

PUBLIC

BEFORE THE
STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: Petition of PPL Corporation, PPL
Rhode Island Holdings, LLC, National Grid
USA, and The Narragansett Electric
Company for Authority to Transfer
Ownership of The Narragansett Electric
Company to PPL Rhode Island Holdings,
LLC and Related Approvals

Docket No. D-21-09

**DIRECT TESTIMONY AND SUPPORTING EXHIBITS OF
MICHAEL R. BALLABAN**

**ON BEHALF OF
THE RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS
ADVOCACY SECTION**

NOVEMBER 3, 2021

PUBLIC

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DIVISION OF PUBLIC UTILITIES AND CARRIERS

Petition of PPL Corporation, PPL Rhode)
Island Holdings, LLC, National Grid USA,)
and the Narragansett Electric Company for)
Authority to Transfer Ownership of the)
Narragansett Electric Company to PPL)
Holdings, LLC and Related Approvals)

Docket No. D-21-09

**DIRECT TESTIMONY OF
MICHAEL R. BALLABAN**

1

I. STATEMENT OF QUALIFICATIONS

2

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

3

A. My name is Michael R. Ballaban. My business address is 370 Main Street, Suite 325,
4 Worcester, Massachusetts, 01608.

5

Q. WHAT IS YOUR PRESENT OCCUPATION?

6

A. I am a Senior Advisor for Daymark Energy Advisors (“Daymark”) specializing in
7 advising utility stakeholders in regard to revenue requirements, regulatory accounting,
8 cost of service, pricing, regulatory strategy and financial forecasting.

9

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

10

A. Prior to working with Daymark, my professional experience includes employment with
11 both New England Electric System (now National Grid USA) and Boston Edison
12 (“Eversource Energy”) where I gained extensive experience assisting utilities with all
13 phases of rate filings before state commissions and at the Federal Regulatory Energy
14 Commission (“FERC”), including preparation, discovery, litigation, settlement, and

1 implementation. Most recently I was Senior Manager in the Power & Utility Advisory
2 Services practice at Ernst & Young. In this role I advised electric and gas utility clients
3 on a wide variety of financial and regulatory issues. Prior to assuming my current
4 position, I was a Managing Consultant at Daymark. While in that position, I testified
5 before the Rhode Island Public Utilities Commission (“RIPUC” or “PUC”) on the
6 reasonableness of Narragansett Electric’s revenue requirement in RIPUC Docket No.
7 4770 and I advised a number of Daymark clients with regard to cost of service, revenue
8 requirements, tariff reviews, and power supply planning and procurement.

9 **Q. WHAT EXPERIENCE DO YOU HAVE THAT IS RELEVANT TO THIS**
10 **PROCEEDING?**

11 A. I have extensive experience assisting utilities with all phases of rate filings before state
12 commissions and at the Federal Regulatory Energy Commission, including
13 preparation, discovery, litigation, settlement, and implementation. In addition, while I
14 was employed by New England Electric System for more than twelve years, I
15 developed financial forecasts and revenue requirements for the company’s subsidiary
16 New England Power Company. I also testified regarding the FERC-jurisdictional
17 generation and transmission revenue requirements in the W-92 rate case before FERC.
18 Consequently, I have substantial financial and ratemaking knowledge of Narragansett
19 Electric Company that is directly applicable to this proceeding.

20 Other recent experience includes leading a review of a utility’s allocation of certain
21 service company costs to its operating companies, co-leading a study to verify that the
22 electric and gas distribution assets in a utility’s rate base were appropriate to support
23 upcoming base rate filings, leading a review of significant deferred storm costs to

1 verify that it was appropriate for a utility to include those costs in cost recovery
2 submissions, reviewing elements of a utility's cost accounting structure and associated
3 compliance program, and leading a regulatory transformation initiative to establish a
4 regulatory organization within the finance function for a large multi-state utility.

5 Most recently, I have been advising the Division in regard to an Earnings Investigation
6 and Block Island Transmission System Prudency Matter in RIPUC Docket No. 4770.

7 **Q. PLEASE DESCRIBE YOUR OTHER WORK EXPERIENCE.**

8 A. Following my employment with both New England Electric System, now National
9 Grid, and Boston Edison, now Eversource, I was a consultant for Navigant Consulting
10 where I specialized in utility rate and regulatory consulting. I then joined Black &
11 Veatch as a principal consultant specializing in utility pricing, cost allocation, and
12 revenue requirements before becoming a senior manager in the power & utility
13 advisory services practice at Ernst & Young. I then joined Daymark Energy Advisors
14 in a similar capacity as a managing consultant. Recently, I have become a senior
15 advisor to Daymark Energy Advisors. My professional resume is Exhibit A to this
16 testimony.

17 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.**

18 A. I received my Bachelor of Science in Transportation and Public Utilities from Indiana
19 University and my M.B.A. in Finance from Babson College.

20 **II. PURPOSE AND SUMMARY OF TESTIMONY**

21 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING?**

1 A. I am testifying on behalf of the Advocacy Section of the Rhode Island Division of
2 Public Utilities and Carriers (“Advocacy Section”).

3 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 A. On May 4, 2021, PPL Corporation (“PPL Corp.”) and PPL Rhode Island Holdings,
5 LLC (“PPL RI”) (together, “PPL”) and National Grid USA (“National Grid”) and The
6 Narragansett Electric Company (“Narragansett”) (together, “Narragansett”),
7 (collectively, the “Petitioners”) filed a joint petition with the Division of Public Utilities
8 and Carriers (“Division”) seeking authorization to transfer ownership of Narragansett
9 to PPL RI.¹ The purpose of this testimony is to examine the effects of the proposed
10 transfer of ownership (“Transaction”) against the standard of review the Division will
11 employ, discussed further below.

12 In the preparation of this testimony, I have focused most closely on the testimony and
13 exhibits related to the issues addressed here.

14 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.**

15 A. The Petition should be rejected because Petitioners have failed to demonstrate that the
16 Transaction will have no adverse impact on rates, and therefore have not met their
17 burden of demonstrating that the Transaction is in the public interest.

18 **Q. PLEASE SUMMARIZE YOUR PRIMARY FINDINGS.**

19 A. My primary findings are:

¹ See Petition of PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA, and The Narragansett Electric Company for Authority to Transfer Ownership of The Narragansett Electric Company to PPL Rhode Island Holdings, LLC, and Related Approvals 1, Division Docket No. D-21-09 (May 4, 2021) (“Petition”).

1 not thereby be diminished” as a result of the Transaction and (2) the Transaction is
2 “consistent with the public interest.”⁴

3 **Q. WHAT ELEMENT OF THE STANDARD ARE YOU FOCUSING ON IN**
4 **YOUR TESTIMONY?**

5 A. My testimony focuses on part (2) of the standard—whether the sale is consistent with
6 the public interest. The Division has found that this standard “requires a finding that
7 the proposed transaction will not unfavorably impact the general public (including
8 ratepayers).”⁵ If an adverse impact on ratepayers is either likely or not determinable
9 due to lack of sufficient evidence presented by the Petitioners, then the Transaction
10 does not meet the standard and approval should be denied. The public interest requires
11 that Applicants hold ratepayers harmless from cost increases that would not have
12 occurred but for the Transaction. If the Applicants’ hold harmless commitment is
13 inadequate to protect ratepayers, the Transaction cannot be found to be consistent with
14 the public interest.

15 **Q. PLEASE SUMMARIZE THE MATTERS THAT YOU ARE ADDRESSING**
16 **AND YOUR RECOMMENDATIONS ON THOSE MATTERS.**

17 A. There are several aspects of the Transaction that could unfavorably impact ratepayers.
18 First, the Petitioners have not been forthcoming in providing adequate data or
19 commitments that would enable a determination as to whether the proposed transfer
20 will adversely impact rates. In particular, there is a lack of clarity regarding the ultimate

⁴ See State of Rhode Island Division of Public Utilities and Carriers 74, Division Order 24109, Division Docket No. D-21-09 (May 4, 2021).

