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
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I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
A. My name is Michael R. Ballaban. My business address is 370 Main Street, Suite 325, Worcester, Massachusetts, 01608.

Q. WHAT IS YOUR PRESENT OCCUPATION?
A. I am a Senior Advisor for Daymark Energy Advisors (“Daymark”) specializing in advising utility stakeholders in regard to revenue requirements, regulatory accounting, cost of service, pricing, regulatory strategy and financial forecasting.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.
A. Prior to working with Daymark, my professional experience includes employment with both New England Electric System (now National Grid USA) and Boston Edison (“Eversource Energy”) where I gained extensive experience assisting utilities with all phases of rate filings before state commissions and at the Federal Regulatory Energy Commission (“FERC”), including preparation, discovery, litigation, settlement, and
implementation. Most recently I was Senior Manager in the Power & Utility Advisory Services practice at Ernst & Young. In this role I advised electric and gas utility clients on a wide variety of financial and regulatory issues. Prior to assuming my current position, I was a Managing Consultant at Daymark. While in that position, I testified before the Rhode Island Public Utilities Commission (“RIPUC” or “PUC”) on the reasonableness of Narragansett Electric’s revenue requirement in RIPUC Docket No. 4770 and I advised a number of Daymark clients with regard to cost of service, revenue requirements, tariff reviews, and power supply planning and procurement.

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

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

Other recent experience includes leading a review of a utility’s allocation of certain service company costs to its operating companies, co-leading a study to verify that the electric and gas distribution assets in a utility’s rate base were appropriate to support upcoming base rate filings, leading a review of significant deferred storm costs to
verify that it was appropriate for a utility to include those costs in cost recovery submissions, reviewing elements of a utility’s cost accounting structure and associated compliance program, and leading a regulatory transformation initiative to establish a regulatory organization within the finance function for a large multi-state utility.

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

Q. PLEASE DESCRIBE YOUR OTHER WORK EXPERIENCE.

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

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

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. ON WHOM BEHALF ARE YOU TESTIFYING?
A. I am testifying on behalf of the Advocacy Section of the Rhode Island Division of Public Utilities and Carriers (“Advocacy Section”).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

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

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

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION.

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

Q. PLEASE SUMMARIZE YOUR PRIMARY FINDINGS.

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. Petitioners have not provided sufficient financial data to offer any confidence regarding the likely impact of the sale on customer rates.

2. Based on evidence provided by the Petitioners, it appears that there will be significant costs incurred during the transition period after the Transaction closes and before PPL can establish “steady state” operating costs for Narragansett Electric. PPL has indicated that it may seek to recover at least a portion of these transition costs from customers.

3. The Petitioners have not provided a proposed mitigation plan to protect customer rates during the separation from National Grid. Instead, the Petitioners ask the Division to trust that its operating history provides sufficient evidence that “PPL RI’s ownership will have a positive impact on rates for Narragansett gas and electric customers by maintaining lower rates than otherwise would have resulted in the absence of PPL RI’s ownership.”

III. STANDARD OF REVIEW

Q. PLEASE SUMMARIZE THE STANDARD OF REVIEW WITH WHICH THE DIVISION WILL ASSESS THE PETITION.

A. The Division’s legislative charge pursuant to R.I. General Laws §§39-3-24 and 39-3-25 cases is to determine whether: (1) “facilities for furnishing service to the public will

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2 In Attachment PPL-DIV 1-54 at 2-3, PPL defines steady state to be anticipated costs to operate Narragansett after the transition services expire approximately two years after Transaction close.

3 See PPL’s response to Advocacy Section Data Request DIV 2-37.
not thereby be diminished” as a result of the Transaction and (2) the Transaction is “consistent with the public interest.”

