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

POST HEARING BRIEF
OF THE RHODE ISLAND DIVISION OF PUBLIC UTILITIES
AND CARRIERS ADVOCACY SECTION

JANUARY 18, 2022
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INTRODUCTION

The Narragansett Electric Company d/b/a National Grid (“Narragansett”) is a Rhode Island public utility that provides electric and gas distribution services to the vast majority of the state. Narragansett serves approximately 498,000 electric customers and 272,000 natural gas customers in Rhode Island. On May 4, 2021, petitioners PPL Corporation (“PPL Corp.”), PPL Rhode Island Holdings, LLC (“PPL Rhode Island”) (together, “PPL”), National Grid USA (“National Grid”), and Narragansett (collectively, “Petitioners”), applied to the Division of Public Utilities and Carriers (“Division”) for approval of PPL Rhode Island’s purchase of 100% of the outstanding shares of common stock in Narragansett from National Grid USA (the “Transaction”). The Division cannot approve the Transaction absent findings that it meets the requirements of R.I. Gen. Laws §§ 39-3-24 and 39-3-25. The core of these requirements is that “the facilities for furnishing service to the public will not thereby be diminished [by the Transaction] and . . . the terms [of the Transaction] are consistent with the public interest.”¹ The Petitioners bear the burden to demonstrate that these standards have been met.

The Advocacy Section demonstrated in pre-filed and trial testimony that Petitioners have failed to carry their statutory burden. Overwhelming record evidence shows the adverse impacts that approval on the terms proposed will have on Rhode Island ratepayers. Contrary to the public interest, the electric and gas facilities that serve the consuming public will be “diminished,” and ratepayers will pay more while receiving less. The Division should reject the Transaction.

SUMMARY

The issue in this case is whether PPL should be allowed to acquire Narragansett. Based on the record compiled in this proceeding, the answer to this question is clearly “no.” Indeed, other than the Petitioners themselves, no party to this proceeding supports approval.

Opposition to the proposed Transaction is well-founded. In deciding whether to grant approval, Rhode Island law requires that the Division conduct a proceeding aimed at comparing where Narragansett ratepayers are today, and where they will be if the proposed Transaction closes on the terms proposed. The record here shows that Narragansett ratepayers will be worse off under PPL ownership than they would be if National Grid continued to own Narragansett.

There are many reasons why this is the case, but the most fundamental of them is that PPL’s acquisition of Narragansett will result in the loss of the shared service synergies that Rhode Island customers enjoy under the current structure. National Grid has owned Narragansett since 2000, when it purchased New England Electric System. There is no dispute that arrangement has been beneficial for Rhode Island customers. National Grid’s ownership of distribution utilities in Massachusetts and New York has allowed Rhode Island customers to reap the benefits of a shared services arrangement involving contiguous (or relatively contiguous) utilities. The Advocacy Section’s experts have testified that this shared service model creates economies of scale that ultimately benefit ratepayers through favorable costs and improved safety and reliability. From the Information Technology (“IT”) and control centers to experienced engineers and linemen to the backup equipment during storms or outages, to procurement advantages in the regional gas market, every
aspect of Narragansett’s systems is woven into National Grid’s shared services model. The Division cannot approve the Transaction absent a demonstration that transferring Narragansett from the National Grid system to PPL—which will eliminate the current set of synergies—will not saddle ratepayers with additional costs or degraded service quality or reliability. PPL has failed to make this showing.

While PPL promises its own version of a shared services arrangement, and downplays its lack of expertise—in New England utility operations and, more broadly, in gas procurement and LNG operations—there is no question that shifting corporate families will be very expensive. By its own admission, PPL’s purchase and conversion of Narragansett into a more Rhode Island-centric model will require a revamping of the Narragansett operation, including an estimated expenditure of more than $400 million in “transition” costs. Not one dollar of these expenditures would be necessary but for this Transaction.

PPL sought to blunt the impact of these costs by proposing—at the twenty-fifth hour—to absorb a portion of the estimated transition costs. While a belated improvement over the original proposal (which the parties were compelled to litigate for months), PPL’s latest commitments continue to fall far short of addressing all of the potential adverse ratepayer impacts. There is no explanation of why ratepayers should be at risk to fund any of these expenses, nor has PPL made any effort to explain why certain costs are being absorbed while others remain subject to potential inclusion in rates. And, as the transition costs necessarily remain an estimate, the ultimate potential ratepayer exposure—uncapped under the PPL proposal—may turn out to be a much larger number.
Along with dollar impacts, there are concerns about the loss of expertise. For example, PPL says it will hire third-party consultants with New England experience to supplement its gas capabilities. But even if that is a solution to the operations issues, it leaves open the question of who should pay for this acquisition-related need. And, again, there has been no showing that this new arrangement will be at least as good as the current structure. The “new” Narragansett will face all of the gas procurement challenges of the current structure, but will have none of the bargaining advantages and purchasing power that come from being part of the larger National Grid system.

National Grid is of course not obliged to continue to own and operate Narragansett “forever.” National Grid cannot, however, sell to a purchaser that fails to meet the statutory requirements. The Rhode Island statute says that an acquisition that could result in adverse impacts on ratepayers should not be approved. Based on the record in this proceeding, the proposed acquisition should be rejected.
PROCEDURAL HISTORY

Petitioners initial submission contained: (1) the Share Purchase Agreement (“Agreement”) through which the Transaction will be accomplished; (2) a narrative petition; and (3) the pre-filed direct testimony of four witnesses: Vincent Sorgi, President and Chief Executive Officer of PPL; Gregory Dudkin, PPL’s Executive Vice President and Chief Operating Officer; Lonnie Bellar, the Chief Operating Office of PPL subsidiaries Kentucky Utilities Company and Louisville Gas and Electric Company (“LG&E”); and Terence Sobolewski, President, Rhode Island and Interim President for the New England Jurisdiction for National Grid USA Service Company, Inc. (“National Grid Service Company”).

Petitioners’ filing argued that the Transaction satisfied the statutory standard for approval. Many details of Petitioners’ post-acquisition transition plans, however, were either unavailable at the time of filing or otherwise simply not included in the Petition, including essential items such as the specific services to be provided by National Grid Service Company during a “transition” period preceding the completion of PPL’s assumption of the management of Narragansett; the planned location for PPL’s Rhode Island control center; selection and assignment of key personnel; the potential impact on existing programs and pending proceedings; cost estimates; and importantly, cost responsibility for various expenditures associated with the Transaction. With respect to the costs to transition Narragansett to PPL ownership, the Petition did not mention let alone address “transition costs,” though, as reviewed infra, it would prove to be a hotly debated

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2 Mr. Sobolewski’s testimony was later adopted by his successor, Christopher Kelly. See National Grid and Narragansett Joint Ex. 1, Christopher Kelly Aff.
item in the case. And while Petitioners made or suggested certain commitments, in many instances their scope, adequacy, and value were unclear. Despite these substantial gaps, Petitioners requested that the Division render its decision on an expedited timeline, by no later than November 1, 2021.

On June 11, 2021, the Division noticed Petitioners’ filing and set a two-week deadline for motions to intervene.\(^3\) Motions and responsive pleadings were filed, and the Hearing Officer conducted a motions hearing on all intervention-related issues on July 15, 2021.\(^4\) In its August 11, 2021 order, the Division granted, with certain limitations, the motions to intervene of the Rhode Island Department of Attorney General (“Attorney General”); the Rhode Island Office of Energy Resources; the Acadia Center; Conservation Law Foundation; and Green Energy Consumers Alliance, Inc. (“Green Energy”). All other motions were denied.

The Hearing Officer conducted a pre-hearing conference on September 9, 2021, and subsequently issued a procedural schedule under which the hearing would be conducted December 13-17, 2021, and a decision would be rendered by February 25, 2022.\(^5\)

Discovery in this matter was conducted between June and October. On November 3, 2021, the Advocacy Section submitted the pre-filed direct testimony of expert witnesses

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\(^3\) Notice of Filing and Deadline to Intervene (June 11, 2021).

\(^4\) In re: Petition of PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA & the Narragansett Elec. Co. for Auth. to Transfer Ownership of the Narragansett Elec. Co. to PPL Rhode Island Holdings, LLC & Related Approvals, Order No. 24,109, at 91 (Aug. 19, 2021), on reconsideration, Order No. 24,179 (Sept. 8, 2021), and Order No. 24,231 (Sept. 22, 2021).

\(^5\) Procedural Schedule (Sept. 9, 2021).
Gregory Booth, Michael Ballaban, Bruce Oliver, David Effron, and Matthew Kahal.\(^6\) Witness Booth presented testimony on the impact of the Transaction on Narragansett’s electric operations, including the impracticality of a two-year transition; lost synergies due to PPL’s proposed shift in operating models; lost opportunities regarding Advanced Metering Facilities (“AMF”) and Grid Modernization Plan (“GMP”); and the impact of the Transaction on Narragansett’s Infrastructure, Safety and Reliability (“ISR”) planning process. Witness Ballaban’s testimony addressed the Transaction’s impact on rates and ratepayers, highlighting the absence of adequate protections and the risk of exposure to the large but unknown transition costs required to reorganize and reintegrate Narragansett as a standalone utility within the PPL corporate family. Witness Oliver’s testimony addressed the impact of the Transaction on the costs, reliability, safety, quality and efficiency of Narragansett’s gas distribution service. Witness Effron submitted testimony regarding Transaction acquisition costs and the impact of the Transaction on pension and other retirement benefits, Accumulated Deferred Income Taxes, and the valuation of Narragansett’s assets. Witness Kahal’s testimony discussed the need for PPL to make certain commitments to protect ratepayers related to ring-fencing, the non-recovery of goodwill, policies regarding the issuance of short-term and long-term debt, and Narragansett maintaining a minimum common equity. Together, these witnesses recommended that the Division reject the Petition.

\(^6\) See Advocacy Section Ex. 3, Direct Testimony of Gregory L. Booth (“Booth Direct Test.”); Advocacy Section Ex. 4, Direct Testimony of Michael R. Ballaban (“Ballaban Direct Test.”); Advocacy Section Ex. 5, Direct Testimony of Bruce R. Oliver (“Oliver Direct Test.”); Advocacy Section Ex. 2, Direct Testimony of David J. Effron (“Effron Direct Test.”); Advocacy Section Ex. 1, Direct Testimony of Matthew I. Kahal (“Kahal Direct Test.”).
The Attorney General’s Office and Green Energy sought and were granted leave to file their direct testimony on November 8, 2021. The Attorney General’s Office submitted the joint testimony of expert witnesses Mark Ewen and Robert Knecht, raising several financial and environmental concerns related to the Transaction and recommending the Petition be denied. Green Energy sponsored the testimony of Kai Salem, who likewise recommended denial of the Petition and raised questions regarding PPL’s experience, climate change policies, municipal aggregation programs, and its ability to advance Rhode Island’s Power Sector Transformation.

Petitioners filed rebuttal testimony on November 23, 2021, debuting six new witnesses. Specifically, PPL offered the rebuttal testimony of Bethany Johnson, David Bonenberger, John Reed and Daniel Dane (joint), Lonnie Bellar, Tadd Henninger, and Todd Jirovec,7 while National Grid added the joint testimony of Christopher Kelly and Duncan Willey.8 In this testimony, PPL, through witness Bonenberger, unveiled for the first time their $408 million “order-of-magnitude” estimate for certain identified transition costs (a still undefined term).9 Under the procedural schedule, neither the method of determining this non-exclusive list nor the resultant estimate were subject to discovery.

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7 PPL Ex.3, Rebuttal Testimony of Bethany L. Johnson (“Johnson Rebuttal Test.”); PPL Ex. 1, Rebuttal Testimony of David Bonenberger (“Bonenberger Rebuttal Test.”); PPL Ex.6, Joint Rebuttal Testimony of John J. Reed and Daniel S. Dane (“Reed and Dane Rebuttal Test.”); PPL Ex.2, Rebuttal Testimony of Lonnie E. Bellar (“Bellar Rebuttal Test.”); PPL Ex. 4, Rebuttal Testimony of Tadd Henninger (“Henninger Rebuttal Test.”); PPL Ex. 5, Rebuttal Testimony of Todd J. Jirovec (“Jirovec Rebuttal Test.”).

8 National Grid and Narragansett Joint Ex. 2, Joint Rebuttal Testimony of Christopher Kelly and Duncan Willey (“Kelly and Willey Rebuttal Test.”).