⁵ *Id.* at 75.

1 impact on ratepayers related to transition costs that PPL will incur to set up their
2 organization to serve Narragansett's customers. PPL has not proposed a mitigation
3 plan to protect customer rates during the transition period, nor has it made
4 commitments to protect ratepayers from transition costs that might negatively impact
5 Narragansett's revenue requirements. While the Petitioners have offered statements
6 that demonstrate an intent to hold customers harmless from some Transaction-related
7 costs, it has also made clear that it intends for Rhode Island customers to pay for some
8 costs (e.g., capital investments) that would not be needed but for the Transaction.
9 Moreover, even where Petitioners intend to hold customers harmless for Transaction-
10 related costs, Petitioner's statements of intent lack specific measurable and verifiable
11 commitments, and, therefore, are not sufficient to meet the public interest standard.

12 The Petition:

- 13 • does not provide sufficient information and details to the Division about the
14 level of expected costs and the anticipated operational structure after the
15 sale;
- 16 • lacks clarity as to PPL's intentions regarding the filing of a base distribution
17 rate case and the timing and other details of such a rate case;
- 18 • does not explain whether and, if so, to what extent, customers will bear a
19 portion of transition costs associated with transitioning the ownership,
20 operations, and all procedures and active docketed processes from National
21 Grid.

1

IV. SHARED SERVICE COSTS

2 **Q. PLEASE DESCRIBE THE SHARED SERVICES MODEL UNDER WHICH**
3 **NARRAGANSETT CURRENTLY OPERATES.**

4 A. Under the shared services model, Narragansett has access to a large pool of centralized
5 financial and operational resources from its affiliation with National Grid Service
6 Company (“Service Company”). This model enables Narragansett to realize
7 significant economies of scale because it does not have to duplicate these functions on
8 its own. For example, National Grid uses a shared services model across its
9 jurisdictions. In Rhode Island, the Service Company provides various operation
10 functions to Narragansett Electric, such as electric and gas operations and
11 maintenance.⁶

12 **Q. DOES NARRAGANSETT RELY HEAVILY ON THE NATIONAL GRID**
13 **SERVICE COMPANY?**

14 A. Yes. **[BEGIN CONFIDENTIAL MATERIAL]** [REDACTED]
15 [REDACTED]
16 [REDACTED] **[END CONFIDENTIAL**
17 **MATERIAL]** Further, greater than 40% of current Narragansett Electric distribution

⁶ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 3.

⁷ See PPL’s response to Advocacy Section Data Request DIV 1-2, Attachment PPL-DIV 1-2-34 at 5 (Confidential).

1 operation and maintenance costs, excluding purchased power, originate from the
2 Service Company.⁸

3 **Q. WHAT PORTION OF TOTAL SERVICE COMPANY CHARGES ARE**
4 **CURRENTLY ALLOCATED TO NARRAGANSETT?**

5 A. Approximately 8.5 percent of total Service Company charges are allocated to
6 Narragansett, totaling in excess of \$255 million annually, based on 2020 data.⁹

7 **Q. HAS PPL INDICATED WHETHER IT INTENDS ON UTILIZING A SHARED**
8 **SERVICE MODEL TO SUPPORT RHODE ISLAND OPERATIONS SIMILAR**
9 **TO THE ONE NOW IN PLACE?**

10 A. Yes, it has. In response to Advocacy Section Data Request 2-1,¹⁰ PPL states that it
11 “anticipates that corporate and operational support functions such as human resources,
12 finance and accounting, supply chain, information technology, health and safety and
13 security will be managed out of existing services organizations, with local Rhode
14 Island presence as required. PPL believes the resulting shared service model provides
15 economies of scale similar to current National Grid operations.” However, they are
16 not exactly the same, making direct comparison more of a challenge.¹¹

⁸ See 2020 Electric and Gas Earnings Reports, RIPUC Docket No. 4770 (May 2021); National Grid’s response to Advocacy Section Data Request DIV 4-3, Attachment NG-DIV 4-3 at 1.

⁹ National Grid’s response to Advocacy Section Data Request DIV 2-30.

¹⁰ A copy of all data responses cited in this testimony are contained in Exhibit B to this testimony.

¹¹ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 3, where PPL states it “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.”

1 **Q. HOW DO NATIONAL GRID AND PPL ALLOCATE INDIRECT SERVICE**
2 **COMPANY CHARGES?**

3 A. National Grid uses a formula consisting of Net Plant (1/3), Net Margin (1/3), and Net
4 O&M Expenses (1/3).¹² PPL appears to use a formula consisting of (1) invested capital,
5 (2) operation and maintenance expense, and (3) number of employees.¹³ However, in
6 PPL's response to Advocacy Section Data Request DIV 3-17(d), PPL states that it has
7 "not fully developed a Cost Allocation Manual that it intends to use to allocate to Rhode
8 Island any PPL service company costs that are expected to be commonly incurred for
9 Rhode Island's gas system and other PPL operations Gas System." Presumably, no
10 allocation scheme has been developed for Rhode Island's electric system either.

11 **Q. HAVE YOU BEEN ABLE TO ASCERTAIN THE IMPACT ON**
12 **NARRAGANSETT'S COST STRUCTURE OF USING A DIFFERENT**
13 **METHOD OF ALLOCATING SERVICE COMPANY COSTS?**

14 A. No. As noted above, PPL has not indicated its intended approach for allocating Service
15 Company costs after the transfer.

16 **Q. HAS PPL OFFERED ANY ESTIMATE OF THE LEVEL OF SHARED**
17 **SERVICE COSTS THAT IT ANTICIPATES ALLOCATING TO**
18 **NARRAGANSETT ELECTRIC AFTER THE SALE IS COMPLETED?**

¹² See National Grid's Response to PUC 5-1 at 5, National Grid Cost Allocation Manual 5, RIPUC Docket No. 4770 (Dec. 1, 2020).

¹³ See PPL's response to Advocacy Section Data Request DIV 1-20, Attachment PPL-DIV 1-20 at 6 (PPL Services Agreement).

1 A. Yes. PPL provided an analysis intended to demonstrate the level of expected costs and
2 operation structure after the sale.¹⁴ However, I have significant concerns about whether
3 any reliable conclusions can be drawn from that analysis; I discuss these later in my
4 testimony. Additionally, PPL indicates that “both PPL and National Grid have service
5 companies that provide centralized corporate and administrative services functions, but
6 they differ in their composition (e.g., certain subfunctions are categorized differently
7 between PPL and National Grid) making functional cost comparisons difficult.”¹⁵

8 **Q. CAN YOU DETERMINE WHETHER PPL’S OPERATING MODEL WILL**
9 **RESULT IN NARRAGANSET ELECTRIC RECEIVING THE SAME COST**
10 **EFFICIENCIES THAT IT DOES TODAY OPERATING AS AN AFFILIATE**
11 **OF NATIONAL GRID?**

12 A. No, I cannot. As PPL itself acknowledges, it is difficult to do a direct comparison
13 between the post-acquisition level of costs that will be allocated to Narragansett from
14 the PPL Service Company as compared to the existing level of costs allocated to
15 Narragansett from Service Company. Additionally, and as I note later, costs in the PPL
16 analysis are identified as “steady state”—that is, they estimate the level of expenses
17 after the transition period post sale is complete. This estimate does not address the
18 costs that will be incurred prior to the completion of the transition, a period which the
19 Petitioners estimate will run for two years.

¹⁴ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, PPL-DIV Attachment PPL-DIV 1-54-1 at 15-17.

