

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

**SURREBUTTAL TESTIMONY OF
MICHAEL R. BALLABAN**

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

DECEMBER 9, 2021

TABLE OF CONTENTS

	<u>PAGE</u>
I. INTRODUCTION	1
II. PURPOSE OF SURREBUTTAL TESTIMONY	1
III. RESPONSE TO PETITIONER REBUTTAL TESTIMONY	2

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) Docket No. D-21-09
Ownership of the Narragansett Electric)
Company to PPL Holdings, LLC and)
Related Approvals)

**SURREBUTTAL TESTIMONY OF
MICHAEL R. BALLABAN**

1

I. INTRODUCTION

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

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

5 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS**
6 **PROCEEDING?**

7 A. Yes.

8 **Q. ON WHOSE BEHALF ARE YOU SUBMITTING SURREBUTTAL**
9 **TESTIMONY IN THIS PROCEEDING?**

10 A. I am submitting surrebuttal testimony on behalf of the Rhode Island Division of Public
11 Utilities and Carriers Advocacy Section (“Advocacy Section”).

12 **II. PURPOSE OF SURREBUTTAL TESTIMONY**

13 **Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?**

14 A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony
15 submitted by witnesses for PPL Corporation (“PPL Corp.”) and PPL Rhode Island

1 Holdings, LLC (“PPL RI”) (together, “PPL”) and National Grid USA (“National
2 Grid”) and The Narragansett Electric Company (“Narragansett”) (together,
3 “Narragansett”), (collectively, the “Petitioners”) in this proceeding.

4 **Q. WHAT TESTIMONY DOES YOUR SURREBUTTAL TESTIMONY**
5 **ADDRESS?**

6 A. I address particular issues raised by Petitioners’ witnesses David J. Bonenberger,
7 Bethany Johnson, Todd J. Jirovec, John J. Reed and Daniel S. Dane relating to (1) the
8 review process for transition costs, (2) the elements of transition costs, (3) the attendant
9 potential impact on customer rates relating to transition costs, (4) the managed cost
10 analysis submitted by PPL during discovery, and (5) certain customer mitigation
11 measures I recommend in my pre-filed direct testimony.

12 **III. RESPONSE TO PETITIONER REBUTTAL TESTIMONY**

13 **Q. WHAT SPECIFIC STATEMENTS MADE BY PETITIONERS REGARDING**
14 **THE REVIEW PROCESS FOR TRANSITION COSTS CONCERN YOU?**

15 A. Statements made by Petitioners in this regard that are of concern include:

- 16 1. “We are confident that the RIPUC, with input from the Division, will effectively
17 manage the ratepayer impact of any such [transition] costs”.¹
- 18 2. “If Narragansett seeks recovery of transition costs on the grounds that the costs will
19 result in incremental benefits to customers, then Narragansett will have to establish
20 how it calculated those incremental benefits and how they arise from the costs such
21 that the proposed benefit justifies cost recovery. This is the typical work of ratemaking.

¹ See Rebuttal Testimony of John J. Reed and Daniel S. Dane at 37:1-2 (“Reed and Dane Rebuttal Test.”).

1 The possibility that such an analysis might be complex is not a reason to require that
2 PPL and PPL RI refrain from seeking cost recovery for any transition costs. The
3 Commission and the Division are experienced and knowledgeable in assessing cost
4 recovery proposals.”²

5 3. PPL will only seek recovery of costs that generate new customer benefits, and
6 therefore the customers will not pay “increased rates solely because of the
7 Transaction.”³

8 4. “The PUC, with the participation of the Division and any interested interveners, will
9 carefully review any request to recover transition costs. The Hearing Officer should
10 have confidence that the PUC and the Division have the experience and the knowledge
11 to conduct this review and reject any speculation to the contrary”.⁴

12 5. PPL “will make a case-by-case assessment as to whether it will seek recovery of any
13 particular transition costs. It will only pursue recovery for those costs for which it can
14 meet its burden to demonstrate the incremental benefits.”⁵

15 **Q. WHY DO THESE STATEMENTS CONCERN YOU?**

16 A. PPL forecasts that it will spend approximately \$408 million on transition-related
17 activities.⁶ This estimate includes a \$332 million investment in new IT systems and
18 operations facilities, most of which is likely to be capitalized. If PPL seeks to include

² See Rebuttal Testimony of Bethany L. Johnson at 18:7-14 (“Johnson Rebuttal Test.”).

³ See Rebuttal Testimony of David J. Bonenberger at 32:12-13 (“Bonenberger Rebuttal Test.”).

