

**STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS
89 JEFFERSON BOULEVARD
WARWICK, RHODE ISLAND 02888**

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 : Docket No. D-21-09
Electric Company to PPL Rhode Island :
Holdings, LLC, and Related Approvals :

REPORT AND ORDER

1. Introduction

On May 4, 2021, PPL Corporation (“PPL”), PPL Rhode Island Holdings, LLC (“PPL Rhode Island” or “PPLRI”)(together, "PPL"), National Grid USA (“National Grid USA”) and The Narragansett Electric Company (“Narragansett” or “NEC”)(together, "National Grid" or "Narragansett") (collectively, the “Petitioners”) filed a joint petition (“Petition”)¹ with the Rhode Island Division of Public Utilities and Carriers (“Division”) seeking the approval of the Division for authority to transfer ownership of Narragansett to PPL Rhode Island. The Petition also contained requests for certain other related approvals, *infra*. The Petitioners also respectfully requested that the Division issue its ruling “by no later than November 1, 2021.” The instant petition was filed pursuant to the regulatory requirements contained in R.I. Gen. Laws §§39-3-24 and 39-3-25 and 815-RICR-00-00-1.13.

In furtherance of starting the process of adjudicating the petition request, the Division established and published a filing deadline of June 25, 2021, for all

¹ Joint Exhibit 1.

motions to intervene in the docket. After receiving timely motions to intervene from a number of interested entities, and after conducting a hearing on the motions on July 15, 2021, the Division issued a decision on August 19, 2021 through which the current parties of record were authorized to participate in this docket.² The intervening parties include the Rhode Island Department of Attorney General (“Attorney General” or “AG”), the Rhode Island Office of Energy Resources (“OER”), the Acadia Center (“Acadia Center”); Green Energy Consumers Alliance, Inc. (“Green Energy”); and the Conservation Law Foundation (“CLF”). The Division’s Advocacy Section, an indispensable party, also entered an appearance in this docket.

After addressing the intervention issues, the Division next met with the parties at a pre-hearing conference on September 9, 2021, for the purpose of establishing a procedural schedule. An initial procedural schedule was adopted by agreement of the parties at that conference. The adopted procedural schedule targeted February 25, 2022, as the date for a final decision in this docket rather than the November 1, 2021, date initially proposed by the Petitioners.

The Division conducted four duly noticed public hearings on the Petition, on December 13 through 16, 2021. The hearings were held at the Division’s hearing room located at 89 Jefferson Boulevard in Warwick. The following counsel entered appearances:

² See Order No. 24109. The Division also notes that it subsequently denied motions for reconsideration that were filed by Direct Energy Business, LLC, Direct Energy Business Marketing, LLC, Direct Energy Services, LLC, Reliant Energy Northeast, LLC and XOOM Energy Rhode Island, LLC (collectively, the “NRG Retail Companies”) (See Order No. 24179, issued on September 8, 2021); and Energy Development Partners, LLC (“EDP”) (See Order No. 24231, issued on September 22, 2021).

For Narragansett and
National Grid USA:

Robert J. Humm, Esq.,
Cheryl Kimball, Esq., and
Jennifer Brooks Hutchinson, Esq.

For PPL and
PPL Rhode Island:

Gerald J. Petros, Esq. and
Adam Ramos, Esq.

For the Attorney General:

Nicholas M. Vaz, Esq. and
Tiffany A. Parenteau, Esq.
Special Assistants Attorney General

For the Division's Advocacy
Section:

Christy Hetherington, Esq. and
Leo J. Wold, Esq.

For CLF:

Margaret Curran, Esq. and
James Crowley, Esq.

For the Acadia Center:

Henry Webster, Esq.

For Green Energy:

James G. Rhodes, Esq.

For OER:

Albert J. Vitali, Esq.³

2. The Petitioners' Direct Case

The Petition filed in the instant case is divided into ten (10) sections, that address the following topics:

- A. Petition for Authority to Transfer Ownership of Narragansett to PPL Rhode Island and Related Approvals;
- B. The Petitioners;
- C. Terms and Conditions of the Transaction;
- D. Transition of Narragansett's Utility Service;

³ Although OER intervened in this proceeding, it never appeared at the hearings or participated in the proceeding in any way.

- E. The Transaction is Consistent with the Public Interest;
- F. Stockholder Approval;
- G. Narragansett's Corporate Charter;
- H. Narragansett's Tariffs;
- I. Timing; and
- J. Conclusion.⁴

The Petitioners rely on the information provided in these many sections to support their request for authority to transfer ownership of Narragansett to PPL Rhode Island. At the conclusion of these sections, the Petition also contains supporting pre-filed testimony from four witnesses, *infra*.

A. Petition for Authority to Transfer Ownership of Narragansett
to PPL Rhode Island and Related Approvals;

In accordance with the regulatory requirements contained in R.I. Gen. Laws §§39-3-24 and 39-3-25 and 815-RICR-00-00-1.13, the Petitioners seek approval from the Division for PPL Rhode Island's purchase of 100% of the outstanding shares of common stock in Narragansett from National Grid USA (the "Transaction"). The Petitioners relate that the Transaction will occur pursuant to the terms and conditions of the Share Purchase Agreement ("Agreement" or "SPA") entered into as of March 17, 2021, by and among PPL Energy Holdings, LLC ("PPL Energy Holdings"), National Grid USA and PPL.⁵ After the Agreement was

⁴ Petitioners' Exhibit. 1, pp. 2-15.

⁵ Id., p. 2.

executed, PPL Energy Holdings assigned its rights under the Agreement to acquire Narragansett to PPL Rhode Island, its wholly owned subsidiary.⁶

The Petitioners also address the standard for approval under R.I. Gen. Laws §39-3-25, *supra*, which they acknowledge, requires that “*the facilities for furnishing service to the public will not thereby be diminished [by the Transaction] and... the terms [of the Agreement and Transaction] are consistent with the public interest.*” The Petitioners assert that facts and supporting testimony in the instant petition “*satisfies this standard and that the Division should consent to and approve the Transaction.*”

B. The Petitioners

The Petition identifies Narragansett as a ‘public utility’ as defined under R.I. Gen. Laws §39-1-2(20). Narragansett provides electric transmission and distribution service and natural gas distribution service to approximately 780,000 Rhode Island customers. National Grid USA owns 100 percent of Narragansett’s common stock.⁷

The Petition identifies PPL Rhode Island as a wholly-owned, indirect subsidiary of PPL. Through its subsidiaries, PPL provides electric distribution service to 2.5 million customers in Pennsylvania and Kentucky, and natural gas distribution service to more than 300,000 customers in Kentucky. Additionally, one of PPL’s subsidiaries, owns and operates Western Power Distribution (“WPD”), which is the largest electric distribution utility in the United Kingdom, serving approximately 8 million customers. According to the Petition, PPL has earned

⁶ Id., pp. 2-3.

⁷ Id., p. 4.

customer satisfaction and performance awards for its use of “*smart-grid technology to (1) improve reliability and resiliency; (2) reduce the number and duration of service interruptions; (3) facilitate the integration of renewable energy resources; and (4) deliver outstanding customer service.*”⁸

The Petition identifies National Grid USA as an indirect, wholly-owned United States subsidiary of National Grid plc, a public limited company organized under the laws of England and Wales. National Grid USA, through subsidiaries, owns regulated electric and gas distribution utilities in Rhode Island, Massachusetts, and New York. National Grid USA also owns the New England Power Company (“NEP”), a regulated transmission utility, which physically operates the transmission assets that Narragansett owns in Rhode Island.⁹

Due to fact that the Transaction involves the purchase and sale of shares of Narragansett’s common stock, the Petitioners seek consent for approval of the Transaction under R.I. Gen. Laws §39-3-24(3).¹⁰

C. Terms and Conditions of the Transaction

Under the Agreement, PPL Rhode Island will purchase all of National Grid USA’s equity interests “*in cash at closing, and its purchase... is not contingent on obtaining any financing.*” The Petition also, indicates that the PPL Rhode Island and National Grid USA have agreed to make an election under section 338(h)(10)

⁸ Id.

⁹ Id., pp. 4-5.

¹⁰ Id., p. 5.

of the Internal Revenue Code to have the Transaction treated as an asset sale for federal tax purposes.¹¹

If the Transaction is approved, Narragansett will continue to own and operate its assets and maintain all of its franchise rights for the provision of electric and gas distribution in Rhode Island. The only change will be that the management and control of Narragansett will shift from National Grid USA to PPL Rhode Island. Narragansett will also continue to own the electric transmission facilities that NEP operates in Rhode Island on Narragansett's behalf; the Transaction does not impact ownership of facilities in Rhode Island owned by any other National Grid USA subsidiaries; PPL Rhode Island or one of its affiliates will substitute for National Grid USA in providing guarantees for Narragansett's financial obligations.¹²

With respect to Narragansett's current employees, the Petitioners do not expect any employment or wage changes "*for at least 12 months following the closing of the Transaction.*" The Petition reflects further that PPL or one of its subsidiaries also expects to extend employment offers to certain employees of National Grid USA and/or its affiliates who provide services to Narragansett. The collective bargaining agreements with Narragansett's union employees will also remain in effect.¹³

¹¹ Id.

¹² Id., 5-6.

¹³ Id., pp. 6-7.

D. Transition of Narragansett's Utility Service

The Petitioners relate that during the regulatory approval process and transition period, National Grid USA, and PPL Rhode Island plan to work collaboratively and cooperatively to continue the safe and reliable operation of Narragansett's utility services. Post-closing, the Petitioners plan to cooperate under a Transition Services Agreement ("TSA"), which will be designed to facilitate the operation of Narragansett immediately after the closing and during the transition period. The Petitioners emphasize that *"Narragansett's assets and employees, when taken together with the services to be provided under the TSA, will fully enable Narragansett to conduct its business in all material respects in the same manner and on the same terms as currently conducted."*¹⁴

Under the TSA, the Service Company will provide certain services for Narragansett to maintain consistency of operations while PPL migrates and integrates those services into its systems and operations. It is expected that while some services will transition immediately, others may take up to two years to fully transition. The Petition reflects that PPL will *"devote substantial resources and time to Narragansett's operations and Rhode Island generally as it brings its forward-leaning focus to the delivery of electric and gas service in the state."* PPL also offers assurances that Narragansett will have a Rhode Island-based President with responsibility for Narragansett's operations and the necessary authority at PPL to ensure that Rhode Island has the resources and support to meet the needs of its customers. PPL further commits to Narragansett having a dedicated Rhode

¹⁴ Id., pp. 7-8.

Island-based Vice President of Gas Operations responsible for Rhode Island’s gas distribution operations. Additionally, PPL agrees to invest in Narragansett’s electric and gas infrastructure to enhance safety, reliability, and customer satisfaction for Rhode Island customers.

Based on these commitments, the Petitioners contend that the Transaction satisfies the criterion that *‘there will be no degradation of utility services after the transaction is consummated.’*¹⁵

E. The Transaction is Consistent with the Public Interest

Relying on a 2006 Division decision, which addressed a similar R.I. Gen. Laws §39-3-24 petition filing, the Petitioners argue that the Transaction is consistent with the public interest because *“it will result in no net harm to the general public.”*¹⁶ As additional support, the Petitioners assert that *“PPL’s other regulated utilities have a demonstrated track record of delivering best in class electric and gas utility service to their customers, winning 54 J.D. Power awards for residential and business customer satisfaction in the U.S. alone.”* The Petitioners add that *“PPL’s U.K. electric distribution networks consistently rank among the U.K.’s best performing utilities from a customer satisfaction perspective.”*¹⁷

PPL states that through prudent investment in and implementation of smart grid technology, its regulated utilities have reduced service interruptions significantly over the past decade. As an example, PPL claims that its Pennsylvania electric utility, PPL Electric Utilities Corporation (“PPL Electric

¹⁵ Id., pp. 8-9.

¹⁶ Id., p. 9; citing from Order No. 18676, issued in Docket No. D-06-13.

¹⁷ Id., pp. 9-10. The Petitioners proffered an exhibit that provides examples of industry recognition PPL has received (Appendix A to Petition).

Utilities” or “PPL Electric”), has avoided more than one million customer outages since 2015 due to these investments. PPL commits to bringing its experience in modernizing electric grid infrastructure to Narragansett.¹⁸

PPL maintains that it manages its regulated utilities “*efficiently and effectively.*”¹⁹ As an example, PPL notes that PPL Electric Utilities saw no increase in its operations and maintenance costs between 2011 and 2020, which PPL states translates into lower electric rates for its customers. At the same time, PPL asserts that PPL Electric Utilities “*is making meaningful capital investments to improve safety, reliability, and resiliency, all of which have driven economic growth in its service territory.*” PPL states that it plans to bring this streamlined operational focus to Narragansett.²⁰

Regarding gas services, PPL relates that it has successfully managed its LG&E gas distribution system in Kentucky through an aggressive gas main replacement program to eliminate cast iron and bare steel pipes throughout its gas network. PPL says it is now working on replacing older gas service lines in its network and is ahead of where most of the industry is with such replacement programs. PPL contends that its strategy has reduced leak rates, eliminated water intrusion, increased operating pressures, and introduced more valves into its system, while at the same time, maintaining lower gas costs to its customers when compared to the other major gas utilities in Kentucky. PPL asserts that its

¹⁸ Id., p. 10.

¹⁹ Id.

²⁰ Id.

experience and expertise in this area will benefit Narragansett's gas distribution business.²¹

The Petition also reflects that PPL provides its employees with year-round training in order to promote a "*strong safety culture*." PPL expects to bring this same safety culture to Narragansett.²²

PPL also supports a clean energy future and recognizes that utilities play a major role in delivering a clean economy. In support of this claim, PPL notes that it has adopted a clean energy strategy that relies on investments in renewable energy, reductions in energy use, fleet vehicle electrification, enabling third party decarbonization through its transmission and distribution networks, and advancing research and development of clean energy technology necessary to achieve net-zero. PPL says it has experience using its smart grid technology "*to integrate significant renewable energy generation through distributed energy resources and will bring this experience to Narragansett.*"²³

PPL also relates that it views diversity, equity and inclusion as a strategic imperative that enhances customer insight and fuels innovation and growth. In support of this view, PPL employs embedded diversity, equity and inclusion managers in its regulated utility companies that oversee efforts and monitor progress.²⁴

²¹ Id., pp. 10-11.

²² Id., p. 11.

²³ Id.

²⁴ Id., pp. 11-12.

PPL adds that it is also “committed to giving back in other ways and building strong communities in the areas it serves as part of its corporate strategy.”²⁵ PPL relates that its investments support diversity, equity and inclusion, equitable education, economic and workforce development, health and safety, sustainable local community projects, capacity building for nonprofits, and COVID-19 relief. PPL explains that it makes its charitable donations to the PPL Foundation in support of these commitments.²⁶

Finally, PPL relates that it will not seek to recover any acquisition premium or transaction costs in customer rates. PPL also plans to “coordinate” with the Division to determine “the appropriate time to file a new base distribution rate case that will reflect operations of Narragansett as part of PPL.”²⁷

F. Stockholder Approval

The Petitioners next addressed the stockholder approval provision contained in R.I. Gen. Laws, §39-2-24 (3), which is duplicated, in pertinent part, below:

*Any public utility may merge with any other public utility or sell or lease all or any part of its property, assets, plant, and business to any other public utility, provided that the merger or a sale or lease of all or substantially all of its property, assets, plant, and business shall be authorized by a vote of at least two-thirds (2/3) in interest of its stockholders at a meeting called for the purpose.*²⁸

The Petitioners maintain that because National Grid USA is the sole holder of voting stock shares of Narragansett and owns 100 percent of the shares of

²⁵ Id., p. 12.

²⁶ Id.

²⁷ Id.

²⁸ Id., p. 13.

outstanding common stock to be sold to PPL Rhode Island, no additional stockholder approval is necessary. National Grid USA states that it has taken all necessary corporate actions, including approval by the National Grid USA Board of Directors, to complete the Transaction.²⁹

G. Narragansett's Corporate Charter

The Petition notes that Narragansett was originally incorporated as United Electric Power Company through a special act of the Rhode Island legislature on April 8, 1926. If the Transaction is approved, Narragansett will continue to operate under its corporate charter. The Petitioners maintain that there “*are no changes necessary to that corporate charter as a result of the Transaction.*”³⁰

H. Narragansett Tariffs

Other than a name changes on the tariffs, the Petitioners state that Narragansett's tariffs will not be affected by the Transaction. The Petitioners relate that after the closing, Narragansett will continue to operate under the existing terms and conditions and current base distribution rate plan; amended tariffs, reflecting the name change, would subsequently be filed pursuant to R.I. Gen. Laws §39-3-10(a).³¹

I. Timing

The Petitioners respectfully request that the Division complete its review of the Petition and issue its ruling as early as possible, and by no later than November 1, 2021. The Petitioners explain that this timing is designed to coincide

²⁹ Id.

³⁰ Id., p. 14.

³¹ Id.

with the beginning of the heating season for Narragansett's gas business "*and thus will allow for a smooth transition between the entities for reporting of financial information in 2021 and 2022.*"³²

J. Conclusion

The Petitioners conclude that based on the reasons cited above, the Division's decision should find that the Transaction will not diminish the facilities for furnishing service to the public and is consistent with the public interest. And that based on those findings, the Division should approve the proposed Transaction.³³

K. Supporting Pre-filed direct testimony

In support of their joint petition, the Petitioners proffered four witnesses in this docket. The witnesses were identified as Mr. Vincent Sorgi, President and CEO of PPL Corporation; Mr. Gregory N. Dudkin, Chief Operating Officer of PPL Corporation; Mr. Lonnie E. Bellar, Chief Operating Officer of Kentucky Utilities ("KU") and Louisville Gas and Electric Company ("LG&E"); and Terence Sobolewski³⁴, then President of the Rhode Island Division of the National Grid USA Service Company and then Interim President of the New England Jurisdiction.

³² Id.

³³ Id., p. 15.

³⁴ On October 1, 2021, Mr. Sobolewski was replaced by Mr. Christopher Kelly, who subsequently fully adopted Mr. Sobolewski's pre-filed direct testimony in this docket. National Grid/Narragansett Exhibit 1.

a. Vincent Sorgi

Mr. Sorgi began his testimony with a summary of his educational and professional experience. He related that he has thirty years of experience in the utility industry; with fifteen years at PPL.³⁵

Mr. Sorgi provided a brief reiteration of the purpose behind the filing, consistent with the information provided in the Petition. Additionally, Mr. Sorgi identified the other witnesses being proffered by PPL, along with a brief description of their respective responsibilities within the PPL companies, *infra*.³⁶

Mr. Sorgi next described the PPL entities involved in the Transaction. He started by saying that PPL is a Pennsylvania corporation and one of the largest investor-owned utility companies in the United States. He related that the company has 12,000 employees; serves more than 10.7 million customers in the United States and the United Kingdom; and as of December 31, 2020, had \$7.6 billion in annual revenue, a total asset value of \$48 billion, and a market capitalization of \$21.7 billion.³⁷ He also proudly stated that PPL has received 54 J.D. Power Awards for customer satisfaction. As additional details, Mr. Sorgi testified that PPL delivers more than 133 billion kilo-watt-hours of electricity each year and owns approximately 7,500 megawatts of generation capacity in Kentucky. He added that PPL has seven regulated utility operating companies: LG&E, KU, PPL Electric Utilities, and four distribution network operators in the U.K. under the name Western Power Distribution (“WPD”). Mr. Sorgi also noted

³⁵ Id., Sorgi Testimony (Exh. 1), pp. 1-2.

³⁶ Id., pp. 3-4.

³⁷ Id., p. 5.

that PPL owns PPL Renewables, LLC and Safari Energy, LLC, which build, own, and operate solar and energy storage projects throughout the United States.³⁸

With respect to the PPL's domestic utilities, Mr. Sorgi testified that LG&E and KU operate as generation, transmission, and distribution companies in the states of Kentucky and Virginia. He noted that KU operates under the name of Old Dominion Power Company in Virginia. Mr. Sorgi also noted that LG&E is also engaged in the transmission, distribution, and sale of natural gas.³⁹ He testified that LG&E and KU serve approximately 1.3 million customers and have consistently ranked among the best companies for customer satisfaction.⁴⁰

Mr. Sorgi testified that PPL Electric Utilities provides electric distribution and transmission service to approximately 1.4 million customers in Pennsylvania. Mr. Sorgi related that PPL Electric Utilities also consistently ranks among the best utility companies for customer satisfaction.⁴¹

In the United Kingdom, Mr. Sorgi related that WPD operates an electric distribution network for the East and West Midlands, South West England and South Wales. He related that the company serves approximately 8 million customers, and also consistently achieves high marks for customer satisfaction by a government regulator. Mr. Sorgi testified that under a separate agreement, PPL's affiliate PPL WPD Limited will sell WPD to National Grid plc's affiliate National Grid Holdings One Plc ("National Grid Holdings").⁴²

³⁸ Id.

³⁹ Id.

⁴⁰ Id., pp. 5-6.

⁴¹ Id., p. 6.

⁴² Id., pp. 6-7.

The final PPL entity involved in the Transaction, PPL Rhode Island (a Delaware LLC), is an indirect subsidiary of PPL. Mr. Sorgi testified that PPL Rhode Island will serve as the holding company for Narragansett and will become part of the PPL group of regulated utilities after it purchases 100 percent of Narragansett's common stock.⁴³

Mr. Sorgi next explained why PPL has decided to purchase Narragansett. He explained that the purchase of Narragansett will significantly expand PPL's U.S. presence and "reposition" PPL as an energy company "*focused on building the utilities of the future and supporting the U.S.'s transition to a clean energy future.*"⁴⁴ Mr. Sorgi testified that PPL's decision to sell WPD was based on a strategy to "*simplify PPL's business mix by focusing its operations on regulated utilities in the U.S. and better position PPL for long-term growth and success.*"⁴⁵ Mr. Sorgi added that the decision will "strengthen PPL's balance sheet and enhance its credit profile, providing it greater financial flexibility to invest in renewable energy solutions across the U.S."⁴⁶

With respect to the Transaction's impact on Rhode Island, Mr. Sorgi testified that "*PPL intends to drive compelling value for the customers and communities that Narragansett serves.*" He related that "*PPL plans to leverage its proven track record of operational excellence, award-winning customer service,*

⁴³ Id., p. 7.

⁴⁴ Id., p. 7.

⁴⁵ Id., p. 8.

⁴⁶ Id.

*strong reliability, and cost efficiency by building upon the existing service quality to deliver energy safely, reliably, and affordably to Rhode Island customers.”*⁴⁷

Mr. Sorgi testified that PPL’s knowledge and experience, especially with respect to smart grid technology, will allow the company to “*enhance reliability and customer satisfaction for Rhode Islanders.*” Mr. Sorgi also expressed confidence that PPL will further improve the electric distribution systems’ ability to accept renewable energy resources “*to help fulfill the State’s ambitious decarbonization goals.*”⁴⁸ Mr. Sorgi additionally testified that through its Kentucky operations, PPL also has significant experience in upgrading gas distribution systems and plans to bring that expertise to Rhode Island.⁴⁹

Mr. Sorgi next related that PPL believes that infrastructure investments and a more localized operating model under PPL’s ownership will create jobs and support economic development in Rhode Island. He also testified that PPL will not seek to recover any acquisition premium or transaction costs in customer rates.⁵⁰

Mr. Sorgi next discussed the corporate values that drive PPL’s long-term business strategy. He related that PPL’s success over its 100-year history has been built on strong values. In describing these values, Mr. Sorgi identified six areas of concentration. He testified that PPL does not compromise on safety and health; always provides premium customer service; values diversity, equity, and

⁴⁷ Id.

⁴⁸ Id., pp. 8-9.

⁴⁹ Id., p. 9.

⁵⁰ Id.

inclusion; strives for performance excellence and innovation, believes in integrity and openness; and endeavors to invest in the communities it serves.⁵¹

Mr. Sorgi testified that the Transaction advances PPL's long-term strategy by simplifying PPL's business structure. He explained that selling its United Kingdom utilities and replacing them with the purchase of Narragansett "*removes political, regulatory, and currency risk*" for PPL and its investors. He explained that the Transaction also diversifies PPL's regulated operations in the United States by "*expansion into a jurisdiction with a practical and forward-leaning regulatory environment, one that we believe is constructive.*"⁵² Additionally, Mr. Sorgi reiterated that consistent with PPL's corporate goals, PPL will use the Transaction to "*drive compelling value for the customers and communities that Narragansett serves....*"⁵³

Mr. Sorgi next offered an overview of the Transaction, starting with the basic elements of the Transaction. He related that the purchase price includes an approximately \$3.8 billion cash payment and the assumption by PPL Rhode Island of approximately \$1.5 billion in Narragansett debt; the Transaction's is valued at \$5.3 billion. Mr. Sorgi noted that PPL will use a portion of the proceeds from the sale of WPD to fund the cash payment for the purchase of Narragansett.⁵⁴ Mr. Sorgi testified that no financing will be required to complete the purchase. He also related that the boards of directors for both National Grid USA and PPL have approved the Transaction, and plan to close on the purchase

⁵¹ Id., pp. 9-10.

⁵² Id., p. 10.

⁵³ Id., p. 11.

⁵⁴ Id.

after all the regulatory approvals are received.⁵⁵ Mr. Sorgi reiterated that the Petitioners seek an approval from the Division by November 1, 2021.

Mr. Sorgi also provided some details on the related WPD transaction. He testified that under that separate agreement, PPL's affiliate PPL WPD Limited will sell its U.K. subsidiary holding interests in WPD to National Grid in an all-cash transaction valued at £14.4 billion, including the assumption of approximately £6.6 billion of debt by National Grid Holdings. Mr. Sorgi related that the sale is expected to result in \$10.2 billion in net proceeds to PPL.⁵⁶

Mr. Sorgi next described the other regulatory approvals that are required to complete the Transaction. He related that in addition to approval by the Division, the Federal Energy Regulatory Commission ("FERC") must approve the Transaction pursuant to Section 203 of the Federal Power Act, and the Massachusetts Department of Public Utilities must either issue a waiver of jurisdiction or approve the Transaction pursuant to Chapter 164, Section 96 of the Massachusetts General Laws. Mr. Sorgi testified that the Transaction is also subject to an antitrust review by the Federal Trade Commission and another review by the Federal Communications Commission ("FCC") with respect to the transfer of certain FCC licenses necessary for Narragansett's operations.⁵⁷

Mr. Sorgi also clarified PPL's involvement in the Agreement. He testified that PPL is a party to the Agreement only for the purposes of providing warranties and compliance with all agreements, covenants, and obligations under the Agreement.

⁵⁵ Id., pp. 11-12.

⁵⁶ Id., p. 12.

⁵⁷ Id., p. 13.

He also confirmed that the Transaction does not need to be approved by PPL shareholders.⁵⁸

Mr. Sorgi also testified that the Transaction is contingent on the closing of the sale of WPD to National Grid Holdings and the shareholder approval necessary for that transaction. He expects the WPD closing to take place by the end of July 2021.⁵⁹

Mr. Sorgi also testified that within 60 days after the Transaction closes, the Agreement requires PPL and its affiliates to cease using the '*National Grid*' name or trademarks. He noted that PPL Rhode Island will complete the name change prior to that time.⁶⁰ Mr. Sorgi further testified that when the Transaction closes, Narragansett and National Grid USA Service Company, Inc. ("Service Company") will enter into a TSA designed to ensure that Narragansett continues to operate in a safe and reliable manner during its transition to PPL's systems and processes.⁶¹

Mr. Sorgi next indicated that the Agreement may only be terminated by the parties under limited circumstances. He explained any party can terminate the Agreement if a necessary regulatory approval is denied; if the Transaction does not close by March 17, 2022; upon a breach of the Agreement; if the agreement for the sale of WPD is terminated; or by mutual written consent of the parties.⁶²

Finally, with respect to the current employees of Narragansett, Mr. Sorgi testified that he does not expect the Transaction to negatively impact

⁵⁸ Id.

⁵⁹ Id., p. 14.

⁶⁰ Id.

⁶¹ Id., p. 15.

⁶² Id.

Narragansett's Rhode Island employees. He related that under the Agreement, PPL Rhode Island is required, for at least 12 months following the closing, to provide Narragansett's "non-union employees a base salary or wage rate and annual cash incentive opportunities that are no less favorable than those provided immediately prior to the closing and benefits that are substantially comparable in the aggregate to those currently provided."⁶³ Mr. Sorgi related that the Agreement also contemplates that employment offers will extend "*to certain employees of National Grid USA and/or its affiliates,... who currently provide services to Narragansett.*"⁶⁴ Mr. Sorgi also testified that Narragansett's collective bargaining agreements with union employees will remain in place, subject to effects bargaining with regard to certain arrangements or benefits that are unique to National Grid USA.⁶⁵

b. Gregory N. Dudkin

Mr. Gregory N. Dudkin identified himself as PPL's Executive Vice President and Chief Operating Officer. He testified that he would have the primary responsibility for setting up PPL's Rhode Island operations if the Transaction is approved by the Division. He related that following approval, the President of Narragansett will report directly to him and the Vice President of Gas Operations, who will report to the President of Narragansett, will also work directly with me as necessary.⁶⁶

⁶³ Id., p. 16.

⁶⁴ Id.

⁶⁵ Id., pp. 16-17.

⁶⁶ Petitioners Exhibit 1., Dudkin Testimony (Exh. 2), pp. 1-2.

Mr. Dudkin next described his educational and professional experience. Mr. Dudkin has over 30 years of experience in telecommunications, electric and gas utility operations; he has an undergraduate degree in Mechanical Engineering and a Master's degree in Business Administration. Mr. Dudkin also noted that he serves on the Board of the PPL Foundation, which, he related, "*contributes millions each year to improve the lives of people in the communities PPL serves.*"⁶⁷

Mr. Dudkin related that his testimony describes:

*(1) the qualifications of PPL to successfully operate Narragansett's electric transmission and distribution operations and its gas distribution operations in Rhode Island; (2) the expected impact of the transaction on Rhode Island customers; (3) the plan for the integration and transition of Narragansett's operations from National Grid USA to PPL; (4) PPL's specific plans related to Narragansett's electric businesses; and (5) PPL's plan to contribute to and support the communities served by Narragansett.*⁶⁸

Relying on the relevant statutory legal standard, Mr. Dudkin testified that the proposed Transaction will not diminish or degrade utility service in Rhode Island or harm the public interest. He testified that the Transaction satisfies the legal standard for many reasons. First, he observes that Narragansett will continue to own and operate the same facilities that are currently used to provide electric and gas services to Rhode Island utility customers. He adds that Narragansett will also continue to employ the same field personnel to operate and maintain those facilities.

Second, Mr. Dudkin stresses that PPL is an experienced utility operator with an outstanding track record of achieving high levels of service, reliability, and

⁶⁷ Id., pp. 2-3.

⁶⁸ Id., p. 4.

customer satisfaction. Accordingly, he is confident that PPL can manage Narragansett as successfully as Narragansett was managed by National Grid USA.

Third, Narragansett will continue with the best practices already established by National Grid USA and then incorporate the additional experience and expertise presented by PPL. Mr. Dudkin pointed to PPL's extensive experience using smart grid technology to improve reliability and lower costs.⁶⁹

Mr. Dudkin next focused on PPL's qualifications. After noting that PPL is one of the largest utility companies in the country, Mr. Dudkin related that PPL started as Pennsylvania Power & Light on June 4, 1920, when eight utilities merged into one. The company expanded in 2010 when it acquired KU and LG&E, and again in 2011 when it acquired two electric companies in the United Kingdom, adding to the two electric companies already owned by PPL's U.K. subsidiary, WPD. Mr. Dudkin noted that the acquisition of LG&E added gas distribution operations to PPL's portfolio. Mr. Dudkin testified that through the Transaction and the WPD sale agreement, PPL is now repositioning to be a United States-focused energy company.⁷⁰

Mr. Dudkin testified that PPL has a strong and secure financial position, and that the acquisition of Narragansett and the sale of WPD will make that financial position even stronger. He related that in 2020, PPL's operating revenues were approximately \$7.6 billion, and its net income was about \$1.4 billion; PPL's market capitalization is about \$22 billion.⁷¹ Mr. Dudkin also

⁶⁹ Id., p. 5.

⁷⁰ Id., pp. 6-7.

⁷¹ Id., p. 7.

testified that PPL's total assets at the end of 2020 were about \$48 billion. He also noted that PPL's U.S. utilities have A1 credit ratings from Moody's and A ratings from Standard and Poor's.⁷² He also testified that no financing is required to close on the Transaction, as the Company plans to use cash proceeds from the WPD sale, which is expected to close prior to the Narragansett acquisition.⁷³

Mr. Dudkin next discussed PPL's customer satisfaction awards. He testified that PPL Electric Utilities, in Pennsylvania, has received 28 J.D. Power awards for customer satisfaction; in 2020, PPL Electric Utilities "*ranked highest among large electric utilities in the eastern U.S. for residential customer satisfaction for the ninth year in a row.*"⁷⁴ He also related that "*Escalent awarded PPL Electric Utilities the 2020 Customer Champion of the East Region based on an independent customer survey measuring brand trust, product experience and service satisfaction.*"⁷⁵ Mr. Dudkin additionally sponsored a graph to show that PPL Electric Utilities has again been ranked by J.D. Power as "*best in class in overall satisfaction among residential customers in the East Large segment*" for the first quarter of 2021.⁷⁶

Mr. Dudkin testified that KU also ranked highest in customer satisfaction in 2020 among Midwest Midsize electric utilities for the fifth year and a second year in a row with residential and business customers, respectively. He related that

⁷² Id.

⁷³ Id.

⁷⁴ Id., pp. 7-8.

⁷⁵ Id., p. 8.

⁷⁶ Id.

LG&E ranked fourth in that same survey. Mr. Dudkin testified that in total, LG&E and KU have earned 26 J.D. Power awards.⁷⁷

On ensuring reliability and resiliency, Mr. Dudkin testified that PPL's utilities continuously monitor, maintain, and enhance the reliability and resiliency of transformers, power lines, substations, distribution mains, service lines, and other equipment. Mr. Dudkin related that PPL routinely makes prudent investments to its infrastructure, such as, enhancing cyber security, trimming trees, replacing aging equipment, installing smart grid technology, constructing new lines and substations, installing devices to guard against damage, and assessing flood risks at critical facilities.⁷⁸

Mr. Dudkin related that in September 2020, PPL Electric Utilities "*recorded its one millionth avoided customer outage because of smart grid technology since 2015.*" He also testified that LG&E and KU "*are in the final phase of a \$112 million, multi-year initiative to (1) upgrade their advanced distribution management system, (2) extend their data analysis capabilities; (3) integrate more than 1,500 smart devices on their networks; and (4) deploy a new suite of mobile solutions for field workers.*"⁷⁹ Mr. Dudkin explained that these smart grid investments are used to "*immediately pinpoint the location of power outages and, in many cases, limit the impacted area and automatically restore service for most of the impacted customers.*"⁸⁰

⁷⁷ Id., p. 9.