¹⁵ See *id.* at 3.

1 **Q. CAN YOU DRAW ANY CONCLUSIONS ABOUT HOW ANY CHANGES IN**
2 **SERVICE COMPANY CHARGES ALLOCATED TO NARRAGANSETT**
3 **ELECTRIC AS A RESULT OF THE PROPOSED TRANSACTION WILL**
4 **IMPACT RATEPAYERS?**

5 A. No, I cannot. In place of specifics, PPL offers broad statements of intention and goals.
6 These include statements that “PPL believes [that its] resulting shared service model
7 provides economies of scale similar to current National Grid operations,”¹⁶ and “[i]t is
8 the goal of PPL and PPL RI to achieve similar levels of synergies that Narragansett
9 experiences with National Grid.”¹⁷

10 **Q. HOW DOES THIS IMPACT YOUR FINDING?**

11 A. Given these significant uncertainties, a finding that approval of the proposed
12 acquisition would be in the public interest should not be made.

13 **V. OTHER OPERATING COSTS**

14 **Q. HAVE THE PETITIONERS PROVIDED SPECIFIC FINANCIAL AND**
15 **OPERATING DATA DEMONSTRATING THE LEVEL OF EXPECTED**
16 **COSTS AND OPERATION STRUCTURE AFTER THE SALE?**

17 A. Yes.

18 **Q. WHAT DOES THIS EVIDENCE SHOW?**

19 A. In a supplemental response to DIV 1-54, PPL submitted a study entitled “Analysis of
20 PPL’s Cost to Operate The Narragansett Electric Company.” This analysis compares

¹⁶ See PPL’s response to Advocacy Section Data Request DIV 2-1.

¹⁷ See PPL’s response to Advocacy Section Data Request DIV 2-34.

1 selected elements of cost currently incurred by National Grid to operate Narragansett
2 Electric to the anticipated cost targets that PPL hopes to achieve for the same group of
3 activities.¹⁸ PPL labels the costs included in the study as the “steady state” that will
4 achieved after the transition services agreement expires, which is anticipated to be
5 approximately two years after Transaction close.¹⁹ Note that PPL states that the
6 analysis presents the “current view of PPL’s reasonable expectation of the comparison
7 between National Grid’s current costs to operate Narragansett and PPL’s anticipated
8 costs to operate Narragansett at the conclusion of the transition period. This analysis
9 is thus not a budget for PPL costs in future years; it is a cost comparison based on the
10 best information currently available and estimates generated from that information.”²⁰

11 **Q. WHAT SPECIFIC COSTS ARE ADDRESSED IN THE ANALYSIS?**

12 A. PPL states it “limited [the] analysis to operating and maintenance costs plus allocated
13 depreciation from service company assets that support Narragansett.”²¹ According to
14 the analysis presented, these costs are “managed” costs, and total in the range of \$275
15 million to \$285 million. But this group of costs is only a small portion of
16 Narragansett’s total revenue requirement. Narragansett 2020 electric and gas revenues
17 exclusive of purchased power costs are approximately \$1 billion²². Therefore, the

¹⁸ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 2.

¹⁹ See *id.* at 3.

²⁰ *Id.* at 2.

²¹ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 3.

²² See 2020 Electric and Gas Earnings Reports, RIPUC Docket No. 4770 (May 2021).

1 managed costs they identify are only approximately 28 percent of total Narragansett
2 Electric non-purchased power/fuel revenues.

3 **Q. WHAT CONCLUSION DOES PPL REACH REGARDING THIS ANALYSIS?**

4 A. According to Figure 4 on page 19 of Attachment PPL-DIV 1-54-1, PPL estimates a
5 target expense level of \$273.6 million for managed cost activities as compared to
6 National Grid's estimate of \$285.5 million, yielding an approximate reduction of 4.2
7 percent, or \$12 million.

8 **Q. WHAT OBSERVATIONS CAN YOU MAKE REGARDING THE PPL**
9 **STUDY?**

10 A. While on its face the results appear positive, I have significant concerns that are not
11 addressed by the analysis:

12 1. PPL qualifies that the cost targets are not budgets and that the level of charges
13 are "PPL's reasonable expectation of the comparison between National Grid
14 USA's current costs to operate Narragansett and PPL's anticipated costs to
15 operate Narragansett."²³ Hence, these are estimates that attempt to forecast
16 what may happen prospectively; they may or may not translate into actual
17 future outcomes.

18 2. Consequently, PPL does not make any commitments regarding these cost
19 targets; nor does it indicate if customers will receive any benefits through a
20 reduction in rates for such lower costs.

²³ See Supplement to PPL's response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 2.

- 1 3. These steady state costs are only likely to occur after the transition period is
2 completed. No information is provided on the level of costs expected before
3 that time, which is likely to extend at least two years after Transaction close,
4 and perhaps longer.²⁴
- 5 4. By its own admission, PPL’s study does not include the costs of replacing any
6 equipment or facility prior to the end of its useful life that may be a direct
7 consequence of the Transaction or the transition costs of integrating the
8 previously separate systems.
- 9 5. Through examination of Narragansett Electric financial data submitted in
10 Docket No. 4770,²⁵ the impact of return on and of rate base on Narragansett’s
11 revenue requirement and ultimately customer rates, is at least as great, if not
12 more, than the costs that are the subject of the study.
- 13 6. PPL failed to address any impacts on rate base during either the transition
14 period or following entrance into the “steady state” period. Also, the study only
15 includes selected costs and does not address what happens to other non-
16 recurring O&M necessary to establish PPL RI as a separate company from

²⁴ See PPL’s response to Advocacy Section Data Request DIV 1-15, Attachment PPL-DIV 1-15-2 at 10. There is a provision to extend the TSA, and, therefore, the transition period, beyond the initial two-year period. If “the Parties mutually agree to extend the Transition Period, the Mark-up [on fully loaded direct and indirect costs and expenses of providing the Transition Services by National Grid] shall be increased by an additional five percent (5%) for the first three (3) months after the expiration of the original Transition Period and thereafter shall be increased by an additional five percent (5%) for each subsequent three (3) month period.”

²⁵ See 2020 Electric and Gas Earnings Reports, RIPUC Docket No. 4770 (May 2021). Narragansett Electric’s total electric and gas rate base is approximately \$2.8 billion. Return, income tax, and depreciation are approximately \$354 million (assuming the pre-tax Weighted Average Cost of Capital authorized in resolution of Docket No. 4770 of approximately 8.17% and depreciation expense of approximately \$129 million).

1 National Grid or to continue operating Narragansett Electric on a going forward
2 basis.

3 Given these observations, and as noted below, especially since transition costs are not
4 addressed in the analysis, PPL’s analysis does not provide a sound basis from which to
5 draw any definitive conclusions about the Transaction’s impacts on customer rates.

6 **VI. TRANSITION COSTS**

7 **Q. YOU MENTION THE CONCEPT OF TRANSITION COSTS. CAN YOU**
8 **PLEASE DESCRIBE WHAT THESE ARE?**

9 A. Yes. Transition costs are a category of acquisition-related costs that Petitioners
10 describe as expenses “associated with transitioning the ownership, operations and all
11 procedures and active docketed processes from National Grid.”²⁶

12 **Q. HAVE THE PETITIONERS INDICATED THAT THERE WILL BE**
13 **TRANSITION COSTS AS A RESULT OF THE TRANSACTION?**

14 A. Yes. For instance, in Advocacy Section Data Request 2-27, PPL states that “PPL and
15 PPL RI currently are working with outside consultants, as well as Information
16 Technology departments within PPL and National Grid USA Service Company, Inc.
17 to identify and quantify costs associated with the steps necessary to separate
18 Narragansett from National Grid and integrate Narragansett into PPL and PPL RI.”