⁴ See *id.* at 32:19- 33:2.

⁵ See *id.* at 34:3-5.

⁶ See Bonenberger Rebuttal Test., Ex. B.

1 those costs in rate base in its next rate case, the ratepayer impact (in the form of pre-
2 tax return on rate base and depreciation) will be very significant. PPL claims that it will
3 be entitled to recover those significant costs from ratepayers if it can show some
4 “incremental benefits.” But PPL offers no indication of what incremental benefits the
5 new facilities and IT systems will provide, no guideposts on how this “incremental
6 benefit” standard should be applied, and no examples of how incremental benefits
7 might be measured in any particular instance. It is unclear whether “incremental
8 benefits” would be restricted to quantifiable customer savings supported by a
9 transparent and verifiable cost-benefit analysis or whether “benefits” would be defined
10 more broadly to include intangible benefits, such as those that “relate to new or
11 improved technology capabilities.”⁷ In the context of reviewing this Transaction, given
12 the high stakes for customers, the absence of measurable guideposts or standards
13 against which to assess PPL’s spending renders the “incremental benefits” standard
14 PPL proposes insufficient to assess how the sale may impact ratepayers. And because
15 PPL does not propose to submit a business plan or cost-benefit analysis in advance of
16 making transition cost investments, adoption of its vague cost recovery standard creates
17 a significant risk that customers will pay higher rates because of the Transaction. In
18 the absence of adequate commitments and without clarity regarding the standard to be
19 applied to any proposed recovery of transition costs, I cannot conclude that the
20 Transaction will not adversely affect rates.

⁷ See, e.g., PPL response to DIV 1-42(c) (“PPL and PPL RI do not plan to seek recovery from ratepayers for the costs associated with the GCC that do not relate to new or improved technology capabilities to Narragansett . . .”) A copy of all data responses cited in this testimony are contained in Exhibit B to my direct testimony, *infra*. fn.8.

1 **Q. WHY ISN'T AN AFTER-THE-FACT REVIEW OF COSTS BY THE**
2 **COMMISSION ADEQUATE TO PROTECT RHODE ISLAND CUSTOMERS?**

3 A. While it is true during the ordinary course of conducting a rate case review, the Division
4 and Commission generally permit recovery of period appropriate, reasonable and
5 prudently incurred costs, as I explain in my pre-filed direct testimony, there is every
6 reason to believe that it will be difficult to ascertain whether any transition costs that
7 PPL includes in a rate request meet this standard.⁸ And while the burden of such a
8 demonstration will be on the Company, the undertaking is likely to be complex—
9 especially when the review occurs in hindsight, without any opportunity for the
10 Commission and the Division to have confirmed in advance that PPL's proposed
11 investments are in the best interest of customers.

12 Absent any specific, pre-established and verifiable commitments by the Company
13 regarding transition costs that may be eligible for inclusion in rates, or specifications
14 as to how the incremental benefits approach will be implemented, the process will be
15 fraught with risk that customers may face rate increases higher than if the transaction
16 had not occurred in the first place. This is a risk that results solely from approval of this
17 Transaction, which—if it occurs—will be over the Advocacy Section's objections.
18 And customers will be the parties shouldering that risk absent implementation of the
19 customer mitigation measures recommended in my pre-filed direct testimony (and
20 those identified by other witnesses for the Advocacy Section). Importantly, in addition
21 to a 4-year rate freeze, these include (1) the establishment of a clear framework for

⁸ Direct Testimony of Michael R. Ballaban at 28-30 (Nov. 3, 2021) (“Ballaban Direct Test.”).

1 determining which transition costs are eligible for rate recovery; and
2 (2) implementation of a pre-approved process for evaluating such costs and benefits.

3 Absent these measures, the Transaction should be rejected.

4 **Q. WHAT FRAMEWORK WOULD YOU RECOMMEND FOR DETERMINING**
5 **WHICH TRANSITION COSTS SHOULD BE ELIGIBLE FOR RATE**
6 **RECOVERY?**

7 A. I stated in my direct testimony that PPL has not “identified specific, measurable
8 commitments or metrics concerning which transition costs they may seek to include in
9 customer rates versus those costs that will be absorbed by stockholders.”⁹ PPL’s
10 surrebuttal testimony does not change that assessment. PPL says it can recover costs
11 if it can show some incremental benefit, consistent with the existing regulatory
12 standards.¹⁰ For the reasons I explain above, that standard is not adequate to protect the
13 public interest. I believe that, to avoid adverse rate impact to customers from the
14 Transaction, PPL should commit to not recovering any transition costs in rates unless
15 they can demonstrate that the investments produce verifiable, quantifiable savings that
16 are equal to or in excess of the transition costs. All costs identified in Exhibit B of
17 David Bonenberger’s surrebuttal testimony, and any other costs PPL incurs to integrate
18 Narraganset into the PPL corporate family, should be subject to that cost recovery test
19 to the extent PPL seeks to include them in a future rate case.