9 Bonenberger Rebuttal Test. at 31:18-19; id., Ex. B.
On December 9, 2021, the witnesses for the Advocacy Section and the Attorney General’s Office filed surrebuttal testimony in response to the “new case” Petitioners filed on rebuttal.\(^\text{10}\)

On the eve of trial, Petitioners filed a “Statement of Existing and Additional Commitments,” and, a day later, a further “supplement” to those commitments.\(^\text{11}\) Testimony at trial showed that those Commitments continued to fall short of resolving the many concerns raised by the Advocacy Section and other parties, while leaving ratepayers potentially on the hook for $82 million (or more) of transition costs.\(^\text{12}\) PPL also proposed that it be permitted to seek transition cost recovery even if there had been no showing that the resulting benefits exceeded the amount of the transition cost sought—contrary to the standard endorsed by the Division when it approved Narragansett’s purchase of assets from Southern Union.\(^\text{13}\)

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\(^\text{10}\) All five Advocacy Section witnesses provided surrebuttal testimony. Advocacy Section Ex. 8, Surrebuttal Testimony of Gregory L. Booth (“Booth Surrebuttal Test.”); Advocacy Section Ex. 9, Surrebuttal Testimony of Michael R. Ballaban (“Ballaban Surrebuttal Test.”); Advocacy Section Ex. 10, Surrebuttal Testimony of Bruce R. Oliver (“Oliver Surrebuttal Test.”); Advocacy Section Ex. 7, Surrebuttal Testimony of David J. Effron (“Effron Surrebuttal Test.”); Advocacy Section Ex. 6, Surrebuttal Testimony of Matthew I. Kahal (“Kahal Surrebuttal Test.”). The two Office of the Attorney General witnesses provided joint surrebuttal testimony. Attorney General Ex. 2, Combined Surrebuttal Test. of Mark D. Ewen and Robert D. Knecht (“Ewen and Knecht Surrebuttal Test.”).


\(^\text{12}\) The commitment related to “Transition Costs” applies only to transition costs that PPL has defined in the document and do not address the entire category of costs; these commitments only protected ratepayers from $250 million of the $315 million estimated in new IT systems, without a cap on recovery. PPL reserved the right to seek recovery of the entire cost of Rhode Island Operations Facilities (currently estimated at $17 million). Petitioners Statement of Existing and Additional Commitments at 2-3.

\(^\text{13}\) See In re: Joint Petition for Purchase & Sale of Assets by the Narragansett Elec. Co. & the S. Union Co., Order No. 18,676, at 62-63, 84-86, Docket No. D-06-13 (July 25, 2006) (“Southern Union”) (approving transaction where Narragansett committed to, among other things, “not seek recovery of integration costs unless the Company can demonstrate that savings attributable to the integration exceed such costs”).
These Commitments—which, due to the timing of their submission, were the subject of neither discovery nor pre-filed testimony—dominated the focus of the hearing, which was held December 13 through December 16, 2021.

Under the terms of a stipulation reached between Petitioners and the Advocacy Section, the testimony of two Advocacy Section witnesses, David Effron and Matthew Kahal, were entered into evidence without examination. The stipulation provided that the Advocacy Section would waive its objection to the approval of the Transaction on the basis of the concerns raised in those witnesses’ pre-filed testimony. The remainder of the Advocacy Section’s witnesses appeared, offered limited supplemental direct testimony regarding the Commitments, and were cross-examined.

At the conclusion of the hearing, the Hearing Officer ordered the parties to address, as part of their post-hearing briefs, the legal question of whether the state of Rhode Island could order National Grid to remain in the state and continue operating Narragansett in perpetuity.

Following the hearing, Petitioners responded to a number of Record Requests. On December 29, 2021, the Division noticed a period for public comment through January 18, 2021. As of this Advocacy Section filing, several comments from the public have been posted to the Division’s website for this docket.

**STANDARD OF REVIEW**

Approval of a proposed sale of one utility to another is neither automatic nor as of right. Petitioners seeking to complete a sale must first justify their entitlement to relief by

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15 Notice of Public Comment (Dec. 29, 2021).
demonstrating that their proposal meets standards established in Rhode Island law and interpreted in Division decisions. If Petitioners fail in any respect to meet their obligation, then their Petition must be denied.

The applicable legal standard is set forth in Section 39-3-25 of Rhode Island General Laws. Entitled “Proceedings for approval of transactions between utilities,” this provision states:16

The proceedings for obtaining the consent and approval of the division for such authority shall be as follows: There shall be filed with the division a petition, joint or otherwise, as the case may be, signed and verified by the president and secretary of the respective companies, clearly setting forth the object and purposes desired, stating whether or not it is for the purchase, sale, lease, or making of contracts or for any other purpose in § 39-3-24 provided, and also the terms and conditions of the same. The division shall upon the filing of the petition, if it deem a hearing necessary, fix a time and place for the hearing thereof. If, after the hearing, or, in case no hearing is required, the division is satisfied that the prayer of the petition should be granted, that the facilities for furnishing service to the public will not thereby be diminished, and that the purchase, sale, or lease and the terms thereof are consistent with the public interest, it shall make such order in the premises as it may deem proper and the circumstances may require.

As shown, the statute sets forth both (a) a process to be followed when applying for approval; and (b) substantive standards that much be met to justify relief. The Petitioners bear the burden of demonstrating that they have complied with both sets of requirements. In this case, Petitioners have complied with neither.

A) Petitioners’ petition fails to provide the information required by Section 39-3-25.

Section 39-3-25 is express that those seeking approval of a utility sale must file a “petition . . . clearly setting forth the object and purposes desired, stating whether or not it is for the purchase, sale, lease, or making of contracts or for any other purpose in § 39-3-24 provided, and also the terms and conditions of the same.”17

Petitioners have not met these statutory requirements. Rather than setting forth in their Petition “the terms and conditions” of the proposed acquisition, Petitioners waited until the weekend before the hearing to announce key terms and conditions of their proposed sale. The “additional commitments” served up by Petitioners roughly 48 hours before the start of the hearing include new and basic components of the proposed Transaction, such as: (1) the timing of a Narragansett request for rate relief following Transaction approval; (2) terms under which PPL will seek recovery of “transition costs,” currently estimated to be in excess of $400 million; (3) the proposed retention of a “third-party consultant with significant and substantial experience in the energy industry in the Northeast and New England markets” to manage gas procurement activities; (5) implementation of a suite of ring-fencing measures; and (6) the terms for an extended TSA.

PPL’s belatedly-filed set of “supplemental commitments” is integral to Petitioners’ effort to demonstrate that approval of their Transaction will not have adverse impacts and is in the public interest. In fact, the supplemental commitments are of sufficient substantive

17 Id. (emphasis added).
magnitude that they effectively constitute a new Petition—one on which the parties were not afforded the opportunity either to conduct discovery or file testimony.\(^{18}\)

PPL counsel addressed Petitioners’ failure to offer the new commitments at the evidentiary hearing. While observing that he was “not faulting anybody,” he stated that had the parties been able to conduct settlement discussions, they “would have seen them sooner.”\(^{19}\) Counsel’s reliance on the pace of confidential settlement talks to justify not offering essential commitments until the 25\(^{th}\) hour is as regrettable as it is irrelevant. The statute is clear that Petitioners bear the burden of presenting in their Petition the terms and conditions of their proposal—not on the weekend before the trial, or after the conduct of discovery and the submission of testimony. No legitimate excuse has been offered for the delay in presenting these “supplemental” commitments—and, indeed, none could be: there is nothing in the commitments that could not have been presented in Petitioners’ initial petition. Petitioners’ failure to do so is contrary to law.

And Petitioners’ decision to proceed in this manner is not harmless error. The parties’ multiple sets of discovery requests and rounds of testimony were understandably focused on the Petition filed in May 2021. But this case is no longer about that Petition. Petitioners’ action has deprived the parties of an opportunity to review, assess, and comment upon essential aspects of the proposed Transaction.\(^{20}\)

\(^{18}\) The opportunity to provide “live” additional testimony at the hearing concerning the Commitments is not the same thing as being able to conduct discovery, evaluate responses, and develop and submit concise testimony.

\(^{19}\) Tr. 270:1-18 (Dec. 16, 2021).

\(^{20}\) E.g., id. at 103:12-18 (cross-examination of Mr. Ballaban) (“Just so everyone is aware, these [supplemental commitments] were provided to us over the weekend, so my reading of this is obviously somewhat cursory.”)
Indeed, the absence of essential information has been an issue from the outset of this proceeding. Advocacy Section witness Booth commented in his direct testimony on Petitioners’ failure to include in their Petition information essential to evaluating the Transaction, noting:

> the filing lacked much of the detail, materials, or information that I would typically see in an application attempting to demonstrate that an acquisition was in the “public interest.” A financial forecast and rate impact analysis are but two items that were missing from the filing and that are essential for a comprehensive assessment of whether the proposal is in the “public interest.”

Attorney General witnesses Mark Ewen and Robert Knecht made the same point in their direct testimony, explaining: “PPL has declined to provide post-transaction financial statements and forecasts. As such, it is impossible to evaluate the financial structure and viability of [Narragansett] or [PPL Rhode Island].”

B) **Petitioners must meet the substantive standards of Section 39-2-25, the contours of which have been developed through Division decisions in individual cases.**

Rhode Island law is clear that a utility acquisition cannot be approved unless the Petitioners are able to demonstrate that: (a) the proposed merger will not diminish facilities for furnishing service to the public, and (b) the terms of the merger are consistent with the public interest.

So obviously, you’ve pointed out an issue, and I apologize for that, but that’s just based on my cursory read of the documents to date.”).

21 Booth Direct Test. at 8:5-9.

22 Attorney General Ex. 1, Direct Testimony and Exhibits of Mark D. Ewen and Robert D. Knecht at 9:1-3 (footnote omitted) (“Ewen and Knecht Direct Test.”). See also Tr. 229:7-12 (Dec. 16, 2021) (“The issue is we think that in a proceeding like this financials should be provided, pre and post-transaction financials to allow the parties to evaluate the financial impacts of the proposed transaction.”).
The types of showings that must be made to satisfy the broadly-worded statutory standards were addressed in *Southern Union*. *Southern Union*, which was authored by the Hearing Officer in the instant proceeding, involved Narragansett’s proposed purchase of Southern Union’s gas distribution assets. The Hearing Officer there observes that the “question of whether the proposed transaction is ‘consistent with the public interest’” was “intensely debated and challenged in this docket.”

*Southern Union* finds that “approval is limited to two factors/criteria, one that specifically addresses the present and future needs of ratepayers, and one that ensures no harm to the general public as a whole (including ratepayers).” The Hearing Officer addresses both statutory criteria, stating:

> [t]he first criterion requires an evaluation of whether “the facilities for furnishing service to the public will not thereby be diminished” if the transaction is approved, *supra*. This provision unambiguously mandates that the Division must conclude, before approving a R.I.G.L. §39-3-24 petition, that there will be no degradation of utility services after the transaction is consummated.

The second approval criterion, “consistent with the public interest” requires a finding that the proposed transaction will not unfavorably impact the general public (including ratepayers).

These standards were further fleshed out by the Advocacy Section. As explained in

*Southern Union*:

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23 *Southern Union* at 51.

24 *Id*. at 52.

25 *Id*.

26 *Id* at 59-60. While the Advocacy Section did not offer evidence addressing whether the proposed Southern Union transaction raised any concerns with respect to items (3) and (4) on this list, *id*. at 60, there is no indication in the Order that any of the Advocacy Section’s concerns were irrelevant to a public interest determination.
[t]he Advocacy Section asserted that any assessment of the merits of the proposed merger must consider whether the ability to provide safe, adequate, reliable, and efficient service at the lowest reasonable cost will be jeopardized. In order to make this determination, the Advocacy Section advises the Division to consider (1) the degree to which the proposed transaction can be expected to impact ratepayer costs, (2) the effects of the transaction on the safety and reliability of the services provided, (3) the impact of the transaction on competition, and (4) the potential influences of the transaction on regulatory control and oversight of utility operations.