19 **Q. HAVE THE PETITIONERS PROVIDED AN ESTIMATE OF SUCH COSTS?**

20 A. No, they have not.²⁷

²⁶ See PPL’s response to Advocacy Section Data Request DIV 2-39.

²⁷ See PPL PPL’s response to Advocacy Section Data Request DIV 2-27.

1 **Q. DO YOU HAVE REASONS TO BELIEVE THAT TRANSITION COSTS WILL**
2 **BE SUBSTANTIAL?**

3 A. Yes, I do. These include:

4 1. The transition period after the sale will be up to two years or more as indicated
5 by the Transition Services Agreement²⁸ provided as part of the Petition. That
6 agreement covers a wide array of services that will continue to be provided by
7 National Grid to Narragansett Electric at a 5 percent mark-up over fully loaded
8 cost.²⁹ These charges will be concurrent with PPL incurring additional expense
9 to establish its own operating structure in Rhode Island.

10 2. Due diligence materials prepared by PPL include the statement that **[BEGIN**
11 **CONFIDENTIAL MATERIAL]** [REDACTED]
12 [REDACTED]
13 [REDACTED]
14 [REDACTED] **[END CONFIDENTIAL**

15 **MATERIAL]** Additionally, PPL later states in discovery response
16 “[c]urrently, Narragansett is supported by an integrated National Grid IT
17 environment and, as such, very few IT applications are anticipated to convey at
18 the close of the Transaction. To enable the exit from the Transition Services

²⁸ See PPL’s response to Advocacy Section Data Request DIV 1-15, Attachment PPL-DIV 1-15-2.

²⁹ Fully loaded costs include direct cost plus indirect charges and overheads.

³⁰ See PPL’s response to Advocacy Section Data Request DIV 1-2, Attachment PPL-DIV 1-2-34 at 5 (Confidential).

1 Agreement ('TSA'), PPL will need to make IT investments to be able to
2 support the Rhode Island utility.”³¹

3 These statements are reflective of Narragansett’s existing and substantial reliance on a
4 shared service model with other National Grid affiliates for most direct and indirect
5 operating support across all functions, including information technology, customer
6 operations, audit, procurement, finance, legal, and electric and gas operations and
7 maintenance. Given this integrated model that Narragansett Electric and its customers
8 enjoy within the family of National Grid operating affiliates, the cost of separation
9 required to effectuate the sale is likely to be significant. To be clear, neither the Petition
10 nor discovery contains any estimate of the likely cost consequences of the separation.

11 **Q. ARE THERE OTHER REASONS YOU BELIEVE TRANSITION COSTS**
12 **WILL BE SUBSTANTIAL?**

13 A. Yes. PPL has indicated that “certain functions that are currently provided by National
14 Grid that are planned to be created in Rhode Island are customer contact and back
15 office functions, electric dispatch and control room operations, gas control and dispatch
16 functions, gas and electric training operations and miscellaneous service company
17 functions. Total number of employees in these areas has not been determined at this
18 time.”³² In its supplemental response to DIV 1-54, PPL provides a financial snapshot
19 of the impact of its structural changes as compared to Narragansett Electric’s current

³¹ See PPL’s response to Advocacy Section Data Request DIV 10-7.

³² See PPL’s response to Advocacy Section Data Request DIV 1-54.

1 operating model under National Grid *after* the transition is complete. But that is only
2 one part of the story. PPL provides no information about the cost of this undertaking.

3 **Q. WHAT HAVE THE PETITIONERS SAID ABOUT THE RECOVERY OF**
4 **TRANSITION COSTS IN CUSTOMER RATES?**

5 A. The Petitioners have not provided consistent responses. On the one hand, PPL
6 indicates that it “will track . . . transition costs . . . and will not pass [them] on to
7 Narragansett customers.”³³ On the other hand, however, PPL states it “will evaluate
8 on a case-by-case basis whether they will seek to recover costs necessary to separate
9 Narragansett from National Grid USA and integrate Narragansett into PPL.”³⁴ This
10 indicates to me that customers could be facing a request for a currently unknown, and
11 potentially significant recovery in rates of transition costs.

12 **Q. CAN YOU PROVIDE A FURTHER EXAMPLE?**

13 A. Yes. In its response to Advocacy Section Data Request DIV 1-42, PPL states:
14 PPL and PPL RI do not plan to seek recovery from ratepayers for the costs associated
15 with the GCC [Rhode Island-dedicated gas control center] that do not relate to new or
16 improved technology capabilities to Narragansett, or for costs related to capital
17 investments that would not have been made in the normal course of business for
18 reasons including but not limited to obsolescence. These costs would be recoverable
19 in the ordinary course of business in the absence of PPL RI’s purchase of Narragansett,
20 subject to ordinary regulatory and prudence review. PPL and PPL RI will seek

³³ See PPL’s response to Advocacy Section Data Request DIV 1-30.

³⁴ See PPL’s response to Advocacy Section Data Request DIV 2-28.

1 recovery for any such costs pursuant to the appropriate cost recovery mechanisms
2 Narragansett already has in place with the Rhode Island Public Utilities Commission
3 and the Rhode Island Division of Public Utilities and Carriers, under existing statutes,
4 rules, and tariffs.

5 And, in response to Advocacy Section Data Request DIV 1-49, PPL states:

6 To the extent that PPL and/or PPL RI agrees to pay any increased salaries or to offer
7 benefits that exceed those currently provided to any of the Potential Retained
8 Employees, PPL and PPL RI will evaluate on a case-by-case basis: (1) the reason for
9 the increased salary or benefit costs, (2) the overall impact on the labor and benefit
10 costs to be incurred by The Narragansett Electric Company ('Narragansett'), and (3)
11 whether PPL RI's purchase of Narragansett was the cause of such costs, and, on the
12 basis of these and any other relevant factors, PPL and PPL RI will determine whether
13 it will seek to recover such costs in customer rates, or whether it will treat them as part
14 of acquisition premium or transaction costs and exclude them from any request for
15 recovery in customer rates.

16 **Q. DO THESE RESPONSES ADDRESS YOUR CONCERNS?**

17 A. No. The responses do not address the standard PPL intends to use to determine what,
18 if any, transition costs it intends to seek recovery of from customers, evidence it will
19 provide to justify such a claim, or the process it intends to undertake to track such items
20 as they are incurred. And PPL has not made any commitment regarding when it will
21 file its next base rate case.³⁵ Instead, PPL merely indicates that it will "file a base

³⁵ See PPL's response to Advocacy Section Data Request DIV 1-8; *see also* PPL's response to Advocacy Section Data Request DIV 1-9.

1 distribution rate case that will reflect the costs associated with PPL and PPL RI's
2 ownership and operation of Narragansett after closing the Transaction."³⁶

3 **Q. DID THE PETITIONERS PROVIDE ANY INFORMATION REGARDING**
4 **THE IMPACT OF THE TRANSACTION ON EXISTING ADMINISTRATIVE**
5 **AND GENERAL COST ALLOCATIONS FROM THE SERVICE COMPANY**
6 **DURING THE TRANSITION PERIOD?**

7 A. No, they did not.³⁷ However, in response to discovery requests Advocacy Section Data
8 Request DIV 4-1 through DIV 4-3 the Advocacy Section asked the Petitioners to
9 provide actual costs for 2020 charged to Narragansett Electric from the Service
10 Company as a baseline year (Advocacy Section Data Request DIV 4-1a), and then to
11 provide estimates of these same charges during years one and two under the TSA after
12 the Transaction has closed (Advocacy Section Data Request DIV 4-2). In Advocacy
13 Section Data Request DIV 4-3, the Division asked the Companies to prepare a schedule
14 that places the responses to Advocacy Section Data Request DIV 4-1 and DIV 4-2 side-
15 by-side, aligned by category of expense and capital so that they may be viewed for
16 comparison purposes.