⁹ *Id.* at 29:10-12.

¹⁰ Johnson Rebuttal Test. at 11:8-19; Bonenberger Rebuttal Test. at 32:6-13.

1 **Q. YOU MENTION THAT THE COMMISSION AND DIVISON SHOULD HAVE**
2 **THE OPPORTUNITY TO VERIFY ANY RATE ELIGIBLE TRANSITION**
3 **COSTS IN ADVANCE OF SUCH EXPENSES BEING INCURRED. WHY IS**
4 **THAT THE CASE?**

5 A. Because PPL is proposing to spend a large sum of money—estimated to be more than
6 \$400 million—to transition the existing, National Grid-Narragansett corporate
7 structure into a PPL-Narragansett version. If the Transaction is approved, it seems
8 sensible that before the Company makes these investments--which PPL may ultimately
9 ask be included in customer rates—that the Division and the Commission be given an
10 opportunity to examine in detail PPL’s business case and cost benefit analysis to justify
11 such investments. I also note that, should this sale be approved over the Advocacy
12 Section’s objections, the change in operating model described by PPL will likely have
13 a lasting impact on the cost profile of Narragansett and quality of service that customers
14 in Rhode Island experience long after the Transaction is executed and the transition to
15 PPL control is complete. I believe providing the Commission and Division the
16 opportunity to confirm customer interests (inclusive of the hold harmless standard) are
17 robustly protected as the process unfolds rather than in an exclusively retrospective
18 fashion is the best way to ensure PPL delivers on the promises it is making in this
19 proceeding.

20 **Q. WOULD COMMISSION APPROVAL BEFORE THE INVSTMENT IS MADE**
21 **BE AN AUTHORIZATION THAT THE COSTS BE INCLUDED IN RATES?**

22 A. No. Any “pre-approval” by the Commission that the Company can proceed with an
23 investment would not be tantamount to approval to include whatever costs are incurred

1 in rates. Rate recovery would depend upon a later showing by the Company that the
2 costs were prudently expended, and that the investment has resulted in savings to
3 ratepayers that are quantifiable, verifiable, and demonstrable.

4 **Q. CAN YOU PROVIDE A SPECIFIC EXAMPLE WHERE A MECHANISM**
5 **ALONG THESE LINES HAS BEEN USED PREVIOUSLY IN RHODE**
6 **ISLAND?**

7 A. Yes. I am generally familiar with Narragansett's most recent electric and gas base
8 distribution rate filing¹¹ as I was a witness¹² for the Division in that proceeding. While
9 transition costs were not at issue in that case, Narragansett did file for rate recovery of
10 certain information technology¹³ and gas business enablement program¹⁴ ("GBE")
11 costs that it proposed to incur in the period beyond the historic test period used in the
12 filing. I believe selected terms of the settlement approved by the Commission in that
13 proceeding and which concern those items can serve as a useful model here.

14 **Q. PLEASE EXPLAIN.**

15 A. In its initial filing in Docket No. 4770, Narragansett requested rate recovery for the
16 information technology investments noted above as post-test year adjustments since
17 these were prospective charges that fell outside the historic test period. Likewise, the

¹¹ Electric and Gas Distribution Rate Filing, RIPUC Docket No. 4770 (Nov. 27, 2017).

¹² Examining the reasonableness of the Company's proposed revenue requirement.

¹³ See *In re Narragansett Elec. Co. d/b/a Nat'l Grid*, Report and Order No. 23823 at 21, RIPUC Docket No. 4770, *et al.* (May 5, 2020) (describing revenue requirement the Company sought in its 2017 filing).

¹⁴ See *id.* ("multi-year, enterprise-wide, gas-business program that will implement three, inter-related, core operating capabilities (Work Management, Asset Management, and Customer Enablement) necessary to support National Grid's U.S. gas distribution business").