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

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

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

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

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

• does not provide sufficient information and details to the Division about the
  level of expected costs and the anticipated operational structure after the
  sale;

• lacks clarity as to PPL’s intentions regarding the filing of a base distribution
  rate case and the timing and other details of such a rate case;

• does not explain whether and, if so, to what extent, customers will bear a
  portion of transition costs associated with transitioning the ownership,
  operations, and all procedures and active docketed processes from National
  Grid.
IV. SHARED SERVICE COSTS

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

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

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

A. Yes. [BEGIN CONFIDENTIAL 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).
operation and maintenance costs, excluding purchased power, originate from the Service Company.8

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

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

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

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

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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.”
Q. HOW DO NATIONAL GRID AND PPL ALLOCATE INDIRECT SERVICE COMPANY CHARGES?

A. National Grid uses a formula consisting of Net Plant (1/3), Net Margin (1/3), and Net O&M Expenses (1/3).\(^\text{12}\) PPL appears to use a formula consisting of (1) invested capital, (2) operation and maintenance expense, and (3) number of employees.\(^\text{13}\) However, in PPL’s response to Advocacy Section Data Request DIV 3-17(d), PPL states that it has “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.” Presumably, no allocation scheme has been developed for Rhode Island’s electric system either.

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

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

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


\(^{13}\) See PPL’s response to Advocacy Section Data Request DIV 1-20, Attachment PPL-DIV 1-20 at 6 (PPL Services Agreement).
A. Yes. PPL provided an analysis intended to demonstrate the level of expected costs and operation structure after the sale. However, I have significant concerns about whether any reliable conclusions can be drawn from that analysis; I discuss these later in my testimony. Additionally, PPL indicates that “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.”

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

A. No, I cannot. As PPL itself acknowledges, it is difficult to do a direct comparison between the post-acquisition level of costs that will be allocated to Narragansett from the PPL Service Company as compared to the existing level of costs allocated to Narragansett from Service Company. Additionally, and as I note later, costs in the PPL analysis are identified as “steady state”—that is, they estimate the level of expenses after the transition period post sale is complete. This estimate does not address the costs that will be incurred prior to the completion of the transition, a period which the 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.
Q. CAN YOU DRAW ANY CONCLUSIONS ABOUT HOW ANY CHANGES IN SERVICE COMPANY CHARGES ALLOCATED TO NARRAGANSETT ELECTRIC AS A RESULT OF THE PROPOSED TRANSACTION WILL IMPACT RATEPAYERS?

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

Q. HOW DOES THIS IMPACT YOUR FINDING?

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

V. OTHER OPERATING COSTS

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

A. Yes.

Q. WHAT DOES THIS EVIDENCE SHOW?

A. In a supplemental response to DIV 1-54, PPL submitted a study entitled “Analysis of 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.
selected elements of cost currently incurred by National Grid to operate Narragansett Electric to the anticipated cost targets that PPL hopes to achieve for the same group of activities.\(^\text{18}\) PPL labels the costs included in the study as the “steady state” that will achieved after the transition services agreement expires, which is anticipated to be approximately two years after Transaction close.\(^\text{19}\) Note that PPL states that the analysis presents the “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. This analysis is thus 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.”\(^\text{20}\)

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

A. PPL states it “limited [the] analysis to operating and maintenance costs plus allocated depreciation from service company assets that support Narragansett.”\(^\text{21}\) According to the analysis presented, these costs are “managed” costs, and total in the range of $275 million to $285 million. But this group of costs is only a small portion of Narragansett’s total revenue requirement. Narragansett 2020 electric and gas revenues exclusive of purchased power costs are approximately $1 billion\(^\text{22}\). Therefore, the

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\(^{18}\) 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).
managed costs they identify are only approximately 28 percent of total Narragansett
Electric non-purchased power/fuel revenues.

Q. WHAT CONCLUSION DOES PPL REACH REGARDING THIS ANALYSIS?
A. According to Figure 4 on page 19 of Attachment PPL-DIV 1-54-1, PPL estimates a
target expense level of $273.6 million for managed cost activities as compared to
National Grid’s estimate of $285.5 million, yielding an approximate reduction of 4.2
percent, or $12 million.