17 **Q. WHAT RESPONSES DID THE PETITIONERS PROVIDE TO THESE**
18 **REQUESTS?**

19 A. The Petitioners estimate that Service Company O&M and capital expenditure charges
20 to Narragansett Electric will be \$200.5 million and \$84.5 million, respectively, in Year

³⁶ See PPL's response to Advocacy Section Data Request DIV 1-8.

³⁷ See National Grid's response to Advocacy Section Data Request DIV 1-50.

1 1 under the TSA³⁸. Year 2 amounts were not provided in the comparison; however,
2 PPL’s response to DIV 4-2 reports that O&M and capital expenditure charges under
3 the TSA to Narragansett Electric are estimated to be \$214.7 million and \$90 million,
4 respectively, in Year 2.³⁹ Actual Service Company O&M charges to Narragansett
5 Electric for 2020 as reported by National Grid were \$164.6 million and \$71.3 million,
6 respectively.⁴⁰

7 **Q. WHAT DOES THIS ANALYSIS INDICATE REGARDING THE IMPACT TO**
8 **SERVICE COMPANY COST ALLOCATIONS TO NARRAGANSETT**
9 **ELECTRIC DURING THE TRANSITION PERIOD ONCE THE SALE HAS**
10 **CLOSED?**

11 A. The data show that there will be significant cost increases during the transition period.
12 Based on the comparisons shown in National Grid’s response to Advocacy Section
13 Data Request DIV 4-3, Service Company O&M is expected to increase by
14 approximately 21.8% in TSA year 1 as compared to 2020. In TSA year 2, Service
15 Company O&M costs are expected to increase 7.1% as compared to TSA year 1.
16 Service Company Capex is estimated to increase by 18.5% in TSA year 1 and by 6.5%
17 in TSA year 2 as compared to TSA year 1.

18 **Q. DOES NATIONAL GRID AGREE WITH THE ABOVE CONCLUSIONS?**

19 A. No. In its response to Advocacy Section Data Request DIV 4-3, National Grid states
20 that “the costs in the response to [DIV] 4-2 are premature and purely speculative at this

³⁸ See National Grid’s response to Advocacy Section Data Request DIV 4-3 at 1.

³⁹ See PPL’s response to Advocacy Section Data Request DIV 4-2 at 2.

⁴⁰ See National Grid’s response to Advocacy Section Data Request DIV 4-3 at 1.

1 point and the costs in each response were derived using different methodologies and
2 cost components, explained in more detail below Therefore, Attachment NG-DIV
3 4-3 creates confusion and does not, and cannot, provide a like-for-like comparison
4 between the responses to [DIV] 4-1 and [DIV] 4-2. Accordingly, Attachment NG-DIV
5 4-3 provides no material value for the review of such costs.”

6 **Q. WHAT IS YOUR RECOMMENDATION TO THE DIVISION BASED ON THE**
7 **ABOVE DISCUSSION OF SERVICE COMPANY CHARGES?**

8 A. If these cost comparisons are not representative due to the stated concerns, but no
9 substituting documentation is forthcoming, then it will be impossible to conduct an
10 independent assessment of what will happen to Service Company charges during the
11 transition period after the Transaction closes. As Service Company charges constitute
12 such a substantial component of Narragansett Electric’s revenue requirements, the
13 Petitioners have left the Division in a difficult position. The Division is being asked to
14 approve the Transaction without sufficient visibility into or understanding as to what,
15 if any, adverse impacts on rates may result if the Petitioners were to seek rate recovery
16 for even a portion of these higher transition charges. Instead, the Division is expected
17 to rely on blanket statements from the Companies claiming that PPL intends to
18 maintain and/or improve existing economies of scale and resulting cost efficiencies.⁴¹
19 Unless the Petitioners provide updated commitments, I recommend that the Division
20 consider implementing certain minimally acceptable measures to mitigate the risk that

⁴¹ See PPL’s response to Advocacy Section Data Request DIV 2-1 (“PPL believes the resulting shared service model provides economies of scale similar to current National Grid operations.”). See also PPL’s response to Advocacy Section Data Request DIV 1-30 (“PPL expects that it will serve Narragansett customers with an improved cost structure after the transition is complete.”).

1 customer rates include as of yet unknown and potentially significant transition costs
2 directly attributable to the Transaction.

3 **Q. DO THESE ISSUES MAKE YOU CONCERNED THAT NARRAGANSETT**
4 **ELECTRIC CUSTOMER RATES MAY BECOME INFLATED THROUGH**
5 **THE INCLUSION OF POTENTIALLY SUBSTANTIAL TRANSITION**
6 **COSTS DIRECTLY ATTRIBUTABLE TO THE TRANSACTION?⁴²**

7 A. Yes, they do. I am concerned that if approved as proposed, the acquisition will
8 potentially expose ratepayers to large—and thus far unspecified—costs associated with
9 the transition from the current, National Grid-focused shared services model to a Rhode
10 Island-centric mode of operation once PPL takes over.

11 **Q. AREN'T YOUR CONCERNS ADDRESSED BY THE FACT THAT ANY**
12 **PROPOSED RATE INCREASES, INCLUDING THOSE DRIVEN BY**
13 **TRANSITION COSTS, WILL BE SUBJECT TO REVIEW BY THE PUC AND**
14 **THE DIVISION?**

15 A. No, they are not. While it is correct that PPL will need to demonstrate that costs it
16 seeks to recover in customer rates have been prudently incurred, this does not alleviate
17 my concern.

18 **Q. WHY NOT?**

19 A. There are several reasons. As I explained earlier, it seems clear that (1) the transition
20 costs associated with the shift to a new utility operating model are likely to be very
21 significant, and (2) at the same time, PPL has made no determination as to how large

⁴² These are expenses that are only likely to be incurred as a result of the sale and separation of Narragansett Electric from National Grid.

1 those costs will be or when PPL will seek to include them in rates. So, at least initially,
2 the Division has no visibility as to what PPL contemplates as a framework for
3 demonstrating which transition costs it will seek in future rate requests. The Petitioners
4 offer no real commitments in their Petition, only promises carrying no legal weight in
5 discovery.

6 I assume that PPL will seek to justify any transition costs that it selects to include in
7 future rate cases on the grounds that, over time, the incurrence of these costs will
8 provide a “net” benefit to customers. In other words, the “net” benefit is likely front
9 loaded with costs, while claimed benefits accrue gradually during later time periods,
10 the duration of which is unknown. And, as the Petitioners have not addressed any
11 impacts to rate base as a result of the sale, those costs that are capitalized will generate
12 higher return for stockholders funded through higher rates.

13 In these circumstances, I believe that it is highly possible that at the time of PPL’s first
14 rate case before the PUC, current customers may be asked to fund transition costs that
15 drive up rates in the short-term, but are justified by benefits over a longer term. Unlike
16 traditional revenue requirements, these incremental capital and expense charges only
17 exist because of the sale of Narragansett Electric by National Grid to PPL.

18 **Q. PLEASE CONTINUE.**

19 A. Such a rate proceeding will involve establishing whether present or future ratepayers
20 should absorb utility costs to best synchronize the timing of recovery of costs in rates
21 with the period in which claimed benefits are expected to occur. Even if it can be
22 demonstrated that customers will be “held harmless” over the life of the assets as
23 benefits accrue, the tracking of costs and benefits over time will be difficult to do and

1 will likely present intergenerational equity issues. Addressing these issues will place
2 a significant burden on the parties to a rate case proceeding and the PUC, as they
3 attempt to sort through these complex matters in order to ensure any request authorized
4 is just and reasonable.