1 Company requested rate relief for gas business enablement costs that extended well
2 beyond the rate case test period.

3 **Q. WHY WOULD THESE EXAMPLES BE RELEVANT TO THE TRANSITION**
4 **COSTS AT ISSUE IN THIS PROCEEDING?**

5 A. These are both instances where the Company filed for rate relief for significant
6 non-routine expenditures in advance of incurring the majority of costs in order to:
7 (1) provide robust, program itemized justification that these investments are in the best
8 interest of customers; (2) provide the expected rate impacts of such programs; and
9 (3) allow all parties the opportunity to vet the programs carefully and in advance to
10 confirm that they were eligible for rate recovery. Given the magnitude of the transition
11 costs likely to be at issue in this merger,¹⁵ I believe it is essential that the Division be
12 given a full and fair opportunity, as in Docket No. 4770, to undertake a review of any
13 transition costs that the Petitioners intend to pursue before the costs are incurred, so
14 expected outcomes can be confirmed in advance to be reasonable and prudent.

15 **Q. WHAT TYPES OF INFORMATION WAS FILED IN DOCKET NO. 4770 TO**
16 **SUPPORT THE PLANNED INITIATIVES.**

17 A. Along with itemizing rate impacts, Narragansett filed robust evidence for the
18 initiatives, including their expected cost, and both the qualitative and quantitative
19 benefits expected to accrue as a result of implementing each of the programs, inclusive
20 of specific customer financial savings. No such information has been provided or
21 offered in this proceeding.

¹⁵ See Bonenberger Rebuttal Test., Ex. B.

1 **Q. EARLIER, YOU MENTIONED THAT ELEMENTS OF THE SETTLEMENT**
2 **APPROVED BY THE COMMISSION IN REGARDS TO THESE REQUESTS**
3 **CAN SERVE AS A USEFUL MODEL FOR THE TRANSITION COSTS**
4 **WHICH ARE THE SUBJECT OF YOUR DISCUSSION HERE. PLEASE**
5 **EXPLAIN.**

6 A. The Commission approved settlement required the company to file quarterly reports
7 for both Gas Business Enablement and Cyber Security and IS Technology
8 Modernization. “The report will address the status of the Gas Business Enablement
9 Program and budget, including: (i) a narrative explaining overall program status; (ii)
10 detail on budgets and actual spending; (iii) identification of allocations of costs to the
11 Company; (iv) explanations of variances between budgeted and actual spending;”¹⁶.
12 Further, the settlement stated that “the Company will work with the Division to
13 accommodate more in-depth reviews by the Division, PUC Staff, or the Division’s
14 consultants of the systems associated with [program] during the term of the Rate
15 Plan.”¹⁷

16 **Q. BUT THESE TERMS WERE APPROVED IN THE CONTEXT OF A RATE**
17 **SETTLEMENT THAT INCLUDED AT LEAST A PORTION OF PROGRAM**
18 **COSTS IN CUSTOMER REVENUE REQUIREMENTS. HOW IS THAT**
19 **RELEVANT TO THE TRANSITION COSTS IN THIS PROCEEDING**

¹⁶ See *In re Narragansett Elec. Co. d/b/a Nat’l Grid*, Report and Order No. 2382 app A., RIPUC Docket No. 4770, *et al.* (May 5, 2020) (amended settlement agreement).

¹⁷ See *id.*

1 **WHERE PETITIONERS ARE NOT YET ASKING FOR AUTHORIZATION**
2 **OF RATE RECOVERY?**

3 A. It can serve as a useful model for the types of information that Petitioners should
4 commit to providing to the Commission and Division in advance of making
5 investments that they deem potentially eligible for rate recovery and when the
6 Company actually seeks recovery. In both cases—transition costs being discussed here
7 and the programs I note above from the prior rate case—the dollars at issue are very
8 significant and have the potential to have a substantial impact on customer rates. And
9 the rate implications of authorizing the sale of Narragansett Electric from National Grid
10 to PPL remain unknown, largely due to potential collateral impacts of the transition
11 costs needed to facilitate the transaction. I suggest if the sale is approved despite the
12 Advocacy Section’s objections, the most prudent course of action¹⁸ is to require PPL
13 to file robust documentation with the Commission before these investments are
14 finalized. PPL’s proposal—that these questions be handled after-the-fact—should be
15 rejected. A hindsight review will present the challenge of potentially undoing
16 investment decisions that PPL has already made. While the Commission and Division
17 can certainly disallow costs they deem imprudently spent, making an after-the-fact
18 showing likely will not yield an equitable outcome for customers since the focus will
19 be on investments already in-service. The opportunity to influence the decision process
20 that drove those results will have passed.

¹⁸ This is in addition to the other customer mitigation measures I recommend as well as those identified by other the Advocacy Section witnesses.