⁷⁸ Id.

⁷⁹ Id., p. 10.

⁸⁰ Id.

To improve efficiency and performance, Mr. Dudkin testified that last winter, PPL Electric Utilities, “*in partnership with the regional transmission operator PJM Interconnection, LLC (“PJM”), piloted Dynamic Line Rating (“DLR”) sensors on two transmission lines to determine if the devices could provide real-time information on conditions affecting transmission performance to better manage congestion and provide PJM with real-time information to optimize performance and make infrastructure investment decisions.*” He related that the pilot was successful in that it proved that a new or rebuilt line was not needed to manage congestion, “*saving millions of dollars in line rebuilds.*”⁸¹

Mr. Dudkin testified that between 2011 and 2019, customer outages for PPL Electric Utilities’ customers decreased by 30%. He related that in Kentucky, during the same period, customer outages decreased by 19%. Additionally, since 2012, PPL Electric Utilities has reduced its overall transmission outages by 74%. Mr. Dudkin stated that PPL plans to bring its successful systems and processes to Narragansett’s operations in Rhode Island.⁸²

Mr. Dudkin also testified that the reliability and resiliency investments made by the PPL have not significantly increased operational costs and customer rates. As proof, Mr. Dudkin pointed out that PPL Electric Utilities’ operation and maintenance costs in 2020 are substantially the same level they were in 2011. Mr. Dudkin emphasized that PPL Electric Utilities’ rates are 27% lower than the average rates in the Mid-Atlantic region.⁸³

⁸¹ Id., p. 11.

⁸² Id.

⁸³ Id., pp. 11-12.

Mr. Dudkin next spoke about the awards that PPL has received for its innovation. He testified that in 2019, PPL Electric Utilities won the ReliabilityOne Most Improved Utility Award and the Association of Edison Illuminating Companies award for downed wire technology, which he described as a “*solution that automatically cuts power to downed power lines....*” He noted that the Company was awarded a patent for this technology in 2020.⁸⁴

Mr. Dudkin also testified that PPL Electric Utilities won the Smart Electric Power Alliance’s (“SEPA”) Investor-Owned Utility of the Year award in 2019 in response to the implementation of PPL Electric Utilities’ Distributed Energy Resource Management System (“DERMS”). Mr. Dudkin explained that this system dynamically manages distributed energy resources (“DER”) connected to PPL Electric Utilities’ grid to optimize power quality, while encouraging the adoption of DER like solar.⁸⁵

Mr. Dudkin also related that in recent years PPL Electric Utilities has won numerous Electric Power Research Institute (“EPRI”) Technology Transfer awards, which recognize innovators who have applied EPRI research to benefit customers.⁸⁶ Mr. Dudkin added that PPL Electric Utilities was also named ENERGY STAR partner of the year in 2021 by the Environmental Protection Agency and the Department of Energy for its residential energy efficiency programs.⁸⁷

⁸⁴ Id., p. 12.

⁸⁵ Id.

⁸⁶ Id.

⁸⁷ Id., pp. 12-13.

Mr. Dudkin next discussed PPL's commitment to renewable energy and the environment. He testified that there are four main prongs to PPL's clean energy transition strategy:

*(1) enabling third party decarbonization, which includes investing in transmission and distribution networks to allow for large-scale connection of DER and delivery of renewable energy to load centers; (2) furthering research and development by investing in new clean energy technologies to eventually achieve net-zero by 2050; (3) decarbonizing our generation assets in Kentucky and building and acquiring renewable projects across the U.S.; and (4) decarbonizing non-generation operations, including reducing company energy use and emissions associated with our electric equipment and delivery of natural gas.*⁸⁸

Mr. Dudkin testified that PPL's transition to renewable energy resources will require different grid capabilities and data management systems than the traditional energy delivery approach. He related that energy will now come from numerous smaller resources that facilitate two-way power flows. Mr. Dudkin explained that PPL uses smart grid technology to streamline the process to gather data about what is needed to safely interconnect these resources.⁸⁹

Mr. Dudkin testified that PPL's utilities will continue to look for ways to decarbonize further and faster. He noted that in 2020, PPL Electric Utilities partnered with EPRI on research related to energy storage, distribution systems and integration of DER. He also related that LG&E and KU operate Kentucky's largest utility-scale energy storage system and are modeling the financial and reliability impact of adding varying amounts of intermittent solar and wind generation to their network. He also noted that LG&E and KU are also partnered

⁸⁸ Id., p. 13.

⁸⁹ Id., p. 14.

with the University of Kentucky to develop technologies that can capture carbon dioxide from coal generation.⁹⁰

Mr. Dudkin related that PPL is one of 18 anchor sponsors for the Low-Carbon Resources Initiative, launched by EPRI and the Gas Technology Institute, which aims to achieve net-zero in a safe, reliable, and affordable manner from advancements in low-carbon electric generation technologies and low-carbon energy carriers, such as hydrogen, ammonia, synthetic fuels, and biofuels.⁹¹

Mr. Dudkin next discussed PPL's approach to cybersecurity. He explained that PPL governs cybersecurity risk by "*leveraging a Corporate Security Council, which includes executives from its business units and corporate level functions.*" He related that PPL follows industry best practices, control frameworks, and industry standards. Mr. Dudkin testified that PPL continually invests in current and emerging security technologies that help mitigate the risks associated with the latest cybersecurity threats.⁹²

Mr. Dudkin testified that PPL's employees are critical to the success of "*our transition to the utility of the future.*" He related that "*developing, installing, and maintaining this advanced technology requires a highly skilled workforce.*"⁹³ Mr. Dudkin testified that PPL is committed to diversity, equity, and inclusion among its workforce. He identified the following related commitments:

- *Attract, develop and retain a high-performing, diverse workforce;*

⁹⁰ Id., pp. 14-15.

⁹¹ Id., p. 15.

⁹² Id., pp. 15-17.

⁹³ Id., p. 17.

- *Increase diverse representation in leadership roles, with a focus on females and minorities;*
- *Foster partnerships that support the growth and vitality of the diverse communities and customers it serves; and*
- *Develop and sustain relationships with diverse suppliers, vendors and service providers.*⁹⁴

Mr. Dudkin added that PPL has received numerous awards for its employee engagement and inclusion, including Best Place to Work for LGBTQ Equality (2017 to 2021), Best Place to Work for Disability and Inclusion (2019-2020) and multiple awards for support of reservists/National Guard and hiring of veterans.⁹⁵

Mr. Dudkin next discussed PPL's "*workplace*" safety initiatives. He related that such initiatives include: (1) annual safety summits to raise awareness; (2) highly visible injury prevention campaigns; (3) world-class training facilities; (4) an employee safety advocate program; and (5) strict safety requirements for contractors.⁹⁶ Mr. Dudkin also identified a number of "public" safety initiatives, including: (1) electrical safety kits and information for first responders; (2) a traveling '*live-line*' safety exhibit; (3) in-school/virtual safety theater performances; and (4) electrical safety books for kids.⁹⁷ Systems and controls initiatives include: (1) comprehensive safety management systems; (2) a robust pipeline integrity management program; (3) routine inspections; and (4) 24/7 monitoring via

⁹⁴ Id., pp. 17-18.

⁹⁵ Id., pp. 18-19.

⁹⁶ Id., p. 19.

⁹⁷ Id.

centralized control rooms.⁹⁸ Mr. Dudkin testified that PPL will bring these commitments to safety to Rhode Island.

Mr. Dudkin also addressed how PPL contributes to the communities it serves. He related that PPL believes that its success as a company relies on the success of the community it serves. Toward this end, Mr. Dudkin related that PPL has created and supported philanthropic programs in each operating region and has made charitable investments to address community needs. He testified that in 2020, these efforts translated into more than \$12 million in charitable giving.⁹⁹

Mr. Dudkin next addressed how the Transaction will impact Narragansett customers. He testified that there will not be an impact in the short term because PPL and National Grid will implement an integration and transition plan to ensure that the transition and ownership of Narragansett from National Grid occurs seamlessly. However, over time, Mr. Dudkin testified that PPL expects to make meaningful infrastructure investments in the electric grid and gas pipeline system to continue to enhance safety, reliability, and resiliency. These investments will “*reduce service interruptions and increase the capacity to interconnect DER....*” Mr. Dudkin related that PPL will also expand “*customer service operations and functionality.*” Mr. Dudkin also stressed that “*the base distribution rates charged to Narragansett’s customers will not be impacted by the Transaction.*”¹⁰⁰

⁹⁸ Id.

⁹⁹ Id., pp. 19-21.

¹⁰⁰ Id., pp. 22-23.

Mr. Dudkin testified that in the long term, PPL will pursue investments in tandem with achieving operating efficiencies to maintain rates as low as possible. He related that in Pennsylvania, PPL Electric Utilities “has *coupled prudent investments with improved operating efficiency that mitigated electric distribution base rate increases.*” He testified that PPL would leverage that experience to do the same in Rhode Island.¹⁰¹

Mr. Dudkin next discussed the process for transitioning from National Grid USA’s ownership of Narragansett to PPL Rhode Island. He explained that the Petitioners have established teams focused on identifying and implementing the steps necessary to integrate Narragansett into PPL. Mr. Dudkin related that the Agreement includes a requirement that, at closing, Narragansett enter into a TSA with the Service Company under which the Service Company and Narragansett agree to work cooperatively to continue their current relationship for up to two years to ensure a smooth transition.¹⁰²

Mr. Dudkin also provided an overview of the Petitioners' planned integration management process. He testified that PPL named David J. Bonenberger Vice President, Operations Integration and Michael J. Craverly Vice President, Services Integration, to assist him with the integration process. Mr. Dudkin related that Mr. Bonenberger was formerly Vice President of Transmission and Substations for PPL Electric Utilities, and Mr. Craverly was formerly Vice President of Strategic Development for PPL. Mr. Dudkin related that PPL and National Grid USA have assembled a group of officers, managers, and other employees from both

¹⁰¹ Id., p. 23.

¹⁰² Id., p. 24.

companies to plan, execute, and coordinate the business integration and organizational separation efforts for the Transaction.¹⁰³ Mr. Dudkin testified that he leads PPL's Integration Management Office ("IMO") and Dan Davies leads National Grid USA's Transition Management Office ("TMO"). He explained that the IMO and TMO have teams ready to plan and guide the integration effort. Mr. Dudkin related that this governance structure will remain in place through the end of the transition period.¹⁰⁴

Mr. Dudkin also testified that as part of the integration and transition plan, PPL and National Grid USA are working to fully identify and define all the services the Service Company currently provides to Narragansett and which services it will continue to provide under the TSA. As part of this process, Mr. Dudkin stated that lead personnel are evaluating (1) the nature of each service; (2) the manner in which it is currently provided; (3) the capacity for PPL to begin providing each service after closing; and (4) the most effective and efficient way to ensure delivery of the service to facilitate the integration and transition operations. Mr. Dudkin testified that the Petitioners have identified approximately 200 separate services in the following sixteen categories, with an understanding that not all of these categories will be included in the TSA: Accounting; Billing; Customer Service; Electric Operations; Facilities; Gas Operations; Human Resources; Health, Safety, and Environmental; Labor and Union Relations; Legal; Pensions and Other Post-Employment Benefits; Regulatory; Supply Chain; Taxes; Treasury; and Other

¹⁰³ Id., p. 24.

¹⁰⁴ Id., p. 25.

uncategorized services.¹⁰⁵ Mr. Dudkin related that the IMO and TMO are assessing these services to determine (1) whether the service is necessary immediately after closing; (2) if the service is necessary; and (3) the length of time the parties plan to have the Service Company deliver any services it will be providing.

Mr. Dudkin next explained how the Service Company will provide services under the TSA. He related that the Service Company will have a contractual obligation under the TSA to perform each service ‘using the same degree of care and skill as it utilizes in rendering such services for its own Affiliates’ operations....’¹⁰⁶ He testified that under the TSA, the parties have defined the specific services to be delivered, how the Service Company will deliver the service, and the term for providing such services.¹⁰⁷

With respect to the services to be provided for Narragansett’s electric operations, Mr. Dudkin testified that “*on Day 1*” the Service Company will provide many services, including meter data services, mutual assistance for storm response, electricity procurement, engineering, and asset management. He added that PPL will take responsibility for some aspects of the electric distribution business, including management of the electric operating facilities and overhead and underground line and substation operations.¹⁰⁸

Mr. Dudkin testified that the transition period is expected to take approximately two years. He related that during this period, PPL will be actively

¹⁰⁵ Id., pp. 26-27.

¹⁰⁶ Id., p. 27.

¹⁰⁷ Id.

¹⁰⁸ Id., p. 28.

developing its systems and personnel to take over when the transition is complete.¹⁰⁹ He also testified that as part of the integration and transition plan, PPL will be identifying Service Company employees that may be interested in working for PPL after the transition period has ended. Mr. Dudkin noted that a process for hiring of Service Company employees is contained in the Agreement and TSA. Mr. Dudkin also confirmed that the costs paid to the Service Company will not result in increased rates for Narragansett's customers.¹¹⁰

Mr. Dudkin next summarized PPL's plan for Narragansett's electric operations. He testified that PPL would work to integrate Narragansett into its existing operations and make infrastructure investments that will enhance reliability and resiliency.¹¹¹ As an example, PPL plans to deploy the smart grid technology it uses in Pennsylvania to reduce the frequency and duration of service interruptions for Narragansett electric customers. Mr. Dudkin related that this technology can also be used to manage storm responses. He added that crews from Pennsylvania and Kentucky will also be available to assist with Narragansett's storm restoration efforts. Additionally, Mr. Dudkin testified that "*PPL will bring its nimble, forward-leaning operational philosophy to Narragansett to modernize and harden the Rhode Island electric grid....*"¹¹²

With respect to PPL's leadership plans for Narragansett's electric operations, Mr. Dudkin stated that Narragansett's President will be based in Rhode Island and have "*substantial experience in electric operations.*" This person

¹⁰⁹ Id., p. 28.

¹¹⁰ Id., pp. 29-30 .

¹¹¹ Id., p. 30.

¹¹² Id., p. 31.

will also be expected to “*quickly develop a comprehensive understanding of the unique challenges posed by Narragansett’s electric transmission and distribution systems...*” Mr. Dudkin related that this person will also have the necessary authority and work “*directly with me and other members of PPL’s executive team... to ensure that Narragansett...[receives the] resources necessary to provide safe and reliable service to customers in any circumstances.*”¹¹³

Mr. Dudkin also testified that PPL intends to advance grid modernization efforts in Rhode Island to transform the electric grid. He testified that PPL is well positioned to build on Narragansett’s Advanced Metering Functionality (“AMF”) and Grid Modernization Plan (“GMP”) recent filings. He stated that PPL has substantial experience in developing “a modern smart grid” and “*expects to move forward expeditiously after [the] closing...*”¹¹⁴

Mr. Dudkin next testified that PPL has dedicated significant efforts throughout its service areas to integrate various forms of renewable generation. He related that PPL Electric Utilities has greater capacity and ability to interconnect solar generation than most electric utilities. He testified that PPL Electric Utilities uses innovative technology to interconnect and manage DER; he related that 93% of residential customers receive DER application approval within 24 hours. Mr. Dudkin testified that PPL has much experience transforming electric grids to facilitate the interconnection of DER.¹¹⁵

¹¹³ Id., pp. 31-32.

¹¹⁴ Id., pp. 32-34.

¹¹⁵ Id., pp. 34-35.

Mr. Dudkin next shifted his testimony to a discussion on offshore wind generation. He related that although PPL has no experience with offshore wind generation, the Company is committed to supporting the expanding offshore wind industry in Rhode Island. He testified that PPL would continue to work with Narragansett to integrate offshore wind generation into Rhode Island's electric grid.¹¹⁶

Lastly, Mr. Dudkin also talked about PPL's commitment to charitable giving. He testified that PPL would identify and support key charitable organizations in Rhode Island consistent with its current charitable giving commitments in Pennsylvania and Kentucky. He added that PPL also encourages its employees to contribute time and resources to the communities in which they live.¹¹⁷ Mr. Dudkin additionally testified that PPL "*has a robust focus on diversity, equity, and inclusion as part of its corporate culture*" and is committed to bringing that focus to its Rhode Island operations.¹¹⁸

c. Lonnie E. Bellar

Mr. Lonnie Bellar identified himself as the Chief Operating Officer of KU and LG&E. He testified that he is responsible for all KU and LG&E operations, including power generation, energy supply and analysis, electric distribution and transmission, gas transmission, distribution and storage, safety, environmental, and customer service.¹¹⁹

¹¹⁶ Id., pp. 35-36.

¹¹⁷ Id., pp. 36-37.

¹¹⁸ Id., p. 37.

¹¹⁹ Petitioners Exhibit 1., Bellar Testimony (Exh. 3), p. 1.

After providing a description of his educational background, professional experience, and board memberships, Mr. Bellar testified that he has appeared as a witness before regulators in multiple states. He noted that he has offered testimony in many rate cases as well as in the 2010 proceeding before the Kentucky Public Service Commission in the docket in which PPL sought to acquire KU and LG&E. In the instant case, Mr. Bellar related that his testimony is offered in support of the PPL Rhode Island's petition to acquire Narragansett and to speak to PPL's strong capabilities to take over Narragansett's gas distribution operations.¹²⁰

Mr. Bellar testified that LG&E operates nearly 4,400 miles of gas distribution mains and nearly 400 miles of gas transmission mains. He related that from that infrastructure, LG&E provides gas distribution service to more than 300,000 residential accounts, more than 25,000 commercial and industrial accounts, and more than 1,000 governmental accounts in Kentucky. Mr. Bellar also related that LG&E also operates three natural gas compressor stations that allow LG&E to store, process, and transport natural gas from storage to the distribution system. He noted that on a peak day, nearly half of firm sales customers' gas supply is met from this storage system.¹²¹

Mr. Bellar testified that since PPL acquired LG&E's gas operations in 2010, the Company has reduced leak rates and has significantly enhanced safety. LG&E has undertaken a comprehensive and aggressive main replacement program to replace aging gas pipelines with new and more durable materials. Mr.

¹²⁰ Id., pp. 1-3.

¹²¹ Id., p. 4.

Bellar testified that these efforts have resulted in a substantially lower leak rate, the elimination of water intrusion on its pipeline, increased operating pressures and more pipeline valves to better manage the system.¹²² Mr. Bellar also testified that LG&E is currently in the process of replacing 45,000 steel customer service lines and removing approximately 4,400 steel curbed services. He related that the Company is also replacing and modernizing approximately 15.5 miles of its transmission pipeline; and upgrading city gate stations and gas regulation facilities with new valves, piping, and modern regulation and measurement equipment.¹²³

Mr. Bellar also commented on LG&E's "strong safety culture" in its gas distribution operations. He testified that LG&E has developed a "Pipeline Integrity Management Program" that promotes routine pipeline safety inspections and 24/7 monitoring of its gas operations via a centralized control room. He related that LG&E also educates its community partners and the general public about natural gas safety. Mr. Bellar noted that in 2019, LG&E earned the American Gas Association Accident Prevention Award for Safety Excellence.¹²⁴

Mr. Bellar testified that LG&E has also managed its gas commodity costs effectively. He related that the Company's gas cost adjustment rate is below the average of other Kentucky gas utilities. He added that LG&E also focuses on its

¹²² Id., pp. 4-5.

¹²³ Id., p. 5.

¹²⁴ Id.

customer service, noting that in 2019, J.D. Power rated LG&E the top Midwest gas utility in business customer satisfaction.¹²⁵

Mr. Bellar testified that PPL will be prepared to operate Narragansett's gas distribution operations immediately after the Transaction closes. He confirmed that PPL is developing a comprehensive integration and transition plan with National Grid USA to provide a seamless transition. Mr. Bellar testified that the plan specifically covers 20 existing gas operation functions and also addresses dozens of other categories of operations. He explained that the plan contemplates separating the functions into three categories, namely: (1) services that the Service Company will perform on a temporary basis under a TSA until PPL integrates these functions into its operations (i.e., gas control center operations, customer meter support, asset management, gas supply planning and procurement and engineering); (2) services provided by current Narragansett or Service Company employees who will either remain Narragansett employees or become employees of PPL; and (3) services that PPL and its affiliates will be ready to absorb immediately after the closing (i.e., emergency repairs and LNG operations).¹²⁶ Mr. Bellar related that the plan will be in effect for two years, after which, PPL and its affiliates will take over all operations.¹²⁷

Mr. Bellar also testified that PPL acknowledges the importance of having a senior level executive with significant experience running Rhode Island gas operations. Accordingly, PPL plans to have such an executive based in Rhode

¹²⁵ Id., pp. 5-6.

¹²⁶ Id., pp. 7-8.

¹²⁷ Id., p. 8.

Island with the authority to work with the PPL executive team as necessary to ensure that Narragansett's gas distribution system has the resources necessary to provide safe and reliable service.¹²⁸

With respect to Narragansett's current employees, Mr. Bellar testified that Narragansett's gas distribution service employees will remain employed by Narragansett and all collective bargaining agreements will remain in place. He also related that PPL, or its affiliates will extend offers of employment to certain employees of the Service Company and/or National Grid USA.¹²⁹

Mr. Bellar next testified that PPL is reviewing Narragansett's existing Gas Business Enablement Program to determine what elements of the program will be able to be integrated into PPL's operations on an ongoing basis. He explained that such an assessment is necessary because this program is heavily integrated with National Grid USA and the Service Company's back office operations and other National Grid-affiliated companies in Massachusetts and New York. Mr. Bellar stated that PPL may need to modify or replace some of the technological solutions currently available under this program.¹³⁰

Additionally, Mr. Bellar explained that once PPL is done setting up its own Rhode Island-dedicated gas control center in Rhode Island it will take over such existing operations from the Service Company. Mr. Bellar testified that PPL *"recognizes the importance of a local presence for the employees performing this critical function to enhance their understanding of existing conditions, to enable*

¹²⁸ Id., pp. 8-9.

¹²⁹ Id., p. 9.

¹³⁰ Id., p. 10.

*immediate communication with local government officials and businesses, and to allow for a more nimble response to developing circumstances.”*¹³¹

Mr. Bellar testified that PPL also expects to make capital investments in Narragansett’s distribution mains to build on Narragansett’s work in replacing leak prone pipe and enhancing operational control over pressure and flow for service. Mr. Bellar asserted that PPL has a proven track record of both investing in gas infrastructure and maintaining lower-than-average rates; PPL also has a proven track record of managing its procurement of gas to keep commodity prices down while also controlling operation and maintenance costs.¹³²

Lastly, Mr. Bellar briefly addressed the gas supply circumstances on Aquidneck Island. Acknowledging that Mr. Sobolewski’s testimony speaks to the matter in more detail, *infra*, Mr. Bellar confirmed that PPL is prepared to address the Aquidneck Island issues once it takes control of Narragansett. He also declared that PPL would work collaboratively with the Division and other stakeholders to address any remaining gas supply issues.¹³³

d. Terence Sobolewski/ Christopher Kelly

Subsequent to the filing of the Petition, which included pre-filed testimony from Mr. Terence Sobolewski, Mr. Sobolewski was replaced by Mr. Christopher Kelly as the President of Narragansett’s gas and electric operations in Rhode Island. On November 23, 2021, Mr. Kelly filed an affidavit in the instant docket wherein he provided a summary of his promotion to Narragansett’s President as

¹³¹ Id., p. 11.

¹³² Id., pp. 11-13.

¹³³ Id., p. 13.

well as his educational background and professional experience. At that time, Mr. Kelly also fully adopted Mr. Sobolewski's May 4, 2021 pre-filed direct testimony as his own.^{134 135}

Mr. Kelly began his testimony with a summary of the Transaction. To start, he offered a description of the National Grid USA affiliated entities involved in the Transaction. He related that National Grid USA is a holding company incorporated in Delaware, which is indirectly owned by National Grid plc. He explained that National Grid USA owns the common equity of several electric and gas operating companies, including Narragansett in Rhode Island; Massachusetts Electric Company, Nantucket Electric Company, and Boston Gas Company in Massachusetts; Niagara Mohawk Power Corporation, The Brooklyn Union Gas Company, and KeySpan Gas East Corporation in New York; and New England Power Company ("NEP") and National Grid LNG LLC regulated by the Federal Energy Regulatory Commission ("FERC"), among other companies. Mr. Kelly also explained that National Grid USA is the parent company of the Service Company, which provides services across National Grid USA's operating companies. He testified that the costs for services incurred by the Service Company are shared among all National Grid USA operating affiliates, including Narragansett.¹³⁶

Mr. Kelly testified that National Grid USA owns 100 percent of Narragansett's common stock. He related that as of March 17, 2021,

¹³⁴ National Grid/Narragansett Exhibit 1.

¹³⁵ Petitioners Exhibit 1., Sobolewski Testimony (Exh. 4), pp. 1-3.

¹³⁶ Id., pp. 4-5.

Narragansett services about 498,000 electric customers in 38 Rhode Island cities and towns and about 272,000 natural gas customers in 33 cities and towns.¹³⁷

Mr. Kelly testified that National Grid plc is a public limited company incorporated under the laws of England and Wales. National Grid plc owns and operates electric transmission and gas transmission networks in the United Kingdom and has a minority interest in a gas distribution business in the United Kingdom. Mr. Kelly testified that National Grid plc also indirectly owns the affiliated electric and gas distribution companies in Rhode Island, Massachusetts, and New York.¹³⁸

Mr. Kelly related that in Rhode Island, Narragansett relies on its own direct employees (e.g., line workers) and also Service Company employees (e.g., Customer Service, Regulation and Pricing, Legal and Finance) to provide electric and gas services to Rhode Island customers. Mr. Kelly testified that Narragansett has 764 direct employees; approximately 5,100 Service Company employees provided services to Narragansett in the most recent fiscal year. Out of Narragansett's 764 direct employees, Mr. Kelly related that 327 are connected with gas operations, 399 with electric operations and 38 provide "other" services. He noted that 703 employees are in union positions.¹³⁹

Mr. Kelly testified that Narragansett's gas operations consist of two main functions, Maintenance and Construction (e.g., system maintenance and capital construction) and Customer Meter Services (e.g., meter exchanges, meter reading,

¹³⁷ Id., p. 5.

¹³⁸ Id., pp. 5-6.

¹³⁹ Id., pp. 6-7.

collections, meter and bill investigations and gas pressure investigations).¹⁴⁰ The Company's electric operations consist of overhead line employees, underground employees, substation maintenance employees, distribution design employees and Customer Meter Services. He related that the Customer Meter Services for electric operations include the same functions as with the Company's gas operations.¹⁴¹

Regarding the Transaction, Mr. Kelly testified that on March 17, 2021, National Grid plc agreed to acquire PPL WPD Investments Limited, the holding company of Western Power Distribution ("WPD"), the United Kingdom's largest electric distribution business, from PPL WPD Limited, a subsidiary of PPL (the "WPD Acquisition"). He testified that in a separate but related business deal, National Grid USA agreed to the Transaction. Mr. Kelly testified that if the Transaction is approved, PPL Rhode Island will acquire 100 percent of the outstanding common stock of Narragansett in consideration of PPL Rhode Island paying \$3.77 billion in cash and assuming approximately \$1.5 billion of debt. He noted that closing of the purchase and sale under the Agreement is conditioned upon prior completion of the WPD Acquisition, certain federal and state regulatory approvals in the U.S, and other customary closing conditions.¹⁴²

Mr. Kelly explained that through the proposed *"transfer of its 100 percent equity interest in Narragansett, National Grid USA is effectively selling to PPL Rhode Island the business, operations, and activities of Narragansett, including the retail distribution and provision of electric and gas services to customers within*

¹⁴⁰ Id., p. 7.

¹⁴¹ Id., pp. 7-8.

¹⁴² Id., p. 8.

Narragansett's service area in the state of Rhode Island." Mr. Kelly related that after the transfer, Narragansett will "*conduct its business in all material respects in the same manner and on the same terms as currently conducted.*"¹⁴³

Mr. Kelly also noted that the transfer will not affect the transmission facilities owned by Narragansett and managed by NEP. He related that the Transaction will not change the availability of Narragansett facilities for transmission service under the ISO New England Inc. open access transmission tariff.¹⁴⁴

Mr. Kelly next discussed the regulatory approvals that are necessary to complete the Transaction. He testified that within 60 days after the execution of the Agreement the parties are required to make the following filings:

(1) this joint filing of a petition to the Division pursuant to Rhode Island General Laws Section 39-3-24 and Section 39-3-25;

(2) a petition for waiver of jurisdiction to the Massachusetts Department of Public Utilities pursuant to Massachusetts General Laws Chapter 164, Section 96(c), made by National Grid USA;

(3) a Notification and Report Form pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976; and

*(4) a joint application for FERC authorization under Section 203 of the Federal Power Act, consistent with the requirements of 18 C.F.R. Part 33.*¹⁴⁵

Mr. Kelly testified that the parties are required to receive all necessary approvals before closing, which he indicated is required to take place "*no later than the fifth*

¹⁴³ Id., p. 9.

¹⁴⁴ Id.

¹⁴⁵ Id., p. 10.

business day following the date on which the last of the statutory and regulatory approvals described above is obtained or waived.” He related further, that the Agreement requires that the WPD Acquisition be completed or occur concurrently with the Transaction’s closing.¹⁴⁶

Mr. Kelly also testified that the National Grid USA board of directors has approved the Transaction. He noted that because National Grid USA is the sole holder of Narragansett’s outstanding stock, National Grid USA has satisfied the requirements for a vote of two-thirds of its shareholders to authorize the Transaction.^{147 148}

Mr. Kelly testified that the Agreement requires Narragansett to carry out its business in the ordinary course in all material respects until the Transaction takes place. The Agreement also requires Narragansett to confer with PPL and its affiliates on certain operational and regulatory actions, including any filings it makes with the Division or Commission.¹⁴⁹

Mr. Kelly next offered an opinion on why he thinks the Transaction meets the statutory standard for approval by the Division. He related that it is his understanding that two criteria must be met to satisfy the law. Specifically, Mr. Kelly related that the Division must first evaluate whether “*the facilities for furnishing service to the public will not be diminished if the Transaction is approved.*” Secondly, the Division must determine whether the Transaction is “*consistent with the public interest.*” In response to this prescribed standard, Mr.

¹⁴⁶ Id., p. 11.

¹⁴⁷ Required under R.I. Gen. Laws, §39-3-24(3);

¹⁴⁸ Id., pp.10-11.

¹⁴⁹ Id., p. 11.

Kelly opined that the testimony proffered by the Petitioners demonstrates that the *“Transaction will not result in a degradation of utility services and, therefore, the facilities for furnishing service to the public will not be diminished....”* Mr. Kelly asserted that PPL is a reputable company with a purpose-driven culture and strong core values and is committed to providing safe and reliable service for customers. Because of PPL’s many attributes, Mr. Kelly remained *“confident that the Transaction will not diminish the high level of electric and gas distribution service customers expect in Rhode Island.”*¹⁵⁰ On the question of whether the Transaction is in the public interest, Mr. Kelly declared that it was, *“because the State of Rhode Island and its customers will benefit from the high level of service they will receive from a company with significant experience providing strong local utility service.”*¹⁵¹ Mr. Kelly also testified that the transfer of ownership of Narragansett to PPL Rhode Island will have no impact on base distribution rates.¹⁵²

Mr. Kelly next provided a brief overview of National Grid USA’s and PPL’s plans and goals for a seamless transition with uninterrupted service. As part of this explanation, Mr. Kelly referred to the TSA between Narragansett and the Service Company, which details the services to be provided by the Service Company for up to two years to ensure a smooth transition. He also discussed the *“multi-dimensional transition team”* that National Grid USA and PPL will utilize to *“assist PPL in taking over the management of the Narragansett business.”* On

¹⁵⁰ Id., p. 12.

¹⁵¹ Id., p. 13.

¹⁵² Id.

these points, Mr. Kelly's testimony was consistent with the testimony proffered previously by PPL's witnesses, *supra*.¹⁵³

Mr. Kelly also provided an overview of the integration management process from National Grid USA's perspective. He related that National Grid USA and PPL have assembled a group of officers, managers, and other employees to plan, execute, and coordinate the business integration and organizational separation efforts for the Transaction. The National Grid USA Transition Management Office ("TMO") team leader is Dan Davies. Mr. Sobolewski related that the TMO group is working with PPL's Integration Management Office ("IMO") on a weekly basis to plan and guide the integration effort. He testified that "*National Grid USA will be ready and able to support PPL on Day 1.*"¹⁵⁴

Mr. Kelly next echoed the testimony from the PPL witnesses regarding how electric and gas operations will be shared by National Grid USA and PPL on Day 1 then gradually shift entirely to PPL over time. He noted that areas of gradual transition include complex IT systems, such as the Supervisory Control and Data Acquisition ("SCADA") systems and the Gas Control Center, which he described as the nerve center in Narragansett's gas distribution network.¹⁵⁵

In his final comments, Mr. Kelly addressed the gas supply circumstances on Aquidneck Island. He testified that Narragansett has been engaged with PPL to ensure that PPL fully understands the gas supply issues on Aquidneck Island. He indicated that these discussions have included the supply constraint problems

¹⁵³ Id., pp. 14-16.

¹⁵⁴ Id., p. 16.

¹⁵⁵ Id., pp. 16-18.

connected to Algonquin Gas Transmission, LLC, and the use of a temporary portable liquified natural gas (“LNG”) operation at Old Mill Lane in Portsmouth. He also related that Narragansett’s planned solutions to the problem have been fully communicated to PPL, which includes the possibility for a permanent LNG facility in Portsmouth.¹⁵⁶

3. The Advocacy Section’s Direct Case

The Advocacy Section proffered five witnesses in this docket. The witnesses were identified as: Mr. Matthew I. Kahal, 1108 Pheasant Xing, Charlottesville, Virginia; Mr. David J. Effron, CPA, Berkshire Consulting Services, 12 Pond Path, North Hampton, New Hampshire; Mr. Gregory L. Booth, P.E., Gregory L. Booth, PLLC, 14460 Falls of Neuse Road, Suite 149-110, Raleigh, North Carolina; Mr. Michael R. Ballaban, Senior Advisor, Daymark Energy Advisors, 370 Main Street, Suite 325, Worcester, Massachusetts; and Mr. Bruce R. Oliver, President, Revilo Hill Associates, Inc., 7103 Laketree Drive, Fairfax Station, Virginia. Each of these witnesses filed pre-filed direct testimony, with attached exhibits, in accordance with the approved procedural schedule, on November 3, 2021.

A. Matthew I. Kahal

Mr. Kahal is an economist specializing in electric utility integrated planning, plant licensing, mergers, and environmental and financial issues. Mr. Effron is a consultant specializing in utility regulation. Mr. Booth is a registered professional engineer specializing in electric utility and telecommunication engineering. Mr. Ballaban is a utility consultant specializing in revenue requirements, regulatory

¹⁵⁶ Id., pp. 18-21.

accounting, cost of service, pricing, regulatory strategy, and financial forecasting. Mr. Oliver is an economist specializing in the areas of utility rates, energy, and regulatory policy matters.