5 **Q. ARE THERE OTHER POTENTIAL IMPACTS?**

6 A. Yes. In addition to base distribution rates, other rates such as those related to
7 transmission assets are likely to be impacted. The reason is that transmission revenue
8 requirements are recovered through formula rates. Therefore, to the extent transition
9 costs are not entirely excluded from rate recovery and segregated into separate
10 accounts, both capital and expense transition charges may impact transmission rate
11 base and transmission operating expenses and/or allocations of allocated administrative
12 and general costs to the transmission function. In this case, these charges will flow to
13 ratepayers of Narragansett.

14 **Q. ARE THERE OTHER ISSUES?**

15 A. Yes. There is the real possibility in undertaking the separation of Narragansett from
16 National Grid that customers may be asked to pay for costs of replacing equipment
17 prior to the end of its useful life as a direct consequence of the Transaction. For
18 instance, Narragansett Electric customers are likely currently paying for certain
19 information technology systems (e.g., customer billing, finance, enterprise resource
20 planning, accounting, human resources, and procurement) through existing National
21 Grid Service Company allocations. At the time of separation, those assets may only
22 be partially depreciated. After the sale, as their own previously-identified due diligence
23 documentation shows, PPL will have to invest in new technology systems to replace

1 the systems or arrangements that Narragansett Electric previously shared with National
2 Grid affiliates. In turn, Narragansett Electric customers may be asked to pay for the
3 full cost of newly installed technology even though they already paid for a partially
4 depreciated version of the same or similar equipment that provides the same benefits.
5 So, in that sense customers may be asked to pay twice without receiving much, if any,
6 additional incremental benefit.

7 In short, there is no ability to predict reliably either what evidence will be brought
8 before the PUC and the Division to review in Narragansett's first rate case after the
9 sale to PPL, or how transition charges will ultimately impact customer rates. For these
10 reasons, I believe that there is a credible risk that the sale of Narragansett to PPL may
11 ultimately result in increases in customer rates beyond those that would have occurred
12 absent the sale.

13 **Q. IS PPL MAKING ANY RATEPAYER "HOLD HARMLESS"**
14 **COMMITMENTS IN REGARDS TO INFRASTRUCTURE INVESTMENTS**
15 **IT PLANS TO MAKE THAT ARE ATTRIBUTABLE TO THE SEPARATION**
16 **OF NARRAGANSETT ELECTRIC FROM NATIONAL GRID?**

17 A. No, PPL is not. PPL states "PPL and PPL RI are not making any hold harmless
18 commitments at this time with respect to PPL's recovery of capital costs necessary to
19 allow PPL to establish the infrastructure required to operate Narragansett
20 independently."⁴³

21 **Q. IS THIS A CONCERN?**

⁴³ See PPL's response to Advocacy Section Data Request DIV 9-95.

1 A. Yes. The Division is faced with a situation in which PPL:

2 (1) does not provide any estimate of transition costs;

3 (2) will incur an unspecified amount of infrastructure costs to invest in new
4 technology systems to replace the platforms that Narragansett previously shared
5 with National Grid affiliates and to setup its new operating model where local
6 control will be established for such functions as customer contact and back office
7 operations, electric dispatch and control room operations, and gas control and
8 dispatch, all which are likely the direct result of its purchase of Narragansett⁴⁴;
9 and,

10 (3) provides no indication that it will not seek recovery in customer rates for
11 investments directly attributable to the Transaction but that fail to provide a net
12 benefit to ratepayers.

13 Clearly, given these factors, approving the Transaction carries a significant risk that
14 higher customer rates may result than if the sale is rejected.

15 **Q. WHAT IS YOUR CONCLUSION REGARDING TRANSITION COSTS?**

16 A. I conclude:

17 1. The evidence produced in discovery indicates that the level of service company
18 charges during the transition period are likely to be significantly higher as a
19 result of the Transaction.⁴⁵

⁴⁴ See PPL's response to Advocacy Section Data Request DIV 10-6; *see also* PPL's response to Advocacy Section Data Request DIV 10-7.

⁴⁵ See, e.g., National Grid's response to Advocacy Section Data Request DIV 4-1, DIV 4-2 and DIV 4-3. *See also* PPL's response to Advocacy Section Data Request DIV 1-15, Attachment PPL-DIV 1-15-2 at 10, indicating that during the transition period, National Grid will impose a minimum 5 percent Mark-up above cost for all services provided covered therein. Further, should any specific service be requested by PPL

- 1 2. Service Company charges are a significant component of both Narragansett
2 Electric’s distribution⁴⁶ and integrated facility transmission⁴⁷ revenue
3 requirements.
- 4 3. Other structural changes that PPL intends to make to Narragansett’s current
5 operating model to establish a dedicated Rhode Island organization—including
6 the provision of certain operational functions (such as customer contact and
7 back office functions, electric dispatch and control room operations and gas
8 control)—will result in the incurrence of an undetermined amount of setup
9 costs over an unspecified timeline.
- 10 4. The Petitioners have not identified specific, measurable commitments or
11 metrics concerning which transition costs they may seek to include in customer
12 rates versus those costs that will be absorbed by stockholders. The Petitioners
13 have failed to provide any information about how the timing and extent of the
14 incurrence of transition costs will intersect with the timing of PPL’s submission
15 of its first base rate case.
- 16 5. Even though the PUC and Division will have the opportunity to review the
17 entirety of Narragansett’s customer revenue requirements at the time of PPL’s
18 first base rate case, there is no ability to predict reliably either what evidence

beyond the end of the transition period, “the Mark-up shall be increased by an additional five percent (5%) for the first three (3) months after the expiration of the original Transition Period and thereafter shall be increased by an additional five percent (5%) for each subsequent three (3) month period.”

⁴⁶ See 2020 Electric and Gas Earnings Reports, RIPUC Docket No. 4770 (May 2021); see also National Grid’s response to Advocacy Section Data Request DIV 4-3, Attachment NG-DIV 4-3 at 1.

⁴⁷ See National Grid’s response to Advocacy Section Data Request DIV 7-60, Attachment PPL-DIV 7-60-1a at column J, lines 20 and 28.

1 will come before the PUC, or how transition charges will ultimately impact
2 customer rates. This is especially true, as I note above, given the potential
3 complexities involved in evaluating how costs attributable to transition
4 expenditures, especially capital costs, are likely to produce immediate upward
5 pressure on customers rates while any claimed benefits from such investments
6 will likely occur more gradually over time.

7 Given these observations, I have significant concerns that if PPL were to seek cost
8 recovery for even a portion of these transition costs, an adverse impact on customer
9 rates could result.

10 **VII. CUSTOMER MITIGATION MECHANISMS**

11 **Q. ARE THERE ANY MECHANISMS THAT CAN BE IMPLEMENTED TO**
12 **MITIGATE THE RISK THAT CUSTOMER RATES INCLUDE UNKNOWN**
13 **TRANSITION COSTS DIRECTLY ATTRIBUTABLE TO THE**
14 **TRANSACTION?**

15 **A.** Yes, there are. If the Division is inclined to approve the Transaction, there are certainly
16 minimally acceptable mitigation measures that should also be implemented.

17 **Q. WHAT DO YOU RECOMMEND?**

18 **A.** I suggest that PPL:

- 19 1. Implement a distribution base rate freeze for a specified period after it acquires
20 Narragansett.
- 21 2. Establish transition cost accounting, reporting, and monitoring procedures
22 during the distribution base rate freeze period.

1 3. File robust evidence regarding key accounting policies that form the building
2 blocks for development of rate making revenue requirements well in advance
3 of its first distribution base rate case before the PUC and Division.