The Hearing Officer ultimately determined that the Southern Union transaction would not jeopardize the future ability to provide safe, adequate, reliable, efficient, and least cost public utility service. In reaching this determination, he noted the Advocacy Section’s “very thorough examination of the proposed transaction.” That “examination” highlighted Narragansett’s commitments to:

(1) freeze gas delivery rates until there is a Commission decision on a new rate plan, (2) not recognize good will for ratemaking purposes, (3) exclude transaction costs from any future cost of service, (4) not seek a recovery of integration costs unless the Company can demonstrate that savings attributable to the integration exceed such costs, and (5) not place ratepayers in a worse position with respect to accumulated deferred income taxes and PBOP expenses.

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27 Id. at 63.
28 Id.
29 Id. at 62-63.
30 Cf. Ballaban Surrebuttal Test. at 12:17-20 (“Once costs have been incurred and PPL is seeking to recover those [transition] costs through rates, PPL should then submit to the Commission a cost recovery proposal that demonstrates that the expenditure yields demonstrable, quantifiable, and verifiable savings that exceed costs by a significant amount.”); see also Tr. 98:10 – 100:16 (describing how PPL’s commitment leaves out critical element); id. at 102:14 – 104:19 (cross-examination of Mr. Ballaban).
As we discuss *infra*, certain of these same concerns are directly applicable to the instant proposal. 31

\[ C \] The statutory standards applicable to this proceeding are different from, and cannot be avoided by, the availability of rate application review by the Public Utilities Commission.

The Division’s evaluation of the proposed Petition must focus on whether the proposed Transaction will have adverse impacts on the public, and, more precisely, on the services provided to—and the rates paid by—Narragansett electric and gas customers. Petitioners argue that any potentially adverse rate impacts associated with this Transaction should be of no moment here because they will be addressed if and when post-Transaction Narragansett seeks rate relief from the Rhode Island Public Utilities Commission (“PUC”). Petitioners are wrong. Section 39-3-25 of Rhode Island General Laws, as interpreted in the *Southern Union*, is clear that ratepayer impacts are a central element of this proceeding. But the focus here is not on whether specific cost items will ultimately be included in customer rates. The inquiry here must instead be on whether PPL’s proposed, locally-focused model for Narragansett will result in higher costs for Rhode Island customers than those being experienced under the current, shared services model employed

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31 At trial, Advocacy Section witness Oliver, who testified in *Southern Union*, drew a distinction between that case and this one, observing that in *Southern Union*:

we were presented with a proposal that would result in both the merging of Rhode Island operations and the integration of Rhode Island and other New England operations for Southern Union. There were substantial representations of both synergies that would be achieved and cost savings that would result for customers, gas system customers as a result of the integration of those utilities. There are no representations in this case of substantial synergies or cost savings to Rhode Island gas customers.

by National Grid.\textsuperscript{32} As such, the availability of future rate review by the PUC does not obviate the need to assess potential rate impacts in this proceeding.

To the extent PPL’s proposed model will cost ratepayers more than National Grid’s model, then PPL must demonstrate that this impact has been mitigated. Absent adequate mitigation, the Petition should be denied. By contrast, it is unclear whether a subsequent PUC evaluation of a Narragansett rate hike request would: (a) apply the public interest standard applicable to the Petition in this proceeding; or (b) involve a comparison between PPL charges and what ratepayers paid or would likely have paid to Narragansett under National Grid ownership. As explained by RI AG witnesses Ewen and Knecht: \textsuperscript{33}

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\textsuperscript{32} PPL seeks to demonstrate through a study produced in discovery that PPL “expects that its managed costs to operate Narragansett will be lower than those same costs currently being incurred under National Grid USA ownership.” Bonenberger Rebuttal Test. at 37:1-3. As will be discussed infra, the Advocacy Section takes issue with this claim, which seems to be based on speculation rather than evidence. For example, witness Bruce Oliver points out: “[g]iven that PPL has not completed a full business plan and budget for Narragansett’s operation after the transition period, [witness Bonenberger’s] assessment of Narragansett’s post-transition period costs is purely speculative.” Oliver Surrebuttal Test. at 37:13-15.

\textsuperscript{33} Ewen and Knecht Surrebuttal Test. at 3:24 – 4:8. Advocacy Section witnesses Oliver and Ballaban likewise express concern that the prospect of after-the-fact prudence review is no substitute for the analysis that must be conducted here before any approval is given. Oliver Surrebuttal Test. at 5:4-11 (“Although PPL represents that the referenced facilities may provide ‘incremental benefits’ for Rhode Island consumers, no information has been provided to date regarding the expected value to consumers of any incremental benefits that are anticipated or the portion of the costs of each facility that will be incurred to provide such incremental benefits. In the absence of such information, any subsequent regulatory challenge to claimed costs and/or benefits for those facilities will inherently be characterized by PPL as an application of 20/20 hindsight.”). Mr. Oliver expanded on this position at trial, testifying:

\begin{quote}
In the absence of that information any future proceeding where we’re trying to evaluate the prudence of expenditures and whether they should be included in rates will all be characterized as 20/20 hindsight, I’ve seen it in many other proceedings, because there’s no information and criteria established at this time regarding what those costs should be. From my perspective [PPL] should have presented much more detailed cost estimates by IT system and by facility and their estimates of what the incremental ratepayer value would be from each system and facility.
\end{quote}

Tr. 147:10-23 (Dec. 16, 2021). Witness Ballaban similarly observes:

\begin{quote}
A hindsight review will present the challenge of potentially undoing investment decisions that PPL has already made. While the Commission
In the current proceeding, PPL must demonstrate, at the least, that the costs associated with these changes will not have a negative impact on ratepayers relative to continuing the status quo. In regulatory rate proceedings [before the PUC], however, it is our experience that PPL will not need to demonstrate that the costs are lower than those of [National Grid]; PPL need only demonstrate that the costs were prudently incurred. Prudence generally does not require that a utility’s management be optimal; in practice it requires only that management decisions be defensible. Moreover, in our experience, the burden for demonstrating that any utility capital or operating spending was imprudent falls on intervenors, and that it is extremely difficult to demonstrate that any particular expenditure was imprudent.

Witnesses Ewen and Knecht go on to point out that if the Transaction is approved, then it will be even more difficult for consumer advocates to challenge a request for transition cost recovery—even if those costs make post-Transaction, PPL-owned Narragansett a more costly alternative than the current, National Grid-owned version of the Company. As witnesses Ewen and Knecht explain:34

> if the Division approves the proposed transaction, it will do so knowing that PPL plans to adopt a substantially different operating philosophy [than National Grid]. We would expect that PPL’s attorneys in future proceedings will cite to such approval as justification that PPL’s operating model is reasonable, and thus PPL need only demonstrate that its costs were prudently incurred within that operating model.

In other words, if this Transaction is approved on the theory that any adverse rate impacts caused by the incurrence of enormous transition costs will simply be addressed by the PUC, Ballaban Surrebuttal Test. at 11:15-20.

then PPL will have been relieved of the burden of demonstrating in this proceeding that its proposal will not result in adverse rate impacts as compared with what National Grid would have charged the ratepayers. Acting on the basis of such a truncated analysis would be contrary to the dictates of Rhode Island law.

**D) National Grid is not obligated to operate Narragansett “in perpetuity.”**

The Hearing Examiner asked that parties brief the issue of “whether or not the Division has the authority to compel National Grid to operate Narragansett Electric – own and operate Narragansett Electric in perpetuity.”35 The short answer is “no.” National Grid is not obligated under Rhode Island law to operate Narragansett in perpetuity. National Grid can propose to sell Narragansett to any buyer, under any terms that National Grid and the purchaser find acceptable. But the parties’ agreement to a sale does not mean that it must be approved by the Division.

Under Rhode Island law, the Division decides which entities are given the privilege of providing utility services to Rhode Island customers. Franchise holders operate in an industry imbued with service in the public interest, and as such are subject to certain laws and regulations. As stated in Rhode Island General Laws Section 39-3-35:

> [e]very franchise granted to any public utility by any town or city and all contracts, ordinances, rules, regulations, and orders entered into or made by any town or city regulating the use and enjoyment of rights and franchises granted to any public utility or regulating, restricting, or affecting the operation of transit vehicles, under the provisions of any general or special law, shall be subject to the continuing control of the division in the exercise of the powers enumerated in chapters 1 — 5 of this title, and during the existence thereof, every franchise, contract, ordinance, rule, regulation, and order shall be deemed to include, and be

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subject to, the exercise by the division of any and all of the 
powers or regulations provided for in chapters 1 — 5 of this 
title.

Section 39-3-25 of Rhode Island General Laws includes limitations on the sale by 
regulated utilities of utility assets. Consistent with those limitations, National Grid cannot 
consummate any proposed sale of Narragansett on its own—it must first demonstrate to 
the satisfaction of the Division that the Transaction is on terms that meet applicable  
statutory standards. As Advocacy Section counsel stated at trial, “[w]e do not take the 
position that this sale in and of itself should be barred for whatever reason.”36 Counsel went 
on to explain:37

our position is not that this transaction should be denied because PPL’s bad and National Grid is great or that we 
don’t believe that National Grid should be able to leave the state and PPL should not be able to come into the state. There 
are specific concerns relative to the state of the transaction as it has been put forward before the Division. That is the basis for the Advocacy Section’s recommendation of denial of the transaction at this time.

If this Transaction were rejected, and National Grid were still intent on selling 
Narragansett, then National Grid can solicit another buyer, and offer to sell under terms 
that may meet the applicable statutory standards. Alternatively, and presumably far less 
likely, National Grid/Narragansett could simply decide to relinquish its franchise—while  
providing adequate notice of its intention to the State. Rhode Island would thereafter need 
to find an alternative utility service provider.

36 Tr. 341:19-21 (Dec. 16, 2021).
37 Id. at 342:15 – 343:1.
Thus, National Grid is not obliged to remain in Rhode Island forever. But, at the same time, National Grid is not free simply to sell the right to provide service to Rhode Island ratepayers to whomever the company chooses, and on terms that the State finds unacceptable. As Advocacy Section counsel explained, “if the transaction is conditioned or tailored to meet the Advocacy Section’s concerns, God speed, you know, would be our position.”

ARGUMENT

I. THE TRANSACTION SHOULD BE REJECTED BECAUSE PPL’S BUSINESS MODEL WILL HAVE ADVERSE IMPACTS ON RATES.

A) **PPL’s standalone operating model for Narragansett will likely harm ratepayers.**

   National Grid has adopted an operating model characterized by tight integration of management and operational functions across its utilities. Narragansett has benefitted from the economies of scale produced by that operating model. PPL intends to adopt a model that is less integrated and more similar to a confederation in which each utility maintains independent operations. PPL’s operating model does include some shared services across its utilities, but PPL’s model “emphasizes local presence, local control, and local focus.”

   Petitioners admitted in their rebuttal testimony that separating Narragansett from National Grid’s model and setting up a new, locally focused organization will cost hundreds of millions of dollars. But they have left unresolved who will pay for certain of these transition costs. As discussed in the next sections, Petitioners have not fully protected

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38 *Id.* at 342:12-15.
39 See Reed and Dane Rebuttal Test. at 11:15-20.
40 Bonenberger Rebuttal Test. at 35:19-20.
Rhode Island ratepayers from responsibility for funding the costs of PPL’s Rhode Island operation. But even if ratepayers could be held harmless from those costs, the Division must also satisfy itself that PPL’s proposed operating model will not adversely impact ratepayers *after the transition is complete.*

PPL, for its part, claims that its operating model can offer more local control (i.e., fewer shared services) at a lower price for ratepayers. But the Division should be wary of salesmen who promise “a best-of-both-worlds paradigm,” especially when they refuse to provide the financial models to justify their hard-to-believe promises.

The Petition lacks any financial modeling or evidence that would allow the Division to evaluate the claim that PPL’s operating model will be better (or even neutral) for Rhode Island ratepayers. In fact, PPL admitted that at the time of its Petition, it had not performed “any analyses or comparisons . . . assessing the PPL model against how Narragansett is currently managed.” Nor had it conducted “any studies or reports on the resulting economic impact of this transaction.” That, alone, is sufficient reason for the Division to reject the Transaction.

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41 *Id.* at 36:2.

42 “If something sounds too good to be true, it probably is.” *Something Sounds Too Good To Be True, It Probably Is, If*, Encyclopedia.com,  

43 *See* Ewen and Knecht Direct Test. at 10:15-16 (“failed to provide even the most rudimentary post-transaction financial statements”); Booth Direct Test. at 8:6-9 (“A financial forecast and rate impact analysis are but two items that were missing from the filing and that are essential for a comprehensive assessment.”); Ballaban Direct Test. at 5:1-2 (“Petitioners have not provided sufficient financial data to offer any confidence regarding the likely impact of the sale on customer rates.”).