Mr. Kahal testified that he has been retained by the Division's Advocacy Section to review the Petition and evaluate potential issues associated with financing and cost of capital. After reviewing the Petition, Mr. Kahal offered the following summary of his findings:

- 1. PPL is a large utility holding company that operates three major electric/gas utilities providing retail utility service in Pennsylvania, Kentucky and Virginia. In attempting to demonstrate that the proposed Transaction meets Rhode Island's legal standard for approval, the Petition documents PPL's experience and accomplishments in operating its three utilities.*
- 2. PPL has the financial capability and qualifications to acquire Narragansett, including access to capital. This Transaction is entirely a cash purchase and does not require PPL to issue any new debt or equity to finance the asset purchase.*
- 3. While citing to its qualifications and experience in operating its three U.S. utilities, the Petition does not affirmatively commit that Narragansett's customers will enjoy net benefits from PPL ownership as compared to continued National Grid ownership, merely that there will be no net harm. However, the assertion of no net harm does not go far enough, and leaves utility customers exposed to risk.*
- 4. One potential concern is whether the Transaction will likely result in an increase in Narragansett's cost of capital. Provided that PPL and Narragansett accept reasonable "ring fencing" and other financial protections (protections that Petitioners have not yet agreed to accept), the Transaction should not cause an increase in Narragansett's cost of capital as compared to continued National Grid ownership. In fact, there is potential for at least a modest cost of capital savings at some time in the future.*

5. *There are several areas of financial policy and practices that require greater clarity and certainty from PPL. This includes ring-fencing measures, sources of liquidity and short-term debt, capital structure policy and long-term debt issuance practices.*¹⁵⁷

Predicated on his review and findings, Mr. Kahal testified that he does “*not support approval of the as-filed Petition.*” He opined that the Transaction exposes utility customers to considerable risk and even likelihood of harm, without adequate protections against those substantial risks. Mr. Kahal testified that “*the absence of such commitments and protections means the Transaction cannot meet the no net harm standard of approval.*”¹⁵⁸ To protect against these financial policy and cost of capital risks, Mr. Kahal proffered several recommendations:

1. *PPL and Narragansett should commit to implementing a comprehensive set of ring-fencing measures as described in Section III.A. of my testimony. Such measures, which PPL seems inclined to accept but to which it is unwilling to commit, are needed to protect Narragansett credit ratings and financial integrity from adverse impacts associated with the Transaction and to avoid potential affiliate abuse.*
2. *PPL and Narragansett should investigate and provide greater clarity regarding the most appropriate and cost-effective means of providing Narragansett with needed liquidity and short-term debt financing. This should be accomplished within six months of closing on the Transaction and submitted to the Division for its review.*
3. *PPL and Narragansett must commit to excluding from the ratemaking capital structure and equity balance any goodwill on its balance sheet (inclusive of any pre-closing goodwill). Specifically, Narragansett should continue its past practice of subtracting all such goodwill from its per books common equity balance when stating ratemaking capital structure ratios.*

¹⁵⁷ Advocacy Section Exhibit 1, pp. 10-11.

¹⁵⁸ Id., pp. 11-12.

4. *PPL and Narragansett must commit to using best efforts to target a common equity ratio of at least 48 percent, as calculated on a regulatory basis (e.g., excluding goodwill from equity and including short-term debt), for a period of at least five years post-closing on the Transaction. In the event the equity ratio falls below 48 percent, PPL and Narragansett should make best efforts to rectify that shortfall as soon as possible, including by Narragansett refraining from making dividend payments to its parent or by parent cash equity infusions until the minimum common equity ratio is restored.*

5. *To the extent determined to be feasible, practicable and cost-effective, Narragansett should establish and maintain the capability of issuing secured long-term debt in order to minimize over time its future cost of long-term debt.*¹⁵⁹

Mr. Kahal testified that it is important to establish and implement ring-fencing provisions on PPL in order to separate the operating utility company from its corporate affiliates. He related that such arrangements are widely implemented in the utility industry “*due to the predominate use in the industry of the holding company, utility subsidiary structure with multiple subsidiaries.*” Mr. Kahal testified that ring-fencing is intended to place restrictions on a utility’s financial practices and policies, as well as providing transparency, in order to protect the utility’s financial integrity and credit quality and to ensure proper regulatory oversight. Mr. Kahal added that such measures can also provide protection to the utility in the event of an affiliate bankruptcy, and also prevent “*affiliate abuse,*” such as the utility improperly subsidizing a corporate affiliate, which can harm the utility’s ratepayers.¹⁶⁰

Mr. Kahal noted that credit rating agencies often review and consider the adequacy and strength of the utility’s ring-fencing protective measures as part of

¹⁵⁹ Id., pp. 12-13.

¹⁶⁰ Id., pp. 13-14.

the ratings process. As an example, he noted, in 2019 “*Moody’s credit rating report for Narragansett lists as a credit challenge or constraint the ‘absence of significant ring-fencing provisions at [Narragansett] to restrict higher leverage’ as well as the high level of debt on the balance sheet of parent National Grid.*”¹⁶¹

Mr. Kahal testified that PPL has not opposed the use of ring-fencing for Narragansett but has not committed to it. He related that in responses to Division data requests, PPL has suggested that the need for ring-fencing is not strong given PPL’s size and financial strength, its credit ratings, and its relative lack of unregulated operations. However, Mr. Kahal finds this position by PPL to be “*unacceptable because it leaves ratepayers exposed to Transaction risk.*”¹⁶²

In view of the potential risk, Mr. Kahal provided a list of several key ring-fencing measures that PPL and Narragansett must commit to implementing to satisfy the standard for approval:

1. *Narragansett shall operate as a (direct or indirect) corporate subsidiary of PPL (similar to the arrangement for PPL’s other three utilities) with its own corporate officers and Board of Directors.*
2. *Narragansett must maintain books and records and financial statements pertaining to its own operations, accessible to the Division and the Rhode Island Commission.*
3. *Narragansett must maintain the capability of issuing its own long-term debt, including obtaining credit ratings from at least two rating agencies (e.g., Moody’s and S&P).*
4. *Narragansett shall not be permitted to make loans to corporate affiliates on a long-term basis (i.e., for a period longer than one year).*

¹⁶¹ Id., p. 14.

¹⁶² Id., p. 15.

5. *Narragansett shall issue long-term debt only for the purpose of its utility investments and operations.*

6. *Narragansett shall not pledge or mortgage its assets or provide loan or credit guarantees for corporate affiliates (including PPL parent holding company).*

7. *Any utility money pool arrangement in which Narragansett participates or any stand-alone Narragansett credit facility shall be submitted to the Division for its review and approval.*

8. *Narragansett shall maintain a specified minimum common equity ratio of 48 percent (calculated on a regulatory basis) for at least the first five years following the Transaction.*¹⁶³

Mr. Kahal added that any of these measures could be terminated, waived, or modified by the Division if the Division believes it would be in the public interest to do so.¹⁶⁴ But he recommended that to avoid potential harm, the ring-fencing measures must be specified as conditions of Transaction approval. He also emphasized, that with the exception of the 48 percent common equity ratio requirement, all of the ring-fencing measures being recommended “*are the same as or are substantially similar to Narragansett’s current and past practices and policies under National Grid ownership.*” As for the 48 percent common equity ratio requirement, Mr. Kahal testified that this requirement “*is an appropriate and very much needed protection for Narragansett in the context of this Transaction.*”¹⁶⁵

Mr. Kahal next discussed the question of whether “*goodwill*” is a concern in this Transaction. He described goodwill as a non-cash accounting entry on a company’s balance sheet which serves to increase its book common equity, and which sometimes reflects the dollar amount of the acquisition premium incurred

¹⁶³ Id., pp. 16-17.

¹⁶⁴ Id., p. 17.

¹⁶⁵ Id., pp. 17-18.

by an acquiring company. Mr. Kahal testified that in this matter, the Petitioners have committed not to charge utility customers for any of that acquisition premium incurred in connection with the Transaction, which he called appropriate.

However, Mr. Kahal did express a concern with the pre-Transaction goodwill in this case. He testified that Narragansett presently has \$725 million of goodwill on its balance sheet. He related that in past base rate cases, Narragansett has subtracted that goodwill from book common equity in its calculation of the capital structure ratios to be used for rate of return purposes. He called this a proper adjustment since goodwill, as a non-cash accounting write-up, could not have been used for investment in utility assets and therefore cannot support rate base. Mr. Kahal testified that if this adjustment had not been made, the equity ratio and rate of return would have been artificially inflated, thereby harming ratepayers. Mr. Kahal's concern is that PPL makes no commitments regarding pre-Transaction goodwill. Mr. Kahal notes that PPL does not make it clear whether it will continue Narragansett's long-standing practice of removing pre-Transaction goodwill from common equity. Accordingly, Mr. Kahal recommends that any approval of the Transaction must be accompanied by a PPL commitment to exclude all goodwill from ratemaking.¹⁶⁶

As noted above, Mr. Kahal recommends that PPL should commit to a minimum 48 percent equity ratio for Narragansett for at least five years. Mr. Kahal opines that it is necessary for Narragansett to maintain its financial

¹⁶⁶ Id., pp. 19-20.

integrity through a strong balance sheet. He testified that in the event that the common equity ratio falls below 48 percent, PPL and Narragansett “*must promptly rectify that shortfall by either infusing equity and/or suspending Narragansett’s dividend payments to its parent.*”¹⁶⁷ Mr. Kahal reasoned that the required minimum equity will enhance Narragansett’s credit quality and attractiveness to debt investors. He also recommended the minimum because of the “*great uncertainty and risk regarding Narragansett’s financial performance during the first several years post-Transaction*” due to “*losses of operating efficiency and substantial transition costs.*” Mr. Kahal testified that if Narragansett has to absorb these costs it will experience an erosion of earnings and a weakening of its balance sheet.¹⁶⁸ Accordingly, Mr. Kahal recommended that any approval of the Transaction be conditioned on “*an enforceable minimum equity ratio, with Narragansett’s dividend payments to its parent suspended if the equity ratio falls below the prescribed minimum.*”¹⁶⁹

Mr. Kahal next explained his recommendation that post-Transaction Narragansett continue its past practice of issuing its own long-term debt. Mr. Kahal testified that data responses show that since 2010, Narragansett has issued \$1.5 billion of long-term debt in the form of unsecured senior notes of terms of either ten or thirty years; in April of 2021, Narragansett issued \$600 million of long-term debt in the form of unsecured notes. Mr. Kahal testified that while PPL is generally in agreement that Narragansett should continue to issue its

¹⁶⁷ Id., pp. 20-21.

¹⁶⁸ Id., pp. 21-22.

¹⁶⁹ Id., p. 22.

own long-term debt, PPL also raises the possibility that in the future some of Narragansett's long-term debt could be sourced, as a backstop, from its financing subsidiary, PPL Capital Funding, Inc if advantageous to do so.

Mr. Kahal expressed concern, however, with Narragansett's practice of issuing unsecured debt, which he explained results in higher interest expense cost and lower credit ratings. Accordingly, Mr. Kahal recommended that following Transaction closure, and where feasible, practical, and cost-effective, Narragansett under PPL ownership should issue secured long-term debt. Mr. Kahal added that PPL should be required to report back to the Division on the feasibility of doing so within six months after close of the Transaction.¹⁷⁰

Lastly, Mr. Kahal discussed Narragansett's short-term debt issues. He related that in the past, Narragansett turned to National Grid as the source of short-term debt and liquidity through various mechanisms. He testified that PPL, while not definitive, indicates that post-Transaction it would establish a third-party credit facility for Narragansett's short-term borrowing needs. Mr. Kahal recommends that PPL should evaluate Narragansett's short-term debt options and report back to the Division within six months of the closing. Mr. Kahal also recommended that if Narragansett enters into a third party credit facility and/or money pool agreement, these agreements should be submitted to the Division for its review and potentially approval.¹⁷¹

¹⁷⁰ Id., pp. 23-25.

¹⁷¹ Id., pp. 25-26.

B. David J. Effron

Mr. Effron testified that he has been retained by the Division's Advocacy Section to address certain accounting implications of the proposed Transaction and explain why these matters should be addressed by the Division in its determination of whether the proposed acquisition of Narragansett by PPL is consistent with the public interest.

As a summary of his findings, Mr. Effron testified that the proposed Transaction "*will result in the recording of a substantial acquisition premium.*"¹⁷² He explained that because the "*purchase price will be greater than the fair value of the assets less the fair value of the liabilities (the net book value) of Narragansett, the difference will be recorded as an acquisition premium, or goodwill.*" Mr. Effron related that PPL estimates that the acquisition premium will be approximately \$1 billion.¹⁷³

Mr. Effron testified that PPL has, however, stated that it will not seek to recover any acquisition premium or transaction costs in customer rates. He noted that PPL has represented that it will not push the acquisition premium down to Narragansett's balance sheet or include the effect of the acquisition premium in the capital structure used for ratemaking purposes. Mr. Effron supported PPL's position on the treatment of the acquisition premium and recommended that PPL's representations "*be formalized as enforceable commitments.*"¹⁷⁴

¹⁷² Advocacy Section Exhibit 2, p. 4.

¹⁷³ Id., pp. 5-6.

¹⁷⁴ Id., p. 6.

Mr. Effron next confirmed that PPL will recognize the assets acquired and the liabilities assumed at their values as of the acquisition date. Mr. Effron testified that PPL and PPL Rhode Island have represented that, post-Transaction, that the utility property on Narragansett's books of accounts will continue to be stated at its original cost when devoted to public utility service. Mr. Effron again recommended that PPL's representations "*be formalized as enforceable commitments.*"¹⁷⁵

With respect to pension and post-retirement benefits other than pensions ("PBOP"), Mr. Effron acknowledged that Narragansett accounts for these expenses pursuant to applicable accounting standards through the use of certain actuarial assumptions. These assumptions include discount rates, return on invested funds, mortality, inflation, and other factors that go into the calculation of the liabilities and periodic costs. However, he noted that the actual experience never exactly matches the actuarial assumptions, which necessitates adjustments from time to time. But in merger/acquisition accounting, Mr. Effron related "*that assets and liabilities must be stated at their fair value at the time of the merger or acquisition.*" Regarding this difference in accounting standards, Mr. Effron testified that there should be no future adjustments to restate the balance sheet assets and/or liabilities for pensions and PBOP. He explained that a regulatory asset or liability should be established to offset any adjustments to pension and PBOP assets and liabilities recorded in connection with the acquisition. He reasoned that the purpose of this accounting treatment should be to maintain the

¹⁷⁵ Id., pp. 6-7.

periodic pension expense and periodic PBOP expense included in Narragansett's revenue requirement at a level no higher than the level that would exist in the absence of the Transaction.¹⁷⁶

However, when PPL was questioned on this recommended accounting treatment, Mr. Effron related that PPL offered the following statement:

*...the pension plan and postretirement benefits will be re-measured upon acquisition after Transaction closing, which is similar to the annual re-measurement performed by Narragansett under National Grid ownership currently. The Transaction itself is not causing an increase or decrease in pension and postretirement benefit obligations that would cause a change to Narragansett's revenue requirement.*¹⁷⁷

Mr. Effron expressed dissatisfaction with this response because, in his opinion, it does not require the immediate recognition of actuarial gains and losses. He related that the restatement of plan assets and liabilities to fair value upon acquisition "*may be more extensive than the annual re-measurement currently being performed and has the potential to affect the annual pension and PBOP expense going forward.*" Consequently, he recommended an enforceable commitment that any restatement of plan assets and liabilities to fair value upon acquisition will not increase Narragansett's revenue requirement to a level higher than the level that would exist in the absence of the Transaction.¹⁷⁸

Lastly, Mr. Effron expressed concern over the affect the proposed Transaction would have on the balance of Accumulated Deferred Income Taxes ("ADIT") deducted from plant in service for the purpose of determining the

¹⁷⁶ Id., pp. 8-9.

¹⁷⁷ Id., pp. 9-10.

¹⁷⁸ Id.

Narragansett rate base. He based his concern on two observations, namely, (1) that PPL and National Grid have agreed to make an election under Section 338(h)(10) of the Internal Revenue Code to have the Transaction treated as an asset sale for federal income tax purposes; and (2) that the tax basis of Narragansett's plant in service is significantly less than the book value, due to book/tax timing differences such as accelerated depreciation, bonus depreciation, and capital repairs deductions. Mr. Effron explained that when National Grid sells the assets to PPL at book value, there will be a taxable gain equal to the difference between the book value and the tax basis. He related that after this occurs, the liability for deferred income taxes will become due and payable. Mr. Effron testified that as the new tax basis immediately following the acquisition will equal the book basis, there will be no balance of ADIT at that time. He related that the effect of eliminating the balance of ADIT at the time of the acquisition will increase Narragansett's revenue requirement by approximately \$30 million in the first year after the merger; Narragansett's rate base ADIT liability was approximately \$368 million as of June 30, 2021.¹⁷⁹

Mr. Effron testified that PPL has agreed that ratepayers should be held harmless from the elimination/reduction to the balance of ADIT but has not identified the mechanism that will be implemented to hold customer impacts neutral from the increase in Narragansett's rate base. To address this issue, Mr. Effron recommended that, first, the amount of ADIT on the acquired assets that would have accumulated from the time of the acquisition going forward under

¹⁷⁹ Id., pp. 11-12.

continuing National Grid ownership should be calculated; secondly, the amount of ADIT on the acquired assets that would have accumulated from the time of the acquisition going forward under PPL ownership should be calculated. Mr. Effron recommended that the difference between these two values should be deducted from the Narragansett rate base for ratemaking purposes until the time that the present value of the future differences between the two is \$100,000 or less. Mr. Effron thereupon proffered a schedule to demonstrate how this hold harmless mechanism would work.¹⁸⁰

C. Gregory L. Booth

Mr. Booth began his testimony with a summary of his extensive professional experience and educational background. Mr. Booth additionally identified the previous Division and Commission dockets wherein he proffered expert testimony on behalf of the Division, as well as the other state and federal jurisdictions before which he has appeared as an expert witness.¹⁸¹

Mr. Booth testified that he was retained by the Advocacy Section to review the Petition filing and related discovery responses from the Petitioners for the purpose of evaluating whether the approval of the Transaction would be in the public interest.¹⁸² Mr. Booth testified that from his review and evaluation, his *“primary finding is that approval of the Transaction would not be in the public*

¹⁸⁰ Id., pp. 14-15; Schedule DJE-1.

¹⁸¹ Advocacy Section Exhibit 3, pp. 1-4.

¹⁸² Id., pp. 4-5.

*interest, and my recommendation is that the Petitioners' request for approval be rejected.*¹⁸³

As an initial observation, Mr. Booth declared the filing to be deficient in its lack of the detail, materials, or information necessary to demonstrate that the proposed acquisition would be in the public interest. As examples, he related that the filing lacks a financial forecast and rate impact analysis, which he described as “*essential for a comprehensive assessment of whether the proposal is in the ‘public interest.’*”¹⁸⁴

Mr. Booth also described the proposed acquisition as “*unique in my experience*” due to three factual components: a) PPL is only acquiring Narragansett, which is the smallest jurisdictional portion of the National Grid USA’s utility holdings, b) Narragansett currently benefits from the support of approximately 5,100 National Grid Service Company employees that provide significant cost and capacity synergies that will be lost as a result of this acquisition, and c) National Grid has a long history of developing its multi-state shared service model in New England and New York, which cannot be replicated by PPL in just 24 months.¹⁸⁵ Mr. Booth testified that his analysis concludes that the Petition fails to demonstrate how PPL can replicate the existing operations infrastructure, which it is not acquiring, without significant cost and degradation in safety and reliability. Mr. Booth also asserted that the proposed TSA and transition plan will not overcome the loss of National Grid synergies and

¹⁸³ Id., p. 6.

¹⁸⁴ Id., p. 8.

¹⁸⁵ Id.

economies.¹⁸⁶ He opined that these synergies and economies will be lost unless the National Grid Service Company “*agrees to provide services indefinitely to PPL for Narragansett....*”¹⁸⁷

Mr. Booth emphasized that PPL and its Kentucky utilities have no experience or history with New England. He opined that the Transaction, if approved, will bring about “*a significantly different dynamic and culturally different utility*” and “*many challenges that are not resolvable through due diligence investigations.*”¹⁸⁸ Mr. Booth contends that because “*Narragansett is integrated with New England states strategically and operationally*” it will be difficult for PPL to overcome these challenges without harming Narragansett’s ratepayers. Mr. Booth cited regional efforts to implement Advanced Metering Functionality (“AMF”) and Grid Modernization as examples of the synergies currently available to Narragansett through National Grid.¹⁸⁹

Mr. Booth next offered a deeper dive into his perceived deficiencies with the Petition filing. He argues that the Petition fails to show how PPL’s acquisition could be an improvement to or even equal the current operations and synergies provided by National Grid. Mr. Booth faults PPL for saying, through its data responses, that it can conduct a successful transition while providing “*few – if any – definitive ways in which to do so....*” He also criticized PPL for not including in the Petition “*the projected rate increase impacts associated with the proposed acquisition, or any sense of when initial rate filings may be coming.*” Mr. Booth

¹⁸⁶ Id., p. 9.

¹⁸⁷ Id., pp. 9-10.

¹⁸⁸ Id., p. 11.

¹⁸⁹ Id., pp. 12-13.

testified that *“a reasonable utility... would have filed a comprehensive financial model and rate forecast within an acquisition application as a means to provide support both to regulatory commissions and stakeholders that ratepayers will not be harmed.”*¹⁹⁰ Mr. Booth related that PPL has also not conducted a site inspection of any major equipment to assess *“the condition of what it is purchasing or how the distribution system operation can be effectively integrated into the PPL model without harming the customers....”*¹⁹¹

Mr. Booth testified that PPL has described a model of operations whereby its local President will work directly with other members of PPL’s Executive team to ensure that Narragansett has the necessary resources and support. However, in comparison to the Service Company model currently in use, Mr. Booth concludes that PPL has failed to prove *“that its operating model would satisfy the ‘hold harmless’ requirement in the absence of any analysis.”*¹⁹² Mr. Booth did acknowledge that PPL did offer an analysis of a potential staffing model and operational costs on September 30, 2021, through discovery, as a proxy for its post-transition organization. However, Mr. Booth noted that while the analysis *“indicates slightly lower, post-transition costs when compared to Narragansett operational cost, PPL in no way commits to the success of the organizational structure at the forecasted cost level.”* Mr. Booth also noted that the analysis fails

¹⁹⁰ Id., pp. 13-14.

¹⁹¹ Id., p. 14.

¹⁹² Id., p. 18.

to account for many of the duplications of functions that would arise from the acquisition, including a new control center and SCADA system.¹⁹³

Mr. Booth next addressed the transition plan and TSA described by the Petitioners. To start, Mr. Booth related that the filing provides no evidence or analysis to demonstrate that such a transition is achievable in two years. Mr. Booth opined that while electric utilities are guided by common national codes and requirements, each company has a unique system and method of planning, designing, constructing, and operating. He related that currently, Narragansett is aligned and influenced by National Grid, which facilitates natural economies of scale across New York, Massachusetts, and Rhode Island jurisdictions. Mr. Booth related that PPL believes that these differences can be synergized with 24 months. However, based on his review of the 118 services over 180 functional areas to be transitioned, Mr. Booth identified several that are “*unlikely to be transitioned successfully within 24 months.*”¹⁹⁴

Mr. Booth testified that there are multiple areas that will be affected by the fact that National Grid and PPL do not have the same materials and construction standards. He opined that merging construction standards will likely take more than three years and the migration of materials standards and the supply chain will likely take decades.¹⁹⁵ Mr. Booth argued that managing dissimilar practices has a direct impact on multiple departments that support core construction and maintenance work such as planning, engineering, procurement, inventory

¹⁹³ Id., pp. 19-21.

¹⁹⁴ Id., p. 23.

¹⁹⁵ Id., pp. 23-24.

strategy, and asset management. He believes that every functional area that relies on material and construction standards will be subject to a protracted transition which is not achievable in two years.¹⁹⁶ Mr. Booth argues that PPL has inadequately addressed the challenges to transition these areas.¹⁹⁷

Mr. Booth also identified changes to the Control Center, SCADA and Call Center Operations as other areas that will likely take longer than 24 months to transition over to PPL. He opined that the *“design and construction of these facilities and the conversion and re-routing of all the communications facilities will never be accomplished in two years.”* Mr. Booth testified that PPL *“appears to have completely ignored the tremendous cost of this effort and associated infrastructure, along with the lost synergies afforded to Narragansett since only a portion of control center and SCADA costs are presently allocated to Rhode Island....”*¹⁹⁸

Mr. Booth next offered an exhibit to his testimony (Exhibit B) that identified other areas of operations that he believes cannot be successfully transitioned within 24 months. These operations include *“maintenance strategy engineering and technical,” Shared Telecom Network (STN) and Distribution Pole Attachments Program,*” which he further discussed in his direct testimony.¹⁹⁹

Mr. Booth also criticized PPL for not having a contingency plan in place to address the potential that the transition will not be completed within 24 months. He related that during discovery, PPL indicated that if it needed more time it

¹⁹⁶ Id., p. 24.

¹⁹⁷ Id., pp. 24-25.

¹⁹⁸ Id., pp. 25-26.

¹⁹⁹ Id., pp. 26-27.

could negotiate to extend the provision of any specific services beyond the two-year period. Mr. Booth rejected this “*reactive position*” by PPL because it fails to ensure a successful negotiation pathway with National Grid after the 24-month period has expired.²⁰⁰

Another area where Mr. Booth believes a 24-month transition is not possible concerns Narragansett’s Infrastructure, Safety and Reliability Plan (“ISR Plan”). He testified that the ISR Plan typically accounts for more than \$100 million in annual capital spending. Mr. Booth argues that this “*critical planning process cannot reasonably be transitioned in 24 months.*”²⁰¹ As part of this discussion, Mr. Booth provided an overview of his involvement in the electric distribution planning process, going back to 2002, which was designed to create an asset management and reliability plan that would assist National Grid in developing a capital structure plan to maintain system safety and reliability. He related that he participated in the establishment of an I&M Program to conduct a system-wide engineering analysis (Long-Range Plan) to assess comprehensive needs for a 10-15 year period. He related that upon identifying and prioritizing those system needs, National Grid was able to prepare a shorter term (3-5 year) construction work plan based on Area Studies, which enhances the ISR Plan. Mr. Booth testified that the benefit of these strategies is to take a holistic view of system needs by evaluating the service territory and comparing potential projects to prioritize those with a higher risk of impacting safety or reliability.

²⁰⁰ Id., pp. 27-28.

²⁰¹ Id., p. 28.

Mr. Booth testified that PPL’s ‘*Fresh Look*’ approach, which PPL described in a data response, “*appears to presuppose the collaborative Division and National Grid process is somehow not adequate and does not present the most appropriate cost benefit plan.*”²⁰² After providing a detailed description of how National Grid develops its ISR Plan, Mr. Booth expressed concern that PPL’s current distribution planning and maintenance programs may not rise to the level of the more “*complex and robust*” ISR Plan process currently in place.²⁰³

Relatedly, Mr. Booth expressed little confidence in PPL’s Long Term Infrastructure Improvement Plan (“LTIIP”), which was provided to the Division during discovery. Mr. Booth related that the LTIIP is compelled by regulations set by the Pennsylvania PUC and includes eight major elements. He related that PPL’s capital investment plan describes and quantifies eligible equipment that PPL desires to repair and replace, projects annual expenditures, and justifies accelerated investments. However, Mr. Booth argues that the LTIIP “*does not reflect anything remotely comparable to the Narragansett ISR Plan and associated Area Studies.*” As a comparison, Mr. Booth testified that National Grid prepares a comprehensive plan where the majority of discretionary projects are supported by engineering studies that identify system issues, produce alternative solutions, and selects the least cost, fit-for purpose action. He added that National Grid also produces cost-benefit analyses and identifies broader environmental and

²⁰² Id., p. 31.

²⁰³ Id., pp. 31-36.

social impacts of project implementation. Mr. Booth stressed that these elements are not included in the LTIIP used by PPL.²⁰⁴

Mr. Booth also criticized the way PPL justifies projects for inclusion in its capital investment plan. He related that PPL has indicated that it utilizes a project prioritization process that defines the cost-effectiveness of projects to ensure effective optimization of reliability investments. But Mr. Booth argues that the LTIIP shows “*very little support in terms of cost effectiveness other than PPL implying that assets are aged, prone to failure, and would affect reliability.*” Mr. Booth compared this process to National Grid, which has been required to provide a greater level of justification for spending on its projects.²⁰⁵ Mr. Booth also asserted that PPL has not demonstrated that it can produce a long-range plan, short term studies or area studies like the National Grid ISR Plan.

Mr. Booth next discussed PPL’s claim that it would use National Grid resources to develop an ISR Plan. Mr. Booth related that in a data response, PPL stated that “*experienced National Grid system planners and engineering leadership will be joining PPL staff and will work in Rhode Island post-Transaction close.*” Mr. Booth called this a “*troublesome and unsupported statement.*” He asserted that “*PPL has not and cannot identify those resources, so it is impossible for PPL to make a commitment on behalf of those resources.*” Mr. Booth further asserted that it is “*improbable that the breath and depth of skill sets required for the Rhode*

²⁰⁴ Id., pp. 36-37.

²⁰⁵ Id., pp. 37-38.

Island ISR Plan process and Area Study process will be extracted from National Grid and seamlessly transferred to PPL.”²⁰⁶

In his final comments on the importance of the ISR Plan, Mr. Booth offered the following warning about PPL:

The ISR Plan is the strategic capital investment plan for the entire National Grid Rhode Island region. The Plan guides orderly distribution system asset maintenance, replacement, and expansion, along with system safety requirements. It allocates budgets to meet non-discretionary customer and public needs while providing additional capital spend for discretionary projects necessary to maintain reliability. It is the primary mechanism to guide and fund National Grid Rhode Island’s annual investments. National Grid’s capital, O&M related to capital, cost of removal, and vegetation management expended under the ISR Plan is recovered on an annual basis, not during a rate case. Therefore, the ISR Plan development and execution are critical to ratepayer impacts. Failure to produce and execute a holistic plan would result in loss of system integrity. This deficiency may not be immediately evident, but over time will result in reduced safety and reliability. More importantly, the ISR Plan incorporates a comprehensive long-term strategy that drives prudent, reasonable, and cost-effective investments. Failing to meet the robust standards that have been built into the ISR planning process, or the investment strategy by adding unsupported or misaligned programs, brings inefficiencies and unnecessary costs. The bottom line is that those costs are incremental to ratepayers and meet the standard of ‘harm.’ PPL has demonstrated in its responses that it lacks any of the necessary experience with this form of planning process and detail analysis....²⁰⁷

Mr. Booth next discussed PPL’s claim that it could operate Narragansett at a lower cost than National Grid. Initially, Mr. Booth focused on the following statement from PPL, which Mr. Booth called “*very misleading*”: “*PPL believes the implementation of a dedicated organization to serve the customers of Rhode Island*

²⁰⁶ Id., pp. 39-40.

²⁰⁷ Id., pp. 43-44.

with a renewed focus on local control and management, and safe, reliable operation will not increase costs to operate Narragansett.” Mr. Booth testified that this statement infers that Narragansett and National Grid somehow lack a dedicated organization to serve customers in Rhode Island and that there is no local control or management.²⁰⁸ Mr. Booth asserted that neither of these views is true.

Mr. Booth related that the operating cost analysis that PPL produced during discovery failed to address many issues related to operating costs, including, the loss of synergies in multi-state material purchasing and stocking economies; the loss of spare materials and equipment shared between Massachusetts and Rhode Island for such major components as power transformers and mobile transformers; the loss of major construction and material standardization between Massachusetts and Rhode Island; the absence of a direct comparison of the PPL model and the National Grid model; and PPL’s admission that it does not know the total number of employees needed in each area. Mr. Booth concluded that the “*premise of its [PPL] entire analysis and assumption that it can operate Narragansett at a lower cost than National Grid is flawed and lacks credibility.*”²⁰⁹

Mr. Booth also criticized PPL for not addressing in its operating costs analysis how it will establish the expertise and staffing level used by National Grid to prepare Area Studies and the annual ISR Plan. Mr. Booth related that National Grid utilizes staff for these plans and studies which perform these complex

²⁰⁸ Id., p. 44.

²⁰⁹ Id., pp. 45-47.

engineering analyses on a continual basis for multiple states. Mr. Booth questioned how PPL could achieve such expertise and economies of scale.²¹⁰

Mr. Booth next testified that he expects the Smart Grid and other advanced technologies being implemented by National Grid to suffer if the Transaction is approved. Specifically, he noted that National Grid had filed Smart Meter (AMF) and Grid Modernization (GMP) cases with the Commission prior to the Petition filing, and which were later suspended after the Petition was filed. Mr. Booth testified that if the Transaction is approved, most, if not all of the implementation costs and capital expenditures will no longer be used and useful. As PPL has its own smart meter and grid programs, Mr. Booth laments that the earlier investments made by National Grid will be unrecoverable costs.²¹¹

Similarly, Mr. Booth points out that the work that National Grid has done to advance a Volt/Var optimization program and CYME modeling, including assessment of distributed energy resource (DER) integration and impacts has not been incorporated into PPL's system assessment and planning. Mr. Booth explained that these are technology advancements which are incorporated in the Area Studies and ISR Planning, which is not an activity PPL performs. Mr. Booth opined that PPL will not be able to acquire this expertise during the 24-month transition period.²¹²

In his final comments, Mr. Booth discussed other utility acquisitions that resulted in a decline in service and how that historical experience can be useful in

²¹⁰ Id., pp. 47-48.

²¹¹ Id., p. 49.

²¹² Id., p. 50.

the evaluation of the instant case. He also offered a prediction that the Division will have more regulatory work in the future if the Transaction is approved because it “*will be required to monitor many undetermined programs, activities and efforts implemented by PPL in order to determine if PPL is actually meeting its proposals and assurances of accomplishing the necessary changes, additions, programs and processes to achieve its purported requirement to achieve the public interest in the acquisition.*”²¹³ As a final conclusion, Mr. Booth vehemently opposed the proposed acquisition by PPL.²¹⁴

D. Michael R. Ballaban

Mr. Ballaban testified that he has been retained by the Division’s Advocacy Section to examine the effects of the proposed transfer of ownership (Transaction) against the standard of review the Division will employ. He related that in preparation of his testimony, he has reviewed the testimony and exhibits proffered by the Petitioners.²¹⁵

After a summary of his educational background and professional experience, Mr. Ballaban proffered a summary of his findings and the following recommendation on the proposed acquisition: “[t]he *Petition should be rejected because Petitioners have failed to demonstrate that the Transaction will have no adverse impact on rates, and therefore have not met their burden of demonstrating*

²¹³ Id., pp. 53-55.