1 For example, PPL has indicated that certain functions that are currently provided by
2 National Grid will be relocated to Rhode Island.¹⁹ While, on its face, the pivot to a
3 greater state-centric focus may yield qualitative benefits for customers, it is unclear
4 how the cost-benefit analysis to effectuate these changes will be made and what the
5 expected rate impacts will be. It is unfair to allow the Commission and the Division
6 only a retrospective window into the financial and operational decision-making process
7 that was made to execute both the separation process and changes to the delivery
8 model. In this circumstance, it will be much more effective to have robust engagement
9 about these critical issues before the money is invested, as Narragansett did in Docket
10 No. 4770 with regards to GBE and its technology modernization program.

11 **Q. WHAT MIGHT A PRE-COST INCURRENCE SUBMISSION LOOK**
12 **LIKE?**

13 A. In the context of potential transition costs, that pre-cost incurrence submission should
14 include, at minimum: (1) a justification for the planned expenditure; (2) cost estimates
15 for the expenditure demonstrating that PPL sought cost-efficient proposals through a
16 competitive process (or that it intends to do so); and (3) an estimate of expected cost
17 savings that will result. Once costs have been incurred and PPL is seeking to recover
18 those costs through rates, PPL should then submit to the Commission a cost recovery
19 proposal that demonstrates that the expenditure yields demonstrable, quantifiable, and
20 verifiable savings that exceed costs by a significant amount.

¹⁹ See PPL's response to DIV 1-54. These include customer contact and back office functions, electric dispatch and control room operations, gas control and dispatch functions, gas and electric training operations and miscellaneous service company functions.

1 **Q. PLEASE ADDRESS THE MS. JOHNSON’S COMMENTS CONCERNING**
2 **YOUR RECOMMENDED CUSTOMER MITIGATION MEASURES.**

3 Ms. Johnson dismisses the need for the all three customer mitigation measures I
4 recommend.²⁰ Her position should be rejected. I regard the measures I have
5 recommended as a bare minimum set of the elements that are needed to protect
6 customers during and immediately following the transition period.

7 **Q. PLEASE EXPLAIN.**

8 A. First, Ms. Johnson rejects my suggestion of a rate freeze. Her only reason for taking
9 that position is that “[w]henver Narragansett files its next base distribution rate case,
10 it will be proposing rates based on its costs to operate Narragansett and will not be
11 seeking to set rates based on any increased costs that arise because of the transition.”²¹

12 The statement that no increase will be sought until PPL thinks one can be justified is
13 not responsive to my concern. Given that the Company has not given any indication of
14 when it intends on filing a distribution base rate case and that she and other Petitioner
15 witnesses have indicated that the Company will consider filing for recovery of
16 transition costs on a case-by-case basis, it is reasonable to assume that the Company
17 may seek to file a base rate case at any time during or immediately following the
18 transition period.

19 I have proposed a rate freeze because it will prevent PPL from seeking a rate hike prior
20 to the availability of a twelve-month test period reflecting revenue requirements under

²⁰ See Johnson Rebuttal Test. at 20:1-7, 21:3-22:2.

²¹ See *id.* at 20:4-7.

1 PPL's exclusive control. PPL says that it can operate Narragansett more cost-efficiently
2 than National Grid has done. The only way to determine if this can indeed be
3 accomplished is to allow PPL a reasonable period to operate the Company, and then to
4 evaluate the results after the fact via review of a historical test period. My
5 recommended minimum four-year freeze period from the date of ownership transfer
6 from National Grid to PPL should provide sufficient time for costs to stabilize and offer
7 the Commission and the Division a reasonable view of Narragansett's post-transaction
8 cost structure. If PPL is allowed to file sooner, it will be almost impossible to conduct
9 the requisite analyses because stabilized, post-transaction data will not be available—
10 which poses unwarranted risks for Narragansett customers. At the same time, I note
11 that the proposed rate freeze addresses solely that portion of distribution costs collected
12 in base rates—meaning that it affords only partial protection.

13 Additionally, Ms. Johnson rejects my recommendation that PPL be required to pre-file
14 accounting documentation in advance of the submission of a rate case. As I stated in
15 my pre-filed direct testimony, these procedures are important because they can have a
16 material impact on how and when operating expense and capital costs are reflected in
17 ratemaking revenue requirements. If adopted, my proposal would require the
18 Company to file (1) robust documentation demonstrating how the transition from
19 National Grid to PPL ownership is likely to impact customer rates, and (2) key
20 accounting documentation regarding cost allocation, capitalization policy and any
21 changes contemplated to depreciation rates. Incorporating these customer mitigation
22 measures into the processes I recommend for transition cost recovery above can allow

1 for the Commission and Division to protect the public interest by influencing rate
2 outcomes before investments are made and costs are incurred.