Q. WHAT OBSERVATIONS CAN YOU MAKE REGARDING THE PPL
STUDY?
A. While on its face the results appear positive, I have significant concerns that are not
addressed by the analysis:

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

2. Consequently, PPL does not make any commitments regarding these cost
   targets; nor does it indicate if customers will receive any benefits through a
   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.
3. These steady state costs are only likely to occur after the transition period is completed. No information is provided on the level of costs expected before that time, which is likely to extend at least two years after Transaction close, and perhaps longer.  

4. By its own admission, PPL’s study does not include the costs of replacing any equipment or facility prior to the end of its useful life that may be a direct consequence of the Transaction or the transition costs of integrating the previously separate systems.

5. Through examination of Narragansett Electric financial data submitted in Docket No. 4770, the impact of return on and of rate base on Narragansett’s revenue requirement and ultimately customer rates, is at least as great, if not more, than the costs that are the subject of the study.

6. PPL failed to address any impacts on rate base during either the transition period or following entrance into the “steady state” period. Also, the study only includes selected costs and does not address what happens to other non-recurring O&M necessary to establish PPL RI as a separate company from

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

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

VI. TRANSITION COSTS

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

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

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

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

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

A. No, they have not.

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

A. Yes, I do. These include:

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

2. Due diligence materials prepared by PPL include the statement that [BEGIN CONFIDENTIAL MATERIAL] Additionally, PPL later states in discovery response “[c]urrently, Narragansett is supported by an integrated National Grid IT environment and, as such, very few IT applications are anticipated to convey at the close of the Transaction. To enable the exit from the Transition Services

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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).
Agreement (‘TSA’), PPL will need to make IT investments to be able to support the Rhode Island utility.”

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

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

A. Yes. PPL has indicated that “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.” In its supplemental response to DIV 1-54, PPL provides a financial snapshot of the impact of its structural changes as compared to Narragansett Electric’s current

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

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

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

Q. CAN YOU PROVIDE A FURTHER EXAMPLE?

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

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

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

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

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

A. No. The responses do not address the standard PPL intends to use to determine what,
if any, transition costs it intends to seek recovery of from customers, evidence it will
provide to justify such a claim, or the process it intends to undertake to track such items
as they are incurred. And PPL has not made any commitment regarding when it will
file its next base rate case.\(^\text{35}\) 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.
distribution rate case that will reflect the costs associated with PPL and PPL RI’s ownership and operation of Narragansett after closing the Transaction.”

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

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

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

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

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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 under the TSA\textsuperscript{38}. Year 2 amounts were not provided in the comparison; however, PPL’s response to DIV 4-2 reports that O&M and capital expenditure charges under the TSA to Narragansett Electric are estimated to be $214.7 million and $90 million, respectively, in Year 2.\textsuperscript{39} Actual Service Company O&M charges to Narragansett Electric for 2020 as reported by National Grid were $164.6 million and $71.3 million, respectively.\textsuperscript{40}

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

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

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

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

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

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

\textsuperscript{40} See National Grid’s response to Advocacy Section Data Request DIV 4-3 at 1.
Q. **WHAT IS YOUR RECOMMENDATION TO THE DIVISION BASED ON THE ABOVE DISCUSSION OF SERVICE COMPANY CHARGES?**

A. If these cost comparisons are not representative due to the stated concerns, but no substituting documentation is forthcoming, then it will be impossible to conduct an independent assessment of what will happen to Service Company charges during the transition period after the Transaction closes. As Service Company charges constitute such a substantial component of Narragansett Electric’s revenue requirements, the Petitioners have left the Division in a difficult position. The Division is being asked to approve the Transaction without sufficient visibility into or understanding as to what, if any, adverse impacts on rates may result if the Petitioners were to seek rate recovery for even a portion of these higher transition charges. Instead, the Division is expected to rely on blanket statements from the Companies claiming that PPL intends to maintain and/or improve existing economies of scale and resulting cost efficiencies.\(^4\)

Unless the Petitioners provide updated commitments, I recommend that the Division consider implementing certain minimally acceptable measures to mitigate the risk that

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\(^4\) *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.”).*
customer rates include as of yet unknown and potentially significant transition costs directly attributable to the Transaction.