44 Advocacy Section Ex. 12, PPL Response to Advocacy Section Data Request 1-54(b).

45 *Id.*, PPL Response to Advocacy Section Data Request 1-54(d).
Belatedly, PPL developed a comparison purporting to show how its operating model for Narragansett would compare to National Grid’s.\textsuperscript{46} That comparison was conducted by outside consultants \textquotedblleft\textit{without involvement by National Grid USA.}\textsuperscript{47} Thus, the \textit{only} piece of evidence that can be used to evaluate the central question in this entire proceeding—whether PPL’s operating model is in the public interest—did not even exist when the Petition was filed and does not have the support of both petitioners.

Setting aside the procedural infirmities of Petitioners’ evidence, PPL’s study is substantively deficient. By PPL’s own admission, the comparison is not on the total cost of operating Narragansett, but instead PPL \textquoteleft\textquoteleft limited this analysis to operating and maintenance costs plus allocated depreciation from service company assets.\textquoteright\textquoteright\textsuperscript{48} This basket of \textquoteleft\textquoteleft managed costs\textquoteright\textquoteright represents only about 21\% of $1.33 billion it cost to operate Narragansett in 2021.\textsuperscript{49} PPL claims that it need not do a fully costed study, because its hand-picked subset of costs are sufficient to compare the operating models.\textsuperscript{50} Advocacy Section witness Ballaban disagrees: \textquoteleft\textquoteleft for purposes of demonstrating total revenue requirement impacts to customer [sic], it is not sufficient to focus almost exclusively on expense items.\textquoteright\textquoteright\textsuperscript{51}

\textsuperscript{46} \textit{Id.}, PPL Supplemental Response to Advocacy Section Data Request 1-54.

\textsuperscript{47} Jirovec Rebuttal Test. at 9 n.2.

\textsuperscript{48} \textit{Id.} at 15:9-15. Note that PPL did not include depreciation resulting from incremental IT, although that infrastructure investment is estimated at $315 million. See Advocacy Section Ex. 12, PPL Supplemental Response to Advocacy Section Data Request 1-54 at 17, n.4.

\textsuperscript{49} Advocacy Section Ex. 12, PPL Supplemental Response to Advocacy Section Data Request 1-54 at 26 (App. 1).

\textsuperscript{50} Jirovec Rebuttal Test. at 15:8-17.

\textsuperscript{51} Ballaban Surrebuttal Test. at 17:8-10.
Advocacy Section witness Booth, who concluded PPL’s cost comparison “is flawed and lacks credibility,” identified at least four missing elements from PPL’s cost comparison: 52

- Cost of material purchasing and stocking, which currently benefit from regional economies of scale
- Cost of spare materials and equipment for major components, which are currently shared between Massachusetts and Rhode Island
- Cost of losing major construction and standardization between Massachusetts and Rhode Island
- Direct comparison of the PPL model and the National Grid model, including the number of employees needed in each area

Mr. Booth elaborated on these concerns at trial, where he was asked if was able to “reconcile” the National Grid and PPL service models. He responded: 53

[At this point I have no reconciliation for a local control approach system by PPL and then a service company approach. National Grid has a three-state service company jurisdiction approach. They obviously have local construction people and local people, but they mostly have a service company approach. It’s very confusing as to how the local control approach would not, in fact, result in the loss of most of the National Grid synergies that Rhode Island and Narragansett have benefited from. It sounds like only a few of the synergies that may come from PPL Service Company will actually be utilized.

52 Booth Direct Test. at 45:10-19. Further undermining the relevance of his analysis, Mr. Jirovec confirmed on cross-examination that the salary estimates he used for electric employees were Pennsylvania PPL salaries, and, on the gas side, the salaries were for Kentucky-related, Tr. 126:24 – 127:5 (Dec. 15, 2021), and that “[s]alaries are different in different parts of the country.” Id. at 127:9-10.

Witness Booth went on to address PPL’s cost comparison study (referred to as the “1-54” analysis, which references the Advocacy Section data request for which it was provided). He explains that the Petitioners have offered “no picture” as to how the PPL model will result in savings as compared to the status quo:\(^{54}\)  

\[\text{[e]verything so far is they’re working on it, they’re going to come with that detail and that information. That’s just like the filing of 1-54-1. I mean, I testified quite a bit on its deficiencies. That doesn’t begin to analyze the deficiencies and the difference in operating costs between National Grid and all of its synergies and at a local control approach and the loss of those synergies and benefits and all of the -- and all the expertise that comes from that larger 5,100 employee service company at National Grid.}\]

Witness Booth goes on to observe that while PPL’s Pennsylvania operations may have featured “flat” O&M rates, this point does not “speak to” what will happen in Rhode Island when the shift from National Grid to PPL control occurs:\(^ {55}\)  

\[\text{it doesn’t speak to how the National Grid Service Company synergies in three jurisdictions and the loss of that can be offset by what PPL is doing in its Pennsylvania jurisdiction which is a single-state jurisdiction now has to stretch across multiple states to get to Rhode Island.}\]

PPL witness Jirovec testified that Mr. Booth’s criticisms are “not meaningful” because Mr. Booth did not conduct any analysis of the “potential additional costs associated” with the identified items:\(^ {56}\) But that argument fails because it attempts to shift the burden of proof: PPL, not the Advocacy Section, has the duty to identify relevant cost

\(^{54}\) Id. at 194:10-22.  
\(^{55}\) Id. at 195:21 – 196:4.  
\(^{56}\) Jirovec Rebuttal Test. at 16:6-14.
categories and analyze the cost impacts. Mr. Booth simply pointed out that PPL failed to meet its burden with regard to those four cost categories.

Mr. Jirovec’s testimony goes on to confirm that the cost categories identified by Mr. Booth are relevant for comparison purposes by claiming that “PPL expects to achieve significant economies of scale by implementing its centralized supply chain practices and materials handling practices.” If that were true, then Mr. Jirovec should have quantified those economies of scale and included them in his comparison of PPL’s and National Grid’s operating models. The failure to do so supports a finding that PPL has not satisfied its burden of showing that its operating model will not harm ratepayers.

PPL cannot cure its failure to make its case by asserting that the Commission will protect ratepayers. As discussed above, the Commission can only review whether Narragansett’s costs were prudently incurred and whether the resulting rates are just and reasonable. After the Division approves the Transaction, there will be no opportunity to argue that PPL’s operating model is imprudent or unreasonable. Whatever reasonable costs that are incurred under PPL’s model will be recoverable from ratepayers. It is thus the Division’s responsibility in this proceeding to assess whether this Transaction will harm ratepayers by replacing Narragansett’s regionally-focused model with a likely more expensive locally focused model.

57 Id.
B) *PPL’s hold harmless commitments fail to protect ratepayers from transition costs needed to extract Narragansett from the National Grid system and establish standalone PPL operations.*

PPL will incur hundreds of millions in expense and capital costs to extract Narragansett from the National Grid system and integrate it into PPL’s new operating model. Much of the direct and surrebuttal testimony in this proceeding focuses on how ratepayers will be harmed by the Transaction if PPL passes any of those transition costs to customers. In the Petition, in discovery, and in testimony, PPL refused to offer a firm, enforceable commitment to hold ratepayers harmless from those costs. Advocacy Section witnesses demonstrated that the transaction is not consistent with the public interest without an adequate hold harmless commitment for transition costs.

When Petitioners ultimately did propose—immediately prior to trial—a commitment concerning the recovery of transition costs, their promise was inadequate because it still left ratepayers potentially liable for unlimited transition costs. The statute forbids approval of a utility acquisition that will harm ratepayers by requiring that they pay higher rates than would be the case but for the transaction. Such is the case here.

Specifically, Petitioners’ hold harmless commitment fails to meet the statutory public interest standard in five ways.

First, while Petitioners’ hold harmless commitment is limited to only four categories of transition costs, those categories do not comprise the universe of potential transition costs that PPL may incur. The public interest requires that ratepayers be held

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58 Those categories are costs to “(1) install certain information technology (‘IT’) systems; (2) build physical facilities in Rhode Island; (3) implement certain electric and gas distribution operations systems, and (4) incur costs related to severance payments and to communications and branding changes related to the Transaction.” Petitioners Statement of Existing and Additional Commitments at 2.
harmless from *all* transition costs, i.e., all costs incurred that would not have been incurred but for the transaction.

Second, Petitioners did not provide any supporting data for its estimate of transition costs, and the estimates were not subject to discovery. As a result, the Division has no way of assessing the accuracy of those cost estimates. As witness Oliver observed with respect to Commitments to limit transition cost recovery:59

there is a lot of substance missing from that. There are no performance criteria, there are no time schedules, we have no information about where the facilities will be built, what the construction schedules are, when we can expect them to be placed in service. The only cost data provided are rather aggregate numbers. Within the IT costs we have a $315 million total presented with a whole list of individual IT systems presented in a footnote. I think there were 18 or 19 different systems listed in the footnote and no idea what the costs of the individual systems are, when they’ll be completed, and what benefits each system will provide. You to be -- you know, for future ratemaking and regulatory activity we need to be able to associate the incremental benefits of each facility and IT system with the costs of those systems.

Given the lack of any foundation for the estimates, Advocacy Section witnesses Booth, Ballaban, and Oliver understandably concluded that PPL’s actual transition costs could substantially exceed PPL’s estimates.60 This is not in dispute. PPL witnesses confirmed the possibility that the actual costs could exceed estimates.61

60 Tr. at 181:23 – 186:19 (Dec. 15, 2021) (Booth); Tr. 97:8 – 100:23 (Dec. 16, 2021) (Ballaban); id. at 145:23 – 148:9 (Oliver).
61 Tr. at 50:10-16 (Dec. 13, 2021) (cross-examination of Mr. Sorgi).
Because Petitioners have committed to hold ratepayers harmless from only the first $250 million of IT systems implementation costs, if Narragansett’s actual costs exceed the $315 million estimate, ratepayers could be liable for the entire amount that exceeds the estimate. Similarly, if the Rhode Island Operations Facilities cost more than the estimated $17 million, ratepayers could pay for those cost overruns. The lack of support for the cost estimates, combined with the lack of a cost cap in the hold harmless commitment, renders the commitment contrary to the public interest.

Third, Petitioners’ hold harmless commitment doesn’t require savings to exceed costs as a condition for recovery. The commitment with regard to IT systems implementation costs allows recovery for any costs above $250 million recovery “only if Narragansett can demonstrate that the incurrence of these costs to achieve system implementation has produced savings for Rhode Island customers that are quantifiable, verifiable and demonstrable.” Petitioners’ focus on quantifiable, verifiable and demonstrable savings is appropriate. But Petitioners omit an important qualifier: those savings must be equal to or in excess of the costs incurred. Absent this addition, customers remain at significant risk for experiencing rates that are higher than they would otherwise be if the Transaction is rejected.

On cross-examination, Advocacy Section witness Ballaban offered two reasons for concern about the transition cost commitment: “Reason No. 1, there’s still no cost cap on that money, and No. 2, it just says incremental benefit. It doesn’t say that the benefits will

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62 Petitioners’ Statement of Existing and Additional Commitments at 3.
equal the cost that is being put forth for recovery.”63 As for the possibility that PPL might have meant the latter, witness Ballaban remarks: “I would have used the term net benefit if it were truly a net.”64 Rhode Island AG witness Knecht highlighted the same concerns with the transition cost commitment. First, as have the Advocacy Section witnesses, Mr. Knecht observed that “there isn’t a cap on the -- on some of the transition costs that could potentially be claimed in future proceedings and that will certainly serve to increase the potential risk that ratepayers face associated with those investments.”65 Second:66

I think even more importantly is that we read the language the same way with respect to when a transition investment is providing a benefit. Are we talking about any kind of a benefit that is -- will a $10 million benefit justify a $50 million expense? We don’t think so. We would think that the test would be a net benefit test and that the claimable transition costs should only be those that provide an incremental benefit and that they only get to claim all of the costs if the net benefit -- if the benefits exceed the incremental costs. And that may have been what was intended and it may not.

Fourth, Petitioners’ hold harmless commitment for the Rhode Island Operational Facilities lacks even the commitment to demonstrate quantifiable, verifiable, and demonstrable savings. Instead, Petitioners offers a less stringent test: “direct benefit to customers as a result of the incremental investment.”67 That vague standard would allow Narragansett to concoct any sort of benefit to justify cost recovery.