3 **Q. WHY IS THIS CONCEPT SO IMPORTANT?**

4 A. Customer rates are established in Rhode Island based on revenue requirements for a
5 historical Test Year, normalized to reflect a representative twelve-month level of
6 revenue and expenses for that period, and then adjusted for certain known and
7 measurable pro forma items. Consequently, when PPL seeks to file a distribution base
8 rate case, the costs it will include mostly reflect charges that have already been
9 incurred. Under this structure, the Company's post-closure decisions on modifications
10 to the existing operating model and the attendant cost impacts those decisions will have
11 on customer revenue requirements are likely to have largely occurred by the time the
12 case is filed. These measures, along with establishing a sufficient stay out period,
13 should provide the Commission and Division with an opportunity to verify that the
14 Company's changes are in the best interest of customers before the transition is
15 complete and costs may be included in rates.

16 **Q. BUT ISN'T THE CONCERN THAT DOLLARS ARE SPENT FIRST AND**
17 **RECOVERED LATER PART OF THE CURRENT RATEMAKING**
18 **REGIMEN IN RHODE ISLAND?**

19 A. Yes. This same backward looking vs. real-time review tension exists today for the
20 majority of operating costs eligible for inclusion in customer revenue requirements,
21 regardless of whether the Transaction were to be approved. But the scope of customer
22 cost implications that result from sale of Narragansett Electric are, potentially, much
23 greater than a typical rate case as evidenced by the \$408 million estimate of transition

1 costs cited by Mr. Bonenberger. Consideration of customer mitigation measures that
2 help reduce this risk are essential elements in evaluating whether the Transaction
3 should be approved. My suggestions are intended to accomplish that risk-reducing
4 objective, providing customers some protections while allowing the Company the
5 opportunity to pursue rate recovery in those instances where it believes that doing so is
6 justified.

7 **Q. DO YOU HAVE ANY COMMENTS ON STATEMENTS MADE BY PPL'S**
8 **WITNESSES ADDRESSING THE MANAGED COST ANALYSIS**
9 **SUBMITTED AS SUPPLEMENTAL RESPONSE TO ADVOCACY SECTION**
10 **DATA REQUEST 1-54?**

11 A. Yes, Petitioners' witness Todd J. Jirovec states that my concerns about the managed
12 costs analysis submitted by PPL during discovery are unfounded and that the
13 "comparison of managed operating costs provides a basis to compare the operating
14 model differences between PPL and National Grid USA resulting from the change in
15 control."²²

16 **Q. DO YOU AGREE WITH HIS CLAIM?**

17 A. No, I do not. As I note in my pre-filed direct testimony, return on and of rate base is a
18 very significant component of Narragansett Electric's revenue requirements, but is
19 virtually ignored by the analysis Mr. Jirovec cites. Indeed, as my earlier testimony
20 indicates, the totality of these transition costs (pre-tax return on rate base and
21 depreciation) likely exceeds total "managed costs" as defined by the Petitioners. As I

²² See Rebuttal Testimony of Todd J. Jirovec at 15:15-17.

1 noted above, Petitioners acknowledge that transition costs will be very significant.
2 Indeed, Mr. Bonenberger provides an estimate of transition costs by function as Exhibit
3 B to his rebuttal testimony, which shows that transition costs relating to new IT systems
4 and Rhode Island operating facilities comprise more than 80 percent²³ of estimated
5 transition costs, or greater than \$330 million. While the Company does not indicate
6 what portion of these costs it will seek to recover from customers, given the nature of
7 the charges involved a significant portion that are deemed eligible for rate recovery are
8 likely to be capitalized and, therefore, includable in rate base. Therefore, for purposes
9 of demonstrating total revenue requirement impacts to customer, it is not sufficient to
10 focus almost exclusively on expense items. Instead, it is necessary to consider both
11 capital and expense items to obtain a more accurate picture of customer impacts.

12 **Q. IN REGARDS TO REPLACEMENT OF EXISTING SYSTEMS THAT**
13 **RESULT DIRECTLY FROM THE TRANSACTION, IS THERE ANY OTHER**
14 **CLAIM MADE BY THE PETITIONERS YOU WISH TO DISPUTE?**

15 A. Yes. Messrs. Reed and Dane indicate that my statement that “customers will be paying
16 twice when systems are replaced”²⁴ is incorrect. I disagree with their assessment.