Q. DO THESE ISSUES MAKE YOU CONCERNED THAT NARRAGANSETT ELECTRIC CUSTOMER RATES MAY BECOME INFLATED THROUGH THE INCLUSION OF POTENTIALLY SUBSTANTIAL TRANSITION COSTS DIRECTLY ATTRIBUTABLE TO THE TRANSACTION?\(^{42}\)

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

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

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

Q. WHY NOT?

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

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\(^{42}\) These are expenses that are only likely to be incurred as a result of the sale and separation of Narragansett Electric from National Grid.
those costs will be or when PPL will seek to include them in rates. So, at least initially, the Division has no visibility as to what PPL contemplates as a framework for demonstrating which transition costs it will seek in future rate requests. The Petitioners offer no real commitments in their Petition, only promises carrying no legal weight in discovery.

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

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

Q. PLEASE CONTINUE.

A. Such a rate proceeding will involve establishing whether present or future ratepayers should absorb utility costs to best synchronize the timing of recovery of costs in rates with the period in which claimed benefits are expected to occur. Even if it can be demonstrated that customers will be “held harmless” over the life of the assets as benefits accrue, the tracking of costs and benefits over time will be difficult to do and
will likely present intergenerational equity issues. Addressing these issues will place a significant burden on the parties to a rate case proceeding and the PUC, as they attempt to sort through these complex matters in order to ensure any request authorized is just and reasonable.

Q. ARE THERE OTHER POTENTIAL IMPACTS?

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

Q. ARE THERE OTHER ISSUES?

A. Yes. There is the real possibility in undertaking the separation of Narragansett from National Grid that customers may be asked to pay for costs of replacing equipment prior to the end of its useful life as a direct consequence of the Transaction. For instance, Narragansett Electric customers are likely currently paying for certain information technology systems (e.g., customer billing, finance, enterprise resource planning, accounting, human resources, and procurement) through existing National Grid Service Company allocations. At the time of separation, those assets may only be partially depreciated. After the sale, as their own previously-identified due diligence documentation shows, PPL will have to invest in new technology systems to replace
the systems or arrangements that Narragansett Electric previously shared with National
Grid affiliates. In turn, Narragansett Electric customers may be asked to pay for the
full cost of newly installed technology even though they already paid for a partially
depreciated version of the same or similar equipment that provides the same benefits.
So, in that sense customers may be asked to pay twice without receiving much, if any,
additional incremental benefit.
In short, there is no ability to predict reliably either what evidence will be brought
before the PUC and the Division to review in Narragansett’s first rate case after the
sale to PPL, or how transition charges will ultimately impact customer rates. For these
reasons, I believe that there is a credible risk that the sale of Narragansett to PPL may
ultimately result in increases in customer rates beyond those that would have occurred
absent the sale.

Q. IS PPL MAKING ANY RATEPAVER “HOLD HARMLESS”
COMMITMENTS IN REGARDS TO INFRASTRUCTURE INVESTMENTS
IT PLANS TO MAKE THAT ARE ATTRIBUTABLE TO THE SEPARATION
OF NARRAGANSETT ELECTRIC FROM NATIONAL GRID?
A. No, PPL is not. PPL states “PPL and PPL RI are not making any hold harmless
commitments at this time with respect to PPL’s recovery of capital costs necessary to
allow PPL to establish the infrastructure required to operate Narragansett
independently.”