²¹⁴ Id., p. 55.

²¹⁵ Advocacy Section Exhibit 4, p. 4.

that the Transaction is in the public interest.”²¹⁶ Mr. Ballaban based this recommendation on the following three primary findings:

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

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

*3. The Petitioners have not provided a proposed mitigation plan to protect customer rates during the separation from National Grid. Instead, the Petitioners ask the Division to trust that its operating history provides sufficient evidence that PPL RI’s ownership will have a positive impact on rates for Narragansett gas and electric customers by maintaining lower rates than otherwise would have resulted in the absence of PPL RI’s ownership.*²¹⁷

Focusing on the “public interest” criterion of the prescribed standard of review, Mr. Ballaban testified that there are several aspects of the Transaction that could unfavorably impact ratepayers. Specifically, Mr. Ballaban testified that the Petitioners have not been forthcoming in providing adequate data or commitments that would enable a determination as to whether the proposed transfer will adversely impact rates. He related that this is especially concerning with respect to transition costs. Mr. Ballaban pointed out that PPL has not proposed a mitigation plan to protect customer rates during the transition period, nor has it made commitments to protect ratepayers from transition costs that might negatively impact Narragansett’s revenue requirement. Mr. Ballaban also

²¹⁶ Id., pp. 1-4.

²¹⁷ Id., pp. 4-5.

notes that the Petition does not provide any details about the level of expected costs and the anticipated operational structure after the sale or any information about future rate filings or related future ratepayer burdens that may be connected to the transition.²¹⁸

Mr. Ballaban next discussed the issue of how PPL's proposed shared service model compares to National Grid's. He started by noting that 8.5% or \$255 million of the Service Company's charges is allocated to Narragansett. Mr. Ballaban testified that PPL proposes a similar arrangement for providing human resources, financing and accounting, supply chain, information technology, health and safety and security out of existing services organizations. But because the arrangement is "*not exactly the same*" Mr. Ballaban stated that making a direct comparison is difficult.²¹⁹ He testified that the matter is further complicated by the fact that PPL has yet to develop the Cost Allocation Manual that it intends to use to allocate its service company costs to Rhode Island.

Mr. Ballaban related that PPL has offered an estimate of what Rhode Island's allocated costs will be, but he has "*significant concerns about whether any reliable conclusions can be drawn from that analysis....*" Part of his concern comes from PPL's decision to base its allocation analysis on post-transaction expenses only – leaving out the costs that will be incurred prior to the completion of the transition, a period covering two years.²²⁰ He also expressed concerns with the "*broad statements of intentions and goals*" used by PPL. Mr. Ballaban

²¹⁸ Id., pp. 6-7.

²¹⁹ Id., p. 9.

²²⁰ Id., pp. 10-12.

asserted that due to all these uncertainties he cannot conclude that the acquisition would be in the public interest.²²¹

Mr. Ballaban next discussed the financial and operating data that was provided by PPL regarding the level of expected costs and operating structure after the sale. Mr. Ballaban testified that through discovery, PPL provided a study entitled “*Analysis of PPL’s Cost to Operate the Narragansett Electric Company*,” (“Operating Cost Analysis”) which was offered by PPL to compare selected elements of cost currently incurred by National Grid to operate Narragansett to the anticipated cost targets that PPL hopes to achieve for the same group of activities. Mr. Ballaban noted that PPL labels these costs as the ‘*steady state*’ that will be achieved after the transition services agreement expires. He also stressed that these cost numbers are only estimates.²²²

Mr. Ballaban testified that PPL limited the analysis to operating and maintenance costs plus allocated depreciation from Service Company assets that support Narragansett; the analysis reflects ‘*managed*’ costs in the range of \$275 million to \$285 million, with an estimated target expense level of \$273.6 million compared to National Grid’s estimate of \$285.5 million. However, Mr. Ballaban points out that this group of costs is only a small portion of Narragansett’s total revenue requirement, noting that Narragansett’s 2020 electric and gas revenues, exclusive of purchased power costs, are approximately \$1 billion.²²³

²²¹ Id., p. 12.

²²² Id., pp. 12-13.

²²³ Id., pp. 13-14.

Mr. Balaban testified that while on its face the Operating Cost Analysis results appear positive, he has significant concerns that are not addressed by the analysis. He proffered the following list of concerns:

- 1. PPL qualifies that the cost targets are not budgets and that the level of charges are 'PPL's reasonable expectation of the comparison between National Grid USA's current costs to operate Narragansett and PPL's anticipated costs to operate Narragansett. Hence, these are estimates that attempt to forecast what may happen prospectively; they may or may not translate into actual future outcomes.*
- 2. Consequently, PPL does not make any commitments regarding these cost targets; nor does it indicate if customers will receive any benefits through a reduction in rates for such lower costs.*
- 3. These steady state costs are only likely to occur after the transition period is completed. No information is provided on the level of costs expected before that time, which is likely to extend at least two years after the Transaction close, and perhaps longer.*
- 4. By its own admission, PPL's study does not include the costs of replacing any equipment or facility prior to the end of its useful life that may have a direct consequence of the Transaction or the transition costs of integrating the previously separate systems.*
- 5. Through examination of Narragansett Electric financial data submitted in Docket No. 4770, the impact of return on and of rate base on Narragansett's revenue requirement and ultimately customer rates, is at least as great, if not more, than the costs that are the subject of the study.*
- 6. PPL failed to address any impacts on the rate base during either the transition period or following entrance into the "steady state" period. Also, the study only includes selected costs and does not address what happens to other non-recurring O&M necessary to establish PPL RI as a separate company from National Grid or to continue operating Narragansett Electric on a going forward basis.²²⁴*

²²⁴ Id., pp. 14-16.

Based on these findings, Mr. Ballaban opined that PPL's Operating Cost Analysis does not provide a sound basis from which to draw any definitive conclusions about the Transaction's impacts on customer rates.²²⁵

Mr. Ballaban next addressed his concern with respect to PPL's lack of details about transition costs. He testified that while PPL indicates that there will be transition costs as a result of the Transaction, PPL has not provided an estimate of such costs. Because Mr. Ballaban expects these costs to be substantial, he was unable to quantify the impact to Narragansett's ratepayers.²²⁶

When PPL was questioned about whether it would seek a recovery of its transition costs from ratepayers, Mr. Ballaban stated that PPL gave inconsistent responses. He testified that on the one hand, PPL indicates that it '*will track... transition costs... and will not pass [them] on to Narragansett's customers;*' on the other hand, however, PPL states it '*will evaluate on a case-by-case basis whether they will seek to recover costs necessary to separate Narragansett from National Grid USA and integrate Narragansett into PPL.*' Mr. Ballaban testified that this inconsistency indicates to him that "*customers could be facing a request for a currently unknown, and potentially significant recovery in rates of transition costs.*"²²⁷

Mr. Ballaban was also troubled by the Petitioners' failure to provide any information regarding the impact of the Transaction on existing administrative and general cost allocations from the Service Company during the transition

²²⁵ Id., p. 16.

²²⁶ Id., pp. 16-19.

²²⁷ Id., pp. 19-21.

period. He testified that due to this absence of cost information, the Advocacy Section was compelled to seek through discovery a baseline cost amount and estimates for the two-year transition period in order to seek a comparison of costs. Mr. Ballaban related that through this discovery, a baseline cost for 2020 showed that actual Service Company charges to Narragansett for 2020 as reported by National Grid were \$164.6 million for O&M costs and \$71.3 million for capital expenditures. Estimates, however, for Year 1 under the TSA reflect \$200.5 million and \$84.5 million, respectively; estimates for Year 2 of the TSA reflect \$214.7 and \$90 million, respectively. From these numbers, Mr. Ballaban concluded that there will be significant cost increases during the transition period.

Mr. Ballaban made it clear that National Grid does not agree with his conclusions. He related that National Grid insists that the cost estimates for Year 2 costs are “*premature and purely speculative at this point... and derived using different methodologies and cost components.*” Nevertheless, Mr. Ballaban asserts that with no substituting documentation forthcoming, then it is impossible to conduct an independent assessment of what will happen to the Service Company charges during the transition period and after the Transaction closes. He testified that unless the Petitioners provide updated commitments, the Division should consider implementing certain minimally acceptable measures to mitigate the risk that customer rates include as of yet unknown and potentially significant transition costs directly attributable to the Transaction.²²⁸ Mr. Ballaban testified

²²⁸ Id., pp. 22-27.

that his concern is compounded by the fact that PPL has indicated that it is “*not making any hold harmless commitments at this time with respect to PPL’s recovery of capital costs necessary to allow PPL to establish the infrastructure required to operate Narragansett independently.*”²²⁹

Mr. Ballaban testified that even though the PUC and Division will have an opportunity to review the entirety of Narragansett’s customer revenue requirements at the time of PPL’s first base rate case, “*there is no ability to predict reliably either what evidence will come before the PUC, or how transition charges will ultimately impact customer rates.*” Mr. Ballaban related that this is especially true given the potential complexities involved in evaluating how costs attributable to transition expenditures, especially capital costs, are likely to produce immediate upward pressure on customer rates while any claimed benefits from such investments will likely occur more gradually over time.²³⁰

Given his observations, Mr. Balaban testified that he has significant concerns that if PPL were to seek cost recovery for even a portion of these transition costs, an adverse impact on customer rates could result.²³¹ However, as mitigating measures, Mr. Ballaban recommended that the Division consider the following requirements for PPL as a condition of approval:

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

²²⁹ Id., pp. 27-28.

²³⁰ Id., pp. 29-30.

²³¹ Id., p. 30.

*3. File robust evidence regarding key accounting policies that form the building blocks for development of rate making revenue requirements well in advance of its first distribution base rate case before the PUC and Division.*²³²

Mr. Ballaban also added another possible mitigation mechanism for consideration. He noted that PPL states it ‘*may seek to recover portions of the costs of its investments that replace unused assets after close to the extent that PPL RI can demonstrate the incremental benefits of these transition costs.*’ He testified that “*the parties should mutually agree to the specific financial framework for evaluating such costs well in advance of a rate case request that may include such items.*” He also recommended that these costs be tracked and periodically reported to the PUC.²³³

For some clarification, Mr. Ballaban testified that these mitigating measures are not exclusive. He related that these procedures would be in addition to all statutory and regulatory obligations that survive the sale. He also opined that the distribution base rate freeze would need to extend at least 4 years from the date of the Transaction closing and address rates associated with the regulated electric and gas distribution operations of Narragansett, excluding costs recovered through reconciling mechanisms or FERC-jurisdictional charges.²³⁴

E. Bruce R. Oliver

Mr. Oliver indicated that he was engaged by the Advocacy Section to address issues relating to the proposed acquisition by PPL and PPL Rhode Island of Narragansett and its gas distribution utility operations in Rhode Island, as well

²³² Id., pp. 30-39.

²³³ Id., pp. 35-36.

²³⁴ Id., pp. 31-35.

as the impacts of approval of the proposed Transaction on the safety, reliability, and costs of natural gas service for Rhode Island consumers. Mr. Oliver also stated that his testimony addresses concerns relating to the effect that the proposed Transaction will have on the PUC's existing and future regulatory policies.²³⁵

As an overview of his evaluation of the proposed Transaction, Mr. Oliver offered the following summary of his conclusions:

*PPL's acquisition of Narragansett's gas utility operations offers no incremental value to Rhode Island and the state's gas utility customers. Rather, if approved, the Transaction should be expected to result in a loss of economies of scale, an erosion of gas purchasing efficiency and effectiveness, redundant transition period costs, and increases in the overall costs of Narragansett's natural gas service to Rhode Island customers. I have not identified any improvements in service reliability or service quality that would result from the Transaction.*²³⁶

Mr. Oliver related that National Grid's current organizational structure provides most of the management and administrative services for Narragansett's gas operations through its Service Company. He explained that the Service Company provides many of the management, planning, purchasing, financial, and regulatory services for National Grid's gas affiliates in Rhode Island, Massachusetts, and New York. Mr. Oliver opined that consequently, PPL will incur increased costs to attract and retain experienced management and engineering personnel for Rhode Island's small operations.²³⁷

²³⁵ Advocacy Section Exhibit 5, pp. 2-3.

²³⁶ Id., p. 4.

²³⁷ Id.

By comparison, Mr. Oliver testified that PPL's only gas utility operations are part of its LG&E subsidiary, which is approximately 800 miles from Providence. Mr. Oliver asserted that there are at best limited opportunities to share employees between LG&E and Narragansett's gas utility operations. Mr. Oliver also asserted that there are important differences between the two operations, noting that unlike LG&E, Narragansett operates in a capacity constrained market, which makes it dependent on LNG to meet its peak requirements. Mr. Oliver also stressed that because of its dependence on the Service Company and National Grid's other gas utility affiliates, "*Narragansett's gas utility operations **do not presently constitute 'stand-alone' operations.***"²³⁸ [emphasis in the original].

Mr. Oliver testified that the separation of Narragansett's gas operations from National Grid gas utility portfolio portends a substantial loss of economies of scale, which suggests increased costs to Rhode Island gas customers. He asserted that neither the proposed Transaction nor the Petitioner's transition plan provides the necessary assurances of continued safe and reliable gas services at reasonable cost.²³⁹

Mr. Oliver was particularly concerned with PPL's lack of experience with the design, construction, and operation of LNG facilities. Mr. Oliver opined that if the Transaction is approved, Narragansett's gas customers will be exposed to increased costs and the risk of degraded gas service safety and reliability. Mr. Oliver testified that nothing in the Petition and testimony to date provides Rhode

²³⁸ Id., p. 5.

²³⁹ Id., p. 6.

Island gas customers with adequate assurances of, or protections from, such adverse impacts.²⁴⁰

Mr. Oliver next summarized his “key findings” regarding the proposed Transaction, which are reproduced below:

- *Large uncertainties remain regarding the impacts of the proposed Transaction on costs and operations of Narragansett’s gas system in Rhode Island make it impossible to conclude that proposed Transaction is consistent with the public interest.*
- *Narragansett’s gas operations are a comparatively small component of National Grid’s highly integrated management of the operations of its gas utility subsidiaries in Massachusetts and New York, and few National Grid Service Company personnel are dedicated 100 percent to the planning, operation, and/or management of Narragansett’s gas system.*
- *PPL’s acquisition of Narragansett’s gas operations implies a substantial loss of scale economies in the planning, administration, operation, and maintenance of the Rhode Island gas system. PPL’s more remotely located LG&E gas operations cannot be expected to replicate the scale economies currently associated with National Grid’s operation of Narragansett’s gas system, and PPL offers no assurance that Narragansett’s gas customers will be protected from adverse effects of such losses of scale economies. The loss of such economies of scale and support from neighboring utility operations is not consistent with Rhode Island’s public interest.*
- *PPL does not demonstrate the necessary experience and expertise to operate the Narragansett gas system without assistance from National Grid.*
- *The proposed Transaction requires a substantial unbundling of Narragansett’s gas operations and planning from National Grid, and the consequences of that unbundling are integral to any assessment of Narragansett’s continued*

²⁴⁰ Id., p. 7.

ability to provide safe and reliable gas service at reasonable cost after the Transaction is completed. Thus, focus on the Transaction as solely a Share Purchase Agreement cannot yield an appropriate assessment of the impacts of the Transaction on Rhode Island's public interest.

- PPL cannot assume full responsibility for Narragansett's gas operations in Rhode Island absent the development of new Rhode Island-based facilities. Yet, the costs for establishing those new facilities appears to extend well beyond the proposed two-year transition period.*
- The design, construction, operation, and maintenance of LNG facilities are essential elements of providing continued reliability of gas service in Rhode Island, and further delays in the planning and construction of new LNG facilities, particularly in Cumberland and Aquidneck Island may have adverse implications for gas service reliability.*
- Due to the extensive sharing of National Grid's resources and personnel by its gas utility subsidiaries, staffing of a stand-alone Rhode Island gas utility cannot be expected to reflect a one-to-one substitution of PPL or new Narragansett gas management, planning, and operating personnel for existing National Grid personnel.*
- Except at the very highest levels, staffing of management, planning, and engineering positions for Narragansett's gas utility operations remains unclear as are the costs of filling such positions.*
- If the Transaction is approved, then Rhode Island ratepayers will need to be protected from redundant costs incurred during the period in which PPL personnel are introduced to, and attempt to gain knowledge of, key elements of Narragansett's gas system operations and planning.*
- 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 of Narragansett. Such higher leak rate experience must not be*

allowed to degrade the safety and quality of service for 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.*²⁴¹

Predicated on these findings, Mr. Oliver offered a number of recommendations for the Division to consider, specifically:

1. The Division should reject the proposed Transaction as inconsistent with the public interest. The Division should find that the proposed Transaction does not ensure that Rhode Island ratepayers will be protected against added costs for natural gas service that are directly related to the proffered change in ownership.

2. The Division should find that the proposed plans for unbundling the Narragansett gas system from National Grid do not provide reasonable and adequate assurance of PPL's ability to continue to provide safe and reliable service to Narragansett's gas customers at reasonable cost.

*3. The Division should find that for the proposed Transaction to be consistent with the public interest, the new facilities to be developed in Rhode Island to support Narragansett's gas operations **are necessary to effect an unbundling of Narragansett's gas operations** [emphasis in Original] from those of National Grid and its other gas utility affiliates, and therefore, constitute costs necessitated by the Transaction that must be borne by PPL (i.e., the acquiring entity) – not Rhode Island ratepayers.*

4. The Division should find that PPL has failed to demonstrate that the Transaction is in the public interest because the proposals of the Petitioners lack sufficient assurances that Rhode Island gas customers will not be asked to pay for redundant costs incurred by National Grid and PP [sic] during the transition period (i.e., as PPL and the new management of Narragansett's gas operations endeavor to learn RI's gas system and the elements of those operations that are not found in PPL's LG&E gas system operations.

²⁴¹ Id., pp. 8-10.

5. *The Division should conclude that PPL has not demonstrated sufficient staffing and expertise in key elements of Narragansett's gas operations (e.g., LNG facilities design, construction, and operations, as well as gas procurement in New England and Canadian gas markets) to assume responsibility for those activities. While it may be presumed that PPL can gain the required knowledge and expertise overtime [sic], it is unclear how long acquisition of the requisite knowledge will take and what the impacts on gas system costs and reliability will be experienced in the interim.*

6. *The Division should find that the Transaction will result in a substantial loss of economies of scale in the management and operation of Narragansett's gas utility operations must be anticipated, and that PPL's LG&E gas utility operations are too remote from Rhode Island to provide significant opportunities for mutual support and sharing of scale economies.*

7. *The Division should determine that PPL's estimates of its costs of operating Narragansett's gas system in Rhode Island are unreliable and provide little insight regarding PPL's actual costs of operating Narragansett's gas system without support from National Grid.*²⁴²

After summarizing his recommendations, Mr. Oliver provided a detailed description of both the Narragansett and PPL's LG&E gas systems. The purpose of this testimony was to contrast and compare the two systems.²⁴³ From these descriptions, Mr. Oliver testified that a transfer of ownership and control of Narragansett's utility operations "*cannot be achieved without a full unbundling of Narragansett's operations*" from National Grid. He related that the TSA and Share Purchase Agreement are necessary elements designed to assist in facilitating the Transaction.

However, on the issue of rates, Mr. Oliver testified that while PPL states that it will not seek recovery through rates of items that it classifies as Transaction

²⁴² Id., pp. 11-13.

²⁴³ Id., pp. 14-21.

costs, it *“reserves the right to seek recovery in future rate proceedings of costs associated with the transition to PPL control of Narragansett’s operations.”* He added that PPL also *“leaves open the possibility that it would recover merger-related costs, including any acquisition premium, to the extent that those costs would not result in an increase in Narragansett’s rates.”*²⁴⁴

Mr. Oliver expressed concern over the possibility of PPL seeking rate relief for such costs. He also alluded to a recent FERC Policy Statement that addresses the rate treatment of transaction and transition costs, which Mr. Oliver opined provides guidance in the instant case. Mr. Oliver testified that the FERC’s Policy Statement suggests that *“transition costs”* should be considered as transaction-related costs that should be subject to hold harmless commitments on a case-by-case basis and that such transaction-related costs should be covered under hold harmless protection. However, Mr. Oliver also related that the Policy Statement *“also suggests that applicants will have an opportunity to show why certain of those costs should not be considered transaction-related costs under their hold harmless commitment based on their particular circumstances.”*²⁴⁵ Mr. Oliver’s concern is that PPL has indicated that although it does not plan to bill Transaction costs to ratepayers, it has, at the same time, offered *“a very narrow definition of Transaction costs that limit the categories of transaction-related expenditures for which it would not seek recovery.”*²⁴⁶

²⁴⁴ Id., pp. 22-23.

²⁴⁵ Id., p. 25.

²⁴⁶ Id.

Mr. Oliver related that because the Transaction requires a substantial unbundling of Narragansett's management and operations from National Grid and its Service Company, the Division should not accept PPL's definition of transactions costs. He testified that the simple execution of a Share Purchase Agreement cannot and will not achieve the requisite unbundling of Narragansett's operations from National Grid. Mr. Oliver asserts that *"any costs (including capital investments and operating expenses) incurred in excess of those that Narragansett would expect to incur under National Grid ownership must be considered elements of the overall costs necessary to fully implement the Transaction, and such costs should not be the responsibility of Narragansett's Rhode Island ratepayers."*²⁴⁷ Mr. Oliver added that *"[a]ny costs incurred under the TSA and/or any costs charged to Narragansett by PPL during the transition period that would contribute to Narragansett's need for additional gas base rate revenue should be considered costs incurred to affect the Transaction, and as such, they should be the sole responsibility of the acquiring party (i.e., PPL)."* Mr. Oliver asserted that no such costs should be recoverable from ratepayers unless PPL *"demonstrates benefits that have a value to those customers in excess of the costs for which recovery through rates is requested,"* which Mr. Oliver notes has not been demonstrated to date.²⁴⁸

Mr. Oliver next discussed the various transition services that National Grid will provide Narragansett under the TSA. He paid particular attention to the lack of detail provided by PPL on these services, instead, likening the TSA services

²⁴⁷ Id., pp. 25-26.

²⁴⁸ Id., pp. 27-29.

identified as an “*outline of activities with no commitment that any of the specific functions outlined will necessarily be included in a final TSA....*”²⁴⁹ Mr. Oliver also criticized PPL for not offering more specific time periods for the provision of transition services by function; he also questioned the lack of detail on the manner in which personnel time will be billed to Narragansett for transition services, charges for use of facilities, systems, and equipment.²⁵⁰

Mr. Oliver next offered his opinion on how gas system costs would be adversely impacted by the Transaction. He grouped these costs into four categories: (1) loss of economies of scale; (2) costs for billing system modifications; (3) costs to attract and retain qualified personnel; and (4) redundant transition period costs.

On economies of scale, Mr. Oliver related that the combined Narragansett and LG&E operations would equate to only about 20-25% of the current National Grid gas utility portfolio. He also added that any value potentially derived from the combination of Narragansett and LG&E would be diminished by the more remote location of LG&E’s system. Mr. Oliver further opined that the size and geographic proximity of National Grid’s combined gas utility operations provides National Grid with greater bargaining power in the negotiation of contracts, particularly in gas procurement activities. Mr. Oliver called PPL’s representation that it would be able to replicate the current economies of scale “*little more than speculation and conjecture.*”²⁵¹

²⁴⁹ Id., pp. 29-30.

²⁵⁰ Id., p. 31.

²⁵¹ Id., pp. 32-35.

Regarding gas billing system modifications, Mr. Oliver notes that PPL has identified five areas within National Grid's current gas billing functions that PPL is examining for possible modifications; namely, tariffs and billing, customer service, collections, backend interfaces and financial reporting. Mr. Oliver testified that as of mid-October, PPL had not yet developed or estimated the costs to transfer these billing functions to PPL.²⁵²

On the issue of needing employment incentives, Mr. Oliver noted that because few of the Service Company personnel that currently provide services for Narragansett are based in Rhode Island, and because Narragansett has the only gas utility operation in the state, PPL will need to attract people from outside the state. He opined that under these circumstances such relocation incentives are not uncommon. Mr. Oliver testified that PPL has not provided any estimates on the potential level of these costs.²⁵³

With respect to the issue of redundant transition costs, Mr. Oliver acknowledged that there are many aspects of Narragansett's gas operations that differ from those of PPL's LG&E affiliate. He opined that PPL/Narragansett will need to incur added costs during the period in which efforts are made to transfer institutional knowledge and associated histories of current practices and procedures. Mr. Oliver asserted that Rhode Island gas customers should not be required to pay any costs associated with PPL's efforts to learn the specific characteristics of Narragansett's gas operations.²⁵⁴

²⁵² Id., pp. 35-36.

²⁵³ Id., pp. 37-38.

²⁵⁴ Id., pp. 38-39.

Mr. Oliver next switched his discussion to gas system reliability. Particularly, Mr. Oliver was critical of PPL's failure to identify any specific elements of Narragansett's gas system in which it would invest to enhance safety, reliability, and customer satisfaction. Mr. Oliver expressed concern due to the fact that the reliability of gas service in Rhode Island "*is heavily dependent upon the storage and vaporization during periods of peak demand of LNG*" and that "*only one employee of LG&E is identified as having first-hand LNG experience.*" He also was troubled by PPL's admission that it does not have any employees with experience in the planning, design, and construction of LNG facilities.²⁵⁵

Mr. Oliver testified that Narragansett is considering replacing its temporary portable LNG vaporization facilities at Aquidneck Island and in Cumberland with permanent facilities. He reasoned that without the requisite planning, design and construction experience, these projects could be delayed or curtailed leaving Narragansett reliant upon comparatively expensive portable LNG vaporization alternatives.²⁵⁶ Mr. Oliver was similarly concerned that PPL does not have its own plan to "*ensure the provision of safe and reliable service to Narragansett gas customers on Aquidneck Island.*"²⁵⁷ He also expressed concern that PPL "*appears ill-equipped to address*" the potential LNG supply problems related to the delayed completions of the Northeast Energy Center and the NGLNG Fields Point

²⁵⁵ Id., pp. 40-41.

²⁵⁶ Id., pp. 41-42.

²⁵⁷ Id., pp. 42-43.

liquefaction facility.²⁵⁸ Mr. Oliver also criticized PPL for not explaining how it plans to strengthen Narragansett's gas distribution service.²⁵⁹

Mr. Oliver next turned his focus to the issue of gas system safety. He started by asserting that PPL witness Mr. Bellar's statement that "*PPL has a track record of making... capital investments in gas infrastructure to improve safety and reliability while maintaining lower-than-average rates*" "*has no relevance to this proceeding.*" Mr. Oliver argued that Kentucky's rates are not specifically relevant to Rhode Island.²⁶⁰

Mr. Oliver also rejected PPL's claim that LG&E is "*significantly ahead of where most of the gas industry is with [its] replacement programs.*" Mr. Oliver testified that when PPL acquired LG&E in 2010, LG&E's gas system had comparatively small mileage of Cast Iron and Bare Steel mains, which it was able to replace by 2017. Mr. Oliver noted that the northeast, by comparison, operates older systems and has significant mileage of leak prone Cast Iron and Bare Steel distribution mains.²⁶¹ To demonstrate the contrast, he related that despite Narragansett's extensive replacement program, as of 2020 Narragansett's gas system in Rhode Island still had 668 miles of Cast Iron gas mains, 174 miles of Unprotected Bare Steel gas mains, and 17 miles of Ductile Iron gas mains.²⁶²

Mr. Oliver next compared LG&E's and Narragansett's distribution system hazardous leak rates. Mr. Oliver testified that "[d]espite the comparatively large

²⁵⁸ Id., pp. 43-44.

²⁵⁹ Id., pp. 44-45.

²⁶⁰ Id., p. 45.

²⁶¹ Id., pp. 45-46.

²⁶² Id., pp. 46-48.

*amount of pipe replacement work remaining for the Narragansett system, Narragansett has achieved lower total numbers of reported **hazardous** leaks per 100 miles of distribution mains in each of the last five years than LG&E [emphasis in the original].”*²⁶³ Based on this statistic, Mr. Oliver testified that “*PPL’s representation that LG&E is ‘significantly ahead of where most of the gas industry is with [its] replacement programs’ is not particularly meaningful from a gas system safety perspective.*”²⁶⁴

Mr. Oliver also questioned whether PPL intends to continue with Narragansett’s current Gas Business Enablement Program after the closing. Mr. Oliver notes that PPL was non-comital in its responses to Advocacy Section discovery questions. Mr. Oliver testified in favor of continuing the program, which allows Narragansett to better “*know its system and more accurately identify the riskiest mains and services’ that require replacement which will reduce leaks...*”²⁶⁵

Moving to the issue of transition uncertainties, Mr. Oliver identified three areas of concern: (1) pricing of transition services, (2) timing of completion for required new facilities, and (3) staffing and costs of filling non-union positions. Regarding the pricing of transition services, Mr. Oliver related that “*the costs of proposed transition services and the impacts of the transition on Narragansett’s non-gas costs remain unknown.*” On this issue, Mr. Oliver asserted that Rhode Island ratepayers should not be held responsible for transition costs that cause Narragansett’s overall costs of operations to exceed present levels. To be more

²⁶³ Id., p. 48.

²⁶⁴ Id., pp. 48-51.

²⁶⁵ Id., pp. 51-53.

specific, Mr. Oliver testified that Narragansett's O&M costs during the proposed transition period can be expected to include costs directly incurred by Narragansett, cost for transition services provided by National Grid under the TSA, and costs incurred by PPL and/or PPL Rhode Island as part of its efforts to effect a transition to full PPL control. He testified that such costs "*should only be recoverable to the extent that they are prudently incurred and do not necessitate an increase in Narragansett's overall gas service revenue requirement.*"²⁶⁶

Regarding the issue of a time schedule for the completion of new facilities, Mr. Oliver indicated that PPL has estimated that a Rhode Island dedicated Gas Control Center will be established within two years after the closing of the Transaction; the location for the Control Center has not been determined. Mr. Oliver also noted that PPL plans to create a physical customer service contact center in Rhode Island. Mr. Oliver opined that it is "*unlikely*" that the completion of these facilities will be realized during the transition period. He explained that time required to properly design, construct and equip these facilities will likely take longer than two years.²⁶⁷ Mr. Oliver also testified that PPL has not offered a commitment that Rhode Island gas customers will not have to pay for these facilities.²⁶⁸

Regarding the staffing of non-union positions, Mr. Oliver voiced concerns over the qualifications of the persons who will actually fill these positions and also what PPL will need to pay to attract and maintain qualified personnel. Mr. Oliver

²⁶⁶ Id., pp. 53-59.

²⁶⁷ Id., pp. 60-61.

²⁶⁸ Id., pp. 62-63.

testified that although many Narragansett and Service Company employees have agreed to stay on at Narragansett both during the transition and after the Transaction closes, he maintains that there is no assurance that these employees will be highly qualified individuals who possess ‘*significant institutional knowledge*’ of Rhode Island’s gas operations. He added that not all Service Company employees have an equal level of experience and institutional knowledge.²⁶⁹ Mr. Oliver also testified that it is unreasonable for PPL to base an estimate of its labor costs on average salaries paid by those functions by LG&E in Kentucky. To the extent that it needs to increase its compensation to attract and retain employees, Mr. Oliver notes that PPL has not indicated whether it plans to absorb those additional costs.²⁷⁰

Mr. Oliver next discussed what he characterized as PPL’s lack of experience in key elements of Narragansett’s/Rhode Island’s gas operations. He described these elements as: (1) the design, construction, operation, and maintenance of LNG Facilities; (2) Navigation of New England and Canadian Gas Markets; and (3) the use of financial hedges to limit increases in gas purchase costs.

Mr. Oliver testified that PPL has not committed to fully gaining experience in the New England gas market during the transition period; nor does it have experience with portable or permanent LNG vaporization operations.²⁷¹ Mr. Oliver relied on data responses from National Grid and PPL as the bases for these assertions. Mr. Oliver also noted that PPL has no experience in the design and

²⁶⁹ Id., pp. 63-65.

²⁷⁰ Id., pp. 66-67.

²⁷¹ Id., pp. 67-68.

construction of LNG facilities. Mr. Oliver testified that PPL will be relying exclusively on National Grid's support through the TSA for these capabilities. Mr. Oliver also noted that Narragansett has admitted in a data response that "*no current direct employees of The Narragansett Electric Company... have experience in the planning, design and construction of... LNG... facilities.*"²⁷²

Mr. Oliver also noted that LG&E does not purchase gas in the Appalachian, New England, or Canadian gas markets, the markets most critical for Narragansett. Instead, LG&E purchases its gas supply primarily out of Texas, Louisiana, and the Gulf of Mexico. Mr. Oliver testified that although there are some similarities, the overall dynamics of the markets are quite different. Mr. Oliver pointed to the fact that New England is at the end of the pipeline, which constrains Narragansett's available gas supply options. Mr. Oliver opined that Narragansett's removal from the much larger National Grid gas procurement portfolio will lead to a substantial loss of bargaining strength.²⁷³

Mr. Oliver next discussed PPL's limited experience with using financial hedges as part of a gas purchasing strategy. He related that National Grid's use of financial hedges in its management of gas purchases has been a material element of Narragansett's gas purchasing strategy in recent years. Mr. Oliver related that such hedging has provided Narragansett's ratepayers \$20,680,555 in savings for the period November 1, 2021 through October 2022. Mr. Oliver

²⁷² Id., p. 70.

²⁷³ Id., pp. 70-72.

testified that PPL has not committed to using such hedging techniques when it takes over the ownership of Narragansett.²⁷⁴

At the end of his testimony, Mr. Oliver touted the success of two gas cost-related incentive programs that Narragansett has utilized for the benefit of ratepayers. The two programs are the Gas Procurement Incentive Plan (“GPIP”) and the Natural Gas Portfolio Management Plan (“NGPMP”).²⁷⁵ Mr. Oliver explained that the GPIP is structured to encourage Narragansett to take advantage of fluctuations in gas market prices to lower commodity costs of gas purchased to serve Rhode Island gas customers; the NPPMP provides incentives for Narragansett to lower fixed costs of gas supply assets that must be borne by its customers by marketing capacity that is not required in near-term period to third parties and using proceeds to reduce the fixed recoveries Narragansett would otherwise require through its Gas Cost Recovery (“GCR”) mechanism. Mr. Oliver testified that in recent years these incentive programs have been effective in lowering Narragansett’s gas procurement costs (\$47.7 million in savings between 2016 and 2020, of which \$41.5 million accrued to the benefit of ratepayers).²⁷⁶ Mr. Oliver testified that the related discovery indicates that PPL will work with National Grid during the transition period to ensure that gas procurement services for Narragansett will be provided in a manner consistent with past

²⁷⁴ Id., pp. 72-73.

²⁷⁵ Id., p. 74.