4 **Q. HOW DO THESE MITIGATION MECHANISMS HELP PROTECT**
5 **CUSTOMER RATES FROM INCREASING DUE TO THE TRANSACTION?**

6 A. Collectively, these mechanisms serve to (1) bring a certain degree of stability to base
7 rates, (2) allow for an element of transparency regarding ongoing transition O&M and
8 capital expenditures during the period in which the base rate freeze is in effect, and
9 (3) provide the PUC and Division with important financial documentation to help them
10 evaluate any base rate request that PPL ultimately submits before the PUC with greater
11 confidence. Overall, implementation of these mechanisms should yield a better
12 outcome for customers.

13 **Q. ARE THESE THE COMPLETE PACKAGE OF MITIGATION**
14 **PROCEDURES THAT YOU ARE RECOMMENDING?**

15 A. No, they are not. These procedures are in addition to all statutory and regulatory
16 obligations that survive the sale (should the Transaction be approved despite my
17 concerns) which PPL, as the new owner of Narragansett, must meet in the normal
18 course of business. Also, other Advocacy Section witnesses address mitigation issues
19 relating to the Transaction which, to the extent they are not specifically addressed by
20 me, are in addition to those I recommend here.

21 **Q. PLEASE IDENTIFY WHAT COSTS ARE INCLUDED IN A DISTRIBUTION**
22 **BASE RATE FREEZE.**

1 A. A distribution base rate freeze (“Rate Freeze”) addresses rates associated with the
2 regulated electric and gas distribution operations of Narragansett in Rhode Island.
3 Costs recovered through reconciling mechanisms such as commodity costs (purchased
4 electricity and gas costs) and energy efficiency program costs, among others, are not
5 included in the Rate Freeze. Also, the portion of rates that recover FERC-jurisdictional
6 charges are excluded.

7 **Q. WHAT PERIOD OF TIME SHOULD BE ADDRESSED BY THE RATE**
8 **FREEZE?**

9 The Rate Freeze period should last long enough to ensure the availability of a full
10 twelve-month period of historical cost data during which Narragansett is under the
11 exclusive operational control of PPL. This period is similar to the timeframe captured
12 by PPL in its “steady state” cost analysis submitted in Attachment PPL-DIV 1-54-1.
13 Assuming the Petitioners are correct in their indication that the transition period will
14 be two years,⁴⁸ a historic one-year period under the exclusive control of PPL should
15 begin in year 3 after Transaction closing. Consequently, in order for a full year of costs
16 to be available for PUC and Division review, the Rate Freeze period would need to
17 extend at least 4 years from the date of the Transaction closing.

18 **Q. WHY DO YOU SAY THE PERIOD OF THE RATE FREEZE SHOULD**
19 **EXTEND AT LEAST 4 YEARS?**

⁴⁸ See Supplement to PPL’s response to Advocacy Section Data Request DIV 1-54, Attachment PPL-DIV 1-54-1 at 3, where PPL states that it “then developed its anticipated costs to operate Narragansett after the transition services expire approximately two years after Transaction close” (footnote omitted).

1 A. This additional period of time is needed to allow for PPL to close its books for the
2 historical period and to prepare a distribution base rate request using these data. Also,
3 when PPL submits a distribution rate request to the PUC, the proposed rates will be
4 suspended for a period of time, as permitted under statutory rules.⁴⁹ Consequently,
5 considering the totality of periods in question (transition, “steady state” for
6 development of historical test period costs, and application
7 preparation/review/approval), the total Rate Freeze period from the sale is executed
8 and the transition period initiates to the effective date of any change in base distribution
9 rates should likely be 48 months (or more). I have constructed an example⁵⁰ timeline
10 in the following Table MRB-1.

11 **Table MRB-1 Rate Freeze Timeline**

12 **Illustrative Example**

Milestone Activity	Date	Incremental Time Elapsed (in Months)	Cumulative Time Elapsed (in Months)
Transaction closes	March 31, 2022	0 months	0 months
Transition period ends	March 31, 2024	24 months	24 months
First year “steady state” historical costs available	March 31, 2025	12 months	36 months
Base distribution base rate request submitted	June 30, 2025	3 months	39 months
Base rate request authorized	March 31, 2026	9 months	48 months
New base distribution rates effective	April 1, 2026		48 months

⁴⁹ In RIPUC Docket 4770, National Grid filed its rate request on behalf of Narragansett with the PUC on November 27, 2017. Initial rate changes approved in that request were effective September 1, 2018.

⁵⁰ Provided for demonstration purposes only to illustrate an example of the minimum period that a distribution base rate freeze period would be effective from the date of Transaction close.

1 **Q. WHY IS A RATE FREEZE APPROPRIATE?**

2 A. The sale cannot be approved absent a finding that approval is “consistent with the
3 public interest.” A rate freeze is fundamental to any such finding because it will: (1)
4 provide stability and predictability for that portion of rates addressed by the freeze, and
5 (2) allow the cost structure for Narragansett’s operations under PPL control to reach a
6 level of stabilization sufficient for the PUC and Division to appropriately assess
7 whether any base distribution rate request made by PPL is just and reasonable.

8 **Q. ARE THERE OTHER JUSTIFICATIONS FOR THE RATE FREEZE?**

9 A. Yes. As I indicated earlier in my testimony, it appears that there will be significant
10 nonrecurring costs incurred during the transition period after the Transaction closes
11 and before PPL can establish “steady state” operating costs for Narragansett.
12 Implementing a rate freeze of 48 months (or more) will provide ample opportunity for
13 PPL and National Grid to finalize the transition of control and consequently, the total
14 costs related to such transition.⁵¹ It is for this reason in particular that the second
15 customer protection mechanism I recommend, the establishment of transition cost
16 accounting, reporting, and monitoring procedures, is also very important.

17 **Q. PLEASE EXPLAIN.**

⁵¹ PPL’s response to Advocacy Section Data Request DIV 1-30 (“PPL and PPL RI understand The Narragansett Electric Company’s (‘Narragansett’) current cost structure. PPL will incur costs for operations and services provided by National Grid USA and National Grid USA Service Company, Inc. under the Transition Services Agreement. Additionally, PPL and PPL RI will incur costs related to setting up their organization to serve Narragansett’s customers. PPL will track these transition costs (including internal costs of employees spending time working on transition issues, and external costs paid to consultants to reorganize and consolidate functions) and will not pass these costs on to Narragansett customers. Instead, such costs will remain at the PPL corporate level. PPL expects that it will serve Narragansett customers with an improved cost structure after the transition is complete.”).

1 A. As I have noted earlier, PPL indicates that it does not plan to seek recovery of either
2 acquisition premiums or transaction costs in customer rates.⁵² But elsewhere in
3 discovery, PPL states “it will consider transition costs on a case by case basis.”⁵³ In
4 short, there appears to be a lack of clarity concerning how PPL intends to treat transition
5 costs in any ensuing base distribution rate case. Consequently, I believe it is important
6 that if the Division is to consider approving the sale, it should require PPL to establish
7 certain acceptable parameters that address this uncertainty. These include defining
8 transition costs, establishing how they will be recorded, identifying the specific details
9 of evidence reported to the PUC and Division, and determining the cycle of reporting.
10 The Division should also determine the scope and definition of transition costs that will
11 be subject to hold harmless commitments and the controls and procedures to track the
12 costs from which customers will be held harmless.⁵⁴

13 **Q. IS THERE ANY OTHER ISSUE REGARDING TRANSITION COSTS THAT**
14 **SHOULD BE ADDRESSED IN YOUR RECOMMENDED MITIGATION**
15 **MECHANISMS?**

16 A. Yes. PPL states it “may seek to recover portions of the costs of its investments that
17 replace unused assets after close to the extent that PPL RI can demonstrate the

⁵² Petition, ex. 1, at 9:12-13, testimony of Vincent Sorgi.

⁵³ See PPL’s response to Advocacy Section Data Request DIV 2-28.