17 **Q. PLEASE EXPLAIN.**

18 A. While it is true that any new systems placed in-service as a result of the Transaction
19 will presumably have longer service lives than the remaining lives of the assets that are

²³ See Bonenberger Rebuttal Test., Ex. B. IT new systems implementation and RI operations facilities comprise \$332M of total estimated transition costs of \$408M.

²⁴ Reed and Dane Rebuttal Test. at 36:10-11.

1 being replaced, in the short-term, customer revenue requirements may, in fact, increase
2 due to this accelerated replacement cycle.

3 **Q. WHY IS THAT?**

4 A. As I stated in my pre-filed direct testimony, if any asset that is partially depreciated is
5 replaced with a new asset, net plant in service eligible for rate base treatment will
6 increase. If new assets have the same functionality as those they replace, then operating
7 expenses will likely remain unchanged. Required return on and of net plant—meaning
8 invested capital inclusive of stockholder equity—will increase in the immediate term
9 with little offsetting decrease in other expenses. Upward pressure on customer revenue
10 requirements will result. Only after the replacement assets are sufficiently
11 depreciated—such that net plant in service for these capital items approximates the
12 level exactly before Transaction closing—will customers become indifferent.

13 **Q. BUT, AGAIN, HIGHER CUSTOMER REVENUE REQUIREMENTS WILL**
14 **ONLY TRANSLATE TO HIGHER RATES IF THE COMMISSION**
15 **AUTHORIZES COST RECOVERY, CORRECT?**

16 A. Yes, this is true. However, PPL has not indicated when it plans to file its next
17 distribution base rate case after Transaction closing. If the Company files its next case
18 such that these higher costs are captured in the test year and/or rate year revenue
19 requirements before a levelized state with the pre-Transaction net asset base can be
20 achieved, customers will be asked to fund a rate increase that, at least partially, results
21 directly from the Transaction. It is in this sense that I made the earlier statement that
22 “customers will be paying twice” when systems are replaced.

23 **Q. CAN YOU PROVIDE AN EXAMPLE TO DEMONSTRATE THIS CONCEPT?**

1 A. Yes. Mr. Bonenberger has indicated that there is estimated to be approximately \$315
2 million of transition costs for new IT systems. While no information is provided as to
3 what portion of these costs that will be capitalized, for simplicity sake let's presume
4 that the entire investment is treated as capital. We are also not told if these new systems
5 are like-for-like replacements for existing National Grid technology or will feature
6 enhanced functionality. Again, for simplicity purposes, assume they are like-for-like
7 replacements. Existing customer rates likely include the return on and of capital for
8 the \$315 million of IT systems currently in-service. And, for example purposes, if
9 these systems were only 50 percent depreciated at the time of Narragansett's most
10 recent rate case, that means 50 percent of the cost, or approximately \$158 million, on
11 a net basis, is included in rate base.²⁵ Consequently, existing rates include not only
12 depreciation of the existing value of in-service IT investments, but also pre-tax return
13 on the 50 percent of net IT plant remaining in-service.

14 Once the transaction closes, then assume that PPL spends the estimated \$315 million
15 to replace the existing systems in the first year of transition. During year two of
16 transition, absent a stay out provision, the Company may elect to file a rate case. In
17 that case, the historic test period that would become the basis for any rate request would
18 be the prior year, or year one of the transition. Given that these IT systems are newly
19 in-service, there would be very little historic depreciation, so most of the \$315 million
20 in investment would result in a dollar for dollar increase in rate base. Where formerly,

²⁵ I note that we do not know the original or depreciated value of National Grid's existing IT systems. This poses a particular problem, because when PPL files before the Commission, PPL may not have a sufficiently robust data set to demonstrate the cost of the system it decided to replace especially since much of the IT investment from National Grid USA is recorded on Narragansett's books via service company rents.

1 only 50 percent of the costs on a net basis was added to rate base, now nearly 100
2 percent is included. As a result, rate base would be higher than it otherwise would have
3 been if the transaction had not taken place. I add that the gap is likely even greater
4 because if Narragansett remained under existing National Grid ownership and had filed
5 a rate case, the existing IT systems remaining service life would have continued to
6 diminish so net IT plant eligible for inclusion in rate base would have continued to
7 decline.