²⁷⁶ Id., pp. 74-75.

practices. However, Mr. Oliver raises concerns that PPL may not realize the same level of success in its gas procurement activities as National Grid.²⁷⁷

Finally, Mr. Oliver questioned the value of LG&E's achievements in the area of customer satisfaction. Pointing to LG&E's 2019 and 2020 J.D. Power awards, Mr. Oliver notes that while LG&E was rated as tops in 2019 in terms of business customer satisfaction, in 2020, it was ranked seventh out of eleven Midwest medium-sized gas utilities with respect to residential customer service and had an overall national rank of 56 out of 83 utilities surveyed.²⁷⁸

4. The Attorney General's Direct Case

The Attorney General proffered two witnesses in this docket. The witnesses were identified as Mark D. Ewen and Robert D. Knecht, both Principals at the consulting firm of Industrial Economics, Inc., 2067 Massachusetts Avenue, Cambridge, MA. Messrs. Ewen and Knecht jointly sponsored pre-filed direct testimony, with attached exhibits, in accordance with the approved procedural schedule, on November 8, 2021.²⁷⁹

A. Messrs. Mark D. Ewen and Robert D. Knecht

Messrs. Ewen and Knecht testified that they were retained by the Attorney General to evaluate the following topics related to the Transaction:

- *The financial aspects of the proposed transaction, including the financial viability of each PPL entity individually and of the proposed subsidiary structure;*

²⁷⁷ Id., pp. 75-79.

²⁷⁸ Id., pp. 79-80.

²⁷⁹ Attorney General Exhibit 1.

- *The due diligence and actions of the transacting parties in determining to pursue the proposed transaction, including review of financial documents;*
- *The potential environmental consequences and costs of the proposed transaction and its effects on Rhode Island's ability to meet mandated carbon emission reductions pursuant to the 2021 Act on Climate;*
- *The tax implications of the proposed transaction; and*
- *Other costs and efficiencies incident to transferring services to PPL in light of regional assets and availabilities of resources for, inter alia, customer support and storm response.²⁸⁰*

After their introductory comments describing the proposed Transaction and their understanding of the applicable Rhode Island standard of review for approving such transactions, Messrs. Ewen and Knecht opined that the Transaction should not be approved.²⁸¹ They offered the following conclusions and recommendations:

- *As proposed, the transaction should not be approved. PPL has failed to provide even the most rudimentary post-transaction financial statements for either NEC or PPLRI. PPL has generally indicated that it will continue to operate NEC in the same manner as... [National Grid] without explaining fully how it will be able to do so, and ratepayers are absorbing significant risk that operating costs will be materially higher under PPL ownership. Moreover, recent changes in Rhode Island policy will require a more aggressive approach for reducing carbon emissions associated with electric supply, for overall gas usage, and for distribution services. At this time, PPL has offered little in the way of proposals to expand upon ...[National Grid's] current policies and activities to begin to address this new policy environment.*
- *The Division should not approve the proposed transaction if PPL has not provided at least a reasonable estimate of post-*

²⁸⁰ Id., p. 2.

²⁸¹ Id., p. 10.

transaction financial statements for NEC and PPLRI, and parties have had a chance to review and analyze those statements.

- To provide reasonable protection for NEC ratepayers from risks associated with the potential for increased debt financing for existing and new goodwill assets, the Division should establish as a condition for approving any sales that PPL not allow the debt share of capital for either PPLRI or NEC to exceed 50 percent of capital excluding goodwill, without regulatory approval. Similarly, PPL should commit that it will not use NEC assets to support any debt instruments that are not used to finance NEC assets.*
- The Division should require that PPL limit its capital expenditures for the natural gas distribution system to those projects that are already underway or are necessary for public safety. The Division should require PPL to prepare an evaluation of the long-term viability of the natural gas distribution system in the context of Rhode Island's 2021 Act on Climate, within 12 months of the closing date of the sale. The study should address (a) efforts to expand the natural gas distribution grid, (b) its repair versus replace policies for the existing system, and (c) the potential to substitute abandonment/electrification for mains replacement.*
- The Division should require PPL to prepare an evaluation relating to standardizing policies for the incorporation of distributed energy resources to the electric distribution grid, along the lines of the analysis prepared in Pennsylvania, within 36 months of the closing date for the sale.*
- Regarding PPL's stated position that ratepayers will not be negatively impacted by the change in ADIT, the Division should formally recognize that as a condition of sale.*
- To reflect the substantial uncertainty associated with operating costs under PPL as compared to... [National Grid], we recommend that the Division not approve the transaction unless PPL commits to at least a three-year base rate stay out, by which time PPL should have a much better understanding of its costs to operate NEC.²⁸²*

²⁸² Id., pp. 10-11.

Messrs. Ewen and Knecht next addressed their perception of the financial aspects of the proposed Transaction as well as the financial viability of PPL and its relevant subsidiaries. In evaluating the financial aspects of the proposed sale, the witnesses opined that it is necessary to consider the potential for the following four post-transaction impacts:

1. Will the resulting utility company and its parent companies be reasonably financed, such that the financial risk of the acquired utility has not increased as a result of the transaction? The capital structure of the purchased utility should be evaluated net of goodwill.

2. Does the post-transaction utility and its parent have the financial wherewithal to be able to raise capital in the capital markets to meet the investment requirements of the utility?

3. How will the transaction affect the debt ratings for new debt issuances?

4. Are there sufficient “ring-fencing” provisions for the utility to prevent the new owner from encumbering the assets of the purchased utility?²⁸³

In applying the first of these four questions to the proposed Transaction, Messrs. Ewen and Knecht testified that based on the totality of facts surrounding the Transaction, “*PPL’s investment in NEC will substantially exceed the asset base on which it will be permitted to earn a return.*” However, the witnesses related that this fact is “*unsurprising, as purchase prices for utility companies typically show a significant market price premium.*” They also opined that “*this market premium should not have a significant negative impact on ratepayers, unless the market*

²⁸³ Id., p. 12.

premium is financed by increasing the long-term debt, thereby increasing the overall riskiness of the enterprise.” The witnesses noted, however, that “PPL indicates that it does not intend to use debt financing for the acquisition.”²⁸⁴

Messrs. Ewen and Knecht next discussed the implications of the proposed Transaction on the financial viability of PPL, PPLRI and NEC. With respect to PPL, the witnesses testified: “[o]verall, PPL is a much larger firm than NEC, with total book assets of \$36.8 billion compared to NEC’s book assets of 5.6 billion. We conclude that, if NEC is reasonably financed, PPL has the financial credibility to be able to raise funds in the capital markets to meet NEC’s investment requirements.”²⁸⁵ Regarding PPLRI, Messrs. Ewen and Knecht related that “*the primary difference between the consolidated PPLRI books and the NEC books will be that some \$1 billion in goodwill associated with the proposed transaction will be recorded on PPLRI books, but not the NEC books.*” As for NEC, Messrs. Ewen and Knecht testified that “*the only known significant change under new ownership will be an impact on ADIT.*” They opined that “[u]nless an accommodation is made, this change would serve to increase utility rate base and thus increase rates in the next base rates proceeding.” However, the witnesses noted that “*PPL generally promises to indemnify ratepayers for any impact that this change in ADIT would otherwise have on rates.*”²⁸⁶

Messrs. Ewen and Knecht offered an opinion on the issue of whether NEC or PPLRI will be reasonably financed after the Transaction. Noting that PPL is

²⁸⁴ Id., pp. 12-14.

²⁸⁵ Id., p. 14.

²⁸⁶ Id., pp. 14-15.

using equity capital from the WPD sale to purchase the current equity of NEC plus the goodwill from the price premium and because PPL intends to maintain a debt to capital ratio that is similar to the approved regulatory structure with goodwill excluded, Messrs. Ewen and Knecht opined that “*there is no obvious reason to believe at this time that there will be any increase in the financial leverage for NEC (or PPLRI, with the goodwill asset) as a result of the transaction.*”²⁸⁷ Messrs. Ewen and Knecht also opined that because PPL has not provided a post-transaction balance sheet for either PPLRI or NEC and because PPL has not made a commitment on NEC’s capital structure, the Division should require PPL’s debt to capital ratio, calculated net of goodwill, be limited to no more than 50 percent for both PPLRI and NEC, except upon regulatory approval.²⁸⁸

Messrs. Ewen and Knecht next acknowledged and confirmed that PPL does not intend to increase debt capital to finance the significant investment in goodwill assets, or that the change in ownership is likely to have a negative impact on NEC’s debt ratings.²⁸⁹

Ring-fencing protections were also discussed. Noting that PPL has contended that additional ring-fencing will not be necessary, Messrs. Ewen and Knecht testified “*that at least one of the bond rating agencies [Moody’s] observes that the lack of ring-fencing for NEC adds to the riskiness of the company, in light of the relatively high risk of the parent.*”²⁹⁰ They recommended that as a condition for approving the Transaction, the Division should require that PPL’s “*planned*”

²⁸⁷ Id., p. 15.

²⁸⁸ Id., pp. 15-16.

²⁸⁹ Id., p. 16.

²⁹⁰ Id., pp. 16-17.

ring-fencing provisions be adopted as commitments, which can only be varied by the Division and Commission.²⁹¹

Messrs. Ewen and Knecht next discussed their evaluation of PPL's due diligence efforts associated with the Transaction. Specifically, the witnesses explained that their evaluation was limited to a review of whether the purchase price for NEC was unreasonably high, and whether that purchase price will impose undue risk to the resulting utilities. First recognizing that that high market to book price premiums is the norm for utility purchases, the witnesses stated that *"it does not appear that the purchase price for NEC is out of line...."* They testified that one test for assessing the reasonableness of the purchase price is to review the impact of the announcement of the transaction on the acquiring company's share price, and on the reaction of financial analysts. Upon such a review, Messrs. Ewen and Knecht related that they found that *"the PPL share price does not indicate any particular negative effect associated with the announcement... [and that] the market reaction to the proposed transactions was at least neutral and generally favorable for PPL."*²⁹²

On the issue of environmental impacts, Messrs. Ewen and Knecht *"acknowledge that many of the environmental issues facing electric and natural gas distribution companies are substantially addressed through legislation and regulation, and that NEC's obligations are no different under either... [National Grid] or PPL ownership."* They also observe that PPL has indicated that it will

²⁹¹ Id., p. 18.

²⁹² Id., pp. 18-19.

abide by all the laws and regulations.²⁹³ Therefore, the witnesses focused their review “to issues involving the long-term viability of the natural gas utility and PPL’s approach to integrating DER into the electric grid.”²⁹⁴

The witnesses thereupon set out to describe the implications of Rhode Island’s 2021 Act on Climate (“Climate Act”) for the proposed Transaction. They observed that the Climate Act has implications for NEC regardless of whether it is owned by National Grid or PPL. Either would “need to react immediately to the changed legislative environment and make efforts to prepare for potential changes.” Under the Climate Act, a council made up of a variety of state officials, including the Division’s Administrator, is required to, by December 31, 2025, develop a plan to reduce Rhode Island greenhouse gas emissions to 45 percent below 1990 levels by 2030, 80 percent by below 1990 levels by 2040 and to achieve net zero emissions by 2050. The witnesses testified that NEC will be directly or indirectly involved in this greenhouse gas emissions reduction planning. According to the witnesses, “NEC will need to develop plans to expand its carbon-free electricity supplies, expand its energy conservation efforts, and determine how it can serve the heating needs of its current gas customers without traditional fossil fuel supplies, all within 30 years and most within 20 years.”²⁹⁵ Messrs. Ewen and Knecht state that although it appears that PPL has agreed to comply with the law,

²⁹³ Id., pp. 20-21.

²⁹⁴ Id., p. 21.

²⁹⁵ Id., p. 22.

*“it is unclear how much corporate effort PPL can focus on meeting the aggressive goals set out in the legislation.”*²⁹⁶

Messrs. Ewen and Knecht testified that notwithstanding the requirements contained in the Climate Act, *“legal and societal pressures are building to substantially reduce fossil fuel consumption.”* In this context, the witnesses speculate on whether a *“natural gas distribution systems serving residential and smaller commercial customers have a long-term future.”* The witnesses, however, question why PPL *“appears to be operating on the expectation that NEC’s natural gas load will continue to grow, and that substantial investments in the gas distribution business are needed.”* In response, Messrs. Ewen and Knecht question, in view of the passage of the Climate Act, whether *“it is imprudent to continue to make large capital investments to replace obsolescent assets and attract new customers and loads, based on the assumption that the gas distribution mains will be needed for the next half century.”*²⁹⁷

Messrs. Ewen and Knecht recommend that as a condition of sale, the Division should require PPL to limit its capital spending for gas mains to that needed for public safety, and to complete projects already underway. Additionally, where possible, the witnesses believe that PPL should focus on repairing existing mains rather than replacing them. They also recommend that the Division require PPL to prepare, within 12 months of the closing, *“a detailed evaluation of the economic efficacy of (a) any future efforts to expand the natural gas distribution grid, (b) its repair versus replace policies for the existing system,*

²⁹⁶ Id.

²⁹⁷ Id., p. 24.

*and (c) the potential to substitute abandonment/electrification for mains replacement.”*²⁹⁸

On the issue of accommodating DER in the electric grid, Messrs. Ewen and Knecht note that PPL is in the process of implementing the DER plan in Pennsylvania but has no immediate plans to make a similar filing for Rhode Island. On this issue, the witnesses recommend that PPL commit to undertaking such an effort in the near future, once the Pennsylvania pilot is fully implemented and the implications have been reviewed. They noted that based on the timetable for the Pennsylvania pilot, a three-year time horizon for this evaluation would be reasonable.²⁹⁹

Messrs. Ewen and Knecht next discussed the primary tax implications of the proposed Transaction. They testified that the major tax implications are (a) the transaction is structured as an asset sale rather than as a stock sale, which allows for a step up in the tax basis for the acquired firm, and (b) the transaction will substantially reduce or eliminate the accumulated deferred income tax (“ADIT”) liability on the NEC books.³⁰⁰ The witnesses related that the primary implication of the asset sale approach will be that PPL will be able to amortize the goodwill associated with the sale over a 15-year period for tax purposes. However, Messrs. Ewen and Knecht opined that because the goodwill will be recorded on

²⁹⁸ Id., p. 25.

²⁹⁹ Id., p. 26.

³⁰⁰ Id., pp. 26-27.

PPLRI's books, and because the goodwill will not be recorded in rate base, there will not be significant tax implications for NEC ratepayers.³⁰¹

With respect to the ADIT implications, Messrs. Ewen and Knecht expressed concern that the elimination of \$372 million in ADIT amounts, which is treated as a rate base offset, "*would serve to increase rate base in the next base rates proceeding....*" They testified that it would be inappropriate for ratepayers to lose the rate base credit as a result of the proposed Transaction, since ratepayers have effectively already paid those tax costs. Noting however, that PPL has agreed to protect ratepayers from this loss, Messrs. Ewen and Knecht recommended that this commitment by PPL be formalized as a condition of approval of the Transaction.³⁰²

Messrs. Ewen and Knecht next discussed the overall impacts on NEC's operations associated with the proposed Transaction. Chief among the impacts is the need for a "*complicated transition agreement.*" The witnesses testified that because of the uncertainty on exactly how PPL will operate NEC, the cost impacts are difficult to quantify. As an example, the witnesses point to PPL's estimate of "*managed*" costs, including O&M, A&G and allocated National Grid depreciation costs. But they noted that the cost estimates do not address pass-through costs, such as electric/gas supply procurements, wheeling costs, and depreciation on existing assets and taxes. They also noted that PPL's cost analysis does not

³⁰¹ Id., p. 27.

³⁰² Id., pp. 27-28.

directly address many of the specific functions that National Grid will be providing through the TSA.³⁰³

Messrs. Ewen and Knecht further opined that it is likely that there will also be impacts on NEC's procurement of natural gas and electricity supplies for default service customers. They anticipate an impact from the loss of National Grid's economies of scale related to the procurement of supplies for neighboring jurisdictions.³⁰⁴

On capital spending, Messrs. Ewen and Knecht note that even though PPL has indicated that it has no plans to vary from NEC's investment plan at this time, PPL's plans to expand local operations, service functions and administrative services will also involve the need to invest in local facilities. The witnesses relate that while the costs for these facilities would presumably displace the costs for comparable National Grid facilities, it is difficult to make an accurate cost comparison without knowing PPL's direct capital cost.³⁰⁵

Messrs. Ewen and Knecht also looked at whether the proposed Transaction would have an impact on allocated corporate costs. The witnesses testified that they are unable to properly evaluate the issue of whether the transactions of *"selling off a very large UK utility and purchasing a much smaller Rhode Island utility"* will impact the allocation of corporate costs because PPL has declined to

³⁰³ Id., pp. 29-30.

³⁰⁴ Id., p. 30.

³⁰⁵ Id., pp. 30-31.

offer any details on the subject. The witnesses do, however, note that PPL has asserted that the combined transaction will not impact NEC ratepayers.³⁰⁶

Messrs. Ewen and Knecht additionally expressed concern regarding the effective transition of emergency planning and operations activities, particularly storm response, after the closing of the proposed Transaction. They opined that there is the potential for the degradation of the quality of these services, and also an increase in cost. The witnesses note that National Grid currently serves both Massachusetts and Rhode Island and that there may be efficiencies to having co-located service personnel and shared supplies. However, the witnesses also noted that the potential offsetting advantage to PPL is “*diversity in storms, in that significant storm events may affect both Massachusetts and RI, while it is less likely that Kentucky, Pennsylvania and RI will be similarly affected by a storm.*” They testified that it is unclear from the record how these countervailing effects will balance out.³⁰⁷

Messrs. Ewen and Knecht also testified that a critical component of storm response performance is effective logistics coordination and communication. They related that while PPL has committed to employing NEC’s currently operative emergency response plans, effective integration and system takeover by PPL will be essential to ensure that no degradation in storm response performance occurs after the closing. Of concern though, is that many logistical and operational details have been left to future planning and coordination with National Grid.³⁰⁸

³⁰⁶ Id., p. 31.

³⁰⁷ Id., pp. 32-33.

³⁰⁸ Id., pp. 33-34.

Lastly, on the issue of the uncertainty attached to NEC's future costs of operations under PPL, Messrs. Ewen and Knecht testified that over the long term, ratepayers are at risk for any increases in operating costs. To address this uncertainty, the witnesses recommended that any approval of the proposed Transaction be conditioned on a commitment from PPL that it will not submit a base rate case filing for at least 36 months from the closing date.³⁰⁹

5. Green Energy's Direct Case

Green Energy proffered one witness in this docket. The witness was identified as Kai Salem, Green Energy's Policy Coordinator. Ms. Salem filed pre-filed direct testimony, with attached exhibits, in accordance with the approved procedural schedule, on November 8, 2021.³¹⁰

A. Kai Salem

Ms. Salem related that her testimony focuses on whether the Transaction will impact the State's ability to meet its ambitious climate goals. She seeks to accomplish the following: (1) establish that the standard of review proposed by the Petitioners is incomplete and does not include recently enacted legislation, (2) identify those programs and utility functions that are relevant to the analysis, and (3) reach a conclusion as to whether the Transaction meets the proposed standard.³¹¹

At the outset of her testimony, Ms. Salem indicated that she would be relying on the 2020 report by the American Council for Energy Efficient Economy

³⁰⁹ Id., p. 35.

³¹⁰ Green Energy Exhibit 1.

³¹¹ Id., p. 2.

(“ACEEE”) during a portion of her testimony. She described ACEEE as “a nonprofit research organization whose mission is to build a vibrant and equitable economy – one that uses energy more productively, reduces costs, protects the environment, and promotes health, safety, and well-being of everyone.” She added that the ACEEE’s 2020 report provides a scorecard for each state’s energy efficiency programs across five policy areas: (1) utility and public benefits programs and policies, (2) transportation policies, (3) building energy efficiency policies, (4) state government-led initiative around energy efficiency, and (5) appliance and equipment standards. She related that the utility programs section is the most relevant to aid in deciding whether National Grid and PPL are appropriate stewards of the State’s energy efficiency programs. Ms. Salem additionally noted that she also refers to the United Nations Intergovernmental Panel on Climate Change’s Special Report, “*Climate Change 2021: The Physical Science Basis*,” to provide some guidance as to the threats from climate change.³¹²

Ms. Salem testified that the provisions of Rhode Island’s Act on Climate require the Division “to consider climate impacts and to further the purposes of the Act in the exercise of its authority.” As such, she maintains that before the Division can approve the Transaction it must consider climate impacts and the successful implementation of the Act on Climate in its required statutory findings. She reasoned that public utilities play an obvious and critical role in decarbonizing the electricity and heating sectors. Ms. Salem related that if “PPL fails to maintain, honor, and carry forward with no loss of momentum National

³¹² Id., pp. 2-3.

*Grid’s existing program commitments related to decarbonization and clean energy; or if it simply fails to plan for its role in Rhode Island’s decarbonization, this transaction could undermine the state’s progress towards achieving the challenging mandates of Act on Climate.”*³¹³ She categorized this concern as being related to the “*public interest*” criterion in the standard of review that applies in this case. She also concluded that based on the existing record, “*I am not confident that the proposed transaction will either maintain or improve Rhode Island’s ability to meet its obligations under the Act on Climate.*”³¹⁴

Ms. Salem testified that the Act on Climate has three critical components: (1) establishment of enforceable emissions reductions targets by 2030, (2) creation of a plan to meet those targets, and (3) affirmative duty on all agencies to consider climate in their operations. Ms. Salem opined that the targets prescribed under the Act are properly aggressive due to our experience with “*increasing and worse heatwaves, storms, droughts, and fires.*” She stressed that “[m]odeling conducted for the IPCC AR6 Climate Change 2021 Report shows global temperatures will continue to increase until at least the mid-century, even in the best-case (lowest emission) scenarios.” She asserted that to “*forestall the most calamitous outcomes, we must take drastic measures, and with haste. There is no time to delay.*”³¹⁵

Ms. Salem next opined that even though the Executive Climate Change Coordinating Council has not yet published an updated plan, the Division should not wait for the completion of such plan before exercising its authority and

³¹³ Id., p. 4.

³¹⁴ Id., pp. 5-6.

³¹⁵ Id., pp. 6-7.

obligations under the Act. She testified that the “*public interest in addressing climate change cannot be ignored.*”³¹⁶ Ms. Salem testified that “[a]llowing a once in a generation utility transaction to be reviewed without considering this recently enacted legislation would be not only a disservice to the people of Rhode Island but would also be undermining the intent and will of our General Assembly.”³¹⁷

Ms. Salem testified that under current management, National Grid plays a critical role in Least Cost Procurement, the Renewable Energy Standard, renewable energy long-term contracting, municipal aggregation, interconnections for net metering, and the Renewable Energy Growth program. She added that National Grid is also a stakeholder in Power Sector Transformation as encapsulated in Commission dockets 4770 and 4780. Ms. Salem opined that “*for this sale to be in the public interest, the incoming company must be found to be able to administer these programs as well or better than National Grid currently does.*”³¹⁸

Ms. Salem noted that Rhode Island ranks fourth in the ACEEE report for its energy efficiency programs. By contrast, she noted that Pennsylvania is ranked nineteen and Kentucky is ranked thirty-three. However, Ms. Salem related that these broad rankings do not provide a complete picture of the evaluation metrics. She testified that focusing specifically on the category of Utility Programs, Rhode Island, under National Grid’s expertise, earned 19.5 out of 20 points;

³¹⁶ Id., p. 7.

³¹⁷ Id., p. 8.

³¹⁸ Id., pp. 8-10.

Pennsylvania earned 4 points and Kentucky 1.5 out of a possible 20 points.³¹⁹ Ms. Salem opined that “PPL’s reliance on its existing experience appears to be a recipe for a less effective program.”³²⁰

Ms. Salem next expressed her concerns on the issues of whether PPL has the requisite experience and record of success to comply with Rhode Island’s renewable energy standard (RES) and renewable energy long-term contracting requirements. Regarding RES, Ms. Salem noted that while PPL was not able to provide fuel mix data for the supply that is currently provided to utility supply, a review of the system mix for the PJM ISO in which PPL operates demonstrates that PPL has minimal experience with renewable energy procurements. She recommended that the Division seek a more detailed answer from PPL as to how it plans to meet the state’s RES requirements.³²¹

On the matter of long-term contracting, Ms. Salem recognized that PPL does not have any experience in conducting or engaging with offshore wind RFPs in either of their Pennsylvania or Kentucky subsidiaries. Due to this lack of experience, Ms. Salem recommends that the Transaction not be approved without further assurances that PPL is appropriately prepared to conduct these procurements and to provide for the interconnection of these resources without shifting new costs onto ratepayers or jeopardizing the state meeting its obligations under the Act on Climate.³²²

³¹⁹ Id., p. 10.

³²⁰ Id.

³²¹ Id., p. 11.

³²² Id., p. 12.

Ms. Salem also considered PPL's ability to administer recently approved municipal aggregation plans that include provisions to increase the amount of renewable energy in five Rhode Island communities. While recognizing that National Grid plays no role in the procurement of that electricity, Ms. Salem contends that the *"facilitation of the programs through the tariff for municipal aggregators and Purchase of Receivables are critical for the successful implementation of the program."* Ms. Salem questions whether PPL is committed to devoting human resources to manage the data, billing, and electricity supply enrollment demands for these programs.³²³

Finally, on the issue of Power Sector Transformation, Ms. Salem noted that National Grid was planning on using a multi-jurisdictional RFP for the procurement of smart meters. She questioned whether shifting this responsibility to PPL could result in a higher cost to ratepayers due to the loss of bulk purchasing power. She also questioned PPL's commitment to the implementation of Power Sector Transformation, including the rollout of smart meters. Ms. Salem was also concerned with any further possible *"delays in implementing programs intended to address an aspect of the climate crisis here in Rhode Island."*³²⁴

6. National Grid USA's and Narragansett's Rebuttal Case

National Grid USA and Narragansett submitted pre-filed rebuttal testimony in response to the Advocacy Section's direct case. National Grid proffered two rebuttal witnesses, namely, Mr. Christopher Kelly, Interim President for the Rhode Island Jurisdiction and Chief Operating Officer for US Electric Business, New

³²³ Id., pp. 12-13.

³²⁴ Id., pp. 13-14.

England; and Mr. Duncan Willey, National Grid Service Company, Vice President for Rhode Island Transition Management Office. These two witnesses filed joint pre-filed rebuttal testimony, in accordance with the approved procedural schedule, on November 23, 2021.

A. Messrs. Christopher Kelly and Duncan Willey

After providing a summary of their educational backgrounds and professional experiences, Messrs. Kelly and Willey explained that the purpose of their joint rebuttal testimony is to provide National Grid USA's response to the pre-filed testimony submitted by certain witnesses for the Advocacy Section, the Attorney General and Green Energy, and in particular, to certain comments and recommendations of the Intervenors regarding National Grid USA's role in the transition of Narragansett to PPL Rhode Island ownership.³²⁵

Messrs. Kelly and Willey began their testimony by emphasizing that "*National Grid USA is committed to transitioning Rhode Island customers and other stakeholders to a comparable position with PPL as exists today with National Grid USA.*"³²⁶ The witnesses confirmed that National Grid USA and PPL have been conducting an in-depth planning process to identify functional activities that can be safely and efficiently transferred to Narragansett on Day 1 and activities that will require a more gradual transition supported by the TSA to be entered into by the Service Company and Narragansett. The witnesses thereupon proffered tables which provide a detailed list of functional activities divided into "*Day One*" and

³²⁵ National Grid/Narragansett Exhibit 2.

³²⁶ Id., pp. 6-7.

“Long-term” transfer time frames.³²⁷ Messrs. Kelly and Willey also related that National Grid USA and PPL will continue the work of refining the TSA schedules until the Transaction closes.

In response to concerns expressed by the Intervenors regarding the extent, manner, costs, and duration of the Service Company’s support to Narragansett under the TSA, Messrs. Kelly and Willey endeavored to allay those concerns. The witnesses first addressed those concerns about the potential difficulty of separating Narragansett from National Grid USA and its shared services model. They testified that such separation “*is not an insurmountable task*,” and further, once integrated into PPL’s organization, National Grid USA is confident that Narragansett will develop similar efficiencies and economies of scale through the PPL organization.³²⁸ The witnesses added that to further facilitate the separation and assist PPL with the integration of Narragansett into the PPL organization, National Grid USA has a TMO in place that is fully and singularly dedicated to delivering the safe and efficient separation of employees, assets, and operations from National Grid USA and the transition of employees, assets, and operations to PPL in accordance with the Share Purchase Agreement. The witnesses related that the TMO includes leaders who are responsible for execution of separate activities for their respective functions for National Grid USA and is supported by National Grid USA functional teams responsible for working on the Day 1 and TSA transition efforts. Mr. Willey testified that he will be responsible for the

³²⁷ Id., pp. 7-8.

³²⁸ Id., p. 11.

oversight and delivery of the transition services to be provided by the Service Company to Narragansett under the TSA.³²⁹

Messrs. Kelly and Willey also testified that National Grid USA's TMO is working closely with PPL's IMO (Integration Management Office) on the separation and transition effort. The witnesses related that the TMO and IMO teams have been meeting at least weekly since April 2021 and will remain in place through the end of the transition period. The witnesses also noted that National Grid USA and PPL have also retained "subject matter experts" to assist and participate in many of these meetings.³³⁰

On the concern over how National Grid USA plans to transfer its experience and expertise to PPL, Messrs. Kelly and Willey responded that National Grid USA plans to transfer its experience and expertise in a number of ways; initially by finalizing the 368 Service Company and 731 Narragansett employees who will transfer to PPL on Day 1. The witnesses asserted that these are the employees that currently perform the work on behalf of Narragansett and have detailed knowledge of the systems and processes in the functional activities that will be transferred to PPL on Day 1.³³¹

Second, functional activities that are not transferred to PPL on Day 1 will be gradually transitioned to PPL as specified in the TSA. The witnesses relate that the Service Company will be conducting training to PPL during the transition period under the following TSA schedules: Energy Transactions (Financial);

³²⁹ Id., pp. 11-12.

³³⁰ Id., p. 13.

³³¹ Id., pp. 13-14.

Training Facilities; Training (Learning and Development); Talent and Performance Management; Health Services; Safety Policy and Programs; Consultancy Services for Dispatch Supervision; and Energy Planning and Operations.³³²

Third, the witnesses testified that National Grid USA and PPL are developing knowledge transfer services, which will be incorporated into the TSA schedules. Messrs. Kelly and Willey explained that the knowledge transfer services will enable PPL to access National Grid USA subject matter experts.³³³

Fourth, the witnesses related that the Service Company will transfer appropriate knowledge and historical data, including physical documents and electronic files, to PPL to ensure operational continuity for Narragansett.³³⁴

Messrs. Kelly and Willey next offered some information about the experience and expertise of the Narragansett and Service Company employees that will be transferring to PPL on Day 1. The witnesses stressed that the 731 Narragansett employees that will be transferring to PPL will be performing the same functional activities under PPL ownership as they currently do under National Grid USA ownership. They assert, therefore, that the level of experience and expertise of the direct Narragansett employees will remain unchanged.³³⁵

Messrs. Kelly and Willey next testified that PPL's Rhode Island leadership team will be led by the following current Service Company employees who are transferring to the PPL organization: Michele Leone, Vice President, Gas Operations; Alan LaBarre, Senior Director, Electric Operations; Kristen DeSousa,

³³² Id., pp. 14-15.

³³³ Id., p. 15.

³³⁴ Id.

³³⁵ Id., p. 16.

Senior Director, Customer; Brain Schuster, Director, Regulatory and Government Affairs; Kate Hearn, Director, Finance; Avia Levin, Director, Business Services; Patrick Carmody, Director of Compliance; Celia O'Brien, Chief Counsel; Kathy Moar, Manager, Human Resources; and Mary Smith, Senior Executive Assistant. The witnesses described these individuals as "established leaders."³³⁶

The witnesses also provided a breakdown of where the transferring Service Company employees will be working under PPL, among nine (9) functions. The breakdown was detailed as follows: (1) Customer – 65; (2) Electric Operations – 103 (more than 450 in total when combined with transferring Narragansett employees); (3) Finance & Accounting – 12; (4) Gas Operations – 145 (more than 450 in total when combined with transferring Narragansett employees); (5) Human Resources – 6; (6) Legal and Compliance – 5; (7) Operations Support – 15; (8) Regulatory & Government Affairs – 13; and (9) Transformation Office – 4. Messrs. Kelly and Willey also testified that many of the Service Company employees in Electric Operations and Gas Operations will comprise the teams that will be responsible for PPL's electric and gas distribution operations under Mr. LaBarre's and Ms. Leone's leadership. The witnesses related that these teams consist of employees at the vice president, director, manager, supervisor, and analyst level at National Grid USA.³³⁷

Messrs. Kelly and Willey next disagreed with Mr. Oliver's comment that National Grid USA will not support PPL Rhode Island sufficiently because it will prioritize its work in Massachusetts and New York. They argued that "*there is no*

³³⁶ Id., pp. 16-17.

³³⁷ Id., pp. 17-18.

basis whatsoever for this comment.” The witnesses testified that National Grid USA has a long history of excellent service to Rhode Island and is committed to achieving a successful transition to PPL. They also emphasized that National Grid USA is contractually obligated to provide support to Narragansett under the Share Purchase Agreement and TSA.³³⁸

Messrs. Kelly and Willey next addressed the expressed concerns about transitioning specific areas of operations and subject matter expertise to PPL. To start, they responded to Mr. Oliver’s concerns about PPL’s lack of experience in the design, construction, operation, and maintenance of LNG facilities in Rhode Island. The witnesses testified that National Grid USA has indicated in a data response that 25 direct employees of Narragansett with responsibilities for performing LNG operations are transferring to PPL on Day 1. Messrs. Kelly and Willey point out that *“these individuals are the same Narragansett employees whether under PPL or National Grid USA ownership.”*³³⁹ The witnesses also noted that Service Company with LNG experience are also transferring to PPL, including one employee with 12 years of LNG experience; in fact, this employee was recently named the future Manager of LNG Operations at PPL. The witnesses also note that PPL will be buttressing its LNG operations with third-party contractors *“as National Grid USA currently does.”*³⁴⁰

Messrs. Kelly and Willey next responded to Mr. Oliver’s concerns that PPL will not have Rhode Island-based personnel with experience in gas utility

³³⁸ Id., pp. 18-19.

³³⁹ Id., pp. 19-20.