Q. IS THIS A CONCERN?

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43 See PPL’s response to Advocacy Section Data Request DIV 9-95.
A. Yes. The Division is faced with a situation in which PPL:

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

(2) will incur an unspecified amount of infrastructure costs to invest in new technology systems to replace the platforms that Narragansett previously shared with National Grid affiliates and to setup its new operating model where local control will be established for such functions as customer contact and back office operations, electric dispatch and control room operations, and gas control and dispatch, all which are likely the direct result of its purchase of Narragansett\(^\text{44}\);

and,

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

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

Q. WHAT IS YOUR CONCLUSION REGARDING TRANSITION COSTS?

A. I conclude:

1. The evidence produced in discovery indicates that the level of service company charges during the transition period are likely to be significantly higher as a result of the Transaction.\(^\text{45}\)

\(^{44}\) 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.
2. Service Company charges are a significant component of both Narragansett Electric’s distribution\(^{46}\) and integrated facility transmission\(^{47}\) revenue requirements.

3. Other structural changes that PPL intends to make to Narragansett’s current operating model to establish a dedicated Rhode Island organization—including the provision of certain operational functions (such as customer contact and back office functions, electric dispatch and control room operations and gas control)—will result in the incurrence of an undetermined amount of setup costs over an unspecified timeline.

4. The Petitioners have not identified specific, measurable commitments or metrics concerning which transition costs they may seek to include in customer rates versus those costs that will be absorbed by stockholders. The Petitioners have failed to provide any information about how the timing and extent of the incurrence of transition costs will intersect with the timing of PPL’s submission of its first base rate case.

5. Even though the PUC and Division will have the opportunity to review the entirety of Narragansett’s customer revenue requirements at the time of PPL’s first base rate case, there is no ability to predict reliably either what evidence

\(^{46}\) 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.
will come before the PUC, or how transition charges will ultimately impact customer rates. This is especially true, as I note above, given the potential complexities involved in evaluating how costs attributable to transition expenditures, especially capital costs, are likely to produce immediate upward pressure on customers rates while any claimed benefits from such investments will likely occur more gradually over time.

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

**VII. CUSTOMER MITIGATION MECHANISMS**

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

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

**Q.** WHAT DO YOU RECOMMEND?

**A.** I suggest that PPL:

1. Implement a distribution base rate freeze for a specified period after it acquires Narragansett.

2. Establish transition cost accounting, reporting, and monitoring procedures during the distribution base rate freeze period.
3. File robust evidence regarding key accounting policies that form the building blocks for development of rate making revenue requirements well in advance of its first distribution base rate case before the PUC and Division.

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

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

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

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

Q. **PLEASE IDENTIFY WHAT COSTS ARE INCLUDED IN A DISTRIBUTION BASE RATE FREEZE.**
A distribution base rate freeze ("Rate Freeze") addresses rates associated with the regulated electric and gas distribution operations of Narragansett in Rhode Island. Costs recovered through reconciling mechanisms such as commodity costs (purchased electricity and gas costs) and energy efficiency program costs, among others, are not included in the Rate Freeze. Also, the portion of rates that recover FERC-jurisdictional charges are excluded.

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

The Rate Freeze period should last long enough to ensure the availability of a full twelve-month period of historical cost data during which Narragansett is under the exclusive operational control of PPL. This period is similar to the timeframe captured by PPL in its “steady state” cost analysis submitted in Attachment PPL-DIV 1-54-1.

Assuming the Petitioners are correct in their indication that the transition period will be two years,\(^{48}\) a historic one-year period under the exclusive control of PPL should begin in year 3 after Transaction closing. Consequently, in order for a full year of costs to be available for PUC and Division review, the Rate Freeze period would need to extend at least 4 years from the date of the Transaction closing.