8 **Q. BUT, IN THIS EXAMPLE, AREN'T CUSTOMERS ALSO GETTING THE**
9 **BENEFIT OF NEWER TECHNOLOGY?**

10 A. That benefit may be hard to quantify, but presumably, yes. In the near-term, rates are
11 also higher than they would otherwise be due to the higher value of plant in-service.
12 At some future point, National Grid's existing IT systems would have needed
13 replacement. And, it is only then, if the Company filed a rate case to capture the
14 replacement cycle, that higher customer rates may have resulted than under my
15 example above.

16 **Q. IS THERE ANY OTHER COMMENT YOU WOULD LIKE TO MAKE**
17 **ABOUT THIS EXAMPLE?**

18 A. Yes. My admittedly simplistic example does not address the economies of scale that
19 Narragansett enjoys through leverage of National Grid's centralized approach to IT
20 investment. Much of Narragansett's cost for IT is incurred through service company
21 rents, where Narragansett is allocated only a portion of charges for investments that
22 also serve other National Grid USA utilities. PPL will have to invest in new stand-
23 alone technology that serves Narragansett exclusively. Therefore, on a proportional

1 basis, much of the cost efficiency that Narragansett and its customers currently enjoy
2 will be lost. Not only will higher customer rates likely result from an accelerated
3 technology replacement cycle, but the cost efficiency of such new investment will be
4 greatly diminished as costs will be spread among only Narragansett customers and not
5 the much larger customer base of National Grid USA.

6 **Q. FINALLY, MESSRS. REED AND DANE NOTE THAT PPL'S COMMITMENT**
7 **THAT TRANSITION COSTS WILL BE RECOVERED FROM CUSTOMERS**
8 **ONLY WHERE PPL CAN DEMONSTRATE THAT THERE IS AN**
9 **INCREMENTAL BENEFIT FROM THE INCURRENCE OF THOSE**
10 **COSTS.²⁶ DOES THIS STATEMENT ADDRESS YOUR CONCERNS?**

11 A. No. Routinely, when filing a rate request, the burden is always on the Company to
12 demonstrate prudence. And, an important element of that demonstration is addressing
13 the trade-off between increased costs associated with incremental investments and the
14 expected attendant benefits. Exhibit B to Rebuttal Testimony of Mr. Bonenberger
15 provides a long list of IT systems that will need to be replaced as a result of the
16 transaction. Yet, PPL has not provided any detailed business plans concerning how it
17 intends to (1) undertake this significant task, (2) evaluate the attendant rate impacts,
18 and (3) justify the investment using a cost-benefit analysis. We also know from this
19 exhibit that the costs of these replacement systems will be in excess of \$300 million.
20 If these investments provide "incremental benefits" as PPL claims, we have not been
21 provided any details regarding their scale or timing. Further, as I indicated earlier, Ms.

²⁶ See Reed and Dane Rebuttal Test. at 36:16-37:1.

1 Johnson dismisses the need for the all three customer mitigation measures I
2 recommend. So, we are left with a black box of transition costs and generalized
3 statements about what standard will be used to determine which of these costs the
4 Company deems eligible for rate recovery. In my opinion, these statements²⁷ the
5 Company frames as commitments are, in fact, obligations that always apply in
6 ratemaking and, consequently, lack the sufficiency of detail to address my real concern
7 that approving this Transaction may result in higher customer rates than would
8 otherwise be the case. As I explained above, a better approach would be to ensure that
9 the standard applied to evaluate transition costs is well-defined and workable and to
10 enable review by the Commission and the Division prior to the incurrence of such
11 costs. Assuming Commission approval is given, ultimate rate recovery should depend
12 upon a later showing by the Company that the costs were prudently expended, and that
13 the investment has resulted in savings to ratepayers that are quantifiable, verifiable, and
14 demonstrable.

15 **Q. DO ANY OF THE OBSERVATIONS YOU NOTE ABOVE HAVE AN IMPACT**
16 **ON YOUR RECOMMENDATION REGARDING THE PETITIONER'S**
17 **PETITION?**

18 A. No. As I stated in my original testimony, evaluation of the public interest standard
19 requires that I consider whether ratepayers will be held harmless from cost increases
20 that would not have occurred but for the Transaction. Given that Petitioners have not
21 offered any commitments that demonstrate that customers will be insulated from the

²⁷ See, e.g., Johnson Rebuttal Test. at 13:12-20, 14 1:2, 16:6-20.

1 potentially substantial cost implications of this Transaction, I cannot confirm that
2 separation from National Grid does not negatively impact Narragansett's retail revenue
3 requirements, and consequently, customer rates. Therefore, I continue to recommend
4 that the Petitioners' Petition be rejected.

5 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

6 **A. Yes.**