³⁴⁰ Id., p. 20.

management, forecasting, and planning and that they will incur increased costs to attract and retain such experienced personnel. The witnesses disagreed and argued that there will be a “*plethora*” of such experience working in Rhode Island after the Transaction. Specifically, they pointed out that PPL’s Rhode Island gas operations will be led by a Vice President of Gas Operations, Michele Leone, who has held various management roles for National Grid USA in Rhode Island, including her current role as Director of Gas Field Operations and Customer Meter Services in Rhode Island. They also highlighted that the Service Company employees transferring to PPL as part of the Gas Operations leadership team have decades of operations management and related gas experience, including engineering, dispatch, control center, pipeline safety and compliance, resource and work planning and field operations. They added that more than 25 operations managers and supervisors currently working in Rhode Island are transferring to PPL and that many of these employees have more than ten years of gas operations experience. They also asserted that the two-year transition period provides ample time for National Grid USA to train PPL staff, including in its management, forecasting, and planning methodology.³⁴¹

Messrs. Kelly and Willey next took exception to Mr. Oliver’s concerns over the gas supply functions for Narragansett. They argued that his concern with potential delays in the construction of a necessary liquefaction facility “*is not pertinent to approval of the Transaction*” because Mr. Oliver’s timing concern “*is the same regardless of whether PPL or National Grid USA owns Narragansett for*

³⁴¹ Id., pp. 21-22.

winter 2022-23....” Next, regarding Mr. Oliver’s concern with a possible increase in gas procurement costs, due to a loss of purchasing power, the witnesses argued that this concern is unfounded. Messrs. Kelly and Willey note that Narragansett’s Canadian assets are currently managed by third parties that are active in the Canadian markets and with whom Narragansett has contracts in place to purchase natural gas. The witnesses argue that Mr. Oliver has provided no basis why PPL could not continue to manage Narragansett’s Canadian assets in this manner.

As for Mr. Oliver’s concerns over PPL’s operation of the Natural Gas Procurement Management Program (NGPMP) and Gas Procurement Incentive Program (GPIP), the witnesses testified that National Grid USA intends to work with PPL Rhode Island to manage the NGPMP and GPIP during the transition period. They related that this designed management during the transition period will be consistent with the plans currently in place as approved by the Commission in the 2021 Gas Cost Recovery filing in Docket 5180, subject to any modifications that occur from discussions with the Division or rulings from the Commission during the transition period. Messrs. Kelly and Willey contend that there is no basis for Mr. Oliver’s allegation that PPL cannot operate the NGPMP and GPIP effectively after the two-year transition period.³⁴²

Messrs. Kelly and Willey next rejected Mr. Booth’s concerns regarding the transition of the Electric Infrastructure, Safety, and Reliability (ISR) Plan process and its Area Studies to PPL. They testified that PPL’s incoming Senior Director of

³⁴² Id., pp. 24-25.

Electric Operations, Alan LaBarre, is currently National Grid USA's Vice President of New England Control Centers, after serving many years as the Director of Distribution Planning and Asset Management for New England, and he has been involved with the development of the ISR Plan. They related that Mr. LaBarre has guided the adoption and overseen the execution of the long-range planning process that support the ISR Plan. They also noted that the team members transferring over to PPL with Mr. LaBarre are also very experienced with the ISR Plan.³⁴³

Next, Messrs. Kelly and Willey disagreed with Mr. Booth's opinion that 24 months is not sufficient to transition the Area Study and ISR process. The witnesses testified that Mr. Booth's conclusions are based on faulty assumptions, principally based on his experience with Delaware's multi-year process of developing and implementing a new ISR Plan. They argue that Mr. Booth's allegations overlook the fact that PPL will have the benefit of an already established Area Study and ISR planning process for Narragansett on Day 1 with personnel who are experienced in the management, development, and/or execution of the ISR Plan. Messrs. Kelly and Willey argue that Mr. Booth offers no concrete support for his allegations that it will be necessary to continue Service Company services beyond 24 months.³⁴⁴

Messrs. Kelly and Willey also took exception to the Attorney General's and Green Energy's assertions that approval of the Transaction must be conditioned on PPL's future compliance with the State's climate policies. In response, Messrs.

³⁴³ Id., pp. 26-27.

³⁴⁴ Id., p. 28.

Kelly and Willey observe and argue that the 2021 Act on Climate “*does not place any requirements on public utilities with which they must comply at this time, so it is unknown at this point how future rules and regulations implementing the new targets under the 2021 Act will implicate the utility sector.*”³⁴⁵ Accordingly, the witnesses argue that “*compliance with future rules or regulations implementing the 2021 Act should be addressed in a separate forum and not as a condition of approval of the Transaction.*”³⁴⁶

Messrs. Kelly and Willey also declined to accept the Intervenor’s assertion that the transition of all services the Service Company provides to Narragansett cannot be completed in a 24-month period under the TSA. The witnesses maintain that the 24-month transition period “*is the outside date by which functional activities will be transitioned fully to Narragansett post-closing;*” they assert that “*the majority of the functional activities will require much less than 24 months to transition fully to Narragansett under PPL Rhode Island ownership.*”³⁴⁷ The witnesses thereupon sponsored an exhibit (NG-2) that reflects that each individual TSA schedule has ranges in duration from a minimum of six months to a maximum of 24 months. They explained that as functional activities are transitioned fully to Narragansett and those transition services terminated, the Service Company will continue to support the more complex and lengthier transition services throughout the full 24-month period. The witnesses also reiterate that hundreds of experienced Narragansett and Service Company

³⁴⁵ Id., p. 29.

³⁴⁶ Id.

³⁴⁷ Id., pp. 29-30.

employees will be transferring to PPL on Day 1 and will be available to further assist with the transition. In closing on this issue, the witnesses testified that “*National Grid USA is confident that a complete transition of all services to be provided by the Service Company to Narragansett under the TSA will be achieved by the end of the two-year transition period.*”³⁴⁸ However, Messrs. Kelly and Willey made it clear that in the unlikely event that more transition time is needed, more than 24 months, the Share Purchase Agreement permits National Grid USA and PPL to extend the term of the TSA.³⁴⁹ They also rejected Mr. Booth’s recommendation for an “*indefinite*” extension to the TSA on the ground that such extension is not necessary.³⁵⁰

Messrs. Kelly and Willey next argued that the anticipated costs for the Service Company to provide services during the transition will be reasonable. They testified that under the TSA, the anticipated costs for services to Narragansett will use the same methodology to charge ‘*fully loaded*’ costs that the Service Company currently uses to charge Narragansett. They contend, therefore, that the methodology for pricing services under the TSA is reasonable and consistent with market value. The witnesses also opined that the 5 percent mark-up on Full Loaded Costs, excluding goods and services provided by third parties, is reasonable compensation to cover National Grid USA’s additional costs to supervise and administer the transition services with a non-affiliated party.³⁵¹

³⁴⁸ Id., pp. 30-31.

³⁴⁹ Id., pp. 31-32.

³⁵⁰ Id., p. 32.

³⁵¹ Id., pp. 32-33.

In their closing remarks, Messrs. Kelly and Willey opined that the Petitioners have met the requisite standard for approval of the Transaction. They contend that if the Transaction is approved, the *‘facilities for furnishing service to the public will not be thereby diminished’* and the Transaction is *‘consistent with the public interest.’* The witnesses assert that the full record in this docket *“demonstrates that the Petitioners’ comprehensive and robust work on separating Narragansett from National Grid USA, and integrating National Grid USA’s Rhode Island-related employees, assets, and operations into PPL, will result in the continuation of safe and reliable electric and gas distribution service in Rhode Island and leave Rhode Island customers in a comparable position as they are today with National Grid USA.”*³⁵²

7. PPL’s and PPL Rhode Island’s Rebuttal Case

PPL and PPL Rhode Island ("PPL") submitted pre-filed rebuttal testimony in response to the Advocacy Section’s and Intervenor’s direct cases. PPL proffered seven rebuttal witnesses, namely, Mr. David J. Bonenberger, Vice President of Operations Integration, PPL Corporation; Mr. Lonnie E. Bellar, Chief Operating Officer, KU and LG&E; Ms. Bethany L. Johnson, Director of Regulatory Affairs, PPL Electric Utilities Services; Mr. Tadd Henninger, Vice President – Finance and Treasurer, PPL; Mr. Todd J. Jirovec, Principal, Power and Utilities Practice, Strategy&, a member of the PWC Network; Mr. John J. Reed, Chairman and CEO, Concentric Energy Advisors, Inc. and CE Capital, Inc.; and Daniel S. Dane, Senior Vice President, Concentric Energy Advisors, Inc. and CE Capital, Inc. Each of

³⁵² Id., pp. 33-34.

these witnesses filed pre-filed rebuttal testimony, in accordance with the approved procedural schedule, on November 23, 2021.

A. David J. Bonenberger

Mr. David J. Bonenberger identified himself as the Vice President of Operations Integration for PPL. He related that in that role, he is responsible for overseeing the integration planning and implementation of Narragansett into the PPL organization. Mr. Bonenberger testified that this integration includes the creation of transition/integration strategy, implementation of change management across multiple stakeholder groups, and achievement of acquisition business case revenue and pretax income.

Following a summary of his professional experiences and educational background, Mr. Bonenberger testified that if the Transaction is approved, he will serve as the President of Narragansett and will live and work in Rhode Island.³⁵³ Mr. Bonenberger testified that his testimony supports the Petitioners' request for approval of the Transaction and is offered as further evidence that the Transaction meets the statutory standard for approval. He related that his testimony specifically addresses: (1) PPL's experience operating electric transmission and distribution utilities, particularly in Pennsylvania; (2) PPL's process, in collaboration with National Grid USA, to prepare for a seamless transition of Narragansett's operations after the Transaction closes; (3) PPL's expectations for the transition period; (4) transition costs; (5) PPL's approach to completing the transition and concluding the TSA; and (6) how PPL will maintain

³⁵³ PPL & PPL Rhode Island Exhibit 1, pp. 1-4.

Narragansett's constructive role in the transition to renewable energy generation and the creation of a modern electric grid in Rhode Island.³⁵⁴

Mr. Bonenberger testified that PPL currently operates electric distribution utilities in Pennsylvania and Kentucky. He related that in Pennsylvania, PPL has been in business operating electric utilities for more than 100 years. Mr. Bonenberger testified that PPL Electric, in Pennsylvania, provides electric service to approximately 1.4 million customers. In Kentucky, Mr. Bonenberger related that PPL provides electric services through LG&E and KU, which service approximately 425,000 and 564,000 electric customers, respectively. Mr. Bonenberger noted that LG&E and KU have also been providing utility service for over 100 years. Mr. Bonenberger testified that this extensive experience in operating multiple electric utilities that now serve more than 2 million electric customers establishes that PPL is well-positioned to manage and operate Narragansett's electric business without any degradation of service to customers.³⁵⁵

Mr. Bonenberger related that PPL has a thorough understanding of each and every element of electric operations. He also stated that PPL has focused on hiring the best people and adopting the most effective and cost-efficient technology to maximize the performance of its electric system. Mr. Bonenberger testified that in recognition of PPL's successes, PPL's regulated utilities consistently rank among the industry's best in customer satisfaction; he noted that the PPL's utilities have received a large number of customer satisfaction

³⁵⁴ Id., pp. 4-5.

³⁵⁵ Id., pp. 8-9.

awards from J.D. Power and Escalent. He also noted that between 2011 and 2019, customer outages for PPL Electric Utilities' customers decreased by 30%; in Kentucky, customer outages have decreased by 19% during the same time period.³⁵⁶ Mr. Bonenberger attributed these successes to PPL's "*forward-looking and cost-efficient approach to infrastructure investment and grid modernization.*" Mr. Bonenberger added that PPL has been able to make these investments while maintaining affordable rates for customers, which, he related, are 27% lower than the average rates in the Mid-Atlantic region.³⁵⁷

Mr. Bonenberger next discussed PPL's transmission system experience. He testified that PPL Electric has a substantial transmission business and that he used to be the Vice President in charge of that area of the business. Acknowledging that National Grid USA will continue to operate Narragansett's transmission assets under the TSA, Mr. Bonenberger related that PPL will ultimately assume operation of those transmission assets after all necessary FERC regulatory approvals are obtained. He testified that PPL's experience in operating its transmission business ensures that it will successfully operate without any degradation of transmission service.³⁵⁸

Mr. Bonenberger next addressed Mr. Booth's concerns about whether PPL's experience adequately prepares it to conduct Narragansett's ISR planning. He disagreed with Mr. Booth for several reasons. Mr. Bonenberger testified that although PPL does not have a program that is identical in process and scope to

³⁵⁶ Id., pp. 10-11.

³⁵⁷ Id., pp. 11-12.

³⁵⁸ Id., pp. 12-13.

the ISR, PPL has other programs, such as the Long-Term Infrastructure Improvement Program ("LTIIP"), that reflect PPL's capabilities in conducting these evaluations and making robust, forward-thinking proposals for infrastructure investment and enabling the grid for distributed energy resources ("DER"). The witness stressed that the purpose of the LTIIP is to ensure that utilities are planning and executing capital expenditures that will maintain and improve the efficiency, safety, adequacy and reliability of existing distribution infrastructure; Mr. Bonenberger testified that the costs of approved LTIIP investments are recovered through the Distribution System Improvement Charge ("DSIC"). Mr. Bonenberger asserted that although the ISR and LTIIP/DSIC are not identical, they are sufficiently similar to prepare PPL for engaging in Narragansett's ISR process.³⁵⁹

Mr. Bonenberger also disagreed with Mr. Booth due to the fact that most of the Narragansett and Service Company employees responsible for preparation of the ISR will either stay with or transfer to Narragansett. He also highlighted that National Grid USA will transfer its knowledge base under the TSA during the transition.³⁶⁰

Additionally, Mr. Bonenberger points to PPL's reliability philosophy which focuses on reducing the frequency of outages. To make his point, Mr. Bonenberger compared the System Average Interruption Frequency Indexes ("SAIFI") of both PPL Electric and Narragansett, noting that in 2020 and 2021,

³⁵⁹ Id., pp. 13-14.

³⁶⁰ Id., p. 14.

PPL Electric's SAIFI reliability performance was approximately 25% and 35% better than Narragansett's, respectively.³⁶¹

Mr. Bonenberger next notes that the ISR is, by statute, developed collaboratively with the Division, thereby giving the Division oversight even under PPL's ownership. He points out that the Division also gets to participate in the regulatory approval process before the Commission, which further reduces any risk associated with PPL's ISR planning and implementation.³⁶²

Mr. Bonenberger also disagreed with Mr. Booth's assertion that PPL's LTIIP is reactive rather than proactive like the ISR. He testified that PPL's infrastructure investment approach is not limited to the LTIIP. He related that PPL's process involves an evaluation of the current state of its electric grid and an assessment of the investments that will best improve efficiency, safety, adequacy and reliability of existing distribution infrastructure going forward. Mr. Bonenberger also related that the LTIIP is a multi-year plan that necessarily is forward-looking. Mr. Bonenberger pointed to PPL's successful and early implementation of its smart grid as an example of its forward-looking approach to infrastructure planning and investments. He noted that in 2015, PPL was the first large utility in the country to implement a smart grid with 100% of its circuits on automatic Fault Location, Isolation, and Service Restoration ("FLISR").³⁶³

³⁶¹ Id.

³⁶² Id., p. 15.

³⁶³ Id., pp. 15-16.

Mr. Bonenberger next disagreed with Mr. Booth's concern that PPL will not be able to dedicate the necessary personnel to adequately develop ISR plans after the Transaction closes. He reasoned that not only does PPL have substantial experience in this area, but Narragansett will retain or onboard most of the current team responsible for ISR planning. He also noted that National Grid USA will be working with PPL under the TSA to ensure that the full ISR knowledge is transferred. Mr. Bonenberger asserted that there is no reason to conclude that PPL will not continue Narragansett's success in ISR planning.³⁶⁴

Mr. Bonenberger next discussed Mr. Booth's concerns that PPL's statement that it will take a "*fresh look*" at the ISR means that PPL thinks that the current process is inadequate. He called this concern "misplaced." He testified that while PPL applauds the good work done by Narragansett and the input from outside consultants, "*often a fresh set of eyes from another experienced and award-winning team will identify opportunities for enhancements of the current processes to build on the positive results already being achieved.*" Mr. Bonenberger contended that no one should consider the opportunity for improvements or enhancements a criticism of past work.³⁶⁵

Mr. Bonenberger next discussed concerns that the Transaction could slow the modernization of Narragansett's electric grid. He related that PPL is prepared to quickly advance the modernization of the Narragansett electric grid and the deployment of AMF in Rhode Island. Mr. Bonenberger testified that PPL has already planned, implemented, and completed several of the critical elements of

³⁶⁴ Id., pp. 16-17.

³⁶⁵ Id., pp. 17-18.

grid modernization that Narragansett faces in the near future. As examples, he noted that PPL has successfully deployed AMF in its existing operations, as well as a smart grid system. He related that PPL Electric currently is in the midst of a pilot program approved by the Pennsylvania Commission that allows PPL Electric to monitor and control distributed energy resources ("DER"), which has proven to expedite implementation of DER by increasing hosting capacity and reducing costs to developers. Mr. Bonenberger testified that *"PPL is ready to apply its hard-earned knowledge and experience... to make Narragansett's electric grid the smartest in the Northeast..."*³⁶⁶

Mr. Bonenberger also addressed the concerns that Narragansett's grid modernization and AMF deployment under PPL ownership could be more costly because it will be a single jurisdiction deployment. He testified that those expressing concern are ignoring the substantial advantage of prior experience in deployment. He maintained that modernizing a complex electric grid system is not just a procurement exercise, it requires careful planning, product selection, rollout and installation, and operation. Mr. Bonenberger testified that Narragansett's customers will benefit from PPL's successful deployment of smart meters with AMF capability in Pennsylvania and Kentucky and PPL's installation of a smart grid in Pennsylvania. Mr. Bonenberger added that PPL has already considered potential additional procurements for Rhode Island and expects that it

³⁶⁶ Id., pp. 18-19.

can purchase smart meters with AMF capacity at favorable pricing, "*as good or better than the pricing available to National Grid USA.*"³⁶⁷

In addressing Mr. Booth's concern that PPL has not conducted a "*boots on the ground*" assessment of Narragansett's infrastructure before entering into the SPA, Mr. Bonenberger responded that he and his team "*have spent significant time in Rhode Island developing a detailed understanding of Narragansett's infrastructure.*" He testified that PPL has a thorough knowledge of the condition of Narragansett's assets. Mr. Bonenberger also noted that many of Narragansett's front-line professionals will remain with or transfer to Narragansett, preserving that institutional knowledge.³⁶⁸

Mr. Bonenberger next moved onto the topic of how PPL and National Grid USA have prepared for the transition and integration of Narragansett into the PPL organization. He started by indicating that PPL and National Grid USA have been working diligently to fully identify and define all the services that the Service Company currently provides to Narragansett and which services it will continue to provide under the TSA. Toward this end, the witness explained that PPL has created an IMO (Integration Management Office) that is dedicated to a separation and transition effort to accomplish the safe and efficient separation of employees, assets, and operations from National Grid USA and the transition of employees, assets, and operations to PPL to ensure the seamless continuation of services to Narragansett's customers.

³⁶⁷ Id., p. 20.

³⁶⁸ Id., p. 21.

Mr. Bonenberger testified that the IMO works closely with National Grid USA's TMO (Transition Management Office) team on the separation and transition effort. He related that since April 2021, the IMO and TMO teams have met at least weekly to discuss progress against the schedule and work plans and coordinate across integration and transition topics. He also noted that these teams will remain in place through the end of the transition period.³⁶⁹

Mr. Bonenberger related that the TMO and IMO teams have continued to revise and adjust the scope of services to be provided by the Service Company under the TSA and those services that PPL will be able to manage on its own starting on Day 1. He noted that the teams have completed more than 800 Day 1 requirements, put in place more than 100 transition service agreements, and designed more than 80 new processes. Mr. Bonenberger also testified that as the transition and integration process progressed, PPL and Narragansett identified which existing employees of National Grid USA and its affiliates, including Narragansett, would remain Narragansett and/or PPL employees after the closing and determined the functions and services those employees provided; PPL then identified the roles that its personnel would fill. He related that PPL and National Grid USA then identified functions and services the Service Company would continue to support after the Transaction closing.³⁷⁰ Mr. Bonenberger testified that as these efforts have progressed, PPL and National Grid USA have further refined how each function will be performed, and they are nearing completion of

³⁶⁹ Id., pp. 22-23.

³⁷⁰ Id., pp. 23-24.

this process. Mr. Bonenberger was confident that the parties will complete the final transition plan in advance of the closing date.³⁷¹

Mr. Bonenberger next discussed how PPL will operate Narragansett during the transition period. He related that "*the same people who currently make sure the electric lines are safe, the gas pipelines are safe, and the meters are working correctly, will continue to do so post-closing.*"³⁷² Mr. Bonenberger related that PPL's recently announced leadership team will step into those roles on Day 1. He testified that each of these individuals will join PPL from the Service Company and its affiliates and bring a deep understanding of the industry and a commitment to delivering energy safely and reliably. Mr. Bonenberger further related that PPL and National Grid USA have worked through the process spelled out in the SPA to identify other management-level employees of the Service Company who will transfer to PPL as part of the Transaction. He related that through this process more than 300 management-level employees will be transferring to PPL and be ready to continue to provide service starting on Day 1.³⁷³

Mr. Bonenberger reiterated that the Service Company will continue to provide services to Narragansett under the TSA. He testified that under this contractual agreement, the Service Company employees responsible for providing these services to Narragansett will do so in the same manner as they have done historically. He also testified that the Knowledge Transfer TSAs provide a mechanism for National Grid USA and the Service Company employees to impart

³⁷¹ Id., pp. 24-25.

³⁷² Id., p. 25.

³⁷³ Id., pp. 25-27.

that specialized knowledge to PPL personnel. Mr. Bonenberger also noted that the plan provides for PPL to engage third-party consultants to provide services and specialized knowledge on an as needed basis. Finally, he testified that PPL would continue to identify talented energy professionals to supplement its workforce where needed.³⁷⁴

Mr. Bonenberger also explained PPL's plan for exiting the transition period. He testified that PPL's goal is to complete the transition at a measured pace "*to ensure that we continue to provide safe and reliable service throughout the transition.*" He related that starting on Day 1, PPL will work to install the IT systems and other operational systems, construct the facilities, and assimilate the knowledge necessary to take over management and operation of Narragansett without Service Company support. He noted that for each service provide by the Service Company under the TSA, the agreed-upon time period is intended as an outside date. He testified that PPL would work to complete the transition on each service as soon as it confirms that it can do so with no reduction in safe and reliable service.³⁷⁵

Mr. Bonenberger next strongly disagreed with Mr. Oliver's concern that Service Company personnel will not provide the necessary level of service to Narragansett during the transition. He asserted that PPL is confident that the Service Company will fulfill its obligations under the TSA in a professional manner. Mr. Bonenberger also disagreed with those concerns questioning whether the two-year transition period provides sufficient time to fully transition

³⁷⁴ Id., pp. 27-28.

³⁷⁵ Id., p. 28.

Narragansett's operations to PPL. He testified that although a significant amount of work must be completed, PPL is fully engaged already in planning the IT systems transition, talking with vendors, identifying and assessing systems and planning the sequence and implementation of upgrades and replacements. He also related that PPL expects to complete its new Rhode Island-based facilities, including a control center and customer service center within the two-year window. Mr. Bonenberger reiterated that PPL will meet the challenge through a combination of retaining existing talented Narragansett employees and management, the transfer of Service Company employees to PPL and by retaining outside consultants with unique skills and specialization. He concluded by asserting that "[t]he two-year transition period provides ample time for PPL...."³⁷⁶

Mr. Bonenberger next disagreed with Mr. Oliver's concern that PPL will not be able to attract and maintain qualified personnel to perform services for Narragansett. He testified that Mr. Oliver provides nothing other than speculation on this issue. Mr. Bonenberger related that PPL is an experienced utility operator and sees no indications in the labor market that it will need to pay a salary premium to attract qualified talent to work for Narragansett.³⁷⁷

Mr. Bonenberger also addressed PPL's expectations and plans for transition costs. Acknowledging that the Advocacy Section's and Attorney General's witnesses were concerned about quantifying transition costs, Mr. Bonenberger testified that "*PPL has now completed an order of magnitude estimate of transition costs by function.*" Relying on an exhibit attached to his pre-filed testimony

³⁷⁶ Id., pp. 29-30.

³⁷⁷ Id., pp. 30-31.

(Exhibit B), Mr. Bonenberger related that the total estimate is approximately \$400 million.³⁷⁸ He noted that more than \$300 million of this total is for the installation and implementation of PPL's IT systems and other operational systems. He related that the other transition costs include facilities investments and operation and maintenance costs associated with the transition.

Regarding these costs, Mr. Bonenberger testified that PPL's transition costs will not result in higher customer rates that arise solely because of the Transaction. He testified that PPL will not seek recovery of duplicative transition costs. Instead, he stated that PPL will only seek recovery of those costs "*that generate incremental benefits for customers.*"³⁷⁹ He added that PPL carries the burden to prove that those incremental benefits support cost recovery before the Commission, and with review and input by the Division. Mr. Bonenberger testified that PPL believes this is a reasonable approach because it is consistent with generally accepted ratemaking principles.³⁸⁰

Mr. Bonenberger next discussed the operating model that PPL has planned for Narragansett after the transition period ends. He testified that PPL would operate Narragansett as a hybrid model that includes significant local control, while still providing substantial shared services from PPL's centralized operations. He related that the Rhode Island leadership team and its local management and front-line workers will have substantial autonomy to focus on local service and support and ensure that Narragansett has all the resources and attention

³⁷⁸ Id., p. 31.

³⁷⁹ Id., p. 32.

³⁸⁰ Id., pp. 32-34.

necessary to ensure safe and reliable gas and electric service. In addition to this autonomy, Mr. Bonenberger explained that Narragansett will also receive support from PPL's operations in Pennsylvania and Kentucky for numerous functions and services.³⁸¹

Addressing concerns of lost synergies, Mr. Bonenberger related that PPL is confident that it will be able to operate Narragansett just as efficiently under its proposed operating model as National Grid USA currently operates Narragansett. He testified that PPL's model emphasizes local presence, local control, and local focus, with support from a large utility company that provides numerous centralized services to its subsidiaries. Mr. Bonenberger described this model as "*a best-of-both-worlds paradigm.*" Mr. Bonenberger highlighted that "*Narragansett will get the benefit of an empowered local management team with Rhode Island-focused operations in various areas that currently National Grid USA provides only through its shared services model.*"³⁸² He added that while National Grid USA's current shared services model has provided good results, "*it is not the only way for a utility holding company to operate multiple utilities effectively and efficiently.*"³⁸³

On a related issue, Mr. Bonenberger opined that it will not cost more to operate Narragansett after the company is removed from National Grid USA's regional network of utilities. To the contrary, Mr. Bonenberger testified that PPL expects that operating costs will go down. He related that although PPL has not yet completed a full business plan and budget for Narragansett's operations after

³⁸¹ Id., pp. 34-35.

³⁸² Id., pp. 35-36.

³⁸³ Id., p. 36.

the transition period, PPL has offered an estimate of these costs, through discovery, and has a "*reasonable expectation*" of such costs.³⁸⁴

Related to Mr. Oliver's claim that PPL will have increased labor costs to manage and operate Narragansett's gas system due to the unbundling of Narragansett from National Grid USA's other utilities, Mr. Bonenberger criticized Mr. Oliver for "*cherry picking*" certain data points from PPL's cost estimates that require additional context. He testified that the cost comparison that PPL performed reflects that, overall, PPL's managed costs to operate Narragansett will be lower than the same costs currently being incurred by National Grid USA. He explained that some of the individual components of those overall costs are higher than National Grid USA's costs, and others are lower, but the net result is lower costs. Mr. Bonenberger related that the labor costs associated with gas operations reflect PPL's plan to have an enhanced local presence in Rhode Island, "*which Rhode Island regulators have encouraged in recent years.*" He opined that this "*is a function of the differences in PPL and National Grid USA's operational models - not a consequence of lost economies of scale.*"³⁸⁵

Mr. Bonenberger also rejected Mr. Oliver's claim that PPL's decision to use a local control Rhode Island-based operation is because PPL has no other choice because of the geographic remoteness of its other utilities. Mr. Bonenberger argued that PPL could operate a pure shared services model that is substantially similar to National Grid USA's current model with centralized operations for all its utilities from Pennsylvania. He contends that PPL has developed its model for

³⁸⁴ Id., pp. 36-37.

³⁸⁵ Id., pp. 37-38.

Narragansett because it draws the proper balance between having empowered and knowledgeable management in place locally to operate the utility safely and reliably, while also having the support of the larger centralized operations in areas where it makes the most sense to do so.³⁸⁶

Mr. Bonenberger next discussed PPL's plans for providing storm response support to Narragansett. He testified that PPL expects that the Transaction will enhance Narragansett's storm response capabilities for several reasons. First, Narragansett will continue to be a party to mutual support arrangement substantially similar to what is currently in place.

Second, because National Grid USA's other utilities are in the same geographic area as Narragansett, PPL's Pennsylvania and Kentucky utilities, located outside the local geographic area, will be more likely to be able to render assistance to Narragansett after a storm. Mr. Bonenberger noted that according to National Oceanic and Atmospheric Administration (NOAA) data, there is only a 15 percent to 20 percent likelihood that Pennsylvania and Kentucky will be impacted by a storm that impacts Rhode Island. Whereas, when a storm impacts Massachusetts, there is a 45 percent to 50 percent likelihood that it will also impact Rhode Island.³⁸⁷

Third, Mr. Bonenberger testified that PPL will deploy its predictive modeling approach to prepare to respond to storms before they happen. He related that *"we conduct daily seven-day forecast reviews multiple times daily, using weather forecasting systems and companies, entering data from those systems into our*

³⁸⁶ Id., pp. 38-39.

³⁸⁷ Id., pp. 39-40.

outage modeling tool to predict the number of expected outage cases and the number of customers affected." He explained that from this data, PPL is "*prepared to deploy restoration and support resources that allow us to restore power safely, quickly, and effectively.*"³⁸⁸

Mr. Bonenberger next took exception to Mr. Booth's claim that Narragansett will lose the ability to leverage initiatives in Massachusetts and New York to gain cost efficiencies in Rhode Island. He testified that the leverage would remain the same after the Transaction, the only difference will be that the jurisdictions will change from Massachusetts and New York to Pennsylvania and Kentucky. He argued that the difference in geography is not an impediment. As an example, Mr. Bonenberger related that PPL expects to leverage its experiences with procurement and implementation of smart meters in Pennsylvania and Kentucky to achieve cost efficiencies for its planned revision to the Updated AMF Business Case it will file for Narragansett after the Transaction closes.³⁸⁹

Mr. Bonenberger next addressed Mr. Booth's assertion that Narragansett benefits from the 5100 employees that work for the Service Company and that that benefit will be lost after the Transaction. He testified that although those 5100 employees provide some service to Narragansett, that number does not provide full context around the amount of employee time dedicated to providing service to Narragansett. He asserted that few, if any, of those 5100 employees are devoted full time to providing service to Narragansett. Mr. Bonenberger agreed that PPL's model will have fewer total people providing service to Narragansett,

³⁸⁸ Id., p. 40.

³⁸⁹ Id., pp. 40-41.

but PPL's model will still provide all the necessary time and attention to Narragansett customers. Mr. Bonenberger also stressed that "*many of the individuals who provide services to Narragansett under PPL ownership will be 100% dedicated to Narragansett.*"³⁹⁰

Mr. Bonenberger next addressed Ms. Salem's concerns with PPL's ability to administer Narragansett's least-cost procurement and energy efficiency programs. He testified that PPL has substantial experience managing energy efficiency programs and programs similar to least-cost procurement in its existing utilities. He related that PPL would leverage this experience and also rely on the knowledge and experience of the Service Company employees that will be transferring to PPL.

Mr. Bonenberger also addressed Ms. Salem's concerns that PPL may propose changes to these programs that may be inferior to Narragansett's performance. In response, he contended that there is "*no risk that PPL will propose, the Division will support, or the PUC will approve changes that harm or degrade Narragansett's programs in these areas.*"³⁹¹

Regarding Ms. Salem's concern that PPL may not comply with Rhode Island's renewable energy standard (RES), Mr. Bonenberger noted that the RES is a statutory requirement and that PPL is committed to complying with all such requirements.³⁹²

Mr. Bonenberger next discussed PPL's approach to transitioning to renewable energy generation and a modern electric grid in support of Rhode

³⁹⁰ Id., pp. 41-42.

³⁹¹ Id., pp. 42-43.

³⁹² Id., p. 43.

Island's climate change policies. He testified that PPL is committed to economically and sustainably transitioning to cleaner energy sources through innovation, responsible resource management and investments in infrastructure that support a more reliable, resilient and efficient grid. He related that PPL would carry this ethic and philosophy forward into its ownership, management and operation of Narragansett *"in furtherance of Rhode Island's laudable and aggressive plans to combat climate change."*³⁹³

Mr. Bonenberger also contrasted PPL's above-stated commitment to the position PPL took in opposition to the Obama administration's Clean Power Plan, as reference in Ms. Salem's testimony. He testified that LG&E's and KU's opposition to the final Clean Power Plan (CPP) was not a philosophical opposition to the aims and goals to reduce carbon emissions, rather, PPL *"challenged what it believed, and the courts ultimately agreed, to be flaws and deficiencies in the approach taken in the CPP and expressed concerns about methodology, analyses and assumptions in developing the proposed final rule."* Mr. Bonenberger testified that PPL instead *"supported a federal carbon reduction rule that would impose standards based on 'inside the fence' or unit-specific reductions that are demonstrated to be achievable."* Mr. Bonenberger also testified that *"more broadly, PPL recognizes that to be effective, U.S. climate policy needs to be national and economy-wide in scope, with a focus on market-based solutions and incentives rather than simply the regulation of individual emissions sources."* He also added that PPL *"believes that climate change policy should provide regional and state*

³⁹³ Id., p. 44.

*flexibility and equally value all forms of carbon reduction to achieve deep and lasting decarbonization in the most efficient way."*³⁹⁴

Mr. Bonenberger also addressed the Attorney General's suggestion that PPL should take a more aggressive approach to reducing carbon emissions than National Grid USA's current policies and activities. He responded that "*PPL must become more familiar with the many aspects of Narragansett's operation - familiarity that will come from actual operational control - before proposing aggressive enhancements or improvement in carbon reduction policies.*" Mr. Bonenberger noted however, that while PPL is firm in its commitment to support the transition to renewable energy and is ready to take steps to support Rhode Island in achieving its climate change objectives, proposing and implementing such future enhancements "*are beyond the scope of this proceeding.*"³⁹⁵

Mr. Bonenberger also noted that currently, the 2021 Act on Climate does not impose any affirmative obligations on utilities to take any particular actions. He related that PPL recognizes and understands that Rhode Island's implementation of the Act "*may result in affirmative enforceable obligations, and Narragansett will, of course, comply with those obligations.*"

Lastly, in response to the Attorney General's suggestion that PPL should not be permitted to make capital expenditures on the gas distribution system other than for projects that already are under way, Mr. Bonenberger responded that the General Assembly, the Governor, the Commission, the Division and local leaders are already engaged in discussing and planning for the future of natural gas

³⁹⁴ Id., pp. 44-45.