63 Tr. 102:18-23 (Dec. 16, 2021).
64 Id. at 103:8-9.
66 Id. at 232:1-15.
67 Id. at 102:3-5.
Fifth and finally, Petitioners’ proposal to establish transition cost reporting during the stay out period is insufficient as it is lacking in detail. There are no procedures for establishing how transition costs will be recorded, identifying the specific details of evidence reported to the PUC and Division, and determining the cycle of reporting. Petitioners have not provided any commitments as to how these activities will be accomplished.

PPL seeks to blunt any concern over future costs by noting that it might not seek any transition costs, or that their estimate might turn out high relative to actual expenses. This kind of conjecture is neither helpful nor relevant. If PPL wants to protect customers fully from the adverse impacts of transition costs, then it has the means to do that: it can promise now not to seek to recover any transition costs. Absent that promise, we urge that the Hearing Officer not base his decision on predictions about the future that are not well founded in the here-and-now. The fact that Petitioners might decide against seeking recovery does not cure the deficiencies in the hold harmless commitment. As long as PPL retains the right to seek future recovery, the Division must assume that Narragansett will make that request. As witness Oliver explains, absent firm and future commitments, “this transaction needs to be decided based on the assessment of customer impacts and the public interest as things are known at this point in time.”

Also, the possibility that the Commission will deny rate recovery does not mitigate the harm to the public interest. As discussed in the prior section, the Division’s standard of review for approving the Transaction is separate and distinct from the Commission’s

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68 Id. at 168:17-20.
standard of review for setting rates. IT systems implementation and new operations facilities may well be prudent investments for Narragansett to include in rates, but those investments will not be needed—and ratepayers will not be liable for them—if the Transaction is rejected.

In short, because the Transaction puts ratepayers at risk for paying transition costs that were left unaddressed, or that exceed their estimated costs or actual savings (or both) and that would not otherwise be needed, the Transaction is not consistent with the public interest.

C) **PPL’s Three-Year Stay-Out Commitment is Inadequate.**

Advocacy Section witness Ballaban recommends a *minimum four-year* stay-out period before a new distribution rate case is filed to “provide sufficient time for costs to stabilize and offer the Commission and the Division a reasonable view of Narragansett’s post-transaction cost structure.” The reason is that at least four years is needed to establish accurate future rates for Narragansett—that is rates supported by “what the recurring costs . . . under PPL ownership would be,” absent operations performed or managed by National Grid or its affiliates. PPL witness Sorgi claims that Petitioners have adopted the Advocacy Section’s recommended stay-out period, but their Commitments only provide

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69 Ballaban Surrebuttal Test. at 14:4-8.
70 Tr. 97:1-3 (Dec. 16, 2021).
71 Tr. 104:2-12 (Dec. 13, 2021) (cross-examination of Sorgi: “And we’ve agreed not to file for a rate case any sooner than three years following the closing. And then, as you know, there is a regulatory approval process around the filing. So effectively between three-and-a-half to four years we’ve agreed to stay out which is the recommendation that was included in your expert witness testimony. We’ve adopted that recommendation and that protects the customers from what you’re describing.”).
for a three-year stay-out period.\footnote{Petitioners’ Statement of Existing and Additional Commitments at 1 (“Narragansett will not file a base rate case seeking an increase in base distribution rates for gas and/or electric service sooner than three (3) years from the date that PPL RI’s acquisition of Narragansett from National Grid[.] closes[.]”).} That shorter commitment is insufficient because it fails to meet its essential purpose.

As witness Ballaban explains, a three-year stay-out is not 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.”\footnote{Ballaban Direct Test. at 32:9-11.} Assuming a two-year transition period, the test-year would comprise the third year following the close of the Transaction. The accounting information for that year, however, would not be instantaneously available on the day the period closes, but must first be assembled, reviewed and analyzed.\footnote{Tr. 96:2-17 (Dec. 16, 2021).} This takes time. As a result, a rate case filing that is to be based on the first twelve months following a two-year transition cannot be submitted until several months \textit{after} the end of the third year.\footnote{\textit{Id.} at 108:16 – 109:13.}

The year’s difference between the two positions is significant because the failure to require that the next rate filing be based on a “clean” test-year invites error. Doing so may inadvertently allow the inclusion of legacy transition costs into the test-period\footnote{\textit{Id.} at 116:14 – 117:3.} (and consequently, rates), or lean on alternative accounting techniques that use \textit{historic} non-test period data or other estimates (i.e. normalization, pro forma adjustments)\footnote{\textit{Id.}} that may not be
reliable “benchmark[s] for assessing whether any rate increase is reasonable.”\textsuperscript{78} Even if Petitioners are able to transfer management within their ambitious two-year transition period, the only PPL standalone data that would be available at that point would be for the third year (i.e., the first year of PPL-only operations); no representative historical data would exist to serve as proxy for or to compare against the test-year data. A three-year stay-out period is therefore ineffective even if the transition is completed in two years—a timeline we believe is implausible. Despite Petitioners’ hoped-for-plans, the transition period will likely take much longer than two years. Witness Booth estimates the transition in this interstate merger could take five years or even longer to complete.\textsuperscript{79}

But even if PPL were to adopt—or the Division were to require—a four-year stay-out provision, it should be clear that “customer rates will only be partially protected.”\textsuperscript{80} Regardless of the duration, Petitioners’ stay-out commitment applies only to base rates, which “cover[] only a portion of Narragansett’s total revenue requirements eligible for rate recovery[]”\textsuperscript{81} and do not include “[c]osts recovered through reconciling mechanisms”\textsuperscript{82} that operate independently from Narragansett’s electric and gas base distribution rates. Indeed, in its post-hearing response to a records request, National Grid provided a document detailing nearly two-dozen such “reconciliation” mechanisms, including ISR,\textsuperscript{83} peppered

\textsuperscript{78} Id. at 95:22-23.
\textsuperscript{80} Ballaban Direct Test. at 39:8-9.
\textsuperscript{81} Id. at 39:7-8.
\textsuperscript{82} Id. at 32:3.
\textsuperscript{83} Witness Booth expressed concerns about the ability of this statutory mechanism to be used as a vehicle to pass PPL’s transition and integration costs on to Rhode Island customers. Tr. 27:20 – 28:4 (Dec. 15, 2021) (direct); 70:11 – 71:10 (Dec. 16, 2021) (cross-examination of Mr. Booth).
throughout Narragansett’s various tariffs. 84 And, while the Advocacy Section does not concede that these mechanisms in fact authorize PPL to do so, PPL has made it clear that it fully intends to attempt to exploit these mechanisms. Referring to certain capital transition costs that the company claims could be incurred in the ordinary course of operation, PPL states it “will seek 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.”85 Since any stay-out period only offers partial protection to ratepayers, it is all the more important that one of appropriate length is set—that is, one that requires Narragansett’s next base rate case include at least twelve months of the utility’s post-transition costs under PPL’s exclusive management.

Importantly, even if the stay-out period were to be extended, it would still be insufficient to protect ratepayers from the impact of the Transaction because PPL will be able to recover additional costs through the ISR process. Mr. Booth addressed at hearing the interaction between the ISR process and PUC review of base rates. He explained that the availability of PUC rate review will not address all risks to which ratepayers will be exposed upon approval of the Transaction:86

84 See National Grid Responses to Record Requests 2 and 3, Response to Record Request 2, tbls. 1 & 2 (Dec. 14, 2021).

85 See PPL Response to Advocacy Section Data Request 1-42(c) (emphasis added); see also Bethany Rebuttal Test. at 17:1-5 (“Additionally, during the transition period, the other components of Narragansett’s rates, which are set through a variety of reconciling mechanisms, will continue to be calculated and approved in the same manner as they are currently, as prescribed by statute and as set forth in Narragansett’s tariffs. These reconciling mechanisms, which primarily provide for recovery of pass-through costs, will continue to be incurred in the same manner.”).

86 Tr. 174:21 – 175:15 (Dec. 15, 2021). Mr. Booth subsequently explained that he was not suggesting that PPL could spend money on whatever it wanted and flow it through the ISR rates, but that once the transaction
if PPL puts in the ISR plan the duplication of mobile substations that National Grid currently has in Massachusetts that benefit Rhode Island, if that’s $30 million, then that 30 million will flow through the ISR plan in the rates and the Division and the Commission would be put essentially between a rock and hard place. If they push back on that, that’s going to adversely impact both reliability and safety, and if it’s allowed to flow through the ISR, that’s going to impact the rates so the customer is going to pay higher rates, and that’s going to happen over and over again for all of these capital components that have to be duplicated. So I just don’t see how that duplicative issue works relative to the ISR plan under any of the commitments at this point.

He went on to explain the same concern in response to a question concerning PPL’s potential recovery of transition costs. While acknowledging that “what PPL said” is that it is only reserving the right to seek Transition cost recovery:87

the problem with what PPL said is the statutory requirement of the ISR plan and its process. There are transition costs that will be capital and other items that will be put into the annual ISR plan budgets and they’ll be recovered through the ISR plan process and added to the rates. So although there’s all this base rate discussion and things we won’t recover, there are certain transition costs that will include capital items that will flow through the ISR plan and I just don’t see how that is avoidable.

is approved, it will be difficult to challenge expenditures that, while unique to the PPL model, are claimed to be needed for reliability:

I was couching it in the exact way the ISR works. So the capital budget, certain O&M items, asset condition and the like are put into a proposed ISR plan and that goes through a rigorous assessment by the Division, there’s either agreement or disagreement, and it ultimately goes to the Commission for approval. But what I was saying, if there are components that have to be duplicated that absent the transition wouldn’t have to be and they go to safety and reliability, it would be very difficult for the Division to push back on that or the Commission not to allow rate relief.

Id. at 224:13 – 225:3.

He subsequently reiterated this point on cross-examination, stating that the “ISR plan is a statutory requirement for which infrastructure, safety and reliability costs go into and that goes through an entire separate process and I don’t see anything in the commitments that would stop any of the flow of that cost.”

We note that Mr. Booth’s concerns were subsequently echoed by Rhode Island AG witnesses Ewen and Knecht. Mr. Knecht observed at trial that their recommendations did not account for ISR issues, explaining that when they offered their recommendation with respect to a “stay out” provision:

I am sure -- we did not understand the ISR process as -- within this jurisdiction as well as it works, and I think we took Mr. Booth’s concerns to heart that there’s another process and there are a whole set of expenditures that can be showing up in rates that aren’t going to be subject to this rate stay-out because they are flowing through the ISR process. So that what we think is that if it doesn’t have one now, the ISR process should make sure that there is some robust evaluation as to whether those expenditures that are being reviewed are simply replacing things that ratepayers have already paid for or whether they are providing a net benefit, and that to us, it makes the most sense for that to show up within the ISR process.

These passages illustrate a concern the Advocacy Section raised earlier in this brief, where we noted that the availability of PUC review following approval of this Transaction is insufficient to ensure that ratepayers will be protected from all forms of excessive costs.

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89 Id. at 233:4-21.
D) Ratepayers could be liable for millions of dollars of stranded asset costs.

Narragansett has recorded over $15 million to regulatory asset accounts for its Gas Business Enablement Program and its Cybersecurity and Information Services Technology Modernization Program.\(^{90}\) Subject to defined cost caps and Commission review, Narragansett is entitled to seek recovery of those regulatory assets from ratepayers in the company’s next general rate case or extension of the Rate Plan. If the Transaction is approved, PPL will replace Narragansett’s IT systems and make substantial changes to Narragansett’s gas business enablement program.\(^{91}\) As a result, the authorized regulatory assets will become stranded. Petitioners offer no protection to ratepayers for those assets that will become stranded as a result of the Transaction.

