes</b>	<b>\$78.8M</b>
<b>Storm</b>	<b>\$34.9M</b>
<b>Bad Debt</b>	<b>\$33.1M</b>
<b>Other</b>	<b>\$13.4M</b>
<b>Total Narragansett Costs</b>	<b>\$1,335.4M</b>
Other includes Capital Related O&M, Electric Vehicles, Environmental, Other Non-Controllable Costs, and Regulatory Assessments.	

<b>Appendix 2a. National Grid RI Narragansett Total Cost Structure - Reconciliation to Published Financial Statements, FY2021</b>			
	<b>Analysis Model</b>	<b>Adjustments</b>	<b>2021 Audited Income Statement</b>
<b>Operating Revenues</b>	<b>\$1,547.2M</b>	<b>\$0.6M</b>	<b>\$1,547.8M</b>
<b>Operating Expenses</b>			
Purchased electricity	(\$361.2M)	\$0.5M	(\$360.7M)
Purchased gas	(\$162.5M)		(\$162.5M)
Operations and maintenance	(\$598.7M)	\$78.1M	(\$520.5M)
Depreciation	(\$134.2M)	\$0.5M	(\$133.8M)
Other taxes	(\$78.8M)	(\$63.6M)	(\$142.4M)
<b>Total Operating Expenses</b>	<b>(\$1,335.4M)</b>	<b>\$15.5M</b>	<b>(\$1,319.9M)</b>
<b>Operating Income</b>	<b>\$211.8M</b>	<b>\$16.1M</b>	<b>\$227.9M</b>
<b>Other income and (deductions)</b>	(\$47.0M)	(\$16.1M)	(\$63.1M)
<b>Income before Income Taxes</b>	<b>\$164.8M</b>		<b>\$164.8M</b>
<b>Income Taxes</b>	(\$29.8M)		(\$29.8M)
<b>Net Income</b>	<b>\$135.0M</b>		<b>\$135.0M</b>

<b>Appendix 2b. National Grid RI Narragansett Total Cost Structure - Reconciliation to Published Financial Statements Detail, FY2021</b>	
<b>Revenue Adjustments</b>	
Other Misc	(\$1.0M)
Oth Exp-Sup & Admin-IC Billed Out	\$0.6M
ISR Deferral-Equity-Elec	\$0.2M
ISR Deferral-Equity-Gas	\$0.8M
<b>Total</b>	<b>\$0.6M</b>
<b>Purchased Electricity Adjustments</b>	
Electric Commodity moved to O&M	\$0.5M
<b>Total</b>	<b>\$0.5M</b>
<b>O&amp;M Adjustments</b>	
Electric Commodity moved to O&M	(\$0.5M)
Other employee benefit moved to Other Taxes	\$8.9M
GET moved to Other Taxes	\$54.7M
Other Misc	\$1.0M
Oth Exp-Sup & Admin-B/sheet Settlement	(\$0.6M)
Amortization-Regulatory Debits	(\$0.4M)
Below the line Adjustments	\$15.1M
<b>Total</b>	<b>\$78.1M</b>
<b>Depreciation Adjustments</b>	
Misc non Operating income	\$0.0M
Amort Reg Debits	\$0.4M
<b>Total</b>	<b>\$0.5M</b>
<b>Other Taxes Adjustments</b>	
GET moved from Controllable Cost	(\$54.7M)
Other employee benefit moved from Controllable Cost	(\$8.9M)
<b>Total</b>	<b>(\$63.6M)</b>
<b>Other Income**</b>	
Below the Line Adjustments**	(\$15.1M)
ISR Deferral-Equity-Elec	(\$0.2M)
ISR Deferral-Equity-Gas	(\$0.8M)
Misc non Operating income	(\$0.0M)
<b>Total</b>	<b>(\$16.1M)</b>
** Primarily the non-service cost portion of the pension/OPEB expense, donations, penalties, and other income/deductions that fall outside of ratemaking	

### Appendix 3: PPL Rhode Island Direct Organizational Structure



### Appendix 4: PPL Rhode Island Aligned Corporate Functional Support