³⁹⁵ Id., pp. 45-46.

distribution in Rhode Island. He testified that PPL is prepared to participate in that discussion and planning process, and to implement the decisions made by these government actors. As for PPL's position on the issue, Mr. Bonenberger testified that *"PPL does not agree that there should be a restriction on capital expenditures on the gas distribution system."* He related that *"such restriction would hamstring the ability of Narragansett and the state of Rhode Island to meet the energy needs of customers that are critical to quality of life and a vibrant economy and to meet its obligations to provide safe and reliable service."*³⁹⁶

B. Lonnie E. Bellar

Mr. Lonnie E. Bellar reintroduced himself as the Chief Operating Officer of Kentucky Utilities (KU) and Louisville Gas & Electric Company (LG&E). Mr. Bellar noted that PPL acquired LG&E and KU in 2010 as part of a major expansion, which also included the acquisition of the Midlands Distribution Network Operators in the United Kingdom in 2011. Mr. Bellar related that his rebuttal testimony addresses PPL's gas distribution operations experience and rebuts certain points raised in the Advocacy Section witness Bruce Oliver's direct testimony.³⁹⁷

In discussing PPL's experience in gas distribution operations, Mr. Bellar testified that LG&E's gas operations have performed very well since PPL acquired it in 2010. He related that in addressing safety priorities, LG&E has reduced leak rates and significantly enhanced safety. He testified that LG&E has also spearheaded a comprehensive and aggressive main replacement program to

³⁹⁶ Id., pp. 47-48.

³⁹⁷ PPL and PPL Rhode Island Exhibit 2.

replace aging gas pipelines with new, more durable materials. He related that the program has eliminated all cast iron pipe on LG&E's gas distribution and transmission system and has virtually eliminated all bare steel pipe. Mr. Bellar testified that as a result, LG&E now has (1) substantially lowered its leak rate, (2) eliminated water intrusion on its pipelines, (3) increased the operating pressures on its system, and (4) introduced more main line valves on the system for greater flexibility in management.³⁹⁸

Mr. Bellar testified that LG&E has maintained a strong safety culture in its gas distribution operations. He related that LG&E has developed a robust Distribution Pipeline Integrity Management Program; it also conducts routine pipeline safety inspections and constantly monitors its gas operations via a centralized control room. Mr. Bellar added that LG&E also focuses on educating the public about natural gas safety; he noted that in 2019, LG&E earned the American Gas Association Accident Prevention Award for Safety Excellence.³⁹⁹

Mr. Bellar next testified that LG&E and KU have significant experience preparing, filing and prosecuting general base rate cases for their electric and gas operations in Kentucky. He related that LG&E and KU now use fully forecasted test years, as allowed by statute in Kentucky; their most recent filing was in 2020. Mr. Bellar likened PPL's rate case process experience with that of Narragansett's, which he said, provides PPL with the experience necessary to develop the detailed information required to support future Narragansett rate filings.⁴⁰⁰

³⁹⁸ Id., pp. 2-3.

³⁹⁹ Id., p. 3.

⁴⁰⁰ Id., pp. 4-5.

Mr. Bellar next discussed PPL's ability to safely and reliably operate Narragansett's gas distribution business. He related that when PPL acquired LG&E in 2010 it was able to successfully operate the company because it possessed previous LDC operating experience through an LDC that it previously owned in Pennsylvania, which it sold in 2008. Mr. Bellar testified that when PPL acquired LG&E it was able to maintain reliability and service by retaining LG&E's field and office employees; by bringing in experienced managers to fill any needs following the acquisition; and by applying its own management talent to ensure that LG&E continued its culture of continuous improvement in the safe operations of the gas transmission and distribution networks to improve service and reliability to its gas customers.⁴⁰¹

With respect to Narragansett, Mr. Bellar testified that integrating a new LDC into the PPL company is always an important task. He testified that he was confident that PPL will devote all of the time and talent necessary to ensure a smooth and seamless transition that maintains the service and reliability Rhode Island customers expect. He opined that PPL's significant experience with gas operations over the past decade will help PPL complete that transition successfully.⁴⁰²

Mr. Bellar was also confident that Narragansett's gas customers would not experience any degradation of service from PPL's takeover of Narragansett. He testified that *"as we transition to full PPL management, we will move from a pure shared service approach to a hybrid model... PPL will create a Rhode Island-based*

⁴⁰¹ Id., p. 5.

⁴⁰² Id., pp. 5-6.

*and Rhode Island-focused organization, while still providing synergies and support through shared services from PPL and its operations in Pennsylvania and Kentucky."*⁴⁰³

Mr. Bellar next addressed Mr. Oliver's general concern about PPL's '*dearth of experience in gas utility management.*' He responded by asserting that there is considerable experience in gas utility management with the team transferring to Rhode Island, especially in Michelle Leone, who will be the Vice President in charge of gas operations. He also expressed confidence in the team's ability to take over the operations of Narragansett's LNG facilities. After describing the experience of the various team members, in detail, Mr. Bellar emphasized that PPL will have sufficient management resources in place on Day 1 to allay any concerns about PPL's ability to manage Narragansett's gas operations.⁴⁰⁴

In addressing another concern from Mr. Oliver, Mr. Bellar testified that PPL has considerable gas procurement experience through LG&E, which translates to other markets, including the New England market. He related that LG&E performs many of the same gas procurement functions that National Grid USA and its affiliates currently perform in their efforts to purchase low-cost gas supply for customers. Mr. Bellar noted that these functions include determining procurement strategies, developing plans to meet those strategies, and executing those plans.⁴⁰⁵ Mr. Bellar also explained that LG&E uses a bid solicitation process to request proposals from reliable, creditworthy suppliers, evaluates

⁴⁰³ Id., pp. 6-7.

⁴⁰⁴ Id., pp. 7-9.

⁴⁰⁵ Id., pp. 9-10.

proposals based on a pre-determined evaluation methodology, and awards supply transactions to low-cost suppliers. He related that National Grid USA and/or its affiliates will use a similar process to purchase natural gas for Narragansett.⁴⁰⁶

Mr. Bellar testified that LG&E transports gas on two major interstate pipelines, Texas Gas Transmission, LLC ("Texas Gas") and Tennessee Gas Pipeline Company, LLC ("Tennessee"). He related that LG&E manages gas deliveries from these pipelines across multiple city gate stations on Texas Gas and two city gate stations on Tennessee. He testified that LG&E works to negotiate pipeline transportation discounts and enters capacity release transactions when possible, to lower interstate pipeline transportation costs. Mr. Bellar also noted that Tennessee is also one of the two pipelines on which National Grid USA and/or its affiliates purchase gas for Narragansett.⁴⁰⁷

Mr. Bellar testified that LG&E's gas procurement group manages daily deliveries from marketers on behalf of customers who participate in LG&E's two end-user gas transportation programs. He related that like National Grid USA and/or its affiliates, LG&E must integrate deliveries from those customers into its supply plans. Mr. Bellar also testified that LG&E's gas control group operates five on-system storage fields and three compressor stations. He related that to ensure that gas is available for withdrawal from storage, LG&E's procurement group purchases gas during the summer for storage injection. He also related that LG&E's gas procurement group also works closely with its gas control group to determine daily supply plans. He testified that daily pipeline purchase

⁴⁰⁶ Id., p. 10.

⁴⁰⁷ Id., pp. 10-11.

requirements are determined by the gas control group considering on-system storage withdrawals or injections, and deliveries to the system from marketers on behalf of gas transportation service customers. Mr. Bellar related that LG&E's gas procurement group then decides how much it will purchase on each pipeline, and dispatches existing contracts, makes daily purchases, or uses interstate pipeline storage flexibility to acquire gas in a least cost manner.⁴⁰⁸

In addressing another of Mr. Oliver's concerns, Mr. Bellar asserted that overall, LG&E's procurement experience is similar to National Grid's procurement experience and translates to the New England market. However, understanding that each gas market is different, Mr. Bellar confirmed that PPL is taking steps to ensure that it gains more knowledge of the New England market, including the critical differences and idiosyncrasies of the market, to safely and reliably take responsibility for gas procurement in Rhode Island.

In explaining the steps being taken by PPL, Mr. Bellar testified that first, immediately after the Transaction closes, the Service Company will continue to provide gas procurement services under the TSA. PPL expects the Service Company to provide these gas procurement services for approximately two years. Mr. Bellar related that during the TSA period, PPL will work closely with National Grid to build its experience to complement the substantial experience PPL personnel already have.⁴⁰⁹

Mr. Bellar stated that, secondly, PPL has taken additional steps to ensure that it builds its knowledge and skill in gas procurement in the New England

⁴⁰⁸ Id., pp. 11-12.

⁴⁰⁹ Id., p. 12.

market. Toward this end, Mr. Bellar testified that PPL has retained the services of Brant Energy Inc, located in New Hampshire, as a third-party consultant to assist in developing PPL's gas procurement capabilities in the New England market. Mr. Bellar noted that the Brant team has over 50 years of combined experience in the New England energy industry markets. Mr. Bellar testified that both Brant Energy and National Grid will assist with the identification, recruitment, hiring, and knowledge transfer and training of experienced personnel for the PPL gas procurement organization.⁴¹⁰

Mr. Bellar next detailed the specific gas operations support that the Service Company will provide to PPL during the transition period. He related that under the TSA, the Service Company will provide services in the following gas workstreams:

- Gas Dispatch - consultancy services for dispatch supervision, and emergency call dispatch support;
- Gas Control Operations - gas procurement recruitment and training support, emergency response support: and
- Gas Procurement - gas procurement recruitment and training support, gas load forecasting, gas procurement services, physical and financial gas transactions, and retail choice programs.

⁴¹⁰ Id., pp. 13-14.

Mr. Bellar related that these agreements include provisions for knowledge transfer, training and consultancy services with Service Company employees and subject matter experts.⁴¹¹

Mr. Bellar also explained his understanding of the differences between the New England and Canadian gas markets and the markets in which PPL has operated gas services. He testified that the New England market is a historically capacity-constrained market, which requires utilities to rely more heavily on on-system peaking resources, like LNG, to meet winter demand. Mr. Bellar related that the New England market is also located at the end of the interstate pipeline systems and has no local gas production or underground storage capability.

Mr. Bellar also recognizes that Narragansett's gas distribution operations are the product of the consolidation of three smaller gas utilities, and as such, Narragansett's distribution system has a multitude of pipeline and storage transportation contracts it actively manages to serve its customers. Based on these unique characteristics, Mr. Bellar testified that PPL "*will work closely with National Grid through the transition period to build upon its internal capabilities and gain experience in managing the Narragansett portfolio in a manner consistent with past practices of National Grid.*"⁴¹²

Mr. Bellar next addressed Mr. Oliver's concerns that PPL's experience with financial hedges in natural gas markets is limited. He testified that although the Kentucky PUC does not require the use of financial hedging by local gas companies, LG&E does utilize its on-system storage as a physical hedge against

⁴¹¹ Id., pp. 14-15.

⁴¹² Id., pp. 15-16.

winter price volatility. He explained that LG&E purchases about 12 Bcf of natural gas in the summer to refill its on-system storage, and then delivers that gas to customers during the winter season at a price that reflects the weighted average cost of summer injections. He also testified that PPL does have experience with financial hedging as part of its electricity business. Mr. Bellar testified that PPL will leverage that experience, as well as the experience of National Grid and its affiliates under the TSA when it assumes control of gas procurement for Narragansett. Additionally, Mr. Bellar noted that PPL has engaged former Service Company personnel to provide consulting support for financial hedging programs and plans to hire personnel with significant and particularized experience in New England, including financial hedging.⁴¹³

Mr. Bellar also disputed that Narragansett's removal from the National Grid gas procurement portfolio will lead to a substantial loss of bargaining strength in the New England market. Mr. Bellar testified that National Grid and its affiliates purchase gas separately for each of its utilities. He highlighted that Narragansett's gas supply contracts are in its name and not part of any broad-based contracts for the supply of gas to multiple National Grid affiliates. He added that with regard to overall supply acquisitions, they are utility specific and thus delivery point specific to the utility so economies of scale are less relevant.⁴¹⁴

In response to Mr. Oliver's concerns comparing LG&E's leak percentages to those of National Grid, Mr. Bellar testified that although the raw data reflects a greater number of leaks on the LG&E gas system than the Narragansett gas

⁴¹³ Id., pp. 16-17.

⁴¹⁴ Id., p. 17.

system, this information does not reflect any shortcomings in LG&E's experience in running a safe and reliable gas operation that effectively identifies, resolves, and prevents leaks.

Concerning this data, Mr. Bellar notes that LG&E has approximately 50,000 more customers and more than 100,000 more gas services than Narragansett. He also notes that LG&E's annual excavating ticket volume is more than double the Narragansett volume over a ten-year average and thus results in higher volume of excavation damages by comparison. He pointed out that about 86% of LG&E's excavation damages occur on gas services. Additionally, Mr. Bellar notes that material, weld, and joint failures contain the highest number of total leaks on an annual basis. He related that these leak codes are used commonly when a leak occurs, but a true cause cannot be readily determined.

Mr. Bellar also testified that these statistics do not address the rate of leaks on equipment, such as valves, regulators, and control/relief equipment, which also can be a threat to the distribution system. He stated that overall, these types of equipment failure leaks on LG&E's system have decreased 50 percent since 2010. He attributed the reduction to the replacement of aging equipment with newer, more reliable equipment.⁴¹⁵

Further, Mr. Bellar testified that leaks coded as '*incorrect operations*,' which are historically one of the most reoccurring events, commonly arose from improper installation of a riser/service head adaptor by a plumber. He noted that

⁴¹⁵ Id., p. 18.

because LG&E now has replaced and now owns customer gas service risers, PPL expects a decrease in these types of events.⁴¹⁶

Finally on the leak issue, Mr. Bellar noted that LG&E's Distribution Integrity Management group continues to monitor leaks and failures and will address any noticeable trends for both manufacturing issues and incorrect operations.⁴¹⁷

Mr. Bellar next observed that Mr. Oliver appears to use the terms '*customer satisfaction*' and '*customer service*' interchangeably when referencing LG&E's J.D. Power performance. He related that the rankings he references are based on overall customer satisfaction scores, of which customer service is one of many factors. He testified that the other factors include safety and reliability, billing and payment, communications, corporate citizenship, and price. Mr. Bellar also testified that contrary to Mr. Oliver's assertion, the level of service is consistent regardless of customer class. Mr. Bellar proffered charts with his testimony to demonstrate LG&E's residential and business customer satisfaction successes in comparison to National Grid. He asserted that the "*charts... demonstrate that PPL has the expertise to meet or exceed the current customer satisfaction levels for Rhode Island customers.*"⁴¹⁸ Mr. Bellar added that customer satisfaction is an important priority for PPL, and PPL is committed to achieving strong customer satisfaction in Rhode Island.⁴¹⁹

⁴¹⁶ Id, p. 19.

⁴¹⁷ Id.

⁴¹⁸ Id., pp. 19-21.

⁴¹⁹ Id., pp. 21-22.

C. Bethany L. Johnson

Ms. Bethany Johnson identified herself as the Director of Regulatory Affairs for PPL Electric Utilities. She related that she is responsible for PPL Electric's energy and utility policy, company strategy, development of load and revenue forecasting and analysis, procurement of wholesale generation supply, distribution rate design and administration, general tariff administration, and cost of service implementation, as well as transmission FERC Formula Rates, development of rate case strategies and processes, and regulatory compliance with the regulatory requirements of the Pennsylvania Public Utility Commission, the Federal Energy Regulatory Commission and other regulatory agencies, as necessary.⁴²⁰

After providing a summary of her educational background and professional experience, Ms. Johnson related that her rebuttal testimony is being offered to help demonstrate "*that PPL is a seasoned utility operator with the experience necessary to ensure that there is no degradation of utility service after the Transaction closes.*" Ms. Johnson added that her testimony "*also demonstrates that Narragansett will pursue cost recovery in a future rate proceeding in a manner that ensures that Narragansett customers will not be charged higher rates solely because of the Transaction.*" Ms. Johnson also related that her testimony directly responds to issues raised by the Advocacy Section and the Attorney General "*with respect to the recovery of costs incurred during the transition period and costs that*

⁴²⁰ PPL and PPL Rhode Island, Exhibit 3, p. 1.

may be duplicative of expenditures made during National Grid USA's ownership of Narragansett."⁴²¹

Ms. Johnson began the substance of her testimony with a discussion on PPL's general approach to cost recovery. Initially, she related that the requirements for approval of base distribution rates in Pennsylvania are very similar to the requirements for approval of base distribution rates in Rhode Island. She testified that in Pennsylvania, PPL Electric routinely evaluates the need for a distribution base rate case, including during the business planning process, as well as other times throughout the year if PPL Electric believes that there may be significant changes to its financial position during the term of the business plan. Ms. Johnson testified that PPL Electric also balances its financial needs with the potential impacts to customers and other stakeholders, such as the Pennsylvania PUC, the Office of Consumer Advocate, and the Office of Small Business Advocate, as well as evaluating the utility industry environment for emerging trends and technologies that should be considered when PPL Electric proposes a base distribution rate case.⁴²²

Ms. Johnson testified that once PPL Electric decides to file a rate case, the regulatory department acts as the lead to develop the case, including oversight of the overall process and strategy as well as all of the filing requirements, interrogatories, and testimony. She noted that in Pennsylvania, the time from filing to rate implementation is typically about nine months. Ms. Johnson also related that it generally takes six or more months to develop the filing, which

⁴²¹ Id., p. 4.

⁴²² Id., pp. 5-6.

"allows ample time to determine subject matter experts, process and workflow, leadership updates and more."⁴²³ Ms. Johnson also explained that after the filing is made, PPL Electric engages with stakeholders through several public input hearings and all intervenors through settlement negotiations. She noted that PPL Electric was able to reach settlement in two of its last three rate cases dating back to 2010.

Ms. Johnson also related that Pennsylvania allows for the use of a Fully Projected Future Test Year ("FPFTY"). She explained that in order to use a FPFTY for ratemaking purposes, PPL Electric must be able to support a very detailed business plan including detailed expenses and anticipated project-in-service dates. She related that PPL Electric also submits as support for its claim historic and future test year data ("HTY" and "FTY," respectively). Ms. Johnson opined that this effort "*demonstrates the considerable time and effort PPL Electric undertakes to provide detailed financial information for three years (historic and future) in its initial filing, and PPL Electric is able to explain changes to the data over those three years, proving that the information provided in the FPFTY is prudent and will result in just and reasonable rates.*"⁴²⁴

After summarizing her understanding of the base distribution rate case process in Rhode Island, Ms. Johnson asserted that there are no aspects of the Rhode Island rate case process with which PPL does not have experience. She related that although the processes are not identical, the work necessary to develop and support proposed base distribution rates is substantially similar,

⁴²³ Id., p. 7.

⁴²⁴ Id., p. 8.

*"and PPL's experience translates well to what it will need to do to prepare... rate cases in Rhode Island."*⁴²⁵

Ms. Johnson next acknowledged that there are additional rates and factors that Narragansett establishes through proceedings outside base distribution rate proceedings, including cost of supply, transmission rates, various renewable energy programs, and ISR Plans. Again, however, Ms. Johnson maintained that PPL has similar, though not identical, experience with such rates and factors in Pennsylvania. As an example, she compared PPL Electric's Long Term Infrastructure Improvement Plans (LTIIP) to Narragansett's ISR Plans.⁴²⁶

Ms. Johnson next discussed PPL's transition period cost recovery plans. She testified that other than changing the name on the tariffs, *"Narragansett's rates and tariffs will remain the same immediately following the Transaction close."* After that, if Narragansett decides to seek an adjustment to its rates or tariffs, it *"would have to follow exactly the same regulatory procedures it follows now...."*⁴²⁷ Ms. Johnson related that PPL and PPL Rhode Island have not yet determined whether Narragansett will seek recovery of any transition costs. She related that if PPL and PPL Rhode Island decide to pursue recovery of transition costs, *"it will be because they have determined that they can demonstrate that those costs are just and reasonable to be passed on to customers."* She testified that this would require a showing *"that the costs... are incremental, providing new benefit, and have not been previously recovered from customers for the same services that*

⁴²⁵ Id., p. 9.

⁴²⁶ Id., pp. 9-10.

⁴²⁷ Id., p. 11.

*National Grid USA would have provided."*⁴²⁸ Ms. Johnson clarified her testimony by stating that *"to the extent PPL and PPL Rhode Island cause Narragansett to seek recovery of transition costs, those costs will either be: (i) like-for-like replacement of costs that Narragansett otherwise would have incurred under National Grid USA ownership, or (ii) additional costs that delivered incremental customer benefits over and above the services and benefits Narragansett customers previously had received."* Ms. Johnson also emphasized that *"Narragansett will not be able to recover any transition cost unless it meets all the necessary regulatory hurdles to establish that it is appropriate for Narragansett to do so."*⁴²⁹

Ms. Johnson further noted that PPL and PPL Rhode Island will not seek recovery of acquisition premiums and transaction costs. Additionally, she noted that to the extent that PPL and PPL Rhode Island incur costs that are duplicative of costs Narragansett already has incurred to replace existing facilities or IT Systems (and these replacements do not provide incremental functionality and benefits), or that Narragansett incurs transition costs that are duplicative of costs the Service Company is providing under the TSA, PPL will not cause Narragansett to seek recovery of such costs.⁴³⁰

Regarding the costs incurred by Narragansett under the TSA, Ms. Johnson reiterated that Narragansett's base distribution rates will remain the same after the Transaction closes until such time as PPL and PPL Rhode Island cause Narragansett to file a new base rate case. Ms. Johnson testified that PPL will not

⁴²⁸ Id., p. 12.

⁴²⁹ Id., pp. 12-13.

⁴³⁰ Id., pp. 13-14.

seek to recover in rates any markup charged by the Service Company in providing TSA services.⁴³¹

For transition costs that extend beyond the TSA, Ms. Johnson related that *“it will be the same as the approach described above for potential recovery of transition costs during the expected transition period.”* She asserted that PPL will not seek to recover in rates any markup charged by the Service Company in the provisioning of the TSA services; *“this commitment applies to the original term of the TSA and any extensions.”*⁴³² Ms. Johnson did note however, that PPL will be tracking all transition costs by project codes and will identify any transition costs that are appropriate for cost recovery under ratemaking principles. But she made it clear that *“the pure transition costs that PPL and PPL RI must incur solely to effectively take over ownership, management, operation, and control of Narragansett and that do not provide incremental benefits to Rhode Island customers, will not be a part of any rate recovery filing by Narragansett.”*⁴³³

In response to a concern raised by Mr. Ballaban, Ms. Johnson confirmed that the Transaction will not have an impact on customer rates during the transition period. She testified that the next Narragansett base distribution rate case will reflect PPL and PPL Rhode Island’s understanding and expectation of its costs to operate Narragansett and will not include any additional costs to facilitate the transition. She also related that all of the other components of Narragansett’s rates, which are adjusted through reconciling mechanisms, will continue to be

⁴³¹ Id., pp. 14-15.

⁴³² Id., p. 15.

⁴³³ Id., pp. 15-18.

calculated and approved in the same manner as they are currently. She also emphasized that the Commission and interested parties will continue to have the opportunity to review and vet all of Narragansett's filings.⁴³⁴

Regarding the Commission's review process, Ms. Johnson testified that PPL and PPL Rhode Island have full faith in the Commission's ability to fully evaluate any such costs for which PPL and PPL Rhode Island seek recovery through rates at the proper time. She testified that Narragansett would have the burden to satisfy the standard for recovery of any cost. She related that if Narragansett seeks recovery of transition costs on the grounds that the costs will result in incremental benefits to customers, then Narragansett will have to establish how it calculated those incremental benefits and how they arise from the costs such that the proposed benefit justifies cost recovery. Ms. Johnson contended that the *"possibility that such an analysis might be complex is not a reason to require PPL and PPL Rhode Island refrain from seeking cost recovery for any transition costs."*⁴³⁵

Ms. Johnson also rejected Mr. Ballaban's concerns about intergenerational inequity and transition costs impacting transmission formula rates. Regarding intergenerational inequity, Ms. Johnson reiterated that the Commission would have an opportunity to analyze the benefits Narragansett identifies and determine whether the cost recovery proposal is just and reasonable for those benefits. She related that *"if the proposed benefits are too remote or speculative to justify the proposed upfront investment by customers, then the Commission will have the*

⁴³⁴ Id., pp. 16-17.

⁴³⁵ Id., p. 18.

ability to make that determination.” She also called Mr. Ballaban’s concerns “highly speculative.” She testified that the “possibility that there might be a request for recovery of transition costs now... based on benefits that will occur far in the future may never come to pass....”⁴³⁶

Ms. Johnson also testified that Mr. Ballaban’s concerns about transition costs impacting transmission formula rates “*are equally speculative and unfounded.*” She noted that any changes to Narragansett’s formula transmission rates will be reviewed and approved by FERC.⁴³⁷

Ms. Johnson next asserted that Mr. Ballaban’s proposal for a rate freeze for at least four years after the Transaction closes is unnecessary. She maintained that whenever Narragansett files its next rate case, it will be proposing rates based on its costs to operate Narragansett and will not be seeking to set rates based on any increase costs that arise because of the transition.⁴³⁸

Ms. Johnson next discounted Mr. Booth’s criticism of PPL for not indicating when after the Transaction closes it may make a rate filing. She related that because PPL does not have adequate detailed historic information of its own, and must allow for time to develop such history, as well as a detailed business plan, PPL and PPL Rhode Island are currently unable to predict with specificity future Narragansett rates after the Transaction closes. She explained that when PPL and PPL Rhode Island are better positioned to evaluate Narragansett’s financial needs to safely and reliably operate Narragansett, and balance that need with

⁴³⁶ Id., pp. 18-19.

⁴³⁷ Id., p. 19.

⁴³⁸ Id., p. 20.

those of customers, “*they will evaluate timing of a base distribution rate case and work the with [sic] Division and other stakeholders, as appropriate, regarding its proposals.*”⁴³⁹

Ms. Johnson also rejected Mr. Ballaban’s proposal that the Division require PPL to ‘*file robust evidence regarding key accounting policies*’ at least 12 months before filing a rate case. She called Mr. Ballaban’s proposal “*unnecessary and impractical.*” She reasoned that PPL and PPL Rhode Island already provided their current cost allocation manual through discovery, “*and, while the cost allocation manual does not include Narragansett, the principles in the manual will apply to the cost allocation manual that will include Narragansett.*” Ms. Johnson also reasoned that the rationale that requiring them to be submitted in advance will give the Commission and the Division more time to review them and ‘*a greater opportunity to influence outcomes directly*’ is not a basis to impose a requirement that is in excess of that which already is in place for Narragansett. She also noted that any accounting policies submitted at this time may change by the time Narragansett files its next rate case. She additionally noted that PPL and PPL Rhode Island will record the transaction in accordance with FERC and Generally Accepted Accounting Principles (“GAAP”) accounting principles. Finally, she related that the historic financial information provided in a rate case will be independently audited, which makes reviewing and vetting current policies a wasted effort.⁴⁴⁰

Moving on to a discussion about PPL’s approach to specific rate-setting issues in Rhode Island, Ms. Johnson commented on Mr. Booth’s opinion that

⁴³⁹ Id., p. 21.

⁴⁴⁰ Id., pp. 21-22.

National Grid USA currently achieves synergies and cost savings for Narragansett by allocating only a portion of the book value and annual operating costs of certain facilities and functions to Narragansett. She observed that Mr. Booth referred to the planned new control center PPL plans for Rhode Island as an example of these lost synergies. Ms. Johnson testified that such concerns are misplaced because PPL and PPL Rhode Island will not be seeking recovery of costs incurred solely for the purpose of replacing assets and functionality that Narragansett previously provided under National Grid USA ownership. She also contended that *“Mr. Booth’s focus on just one aspect of where potential costs may be higher fails to take into account the many operational areas where PPL and PPL RI believe there will be cost savings.”*⁴⁴¹ Ms. Johnson was steadfast in her assertion that PPL and PPL Rhode Island will not cause Narragansett to seek approval from the Commission for cost recovery that would require Narragansett customers to pay for the same thing twice.⁴⁴²

Ms. Johnson testified that this approach will also apply to Narragansett’s investments to date in advanced metering functionality and grid modernization. She related that PPL and PPL Rhode Island are aware that Narragansett has made investments in grid modernization for which it has received cost recovery through rates established in Docket Nos. 4770 and 4780. She also acknowledged the AMF and grid modernization plans that Narragansett had filed in Commission Docket Nos. 5113 and 5114, were stayed pending the outcome of this Division docket. Ms. Johnson testified that with respect to cost recovery for any proposed grid

⁴⁴¹ Id., pp. 22-23.

⁴⁴² Id., p. 24.

modernization or AMF investments, PPL and PPL Rhode Island will not seek cost recovery for expenses that may duplicate expenses for which National Grid USA or Narragansett has already sought and received recovery for grid modernization and AMF investments. Ms. Johnson, noted, however, that as with other costs, PPL and PPL Rhode Island “*may seek to recover portions of the costs of its investments that replace unused assets to the extent they can demonstrate incremental benefits, such as but not limited to (i) deploying Fault Location Isolation Service Restoration, (ii) achieving real time visibility into the operation of the grid through the use of remote-controlled smart grid facilities, and/or (iii) building Distributed Energy Resource Management (“DERMS”) capabilities inside of the Advanced Distribution Management System.*”⁴⁴³

Ms. Johnson next, in response to a criticism from Mr. Booth, explained why PPL and PPL Rhode Island did not provide a rate impact analysis with the Petition. She testified that a rate impact analysis was not completed because PPL and PPL Rhode Island have not determined when Narragansett will file its next base distribution rate case. She further suggested that a rate impact analysis was not necessary as PPL and PPL Rhode Island expect that their costs to operate Narragansett will be less than or equal to National Grid USA’s costs.⁴⁴⁴ Ms. Johnson also rejected Mr. Booth’s criticism that PPL created pro forma earnings per share and cash flows for the Transaction for investors but did not provide a rate impact analysis. She testified that the analysis that went into the pro forma earnings per share and cash flow for investors is similar to the analysis that PPL

⁴⁴³ Id., pp. 23-24.

⁴⁴⁴ Id., p. 25.

performed to create the operations cost comparisons (Operating Cost Analysis) that was provided during discovery.⁴⁴⁵

On the matter of transaction accounting, Ms. Johnson agreed that the Transaction will result in an acquisition premium. She quantified that acquisition premium to be approximately \$1.725 billion; Narragansett currently has goodwill on its books of \$725 million, resulting in approximately \$1.0 billion of incremental goodwill connected directly with the Transaction. Ms. Johnson testified that PPL would exclude the acquisition premium and goodwill associated with the Transaction from the ratemaking capital structure for Narragansett; it will be on the books of PPL Rhode Island.⁴⁴⁶

Ms. Johnson next, in response to Mr. Kahal's concern that in a future rate case PPL could simply decide that the removal of goodwill from equity is no longer an appropriate regulatory adjustment, testified that currently, goodwill is not a recognized component of capital structure for ratemaking purposes for regulated utilities. She testified that, accordingly, "*PPL will not include goodwill as part of ratemaking capital structure unless the regulatory paradigm changes.*"⁴⁴⁷

Ms. Johnson also addressed Mr. Effron's concern about the effect the Transaction will have on Narragansett's valuation of assets and liabilities related to pensions and postretirement benefits other than pensions (PBOP). She responded that the Transaction itself is not causing an increase or decrease in pension and post-retirement benefit obligations that would cause a change to

⁴⁴⁵ Id., pp. 25-26.

⁴⁴⁶ Id., p. 26.

⁴⁴⁷ Id., p. 27.

Narragansett's revenue requirement. Instead, she related that *"the pension plan and postretirement benefits will be re-measured upon acquisition after Transaction closing, which is similar to the annual remeasurement performed by Narragansett under National Grid USA ownership currently."*⁴⁴⁸

Ms. Johnson testified that at the closing of the Transaction, employees remaining with Narragansett will be transferred to new pension and postretirement benefit plans specific to Narragansett; Service Company employees whose costs were previously allocated in part to Narragansett will now become direct participants in the Narragansett plans. She explained that the new plans will have an initial measurement date effective with the close of the Transaction, and that the gross obligation will be remeasured based on assumptions and market conditions at the closing date, similar to an annual remeasurement under GAAP. She noted that the final asset amounts will be dependent upon market conditions and returns and will be based on actual asset values as of the Transaction date, which she again compared to an annual remeasurement.

Ms. Johnson recognized that Mr. Effron is concerned that the remeasurement at the close of the Transaction may be more extensive than the current annual remeasurement and could impact annual pension and PBOP expense going forward. In response, Ms. Johnson related that PPL and PPL Rhode Island agree with Mr. Effron's assertion that the remeasurement should not alter Narragansett's revenue requirement, and they agree that it will not do so at the time of the Transaction close. However, Ms. Johnson testified *"that to the extent*

⁴⁴⁸ Id., p. 29.

that Mr. Effron's position is that there can be no adjustment to revenue requirement based on the pension and PBOP plan assets on an indefinite basis because of the potential relationship to the remeasurement at Transaction close, PPL and PPL RI do not agree." She argued that it is too speculative to determine whether future plan assets and liabilities will impact revenue requirement, or whether any impacts to revenue requirements would be connected to the remeasurement at Transaction close.⁴⁴⁹

Next, with respect to Mr. Effron's concern about the Transaction's effect on accumulated deferred income taxes (ADIT), Ms. Johnson testified that as a result of the Petitioners' decision to treat PPL Rhode Island's stock purchase of Narragansett as an asset purchase for tax purposes, Narragansett's asset values are reset to fair market value and the accelerated tax depreciation previously recorded on those assets, and which gave rise to deferred tax liabilities, is eliminated. Ms. Johnson agreed that the elimination of ADIT has the potential to result in increased rates. However, Ms. Johnson testified that to address this concern, in any future rate filing that includes ADIT, PPL will include a proposal to mitigate or offset the impact to customers associated with the elimination of ADIT as of the date of the Transaction. Ms. Johnson related that when PPL and PPL Rhode Island file their next rate case, the Commission and other interested parties will be able to review and assess the proposal to confirm that the proposal accomplishes holding customer impacts neutral. She also related that PPL's

⁴⁴⁹ Id., pp. 30-31.

proposal will also address the impact of any FERC formula transmission rate changes on Narragansett customers.⁴⁵⁰

D. Tadd Henninger

Mr. Tadd Henninger identified himself as PPL's Vice President – Finance and Treasurer. He related that he is responsible for overseeing financial planning and analysis, as well as PPL's treasury related activities. After a summary of his educational background and professional experience, Mr. Henninger related that his testimony specifically addresses PPL and PPL Rhode Island's plans to ensure that Narragansett remains financially strong after the Transaction closes, including PPL's policies and practices related to financing and cost of capital.⁴⁵¹

Mr. Henninger testified that PPL has been and continues to be a financially strong company. He related that PPL has maintained its financial stability during numerous strategic transactions that it has completed over the last decade. Mr. Henninger testified that in 2010 and 2011, PPL acquired utilities in Kentucky for \$7.6 billion and in the United Kingdom ("UK") for \$6.5 billion, while maintaining strong investment grade credit ratings. He related that in 2015, PPL spun off its unregulated generation business, which resulted in PPL being upgraded to an '*Excellent*' business risk profile at S&P. Mr. Henninger testified that at that time, PPL's credit ratings also upgraded to A- at S&P and Baa2 at Moody's, and PPL maintains those ratings today. In June 2021, PPL divested its UK operations for net cash proceeds of \$10.4 billion. Mr. Henninger related that PPL used \$3.9 billion of the sales proceeds to reduce corporate debt obligations and expects to

⁴⁵⁰ Id., pp. 32-33.