Similarly, Narragansett has spent nearly $3 million developing its AMF and Grid Modernization proposals, the majority of which was spent on outside consultants.\(^{92}\) As noted above, if approved, the Transaction will delay implementation of AMF and Grid Mod by at least an additional year, thereby depriving customers of the benefits that these

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\(^{90}\) The Amended Settlement Agreement filed in Commission Docket No. 4770 (approved in Commission Order No. 23,823) allowed Narragansett to create regulatory assets to defer recovery of certain costs associated with Narragansett’s Gas Business Enablement Program (see Article II, Section C.12.e) and Narragansett’s Cybersecurity and Information Services Technology Modernization Program (see Article II, Section C.13.c). *In re: The Narragansett Electric Co. d/b/a National Grid – Electric and Gas Distribution Rate Filing*, Order No. 23,823, Docket No. 4770 (R.I. Pub. Utils. Comm’n May 5, 2020). As of August 31, 2021, the deferred amounts for the Gas Business Enablement Program are around $10.8 million (Narragansett Gas) and $1.9 million (Narragansett Electric). Advocacy Section Ex. 30, Letter from Attorney Hutchinson to Clerk Massaro re: Gas Business Enablement Program, at 6 (Nov. 1, 2021). As of August 31, 2021, the deferred amounts for the Cybersecurity and IT Program are $658 thousand (Narragansett Gas) and $2.0 million (Narragansett Electric). Advocacy Section Ex. 24, Narragansett, Cyber Security and IT Modernization Programs Quarterly Report, at 5 (Oct. 28, 2021).

\(^{91}\) Tr. at 75:10-18 (Dec. 13, 2021) (cross-examination of Mr. Sorgi).

\(^{92}\) Advocacy Section Ex. 23, National Grid Response to Advocacy Section Data Request 7-53, at 2 (identifying, as of August 1, 2021, $2,571,301 of costs incurred for developing and filing the Updated AMF Business Case and $238,384 of costs for developing and filing the Grid Modernization Plan).
improvements would have provided in the meantime. And, as discussed below, Rhode Island customers will lose the synergies (including cost-efficiencies) of co-deploying these programs with New York.

But even if Petitioners were able to mitigate those harms to the public interest, that (understandable) protection would still be insufficient. If the Transaction is approved, the millions already spent developing and filing the existing AMF and Grid Modernization proposals will be stranded costs for which ratepayers will be on the hook, but will provide them no benefits.

\textbf{E) Ratepayers will lose millions in lost synergies from AMF and Grid Modernization.}

Narragansett’s AMF and Grid Modernization proposals, currently pending before the Commission, would have benefited from incredible savings for Rhode Island customers are a result of multi-jurisdictional deployment with National Grid’s other utilities. For AMF alone, Narraganssett estimated that a co-deployment with New York would reduce capital costs for Rhode Island by approximately $35 million. The company explained the drivers of those savings:

Rhode Island and New York are expected to realize cost savings from sharing fixed costs, increased purchasing scale, and by sharing some full-time equivalent (FTE) employees among jurisdictions. In the case of cost sharing, total costs of each shared investment would be allocated between the two jurisdictions, which makes Rhode Island responsible for approximately one quarter of the costs of those specific elements.

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93 Advocacy Section Ex. 18, Sch. PST-1, Chapter 4 – AMF (RIPUC Docket No. 4770), at 9 (compare “Deployment Period Capital Cost” for Multi-Jurisdiction Deployment with “Deployment Period Capital Cost” for Rhode Island Only Deployment).

94 Advocacy Section Ex. 19, Sch. KPK/SL-1 (RIPUC Docket No. 5113), at 121.
Rhode Island would have benefited by paying only one quarter of shared costs, gaining significant benefits from co-deployment of AMF with New York. National Grid and the Commission have recognized that “in the event of Division approval of the acquisition by PPL, those synergies would not be realized.”

The lost synergies are even more significant for Narragansett’s Grid Modernization proposal. Over five years, Rhode Island stood to save $82 million through National Grid’s multi-jurisdictional deployment. The cost savings could be even greater if Massachusetts participates in the co-deployment. As explained at trial by witness Booth:

The National Grid AMF and grid modernization plan has enormous synergies. Dollar benefits were documented between New York and Rhode Island, and how much Rhode Island would save being part of the National Grid as a whole versus stand-alone. That was roughly 40 million on AMF, 80 million on GMP. And those savings were shown through the stakeholder process. There will be additional benefits as Massachusetts moves forward with AMF and grid mod, and that’s an enormous synergy in benefit to Rhode Island which is significantly smaller than New York and Massachusetts and I don’t see that PPL is offering comparable or similar benefits.

PPL offers no assurance to the Division that the Company’s AMF and Grid Modernization proposals, which would not be filed until after the Division approves the Transaction, will provide similar savings to Rhode Island customers. PPL protests that it can achieve some

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96 Advocacy Section Ex. 22, Sch. PST-1, Chapter 3 (Docket 4770), at 28 (compare $140 million of cash flow estimate for Rhode Island Only Deployment Scenario with $57.5 million in the Multi-jurisdiction Deployment Scenarios).

economies of scale too, but does not offer any concrete cost estimates or firm commitments that would be needed to give the Division confidence that PPL’s proposals will not harm ratepayers compared to National Grid’s.98 PPL’s approve-now, pay-later approach to AMF and Grid Modernization is not in the public interest.

II. THE TRANSACTION SHOULD BE REJECTED BECAUSE PPL’S BUSINESS MODEL WILL HAVE ADVERSE IMPACTS ON SERVICE QUALITY/RELIABILITY.

The “Division must conclude, before approving a Section 39-3-24 petition, that there will be no degradation of utility services after the transaction is consummated.”99 Petitioners have not met their burden of demonstrating that PPL can operate Narragansett’s electric and gas facilities without degradation of service.

A) PPL’s acquisition of Narragansett will diminish Narragansett’s electric facilities used to furnishing service to Rhode Island ratepayers.

Advocacy Section witness Booth identifies three specific ways in which approval of the Transaction would likely result in the degradation of electric service to the public: (1) an inadequate transition plan; (2) a demonstrated inability to meet Rhode Island’s planning obligations; and (3) the absence of a plan for advanced metering and grid modernization. We review each below.

1. PPL has not demonstrated that it can ensure safe, reliable electric service in Rhode Island within two years.

Petitioners admit that PPL will be unable to operate Narragansett’s facilities independently upon consummation of the Transaction. In place of PPL management, Petitioners have proposed that National Grid continue to perform many important utility

99 Southern Union at 52.
functions pursuant to a two-year Transition Services Agreement (“TSA”). The importance of the Agreement cannot be overstated. Absent the TSA, PPL cannot ensure safe, reliable service to Narragansett customers. But neither the Petition, nor Petitioners’ testimony in support of it, satisfy the burden of demonstrating that PPL will be able to operate Narragansett independently by the end of the transition period.

In place of concrete plans, the Petition offers only the vague assertion that two years is enough time for PPL to develop all the systems, processes, and expertise needed to safely and reliably operate Narragansett’s facilities. Witness Booth testified that Petitioners’ unsupported promises were unrealistic. Drawing on extensive and direct experience with multiple utility mergers, witness Booth testified that transitions “have taken many years and, in some areas, nearing a decade to complete.”\(^\text{100}\) And the uniqueness of this Transaction underscores the concern that the transition will be challenging. As explained by Mr. Booth:\(^\text{101}\)

\[\text{[t]his is unlike previous mergers or acquisitions that the Division has approved or I have seen. For decades, National Grid has worked to integrate Narragansett into the regional system. The majority of the staff, technologies and business processes that provide service in Rhode Island are part of the National Grid system. The provision of those services on a shared basis with other National Grid utilities in the region has produced significant benefits for Rhode Island and its customers. Approval of the Transaction would unravel all of that integration work, making Narragansett a standalone utility in New England, with the ability to share services only with utilities far off in Pennsylvania and Kentucky.}\]

\(^{100}\) Booth Surrebuttal Test. at 5:6-7.

\(^{101}\) Booth Direct Test. at 6:17 – 7:4.
After the Petition was filed, Petitioners produced in discovery a more detailed plan for how they intend to transition responsibility from National Grid to PPL. Mr. Booth conducted an extensive analysis of that plan, reviewing “118 services over 180 functional areas to be transitioned.”102 Based on this evaluation, witness Booth included as part of his testimony an extensive exhibit demonstrating, category-by-category, the services that Mr. Booth has determined likely cannot be transitioned to PPL within two years along with his basis for each such conclusion.103 In his testimony, witness Booth elaborated on the bases for his conclusion that some of the most important transition functions cannot be completed within two years:

- Building major facilities in Rhode Island and transferring Supervisory Control and Data Acquisition (“SCADA”) system support from Northborough, MA will include design and construction of “software and infrastructure for 105 substations, 83 of which are interconnected to [National Grid’s] SCADA system and [Energy Management System],”104 as well as “conversion and re-routing of all the communications facilities,”105 Given that the “studies just to determine the appropriate software and communications protocols can take a year or more,”106 completing the transition within two years is unrealistic.

102 Booth Direct Test. at 23:12-15.
103 Id., Ex. B.
104 Booth Direct Test. at 25:16-17.
105 Id. at 25:19-20. Mr. Booth explained at trial that the SCADA system is “the supervisory control and data acquisition system. That’s the system that allows the utility to look at its substations at breaker and operate the system and that’s a key component to operations.” Tr. 181:10-15 (Dec. 15, 2021).
Transitioning the Shared Telecom Network likely cannot be completed in two years, given that the necessary studies will take at least twelve months and then the transition “must be done in a slow coordinated manner which avoids communication interruptions.”

Transitioning the Distribution Pole Attachment program within two years is unrealistic, given that even National Grid took longer than that to implement its existing pole attachment agreement with Verizon.

Because National Grid and PPL maintain different materials and construction standards, any transition function that involves those standards (e.g., supply chain master data management, strategic procurement, inventory management, asset management and planning, transmission asset, engineering and design, maintenance strategy, and training) cannot be fully completed until the standards are integrated, which could take more than three years.

Petitioners do not acknowledge, let alone refute, Mr. Booth’s thorough analysis. In place of engaging with the facts he presented for more than thirty categories of transition functions, they accuse him of “offer[ing] no concrete support for his allegations that it will be necessary to continue Service Company services beyond 24 months.” As shown, that contention is meritless.

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107 Id. at 27:7-8.  
108 Id. at 27:9-12.  
109 Id. at 23:18 – 24:21.  
110 Kelly and Willey Rebuttal Test. at 28:14-16.
Recognizing that they had failed to satisfy their burden in their direct or rebuttal cases, Petitioners modified their proposal to enable the extension of the TSA if necessary to complete the successful transition to PPL.\textsuperscript{111} Petitioners also committed to provide the Division with semi-annual reports on the status of the transition.\textsuperscript{112} But an extension and a reporting requirement fail to cure a fundamental, structural problem with the proposed arrangement. National Grid has no incentive under the TSA to continue providing the same level of service to Narragansett for three, five, or even ten years into the future rather than prioritizing the needs of its customers in Massachusetts and New York.\textsuperscript{113} Moreover, since the TSA is between PPL and National Grid, the Division has no direct enforcement mechanism to ensure National Grid (no longer a franchise holder) continues to provide the same level of service to Rhode Island customers. In short, and even with the new Commitments, the arrangement fails to give the Division the necessary assurance that PPL will be able to operate Narragansett’s electric facilities safely, reliably, and without degradation.

Mr. Booth proposed that National Grid establish a $200 million financial escrow account, which is aimed at addressing the inherent “incentives” problem under the proposed arrangement.\textsuperscript{114} Funds from that escrow account would be released by the escrow agent back to National Grid upon notification from the Division that all services identified in the TSA have been successfully transitioned to PPL. Such an escrow commitment would

\begin{itemize}
\item \textsuperscript{111} Petitioners’ Supplement to Statement of Existing and Additional Commitments at 2.
\item \textsuperscript{112} \textit{Id}.
\item \textsuperscript{113} See Oliver Direct Test. at 64:11-19.
\item \textsuperscript{114} Booth Surrebuttal Test. at 5:10-19.
\end{itemize}
create an incentive for National Grid to comply with the terms of the TSA, and—more importantly for purposes of this Transaction—would give the Division greater confidence that National Grid will perform at a level consistent with the maintenance of high quality and reliable utility services.

Requiring the establishment of such an escrow is supported by direct and relevant precedent. When National Grid sought permission from the New Hampshire Public Utilities Commission to sell Granite State Electric Company and EnergyNorth Natural Gas to Liberty Utilities, National Grid entered into a transition services agreement with Liberty to provide services “until operations are fully transferred to Liberty Energy NH and assistance from National Grid USA is no longer needed.”\(^{115}\) New Hampshire Staff found the proposal inadequate to ensure National Grid’s full and continued commitment to a smooth transition, and recommended, among other things, “the payment of a percentage of fees earned under the TSAs to a publicly-administered escrow account until the transaction is completed, and the posting of a performance bond payable to the State of New Hampshire in the event of non-performance.”\(^{116}\) National Grid agreed to strengthen its commitment by establishing a $28.5 million “escrow account that will be administered by an independent escrow agent, with funds to be released by the escrow agent upon receipt of notification from Staff.”\(^{117}\) The New Hampshire Commission found that the escrow


\(^{116}\) Id. at 11.