Q. WHY DO YOU SAY THE PERIOD OF THE RATE FREEZE SHOULD 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).
A. This additional period of time is needed to allow for PPL to close its books for the historical period and to prepare a distribution base rate request using these data. Also, when PPL submits a distribution rate request to the PUC, the proposed rates will be suspended for a period of time, as permitted under statutory rules. Consequently, considering the totality of periods in question (transition, “steady state” for development of historical test period costs, and application preparation/review/approval), the total Rate Freeze period from the sale is executed and the transition period initiates to the effective date of any change in base distribution rates should likely be 48 months (or more). I have constructed an example timetable in the following Table MRB-1.

### Table MRB-1 Rate Freeze Timeline

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

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.
Q. WHY IS A RATE FREEZE APPROPRIATE?

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

Q. ARE THERE OTHER JUSTIFICATIONS FOR THE RATE FREEZE?

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

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

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

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

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

Q. **WHY IS THIS IMPORTANT?**

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

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

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

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55 See PPL’s response to Advocacy Section Data Request DIV 7-52.
address any and all procedures that establish how costs are developed, booked, and
reported in customer revenue requirements. PPL should be required to identify how
these policies may be different from those used by National Grid in doing business
today and that are reflected in existing rates. They include, but are not limited to,
capitalization policy, allocation of affiliate costs to Narragansett, and depreciation
rates.

Q. WHY ARE THESE POLICIES IMPORTANT?

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

Q. WON’T THE PUC AND DIVISION HAVE THE OPPORTUNITY TO
REVIEW THESE ACCOUNTING POLICIES DURING A RATE CASE
PROCEEDING?

A. Yes. But if PPL agrees to submit their intended accounting policies to the PUC and
Division well in advance of a base rate case, then parties will have sufficient time to
review, comment, and ultimately approve any changes to existing procedures that are
reasonable and in the best interest of customers. With so many moving parts during a
base rate case, and given limited resources, the opportunity to focus on these elements
will otherwise be reduced. Also, if PPL submits these policies to the PUC in advance
of implementing them, the PUC and Division will have a greater opportunity to
influence outcomes directly, and well before they impact a rate request. This leads to
greater protections for customers and more certainty for PPL.

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

A. In the case of cost allocation, I recommend that PPL develop and submit a Cost
Allocation Manual\(^\text{56}\) that applies specifically to costs assigned to Narragansett Electric
from affiliate companies. In regard to a capitalization policy, I recommend that PPL
submit a document describing its policies regarding capitalizing expenditures for all
plant, property, and equipment used for regulatory reporting purposes. And, in the case
of depreciation rates, I recommend that PPL submit a depreciation study. In all cases,
if PPL intends to adopt current National Grid policies as they apply to Narragansett,
then it should supply the PUC and Division with those policies. If PPL intends to
modify existing policies, however, or if its own existing policies that will apply to
Narragansett are different from those of National Grid, then PPL should supply
evidence that is consistent with its current accounting standards, along with an
explanation as to what area the policy changes are being made and why the change in
course is appropriate.

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\(^{56}\) 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.”
Q. IF THE PETITIONERS AGREE TO THESE MITIGATION MEASURES, DOES THAT CHANGE YOUR RECOMMENDATION NOT TO APPROVE THIS TRANSACTION?

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

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

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

A. The Petitioners have provided limited and insufficiently specific financial and operating data demonstrating the level of expected costs and operational structure after the sale has been approved. Further, the financial information that has been provided
addresses only selected costs and does not address the amount or treatment of other, non-recurring O&M costs necessary to achieve PPL’s goal of establishing PPL RI as a separate company that will operate Narragansett Electric on a standalone, going forward basis. PPL has not offered a mitigation plan nor a commitment to protect customer rates during the separation from National Grid. Instead, PPL suggests that the Division should trust its existing operating history as providing sufficient evidence that “PPL RI’s ownership will . . . [lead] to lower rates than otherwise would have resulted in the absence of [the transaction.]\(^\text{57}\) No commitments have been offered that demonstrate that customers will be insulated from the potentially substantial cost implications of this Transaction.

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

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

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

A. Yes.

\(^{57}\) See PPL’s response to Advocacy Section Data Request DIV 2-37.