⁵⁴ See PPL’s response to Advocacy Section Data Request DIV 1-33, Attachment PPL-DIV 1-33-1 at 51 (FERC states: “Applicants that make a hold harmless commitment must make clear, at minimum, what they are committing to and have the ability to record and track such costs. A well- documented methodology and system to account for such costs also facilitates uniformity in practice and reduces confusion in how the hold harmless commitments are applied.”).

1 incremental benefits of these transition costs.”⁵⁵ I believe that the parties should
2 mutually agree to the specific financial framework for evaluating such costs well in
3 advance of a rate case request that may include such items. Also, it will be important
4 that PPL’s periodic reports to the PUC regarding transition costs identify such costs
5 and indicate why PPL believes they may be eligible for cost recovery in base rates.

6 **Q. WHY IS THIS IMPORTANT?**

7 A. As I have stated earlier, given the integrated model that Narragansett and its customers
8 enjoy within the family of National Grid operating affiliates, the cost of separation
9 required to effectuate the sale is likely to be significant. There will be a significant
10 burden placed on all parties to confirm that any transition costs PPL seeks to include
11 in a base rate request are just and reasonable. This is especially true since PPL’s
12 operating model is likely different than that of National Grid, so a direct comparison
13 with evidence submitted in RIPUC Docket No. 4770 will be challenging. If the rules
14 are clear and parties understand the nature of such transition costs in advance of the
15 filing, the rate request review process likely will be far more efficient and expeditious.
16 The PUC and Division will be able to devote their full energies to ensuring that any
17 hold harmless commitment is enforced.

18 **Q. CAN YOU DESCRIBE THE THIRD CUSTOMER MITIGATION**
19 **MECHANISM YOU RECOMMEND?**

20 A. Robust evidence regarding key accounting policies evidence should be submitted at
21 least 12 months before submitting a base rate request to the PUC. These policies

⁵⁵ See PPL’s response to Advocacy Section Data Request DIV 7-52.

1 address any and all procedures that establish how costs are developed, booked, and
2 reported in customer revenue requirements. PPL should be required to identify how
3 these policies may be different from those used by National Grid in doing business
4 today and that are reflected in existing rates. They include, but are not limited to,
5 capitalization policy, allocation of affiliate costs to Narragansett, and depreciation
6 rates.

7 **Q. WHY ARE THESE POLICIES IMPORTANT?**

8 A. If PPL chooses to modify existing accounting policies, there could be a significant
9 impact on how costs are recorded, revenue requirements are developed, and,
10 consequently, customer rates are determined. Changes to all three policies I identify—
11 cost allocation, capitalization and depreciate rates—may have such an impact on
12 recorded Narragansett operating and capital costs.

13 **Q. WON'T THE PUC AND DIVISION HAVE THE OPPORTUNITY TO**
14 **REVIEW THESE ACCOUNTING POLICIES DURING A RATE CASE**
15 **PROCEEDING?**

16 A. Yes. But if PPL agrees to submit their intended accounting policies to the PUC and
17 Division well in advance of a base rate case, then parties will have sufficient time to
18 review, comment, and ultimately approve any changes to existing procedures that are
19 reasonable and in the best interest of customers. With so many moving parts during a
20 base rate case, and given limited resources, the opportunity to focus on these elements
21 will otherwise be reduced. Also, if PPL submits these policies to the PUC in advance
22 of implementing them, the PUC and Division will have a greater opportunity to

1 influence outcomes directly, and well before they impact a rate request. This leads to
2 greater protections for customers and more certainty for PPL.

3 **Q. WHAT EVIDENCE DO YOU RECOMMEND PPL BE REQUIRED TO**
4 **SUBMIT?**

5 A. In the case of cost allocation, I recommend that PPL develop and submit a Cost
6 Allocation Manual⁵⁶ that applies specifically to costs assigned to Narragansett Electric
7 from affiliate companies. In regard to a capitalization policy, I recommend that PPL
8 submit a document describing its policies regarding capitalizing expenditures for all
9 plant, property, and equipment used for regulatory reporting purposes. And, in the case
10 of depreciation rates, I recommend that PPL submit a depreciation study. In all cases,
11 if PPL intends to adopt current National Grid policies as they apply to Narragansett,
12 then it should supply the PUC and Division with those policies. If PPL intends to
13 modify existing policies, however, or if its own existing policies that will apply to
14 Narragansett are different from those of National Grid, then PPL should supply
15 evidence that is consistent with its current accounting standards, along with an
16 explanation as to what area the policy changes are being made and why the change in
17 course is appropriate.

⁵⁶ See PPL's response to Advocacy Section Data Request DIV 3-17 where PPL states "PPL and PPL RI have not fully developed a Cost Allocation Manual that it intends to use to allocate to Rhode Island any PPL service company costs that are expected to be commonly incurred for Rhode Island's gas system and other PPL operations Gas System. PPL and PPL RI expect to adopt generally accepted cost assignment methods that will include 1) direct assignment of costs, 2) utilization of cost causative allocations when appropriate, and 3) general allocation methods for remaining costs."

1 **Q. IF THE PETITIONERS AGREE TO THESE MITIGATION MEASURES,**
2 **DOES THAT CHANGE YOUR RECOMMENDATION NOT TO APPROVE**
3 **THIS TRANSACTION?**

4 A. No. The mitigation measures I recommend will provide only a minimum measure of
5 protection that lessens the risk that customers will bear rate increases that would not
6 have occurred absent the Transaction. In particular, the distribution base Rate Freeze
7 covers only a portion of Narragansett's total revenue requirements eligible for rate
8 recovery. As a result, even with implementing these mitigation measures, customer
9 rates will only be partially protected during the Rate Freeze period. The potential for
10 additional cost increases beyond distribution base rates, including with respect to
11 Narragansett's gas operations, and which would not have happened but for the
12 Transaction, should also factor into the Division's review.

13 Additionally, I am aware that other of the Advocacy Section's experts offering
14 testimony in this matter have recommended additional mitigation measures. In short,
15 my analysis and recommendations focus on a small piece of this Transaction, and I do
16 not believe my proposed mitigation measures alone would be sufficient to recommend
17 approval.

18 **VIII. CONCLUSION**

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

20 A. The Petitioners have provided limited and insufficiently specific financial and
21 operating data demonstrating the level of expected costs and operational structure after
22 the sale has been approved. Further, the financial information that has been provided

1 addresses only selected costs and does not address the amount or treatment of other,
2 non-recurring O&M costs necessary to achieve PPL’s goal of establishing PPL RI as a
3 separate company that will operate Narragansett Electric on a standalone, going
4 forward basis. PPL has not offered a mitigation plan nor a commitment to protect
5 customer rates during the separation from National Grid. Instead, PPL suggests that
6 the Division should trust its existing operating history as providing sufficient evidence
7 that “PPL RI’s ownership will . . . [lead] to lower rates than otherwise would have
8 resulted in the absence of [the transaction.]”⁵⁷ No commitments have been offered that
9 demonstrate that customers will be insulated from the potentially substantial cost
10 implications of this Transaction.

11 **Q. WHAT IMPACT DO THESE OBSERVATIONS HAVE ON YOUR**
12 **RECOMMENDATION REGARDING THE PETITIONER’S PETITION?**

13 A. As I stated previously, evaluation of the public interest standard requires that I consider
14 whether ratepayers will be held harmless from cost increases that would not have
15 occurred but for the Transaction. However, because of these concerns, I cannot
16 confirm that separation from National Grid does not negatively impact Narragansett’s
17 retail revenue requirements, and consequently, customer rates. Therefore, I
18 recommend that the Petitioners’ Petition be rejected.

19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 A. Yes.

⁵⁷ See PPL’s response to Advocacy Section Data Request DIV 2-37.