\(^{117}\) Id. at 16.
commitment, along with other commitments, “adequately address the concerns raised in this proceeding.”118

The concerns that led to establishment of the escrow in the Granite State transaction apply at least as strongly in this proceeding. Without additional protections, the proposed TSA fails to ensure Rhode Island customers will get at least the same quality of service if the Transaction is approved. In fact, as Mr. Booth testified at trial, it is “more likely than not” that services will be diminished:119

because we won’t have this large service company of National Grid any longer. We’re going to have this local control approach of a much smaller utility and that’s going to come from PPL and I guess Kentucky Utility so it’s going to come from several states away.

2. **PPL has not demonstrated that it can meet its obligations under state law to perform Infrastructure, Safety, and Reliability planning.**

The Division may not approve this Transaction without first assuring itself that PPL can continue to operate Narragansett in compliance with all applicable laws and regulatory obligations. One such obligation is to conduct the annual ISR planning process. Narragansett must establish its annual capital plan, along with major multi-year projects and programs, through the ISR process, which provides for collaboration with the Division and other stakeholders as well as approval by the Commission.120 The resulting ISR plan “typically accounts for more than $100 million in annual capital spending.”121 Mr. Booth

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118 *Id.* at 37.
119 Tr. 201:3-9 (Dec. 15, 2021).
120 Booth Direct Test. at 28:9-18.
121 *Id.* at 28:14-15. Mr. Booth testified at trial on the scope of the costs recouped through the ISR process:
also pointed out at trial that ISR plan costs are not recouped through base rates. He explained that they are:  

part of a statute that has an annual adjustment. So all of those costs that have already been borne by the ratepayers and any future costs will flow through the ISR plan with no stay of that cost whatsoever, and that’s true of all the capital costs under the ISR plan and the operating costs under the ISR plan.

He went on to confirm that the ISR program covers the infrastructure needed to guarantee safety and reliability on the distribution system. Mr. Booth explained:

[i]t’s the cost for infrastructure, it’s the cost to accommodate safety, so damage failure and other issues like that, and it’s the cost for reliability, so grid modernization additions, anything for reliability, so that would be asset condition and the like. That’s all accounted for in the budget of the ISR plan on an annual basis and then on an annual basis as those dollars are spent, as that capital is put into service, that then goes into rates as separate line items. I think there’s roughly four separate line items in the rates for that.

the plan covers customer extensions, governmental issues, asset condition, additions, substation transformer additions, change-out, new substations, a mobile substation or spare transformer is going to flow through the ISR plan. If those spares and mobiles exist in Massachusetts and can be relied on for back-stand in Rhode Island, Rhode Island is benefiting from not having to bear all that cost, but if new equipment has to be duplicated for Rhode Island standing alone, the ratepayers are now going to have to bear that cost. And so I mean, from my perspective, if the ISR plan has been running at about 103 million and under PPL it jumps to 150 or 200 million, that’s an enormous impact on the ratepayers.


122 Id. at Tr. 174:1-8.
123 Id. at 177:20 – 178:24.
124 Id. at 177:24 – 178:13.
The ISR is thus an essential and complex planning process that has evolved over many years “from a reactive and short-term maintenance program to a comprehensive, long-term plan focused on strategic investments to manage day-to-day safety and reliability.”\textsuperscript{125} To implement the requirements of the ISR planning process each year, Narragansett relies on many groups and 89 different staff members at National Grid’s Service Company.\textsuperscript{126}

The Area Studies are performed by National Grid corporate engineers and may also utilize external consultants. Inputs to the studies rely on data sets and evaluation performed by other corporate groups, including, [sic] but not limited to, those associated with development of long-term load forecasting (including distributed energy resource projections, electric vehicle charging, Energy Efficiency, etc[.]), transmission planning, environmental, major asset condition assessments, capital project estimations, and economic development. Many long-term maintenance programs in the ISR-Plan are informed by reliability data and field conditions that are gathered at an operational level but evaluated at the corporate level. Operations and construction personnel ultimately implement planning projects subject to corporate oversight. In short, distribution planning relies on a range of resources.

Given that the ISR is such a central regulatory obligation—and one that cannot currently be fulfilled without significant time and resources from the National Grid shared services company—PPL bears the burden to demonstrate it will have the capability to take on these responsibilities by the end of the transition period. PPL has failed to do so.

Petitioners try to minimize the complexity and uniqueness of Rhode Island’s ISR requirements. PPL Witness Bonenberger leans heavily on PPL’s “substantial experience” in making utility investment decisions, and asserts that ISR is “sufficiently similar” to

\textsuperscript{125} Booth Direct Test. at 30:11-13.

\textsuperscript{126} Id. at 32:14 – 33:8.
PPL’s other planning processes, such that PPL will be prepared to engage in Narragansett’s ISR process. In other words: PPL is a big international company that can handle Rhode Island’s little planning process. That dismissive attitude demonstrates that PPL underestimates the challenges of stepping into the ISR process that has taken National Grid, the Division, and the Commission many years to develop, and “is far more complex and robust than anything PPL . . . [currently] performs.”

Petitioners also attempt to assure the Division that PPL will hire National Grid’s Vice President of New England Control Centers and its Director of New England Electric Performance and Planning, both of whom Petitioners claim have experience with the ISR Plan. But that misses the point: the ISR process requires far more than a couple executives who were involved several years ago. Petitioners have not presented a specific plan to replicate the multi-department organizational infrastructure that is necessary to meet Rhode Island’s regulatory requirements.

3. The transaction has already delayed, and if approved will further delay, Narragansett’s grid modernization plan and advanced metering rollout.

Deploying advanced meters and modernizing Narragansett’s distribution system are essential components of Rhode Island’s policy objectives. Under National Grid’s ownership, Narragansett has already developed plans to execute those two essential programs. Those plans are now suspended. And if the Transaction is approved,

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127 Bonenberger Rebuttal Test. at 13:8 – 14:10.
128 Booth Direct Test. at 36:15-16.
129 Kelly and Willey Rebuttal at 26:4-18.
130 Booth Direct Test. at 48:13 – 49:19.
Narragansett will not submit a new plan for another twelve months.\textsuperscript{131} Under National Grid’s proposal, Rhode Island customers would have received the benefits of advanced meters by 2023.\textsuperscript{132} If the Transaction is approved, Rhode Island likely will not get advanced meters until at least 2025.\textsuperscript{133}

PPL would jettison all of the work that Narragansett has already done, and “most if not all of [the] revenue already received from the Rhode Island ratepayers will no longer be going toward anything used and useful.”\textsuperscript{134} Worse, Narragansett customers will lose the cost-savings synergies of implementing the programs alongside New York. As Mr. Booth explains, “the tremendous AMF benefits which would accrue to Rhode Island from shared engineering and facilities and operations from National Grid New York initially, and then later New York and Massachusetts, will be lost.”\textsuperscript{135} Mr. Booth also expresses concern that customers may be on the hook for stranded investment costs.\textsuperscript{136}

These adverse—and unmitigated—impacts on ratepayers are plainly contrary to the public interest. But even if PPL could guarantee ratepayers will not be harmed, the delay in developing and implementing new advanced meter/grid modernization plans means that Rhode Island will certainly not receive advanced meters and other grid modernization benefits this year, and likely will not receive those benefits in the following two years. By

\textsuperscript{131} Petitioners Statement of Existing and Additional Commitments at 7, Commitment No. 13.
\textsuperscript{132} Advocacy Section Ex. 17, Sch. KPK/SL-1 (Docket No. 5113), at 104.
\textsuperscript{133} Assuming PPL files its proposals in March 2023 and it takes a year for stakeholder review and Commission approval, followed by an eighteen month deployment period. Cf. Advocacy Section Ex. 15 (showing National Grid’s proposed timeline).
\textsuperscript{134} Booth Direct Test. at 49:13-15.
\textsuperscript{135} Id. at 49:15-18.
\textsuperscript{136} Id. at 49:18.
contrast, if National Grid retains ownership—or PPL were to commit to implement the pending Grid plans at no additional cost to customers—then Rhode Island could receive equivalent benefits with less of a delay. Thus, during this multi-year delay period, service to Rhode Island customers will be diminished under PPL’s ownership, contrary to the requirements of Section 39-3-24.

**B) PPL lacks sufficient expertise to operate Narragansett’s gas system safely, reliably, and at reasonable cost.**

Advocacy Section witness Bruce Oliver details in his pre-filed and hearing testimony the adverse impacts that approval of the Transaction will have on Narragansett’s gas operations, rates, and by extension, gas customers. He concludes: “PPL’s acquisition of Narragansett’s gas utility operations offers no incremental value to Rhode Island and the state’s gas utility customers,” nor will customers benefit from “any improvements in service reliability or service quality that would result from the Transaction.” PPL’s claims to the contrary are just that—assertions that are not backed by concrete promises or persuasive evidentiary showings. As Mr. Oliver observes, “PPL’s proposals in this proceeding make no commitment to overall lower costs for Narragansett at any point in the future,” and “no explicit claims of synergy savings are presented by the Petitioners, and no proposals for sharing synergy savings with Narragansett customers have been outlined.”

The record compiled in this proceeding demonstrates the correctness of Mr. Oliver’s finding that “the Transaction should be expected to result in a loss of economies of scale, an erosion of gas purchasing efficiency and effectiveness, redundant transition

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137 Oliver Direct Test. at 4:1-2, 5-7.
138 Oliver Surrebuttal Test. at 37:15-17, 38:1-3.
period costs, and increases in the overall costs of Narragansett’s natural gas service to Rhode Island customers.”139 These adverse impacts are directly relevant to the statutory findings that the Division must make if the Transaction is to be approved. On this record, and as concerns post-Transaction gas operations, the requisite “no impact” findings cannot be made.

The reasons why this is the case are two-fold. First, the shift to a new owner will require a gas operations reinvention from the ground up. This is because “Narragansett’s gas utility operations do not presently constitute ‘stand-alone’ operations.”140 Under National Grid’s ownership:141

[...] most of the management employees supporting Narragansett’s gas operations are based in other jurisdictions (i.e., New York and Massachusetts). As a result, there is a dearth of experience in gas utility management, forecasting, and planning personnel resident in Rhode Island. There are also indications that PPL will incur increased costs to attract and retain experienced management and engineering personnel for Rhode Island’s comparatively small operations.

Based on these facts, Mr. Oliver correctly observes that “approval of the proposed Transaction would require the development of both new facilities and a new team to plan, manage, and operate Rhode Island’s gas utility system.”142

Second, PPL has not shown that it is up to the task at hand. Record evidence demonstrates that there are serious and unaddressed concerns regarding the depth of PPL’s

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139 Oliver Direct Test. at 4:3-7.
140 Id. at 5:16-17 (emphasis in original).
141 Id. at 4:16-22.
142 Id. at 6:1-3.
experience and expertise with respect to the design, construction and operation of liquefied natural gas (“LNG”) facilities. Mr. Oliver observes that gas distribution services are not part of PPL’s “core business.” 143 At present, “PPL’s only gas utility operations are part of its Louisville Gas and Electric Company (“LG&E”) subsidiary.” 144 He goes on to explain that the LG&E gas system is geographically distant from Narragansett, meaning that “there are at best limited opportunities to share employees between LG&E and Narragansett’s gas utility operations.” 145 And the characteristics and needs of the LG&E and Narragansett systems differ greatly: 146

Rhode Island operates in a capacity constrained gas market which is essentially at the end of the interstate pipeline system, and it is heavily dependent upon [LNG] to meet design peak day and design peak hour service requirements. By contrast, LG&E is located midstream with access to two major interstate gas pipelines (i.e., Texas Gas Transmission and Tennessee Gas Pipeline), and uses underground storage, as opposed to more expensive LNG alternatives, to meet its peak demand requirements.

LG&E’s operations track record likewise does not instill confidence in PPL’s ability to operate the Narragansett system safely. As witness Oliver explains: 147

LG&E’s gas utility operations in Kentucky have reported significantly higher frequencies of hazardous gas leaks over the last five years than have been reported for Narragansett’s gas system in Rhode Island. In particular LG&E’s hazardous leaks on service lines (the elements of the system closest to customers) have been substantially above those for Narragansett. Such higher leak rate experience must not be allowed to degrade the safety and quality of service for

143 Id. at 17:14 – 18:3.
144 Id. at 5:1-2.
145 Id. at 5:3-4.
146 Id. at 5:5-11.
147 Oliver Direct Test. at 10:12-19.
Rhode Island’s gas operations. LG&E’s track record does not support a finding that PPL can be expected to provide improved customer service in Rhode Island.

PPL focuses on only a portion of Mr. Oliver’s criticisms, but fails to rebut even what it chooses to address. The company says that Mr. Oliver is wrong about LG&E’s leaks, claiming that the comparison is a mismatch in that the greater numbers of gas leaks on the LG&E system is due to its comparatively larger customer base and number of service lines.148 PPL’s argument is meritless. Mr. Oliver’s data already account for size differences; he converted raw Pipeline and Hazardous Materials Safety Administration data into measures of hazardous leaks per 100 miles of gas mains and hazardous leaks per 1,000 services installed. In fact, PPL’s claim collapsed at hearing, where witness Bellar admitted that his calculations demonstrate that the leak rate on the LG&E gas system is greater than the corresponding rate on Narragansett’s gas system.149

More broadly, PPL has failed to offer sufficient evidence demonstrating “that it has the in-house personnel to safely and cost-effectively manage and operate” the four LNG facilities on which the reliability of service to Narragansett’s customers depends.150 And while PPL has committed to hire qualified personnel, the feasibility of doing so without facing relocation and incentive costs is suspect. As Mr. Oliver explains:151

\[
\text{[f]ew of the National Grid Service Company personnel that currently provide services for Narragansett are based in Rhode Island. Many are based in Massachusetts, and some are based in New York. As Narragansett has the only gas} \\
\]

149 Tr. at 92:6-10 (Dec. 14, 2021).
150 Oliver Direct Test. at 6:18-21.
151 Id. at 37:1-5.
utility operations in Rhode Island, there is not a large pool of persons with gas utility management and engineering experience from which PPL can draw without attracting people from outside the state.

He went on to address this issue at trial:\textsuperscript{152}

I would note that while the company represents it’s going to be the same people doing the same tasks, that’s not really true because National Grid has been serving Narragansett with a team of professionals, not a few professionals selected out of that team, and although we’ve asked, we were not provided any detail as to what that -- who would comprise that team, what levels of commitments they would have to Narragansett’s activity, and without that information, it’s possible that the persons assigned to the transition for this transaction by National Grid could be lower level people who don’t have the same levels of experience and expertise.

PPL acknowledges that it has an expertise gap with respect to gas operations, and proposes to address it by adding third-party asset management. Specifically, PPL commits in its Commitment No. 5 to address witness Oliver’s concerns by contracting with a third-party consultant with procurement experience in the Northeast and New England markets related to “gas storage, gas pipeline projects, gas and power marketing, LNG, and other energy ventures,” and other “consultancy arrangements with New England-based individuals and former National Grid employees with expertise in gas procurement, hedging, trading, and retail choice programs.”\textsuperscript{153} But this proposal may add more problems than it purports to solve. National Grid’s own experience with third-party management,

\textsuperscript{152} Tr. 152:10 – 153:1 (Dec. 16, 2021).
\textsuperscript{153} Petitioners Statement of Existing and Additional Commitments at 5, Commitment No. 5.
reviewed by Mr. Oliver in his Surrebuttal Testimony, demonstrates that this approach can provide benefits only in limited circumstances. As witness Oliver explains:154

[under Narragansett’s current [Natural Gas Portfolio Management Plan (“NGPMP”)] incentive structure, in-house management of gas assets by National Grid has proven effective in extracting a greater share of overall asset management revenues for the benefit of ratepayers while also providing Narragansett opportunities for incentive compensation over and above its regulated revenue requirement. Moreover, the NGPMP provides these incentives for increased ratepayer and shareholder benefits without exposing Narragansett to significant market risk. Thus, under in-house management of gas assets the levels of ratepayer and shareholder benefit can be expanded during the period through astute asset management.

National Grid and the PUC likewise have found that in-house management of gas assets offers more ratepayer benefits than third-party asset management.155

Worse, as witness Oliver explained at hearing, Commitment No. 5 is “non-specific” and fails to156

address the loss of economies of scale which . . . is a problem that [PPL] will have a very difficult time even attempting to approximate given the comparative size of National Grid’s gas utility portfolio, and we really don’t know who the


155 See, e.g., Advocacy Section Ex. 28, Direct Testimony of Stephen A. McCauley at 5:1-10, RIPUC Docket No. 4038 (Feb. 23, 2009) (explaining National Grid’s position that in-house management would be more beneficial for customers than outsourcing to a third-party asset manager); id. at 6:9-16 (explaining that in-house management of gas assets would enable National Grid to mitigate risks that might be caused by a third-party asset manager’s bankruptcy); id. at 6:19-21 (“National Grid believes that the financial benefits under the NGPMP will be comparable, and potentially could exceed, the financial benefits under a full out-source arrangement.”); Advocacy Section Ex. 29, Narragansett Electric Co., Order No. 19,627, Docket No. 4038, at 8 (R.I. Pub. Utils. Comm’n Mar. 31, 2009) (“The Commission finds that NGrid’s proposal to assume the duties of the third party asset manager in house is in the best interest of ratepayers. The proposal will guarantee ratepayers more than the $1 million they receive from the current arrangement. The transparency of the proposal and the 80% of proceeds realized by the Company to be given to ratepayers will certainly provide them with a better situation than currently exists with third party situation and no transparency.”).

156 Tr. at 149:23 – 150:16 (Dec. 16, 2021).
specific persons will be and what levels of expertise will be available to [PPL] either during the transition period or after the transition period to support determinations in the gas procurement and gas asset management areas. These are very important areas in terms of cost impact to customers that are not part of base rates, that would not be part of any stay-out and must be very carefully considered.

Moreover, as to PPL’s commitment to obtain third-party consultants,\(^{157}\)

\[^{157}\text{Id. at 151:15 – 152:9.}\]

\[^{158}\text{Oliver Direct Test. at 71:10-12.}\]

the extent of the consultant’s involvement and what exactly their responsibilities will be and whether even that one consulting firm will be enough to replace the experience, to replicate the experience and expertise of National Grid in these areas, particularly when it comes to issues of use of financial hedges and to control gas costs and management of gas assets is highly questionable. . . . [W]e need some metrics, some basis for judging whether they have been successful. Just a representation that they’re going to transfer knowledge, very broad representations about transfer of information or bring in various consultants or transfer certain people doesn’t really answer that.

But the evident lack of sufficient—and sufficiently experienced—personnel is only part of the concerns raised by the Transaction. The proposal also poses significant structural issues, which cannot be addressed no matter how expert the gas system manager. The removal of Narragansett from the National Grid family of companies—and its shift to a structure in which Narragansett is its corporate parent’s only New England operation—will result in the loss of bargaining power in the gas supply markets. Because “the New England market is at the end of [] most of the pipelines that serve the region, and Rhode Island is at the very end of the pipelines from which it obtains gas deliveries,” Narragansett faces limited gas supply options.\(^{158}\) If it becomes a stand-alone purchaser of natural gas
and gas delivery services with relatively small gas supply requirements, Narragansett will face a substantial loss of the bargaining strength it once had as part of the much larger National Grid gas procurement portfolio.\footnote{id. at 72:6-13.}

And while PPL witnesses Kelly and Willey assert that PPL can manage Narragansett’s Canadian gas assets as effectively as National Grid, they do so while failing to “address the comparatively small size of Narragansett’s Canadian assets and the impact on bargaining power of removing those assets from the larger National Grid gas asset portfolio.”\footnote{Oliver Surrebuttal Test. at 20:5-7.} Narragansett’s smaller portfolio will “limit a third party asset manager’s flexibility and increase the costs of managing the portfolio per dekatherm (“Dth”) of gas managed.”\footnote{id. at 20:7-9.} While “[a] larger portfolio can provide a third party asset manager more flexibility, expectations of greater asset management revenue, and opportunities for greater profit potential per Dth of gas managed,” Narragansett’s reduced portfolio will “yield lesser benefit for Narragansett and its gas customers than the current arrangement.”\footnote{id. at 20:9-15.} PPL has offered no evidence rebutting these sound observations.

PPL has likewise failed to offer any plans or assurances regarding two key supply issues raised by Mr. Oliver: (1) the replacement of the Cumberland LNG tank; and (2) the lack of a long term solution for peaking supply on Aquidneck Island. Both matters are central to the maintenance of gas supply reliability in Rhode Island. Witness Oliver explains that the “transition to PPL ownership” does not provide “assurance of continuity

\footnotesize{
159 id. at 72:6-13.
160 Oliver Surrebuttal Test. at 20:5-7.
161 id. at 20:7-9.
162 id. at 20:9-15.
}
in the planning, design, and construction of those important service reliability-related projects.”

The concerns are not resolved by National Grid’s provision of services during the Transition Period, as there are no metrics applicable to National Grid’s performance under the TSA, and a substantial risk that services to Narragansett will be diminished during that time. As witness Oliver explained, “[f]or most of the specified TSA tasks, such performance measures are either non-existent or presented in such terms that National Grid may exercise considerable discretion in terms of how tasks are executed and who is assigned to perform specific tasks.” In fact, there is “no assurance that each task will be performed by experienced and well-qualified personnel. Nor is there any assurance that qualified personnel will necessarily be available to provide advice on critical matters.”

Mr. Oliver goes on to explain why this is a credible concern, commenting that once the Transaction is completed, “National Grid USA Service Company will be operating with a reduced staff as a result of significant transfers of personnel to PPL Rhode Island, but it will need to continue to provide services for four other larger gas utilities.”

In that context, there is considerable potential for priority conflicts between the performance of TSA tasks and the performance of on-going support functions for National Grid’s gas utility operations in Massachusetts, New York City, Long Island, and upstate New York (i.e., Niagara Mohawk). This is particularly true where the terms of the

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163 Oliver Direct Test. at 6:21 – 7:4
164 Oliver Surrebuttal Test. at 15:1-4.
165 Id. at 15:4-7.
166 Id. at 15:8-10.
167 Id. at 15:10-20.
TSA do not specify who will perform specific tasks. In such situations, less experienced, lower level personnel can be readily substituted for more experienced and expert person without fear of a claim that National Grid has breached its contractual obligations. Regardless of the representations in the Kelly and Willey Rebuttal Testimony, once ownership of Narragansett is transferred to PPL, it will be PPL and not National Grid that will be accountable for Narragansett’s performance.

These many and significant unresolved issues make it impossible for the Advocacy Section to conclude that the Petitioners have provided the requisite and appropriate assurances of continued safe and reliable gas utility services at reasonable cost following completion of the Transaction. And Petitioners’ “Statement of Existing and Additional Commitments” does little to ameliorate these concerns. Notwithstanding the significant concerns that have been raised, and as noted above, only one of the Petitioners’ commitments addresses gas system operations. For the reasons stated earlier, Commitment No. 5 is insufficient to address witness Oliver’s concerns regarding gas operations and procurement. Overall, and for the reasons stated, the Advocacy Section continues to find that there are well-documented and unresolved concerns with PPL’s ability to safely, reliably, and cost-efficiently operate the Narragansett gas system.

CONCLUSION

Petitioners have failed to put forward adequate evidence to satisfy the Division that the Transaction will be consistent with the public interest and not diminish Narragansett’s facilities. Instead of providing concrete and realistic plans to show how PPL will operate Rhode Island’s gas and electric facilities safely, reliably, and efficiently, PPL asks the Division to trust that PPL will figure out how to do that after the Transaction is consummated. Section 39-3-25 requires more. Similarly, Petitioners fail to show that PPL’s
operating model will be as cost effective for ratepayers as National Grid’s. The Petition
does not even attempt to make such a showing. And Petitioners commitments regarding
transition costs are insufficient to hold ratepayers harmless from the costs this Transaction
will produce. Because Petitioners have not met their statutory burden, the Division should
reject the Transaction.

On Behalf of
The Advocacy Section of the Division of
Public Utilities and Carriers

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that I have this day caused the foregoing document to be served upon each person designated on the official service list in this proceeding.

Dated on this 18th day of January, 2022.

/s/ Christy Hetherington
Christy Hetherington