⁴⁵¹ PPL and PPL Rhode Island Exhibit 4, pp. 1-2.

use \$3.8 billion of the sales proceeds to fund the acquisition of Narragansett without the need to incur incremental debt.⁴⁵²

Mr. Henninger testified that PPL has a market capitalization of approximately \$22.0 billion as of October 31, 2021. He stated that with the recent UK and Narragansett transactions, PPL expects to increase its targeted cash from operations less working capital to debt ratio to 16% - 18% prospectively that, at a minimum, will support PPL's current credit ratings. He also related that PPL's debt to capitalization has also decreased as a result, and that PPL expects to maintain its '*Excellent*' business risk profile and current A- credit rating with S&P. Mr. Henninger added that PPL is also currently on '*Positive*' outlook at Moody's because of the recent actions taken to strengthen its balance sheet. He also noted that "*Moody's has stated that 'PPL's ratings could be upgraded if the NECO sale is executed as expected and PPL maintains its improved financial profile, including its CFO pre-WC to debt ratio above 16%, on a sustained basis.'*"⁴⁵³

Mr. Henninger next discussed the reason why PPL has not provided post-transaction financial statements for Narragansett. He testified that PPL is in the process of developing a five-year financial forecast for Narragansett under PPL Rhode Island's ownership. He explained that this is a '*bottoms up*' forecast that requires resolution on various matters, including but not limited to (i) the incorporation of labor costs under PPL Rhode Island's ownership, (ii) quantifying the transition services costs, (iii) establishing a rate case cadence, (iv) developing a capital expenditure plan, including incorporating the results of the current capital

⁴⁵² Id., pp. 3-4.

⁴⁵³ Id., p. 4.

ISR filing, (v) determining the fair values of the assets acquired and liabilities assumed at the Transaction closing date, and (vi) quantifying the impacts of the election under section 338(h)(10) of the IRC. Mr. Henninger testified that PPL will not be able to provide post-Transaction financial statements until this forecast has been completed.⁴⁵⁴

With respect to ring-fencing concerns, Mr. Henninger testified that PPL has identified certain financial protections to ensure the financial stability of Narragansett and the reliability of its service in the unexpected event PPL or any of its affiliates face financial difficulties in the future. He explained as follows:

First, Narragansett will continue as a distinct corporate subsidiary with its own Board of Directors, consistent with PPL's other regulated utility subsidiaries. Second, Narragansett will maintain separate records and financial statements that will be accessible to the Division. Third, Narragansett will continue to issue its own long-term debt to finance its operations and maintain its own credit ratings, Fourth, Narragansett will not guarantee the credit of any PPL affiliates at any point in the future unless it first seeks and receives regulatory approval. Fifth, neither PPL nor any of its affiliates will issue any security or incur any debt that pledges any assets of Narragansett, without first obtaining regulatory approval.

Mr. Henninger asserted that these conditions provide sufficient ring-fencing to protect the financial health of Narragansett and insulate Narragansett against financial risk at least as much as the existing ownership and financial structure under National Grid. He related that PPL does not believe additional ring-fencing measures are necessary.⁴⁵⁵

Mr. Henninger next discussed the goodwill associated with this Transaction. Preliminarily, he testified that PPL's current estimate of the acquisition premium

⁴⁵⁴ Id., p. 5.

⁴⁵⁵ Id., pp. 6-8.

is approximately \$1.7 billion and that Narragansett currently has goodwill on its books of \$0.7 billion, resulting in approximately \$1.0 billion of incremental goodwill associated directly with the Transaction.⁴⁵⁶

Mr. Henninger testified that PPL will exclude the acquisition premium and goodwill associated with the Transaction from the ratemaking capital structure for Narragansett; instead, it will be kept on the books of PPL Rhode Island. He related that PPL would continue to exclude goodwill from this calculation so long as this treatment of goodwill remains consistent with the prevailing regulatory best practices with respect to ratemaking capital structure. Mr. Henninger next, in response to Mr. Kahal's concern that in a future rate case PPL could simply decide that the removal of goodwill from equity is no longer an appropriate regulatory adjustment, testified that currently, goodwill is not a recognized component of capital structure for ratemaking purposes for regulated utilities. He testified that, accordingly, "*PPL will not include goodwill as part of ratemaking capital structure unless the regulatory paradigm changes.*"⁴⁵⁷

Mr. Henninger next discussed PPL's approach to achieving a target common equity ratio for Narragansett. He testified that PPL's approach is to "*manage Narragansett's common equity ratio to remain substantially consistent with the approved common equity ratio from Narragansett's most recent base distribution rate case, Commission Docket No. 4770, which is currently approximately 51%.*"⁴⁵⁸ Mr. Henninger disagreed with Mr. Kahal's argument that PPL needs to commit to

⁴⁵⁶ Id., p. 8.

⁴⁵⁷ Id., pp. 9-10.

⁴⁵⁸ Id., p. 10.

target a common equity ratio of at least 48% for Narragansett for a period of at least five years. He said that such a commitment is unnecessary. He contended that PPL's approach is consistent with how PPL manages its other regulated utility subsidiaries, which are managed at or above the equity ratios approved in their most recent respective rate cases. Mr. Henninger added that PPL also *"expects to maintain adequate credit metrics to ensure that Narragansett maintains financial strength and investment grade credit ratings consistent with PPL's other regulated utility subsidiaries. He opined that these practices would ensure that there will be no net harm to utility customers from the ownership transfer."*⁴⁵⁹ Mr. Henninger similarly disagreed with Messrs. Ewen and Knecht's recommendation that the maximum debt to capital ratio excluding goodwill not exceed 50% without regulatory approval. He again called such a commitment unnecessary based on his arguments above.⁴⁶⁰

On the issue of long-term debt, Mr. Henninger testified that after the transaction closes, PPL will evaluate Narragansett's current long-term debt financing structure to determine if its unsecured debt is the most cost-effective structure and efficient form of financing prospectively. He related that currently, PPL's utility subsidiaries are Securities and Exchange Commission ("SEC") registrants that access the public capital markets to issue senior secured debt through first mortgage bond indentures. He testified that *"PPL will evaluate the costs, benefits, and constraints associated with making Narragansett an SEC registrant and establishing a secured indenture, which would provide Narragansett*

⁴⁵⁹ Id., pp. 10-11.

⁴⁶⁰ Id., p. 11.

*the ability to issue senior secured, first mortgage bonds in the public market versus senior unsecured debt via private placement."*⁴⁶¹

Regarding the long-term debt issue, Mr. Henninger rejected Mr. Kahal's assertion that Narragansett under PPL ownership should be compelled to only issue secured long-term debt in order to minimize Narragansett's debt costs. Referencing the statutory standard for approving the proposed Transaction, Mr. Henninger argued that PPL is only required to continue National Grid USA's current practice regarding long-term debt, and Narragansett's current financing structure includes unsecured long-term debt. Notwithstanding, Mr. Henninger reiterated that PPL plans to evaluate the costs, benefits and constraints associated with this issue.⁴⁶²

With respect to the issue of Narragansett's short-term debt, Mr. Henninger testified that PPL expects Narragansett to have excess cash upon closing as a result of National Grid's \$600 million long-term debt issuance in April 2020, which likely will provide Narragansett with liquidity post-Transaction. He related that PPL expects to supplement this cash position by establishing a third-party credit facility for Narragansett, as well as a PPL-affiliate borrowing arrangement for purposes of providing additional liquidity. Mr. Henninger asserted that the *"third-party credit facility will provide an efficient cost of borrowing commensurate with Narragansett's stand-alone credit ratings and likely access to the commercial paper market."*⁴⁶³ Mr. Henninger noted that the PPL affiliate borrowing

⁴⁶¹ Id, p. 12.

⁴⁶² Id., p. 13.

⁴⁶³ Id., p. 14.

arrangement will permit Narragansett to lend or borrow funds on a short-term basis at market-based rates.⁴⁶⁴

Mr. Henninger testified that PPL is in the process of establishing a syndicated Master Credit Facility in the aggregate amount of \$1.25 billion under which PPL Capital Funding would be a borrower and Narragansett could become a co-borrower upon receipt of regulatory approval. He explained that the Master Credit Facility will have a maturity date of December 6, 2026 and would allow for each co-borrower to participate in a single credit facility, which would enable efficient and unilateral positioning of revolving capacity subject to sub-limits for each co-borrower. Mr. Henninger related that if approved, Narragansett would not be jointly liable for PPL Capital Funding's borrowings, or vice versa, and pricing for Narragansett and PPL Capital Funding would be specific to their respective individual credit ratings.⁴⁶⁵

E. Todd J. Jirovec

Mr. Todd J. Jirovec identified himself as a Principal in the Power and Utilities practice of Strategy&, a member of the PwC network, 2121 N. Pearl Street, Suite 2000, Dallas, Texas. After a brief summary of his educational background and professional experience, Mr. Jirovec related that his testimony: (i) addresses the planning and preparation PPL has completed in collaboration with National Grid USA for the transition and integration of Narragansett to PPL ownership and control, and (ii) explains the process PPL undertook to develop the comparison of PPL's steady state costs to National Grid USA's current costs to

⁴⁶⁴ Id.

⁴⁶⁵ Id., pp. 15-16.

operate Narragansett, including why that cost comparison reliably demonstrates that the costs to operate Narragansett will not increase because of the Transaction.⁴⁶⁶ Mr. Jirovec also responds to several concerns raised by the Advocacy Section's and Attorney General's witnesses.

Mr. Jirovec testified that PwC has been separately engaged by PPL and National Grid USA to serve as third-party integration consultants to assist in the planning for the transition and integration of Narragansett to PPL ownership. Mr. Jirovec related that PwC has provided support to PPL and National Grid USA on numerous aspects of the transition and integration planning, including but not limited to:

- Establishing an integration and transition governance structure between PPL and National Grid USA that is focused on developing integration and transition plans to be implemented upon consummation of the Transaction;
- *Establishing the functional integration and transition teams responsible for developing the plan for PPL to operate the aspects and functions of Narragansett for which it will have immediate responsibility and ownership on Day 1;*
- *Developing the Day 1 Narragansett organization structure under the PPL operating model, including staffing levels;*
- *Identifying the services Narragansett will receive from... [the] Service Company... on Day 1 and for a period of time after the Transaction closes pursuant to the... TSA...;*
- *Determining the time period that [the]... Service Company will provide the individual services to Narragansett during the transition period that allows for the transition of technology platforms from [the]... Service Company to PPL; and*

⁴⁶⁶ PPL and PPL Rhode Island Exhibit 5, p. 1-3.

- *Developing the plan for PPL to be ready to take over responsibility for the services [the]... Service Company will provide at the conclusion of the transition period for each service.*⁴⁶⁷

Mr. Jirovec testified that he has provided similar consulting services on numerous utility transactions for integration and transition planning, including Day 1 preparedness, functional and operational integration and transition services development. Mr. Jirovec related that the integration and transition planning process undertaken by PPL and National Grid USA is consistent with his experience. He confirmed that PPL and National Grid USA "*have engaged in a robust planning process*" and implemented several leading practices to prepare for the Transaction, including:

- *Establishment of joint milestones between PPL and National Grid USA with associated timing that must be completed prior to Day 1;*
- *Establishment of functional teams between PPL and National Grid USA that meet regularly to develop Day 1 plans and develop the transition services [the]... Service Company will provide under the TSA;*
- *Regular meetings between PPL and National Grid USA leadership to discuss transition planning progress against joint milestones, including management of issues requiring further resolution;*
- *Cross functional working sessions to identify process and technology dependencies; and*
- *Development of Day 1 process blueprints identifying roles between PPL and National Grid USA.*⁴⁶⁸

⁴⁶⁷ Id., pp. 5-6.

⁴⁶⁸ Id., pp. 6-7.

Mr. Jirovec testified that PPL and National Grid USA have demonstrated a commitment to fully understanding all the work that must be done to ensure a transition without disruptions to Narragansett's operations. Mr. Jirovec asserted that those concerns about the preparedness of PPL to take over certain aspects of Narragansett's operations are "*unfounded.*" He related that there will be no knowledge or skill gaps at PPL after the transition period ends and the Service Company ceases providing services to Narragansett.⁴⁶⁹

In response to concerns that the transition period may not be long enough to complete the transition and integration, Mr. Jirovec contended that the proposed transition period "*is aligned with the length of transition periods I have observed in other utility transactions.*" Mr. Jirovec also testified that based on his experience in this Transaction, "*I am confident that the collaborative and cooperative efforts to date will continue subsequent to the close of the Transaction to ensure that [the]...Service Company will provide additional support on any discrete functions or services in the event that additional transition time is necessary.*"⁴⁷⁰

Mr. Jirovec next discussed PPL's cost estimate to operate Narragansett after the Transaction. He testified that the PwC team under his supervision supported the preparation of the data response (PPL-DIV 1-54, the Operating Cost Analysis) that provided the cost estimate. Mr. Jirovec related that the cost estimate was developed after PPL first developed its intended operating model for Narragansett that includes a dedicated Rhode Island organization; PPL then developed its bottom-up staffing model, utilizing PPL's operating practices; following this, PPL

⁴⁶⁹ Id., pp. 7-8.

⁴⁷⁰ Id., p. 8.

named its planned Rhode Island leadership team, and those leaders participated in making staffing decisions. Mr. Jirovec related that to derive a labor cost estimate, PPL grouped the positions by function and applied average PPL salaries, loading and capitalization rates for management and union positions.⁴⁷¹

Mr. Jirovec added that PPL next assessed the numerous non-labor costs Narragansett will have, such as the use of outside contractors, supplies and materials, and transportation expenses. He noted that although PPL believes it will have the ability to optimize these costs over time, for purposes of this analysis PPL assumed that non-labor costs would closely mirror those currently incurred under National Grid USA ownership.

As a final step in the development of the costs to operate Narragansett, Mr. Jirovec testified that PPL service company costs, including any incremental costs to support Narragansett, were developed. He related that PPL then applied its cost allocation methodology to assign and allocate costs to Narragansett. He explained that this methodology includes direct charges when identified, utilization of casual factors where appropriate, and application of a composite factor when costs cannot be directly charged or casually allocated. Mr. Jirovec noted that PPL derived this estimate based on input from the integration planning teams as the level of incremental costs required to support Narragansett as well as PPL finance personnel responsible for business planning.⁴⁷²

In response to concerns raised by the Attorney General's witnesses about the accuracy of projected costs, Mr. Jirovec related that "*although it is not*

⁴⁷¹ Id., pp. 9-10.

⁴⁷² Id., p. 10.

possible to actually know exactly what PPL's costs will be, PPL's comprehensive estimate of its operating costs under its intended operating model provides a reasonable expectation of PPL's future steady state costs to operate Narragansett." In further support, Mr. Jirovec emphasized that PPL's finance organization, with input from functional subject matter experts, was significantly involved in the development of these costs.⁴⁷³

Further addressing the cost concerns raised by the Attorney General's witnesses, Mr. Jirovec pointed out that the Attorney General's witnesses "*have not provided nor developed their own analysis of PPL's anticipated costs to operate Narragansett that supports the assertion that 'substantial uncertainty' exists in PPL's operating costs.*" He compared this to comprehensive assessment that PPL performed. He reiterated that PPL performed this analysis with input from both PPL and National Grid USA operations and functional integration planning teams and other relevant subject matter experts. Mr. Jirovec adds that this comprehensive analysis reflects that PPL's costs will be lower than National Grid USA's current costs to operate Narragansett.⁴⁷⁴

Mr. Jirovec next offered some detail on the PPL service company costs that were included in the cost estimate to operate Narragansett. He related that PPL reviewed its current costs for 20 functions that will support Narragansett and then applied its cost allocation methodology to assign and allocate costs to Narragansett. For the indirect service company charges to Narragansett, PPL will directly assign service company costs or allocate service company costs using a

⁴⁷³ Id., p. 11.

⁴⁷⁴ Id., pp. 11-12.

cost casual factor when appropriate. For any remaining service company costs, Mr. Jirovec related that PPL uses a Modified Massachusetts Formula ("MMF") derived based on the number of employees, invested capital, and operating and maintenance expenses amongst its operating subsidiaries. Mr. Jirovec opined that the utilization of an MMF factor is a commonly used approach to allocate indirect costs that reflect the relative scale of a utility's operating subsidiaries.⁴⁷⁵

Mr. Jirovec also disagreed with Mr. Ballaban's assertion that because PPL has not fully developed a cost allocation manual, it is not possible to compare the differences between PPL's allocation approach and National Grid USA's allocation approach. Mr. Jirovec responded by arguing that "*although PPL is not able to fully develop a cost allocation manual until it owns and operates Narragansett, PPL did apply its existing cost allocation approach as part of its assessment of estimated costs to operate Narragansett - rendering Mr. Ballaban's criticism unfounded.*"⁴⁷⁶

In comparing the indirect cost allocations used by PPL and National Grid USA, Mr. Jirovec noted that PPL's organization design process for Narragansett followed functional workstream meetings between PPL and National Grid USA with support from PwC. He related that the meetings covered the current state of National Grid USA's operations specific to Rhode Island, specific regulatory code requirements, process reviews, and consideration for functional workstream interdependencies, as well as identification of requirements for transitional services. Mr. Jirovec stressed that PPL developed a Narragansett-specific staffing

⁴⁷⁵ Id., pp. 12-13.

⁴⁷⁶ Id., pp. 13-14.

and operational model based on the information gathered during the workstream meetings.⁴⁷⁷

Mr. Jirovec next disagreed with Mr. Ballaban's claim that PPL's cost analysis to operate Narragansett is insufficient because it focuses only on Narragansett's managed costs, which account for only a portion of the total costs to operate Narragansett. Mr. Jirovec testified that the costs that PPL estimated and compared are those costs over which PPL will have significant control once it owns Narragansett. He opined that *"the comparison of managed operating costs provides a basis to compare the operating model differences between PPL and National Grid USA resulting from the change in control."*

Mr. Jirovec also disagreed with Mr. Booth's claim that the cost estimate provided by PPL is *"unreliable"* because it does not address *'the loss of synergies in multi-state material purchasing and stocking economies; loss of spare materials and equipment shared between Massachusetts and Rhode Island for such major components as power transformers and mobile transformers which benefit Rhode Island; [and] loss of major construction and material standardization between Massachusetts and Rhode Island.'* Mr. Jirovec responded: *"Mr. Booth's assertion is not meaningful."* Mr. Jirovec argues that Mr. Booth provides *"no analysis to support that there are any potential additional costs associated with these alleged lost synergies."* Mr. Jirovec also argues that PPL expects to achieve significant economies of scale by implementing its centralized supply chain practices and materials handling practices. He opined that these *"practices are similar to how*

⁴⁷⁷ Id., pp. 14-15.

*National Grid USA currently manages construction, materials, and equipment, and obviate the likelihood of lost synergies or increased costs in these areas."*⁴⁷⁸

F. John J. Reed and Daniel S. Dane

Messrs. John J. Reed and Daniel S. Dane proffered consolidated joint rebuttal testimony on behalf of PPL and PPL Rhode Island. Both witnesses are employed by Concentric Energy Advisors, Inc. and its FINRA-member subsidiary, CE Capital, Inc., 293 Boston Post Road West, Suite 500, Marlborough, Massachusetts. Mr. Reed identified himself as the consulting firm's Chief Executive Officer; Mr. Dane identified himself as the Senior Vice President. After a brief summary of their respective educational backgrounds and professional experiences, the witnesses related that the purpose of their rebuttal testimony is to respond to testimony submitted by the Advocacy Section's and Attorney General's witnesses, and specifically to respond to the following issues: (i) concerns expressed by the Advocacy Section regarding the ability of PPL to operate an electric and natural gas utility in Rhode Island, including PPL's experience to build, operate, and maintain LNG facilities or acquire natural gas in the Northeast; (ii) the transition plan and TSA, including the term of the TSA; and (iii) concerns expressed by the Advocacy Section regarding the separation of Narragansett from National Grid USA and transition into the PPL family of utilities in Pennsylvania and Kentucky.⁴⁷⁹

At the outset of their testimony, Messrs. Reed and Dane offered the following summary of their finding and conclusions:

⁴⁷⁸ Id., p. 16.

⁴⁷⁹ PPL and PPL Rhode Island Exhibit 6, pp. 1-4.

1. *The Advocacy Section's concerns that PPL's experience operating utilities in Pennsylvania and Kentucky will not be translatable to Narragansett is unfounded. PPL is an experienced gas and electric operator with the size and financial capability to continue to provide reliable and dependable service to customers in Rhode Island. This is a strategic acquisition by an acquirer that is experienced in owning and operating electric and gas utility operations with a long-term intent of continuing to own and operate U.S. utility businesses. In today's world, the fact that PPL's other operations are not immediately adjacent to Narragansett does not serve as an impediment to reliable service as the Advocacy Section and RIAG suggest [footnote omitted]. To the contrary, it offers customers geographic diversity of operations, which is a benefit as discussed below. Further, the Transaction will have positive impacts on Narragansett's credit profile and financial integrity.*

2. *PPL has a track record of successfully acquiring gas businesses, has committed to ensuring that Narragansett has the requisite expertise and accountability for its gas operations through a dedicated Rhode Island leadership team, and has made further commitments to supplement any expertise as necessary to operate Narragansett. PPL's plan for Narragansett also includes the establishment of significant local control and presence, including a Rhode Island president, a Rhode Island Vice President of Gas Operations, and local control of operations.*

3. *The Transaction involves transferring Narragansett from one large U.S. multi-jurisdictional utility with a centralized services company to another. That model, in which certain functions are centralized to provide for cost efficiencies and avoid duplicative staffing, allows for operating companies to share best practices learned in other jurisdictions, creates geographic diversity, and has been shown to work well across the U.S. Despite concerns expressed by the Advocacy Section and the RIAG [footnote omitted], Narragansett's customers will continue to benefit from that model under PPL ownership.*

4. *From a commercial perspective, the TSA clearly identifies the shared common purpose of transferring away shared services from...[the] Service Company... to PPL. TSAs are a common approach to achieving successful utility integrations, particularly when an operating company is being transferred from one utility holding structure to another. Further, the TSA*

for Narragansett protects against the very operating risks about which the Division expresses concern [footnote omitted], and the fact that it can be extended beyond two years if needed acts as a further backstop.

5. The Advocacy Section and RIAG point to the threat of higher costs being passed onto customers due to the Transaction [footnote omitted], as well as additional administrative burden on the RIPUC and the Division to evaluate future Narragansett rate change requests. However, the RIPUC's and Division's jurisdiction and scope of responsibilities will continue to be for one company and one company only: Narragansett. Furthermore, PPL has committed to seek cost recovery of transition-related costs only when those costs provide incremental benefits to customers, such as system upgrades and the replacement of obsolete equipment. There is no risk that transition costs or transaction costs will increase rates to Narragansett's customers. Finally, Narragansett's currently established rates will remain in effect after the Transaction is closed, and any future rate change requests will be subject to review and approval by the RIPUC with input from the Division.

6. While different than the acquisition of a utility holding company or the 'municipalization' of a privately-held utility, the Transaction - which involves transferring an operating company from one shared service organization to another - is not unique. Our testimony provides relevant examples from utility mergers and acquisitions that demonstrates the feasibility and recent successes of this model.⁴⁸⁰

After providing an overview of the proposed Transaction, PPL's operations and financial capabilities, and S&P and Moody's positive findings related to the Transaction, Messrs. Reed and Dane disagreed with the Attorney General's witnesses' opinion that PPL's ring-fencing plans '*are unlikely to carry weight with debt rating agencies regarding the riskiness of... Narragansett.*' Messrs. Reed and

⁴⁸⁰ Id., pp. 5-8.

Dane testified that Moody's placed Narragansett on review for an upgrade based on the announced Transaction, without separate ring-fencing commitments.⁴⁸¹

Messrs. Reed and Dane described the proposed Transaction as a "*strategic*" transaction, one where the acquirer is experienced in owning and operating electric and gas utility operations with a long-term intent of continuing to own and operate electric and gas utilities and infrastructure, rather than a "*financial*" transaction, involving a private equity or institutional capital entity with an interest in having a portfolio position filled by a utility holding company. They related that acquisitions by financial acquirers have often been accomplished through shorter holding periods, multiple levels of leverage, and complex structures intended to enhance shareholder returns. They also noted that financial acquirers do not typically bring the same level of experienced utility operations to support an acquisition.⁴⁸²

The witnesses further divided strategic mergers into two broad models: (1) operational integration, in which management and operational functions are merged; and (2) confederation, in which the utilities largely maintain their own operational status. Messrs. Reed and Dane testified that the proposed Transaction can best be described as a mix of the operational integration and the confederation models, one where PPL plans to integrate Narragansett into its shared services model while enhancing local control of the utility.⁴⁸³

⁴⁸¹ Id., pp. 8-10.

⁴⁸² Id., p. 11.

⁴⁸³ Id.

Messrs. Reed and Dane disagreed with the Attorney General's witnesses' position that it is unusual for a utility holding company to have an interest in one utility but not its neighboring utility. They asserted that there are many utilities in the U.S. that have different parent companies but operate adjacently - either within the same state or adjacent states. As a nearby example, Messrs. Reed and Dane noted that National Grid USA sold its New Hampshire gas and electric businesses to Liberty Utilities in 2012.⁴⁸⁴

Messrs. Reed and Dane also discussed the benefits of geographic diversification. They opined that increased scale and diversity of operations, which would occur for the combined PPL company following the Transaction, can further improve a utility's business profile. They opined that there will also be opportunities to realize operating efficiencies and share best practices across a wider footprint. Messrs. Reed and Dane testified that those benefits could result from improved access to capital, purchasing power, and other economies of scale, as well as through the portfolio effect of having more diverse customer bases and geographic operations. As an example, the witnesses opined that PPL's geographic diversity makes it more likely that crews for Kentucky and Pennsylvania will be able to provide mutual assistance to Narragansett when required.⁴⁸⁵

Messrs. Reed and Dane next reviewed and discussed the prescribed statutory standard of review in this case and how, in their opinion, the other parties are attempting to expand the "*public interest*" standard. Focusing on the

⁴⁸⁴ Id., p. 12.

⁴⁸⁵ Id., pp. 12-13.

Advocacy Section's and Attorney General's witnesses, Messrs. Reed and Dane opined that allowing an expansion of the public interest standard "*could predispose the consideration of issues typically reserved for cases before the... [Commission], such as the reasonableness of costs for furnishing service and rates charged to customers.*" The witnesses, instead, maintain that the standard requires that we focus on the financial and operational fitness of PPL to operate Narragansett and to successfully transition service from the National Grid USA operating platform to the PPL platform in a manner that will not harm customers.⁴⁸⁶ With this focus in mind, the witnesses also disagreed with Mr. Booth's concerns that there will be additional administrative burdens on the Commission and the Division to evaluate future Narragansett rate change requests. Messrs. Reed and Dane emphasize that the Commission and Division's jurisdiction will continue to be for one company, Narragansett. They also contend that the new local management presence will help to make rate cases and other regulatory matters more straightforward.⁴⁸⁷

The witnesses next turned their attention to the issue of PPL's capabilities to own and operate Narragansett. They started with a response to the Advocacy Section's concerns regarding the Transaction's impact on Narragansett's future gas operations. The Advocacy Section raises the following concerns: (1) qualifications and utilization of persons staffing Narragansett's gas operations during and after the transition period; (2) PPL's gas supply management abilities, including experience in navigating certain gas supply markets (e.g., New England

⁴⁸⁶ Id., p. 14.

⁴⁸⁷ Id.

and Canada) and financial hedging measures; and (3) PPL's expertise with respect to key elements of Narragansett's gas operations, such as LNG Facilities.

In response to these specific concerns, Messrs. Reed and Dane argued that the key criteria for evaluating PPL's capabilities to own and operate Narragansett should be: (1) does PPL have the experience and expertise to continue to operate Narragansett safely and reliably for customers, supplementing its experience as necessary to meet Rhode Island-specific requirements?; and (2) will PPL continue to have access to capital to fund its Rhode Island operations?⁴⁸⁸ On these questions, Messrs. Reed and Dane contend that the answer is yes to both questions. The witnesses point to PPL's direct and rebuttal testimony, wherein PPL describes its considerable experience and expertise in both electric and gas operations, and its willingness to supplement its experience and add local management to meet Rhode Island-specific requirements. The witnesses further note that PPL will have a dedicated gas organization and customer care functions in Rhode Island, as compared to National Grid USA's more remote shared services model. They also highlight that PPL has a strong credit rating, and that the Transaction is expected to have a neutral to positive impact on PPL's credit profile and will enhance Narragansett's financial strength. Messrs. Reed and Dane testified that these factors demonstrate PPL's financial capabilities to own and operate Narragansett.⁴⁸⁹

Messrs. Reed and Dane additionally testified that PPL has also demonstrated its capabilities to acquire, integrate, and operate electric and gas

⁴⁸⁸ Id., pp. 15-16.

⁴⁸⁹ Id., p. 16.

utility operations. The witnesses relate that PPL acquired its two Kentucky utilities, KU and LG&E, in 2010, adding natural gas operations and expanding its electric utility footprint. The witnesses note that the record clearly reflects the improvements that PPL has made to its Kentucky gas business since the acquisition in 2010. Messrs. Reed and Dane opine that they have "*found no evidence to suggest that LG&E has not operated its gas system in a safe and reliable manner.*" The witnesses also cite the awards that LG&E have received as further evidence of its ability to operate safely and provide excellent customer service.⁴⁹⁰

Messrs. Reed and Dane also rely on a 2012 decision issued by the Pennsylvania Public Utilities Commission ("PAPUC") as further evidence of PPL's management capabilities. According to the witnesses, in its decision, the PAPUC wrote:

Based on our analysis of the evidence of record, we are persuaded by the arguments of the Company that its management performance related to its advanced metering infrastructure, operating initiatives, customer contact center, electric competition, customer education, energy efficiency programs, and customer assistance programs is laudable and warrants consideration as a factor in our final cost of equity allowance. Accordingly, we shall grant PPL's Exception to adopt its twelve basis point management effectiveness adjustment to our prior return on equity recommendation in recognition of its exemplary managerial performance. ⁴⁹¹

Messrs. Reed and Dane also noted that the proposed Transaction was approved by the FERC on September 23, 2021. They noted that in its decision, the FERC found the Transaction to be consistent with the public interest, which it described

⁴⁹⁰ Id., pp. 16-17.

⁴⁹¹ Id., p. 17.

as involving three factors: (1) the effect on competition, (2) the effect on rates, and (3) the effect on regulation. The witnesses also found it noteworthy that the FERC did not express concern with Narragansett's capacity to perform in the interstate markets post-transaction.⁴⁹² Additionally, Messrs. Reed and Dane testified that on July 16, 2021, the Massachusetts Department of Public Utilities approved National Grid USA's petition for a waiver of jurisdiction, finding that the petition supported "*the conclusion that the Transaction will have no adverse impacts on [National Grid USA's] Massachusetts companies or their ratepayers.*"⁴⁹³

Messrs. Reed and Dane also rejected the Advocacy Section's assertion that PPL lacks the requisite experience to operate Narragansett without assistance from National Grid USA. The witnesses argue that this narrow view ignores the significant commonality in operating gas systems in the United States and the substantial carryover of gas operation employees from National Grid USA to PPL. With respect to commonality, the witnesses testified that "*all gas systems require substantial expertise in the design, construction, operation and maintenance of natural gas infrastructure - expertise that PPL currently has based on owning and operating its Kentucky system for more than a decade.*" They also pointed out that "*all gas companies in the United States are subject to common regulation: stringent federal pipeline safety regulations, Occupational Safety and Health Administration requirements, and FERC regulations, and Narragansett will remain subject to those rules and oversight after closing.*"⁴⁹⁴

⁴⁹² Id., pp. 17-18.

⁴⁹³ Id., p. 18.

⁴⁹⁴ Id., p. 19.

Messrs. Reed and Dane similarly rejected the Advocacy Section's concern about PPL's capabilities regarding gas supply planning for Narragansett. In addressing this concern, the witnesses first noted that some utilities in the United States, including Narragansett, use external gas asset managers, marketers and trading organizations to manage all or a part of the purchase and delivery of natural gas and optimization of assets. They point out that PPL has that expertise in house for its Kentucky operations. Messrs. Reed and Dane also reiterated that PPL plans to hire a separate Vice President of Gas Operations for Rhode Island, with substantial experience in gas operations and knowledge of Narragansett's gas system. They also reiterated that National Grid USA will continue to assist with supply planning and procurement during the transition period.

Messrs. Reed and Dane thereupon offered a comprehensive description of LG&E's current gas supply planning process. The description included details of the written procedures that LG&E follows with respect to pipeline compliance, determination of dispatch volumes, and nomination/verification procedures specific to each of its capacity arrangements. They related that LG&E also has written procedures in place for gas supply planning and purchasing strategies and processes. Messrs. Reed and Dane highlighted that LG&E has not employed a gas marketing or trading organization for the management of purchases or deliveries of natural gas to LG&E. The witnesses additionally explained that LG&E's senior management routinely engages in risk management assessments for its gas operations, to ensure that it is able to contract for pipeline services in

advance of unforeseen circumstances that could result in gas transportation costs in excess of FERC-approved transportation rates. They added that LG&E has a portfolio of supply contracts of differing terms and durations that provide competitively priced gas for its firm sales obligations and market-responsive pricing provisions. Messrs. Reed and Dane opined that the procedures used by PPL for its gas operations and procurement are consistent with and meet industry standards.⁴⁹⁵

In further support of LG&E's competence as a gas operator, Messrs. Reed and Dane testified that LG&E also utilizes gas supply peaking services through the use of five underground natural gas storage fields, with a working capacity of approximately 15 billion cubic feet. They also testified that LG&E's gas supply cost performance-based ratemaking ("PBR") mechanism rewards LG&E for seeking innovative supply arrangements and optimizing its gas supply and pipeline transportation portfolio. The witnesses noted that LG&E has achieved over \$20 million in savings through its PBR mechanism from 2015-2019, or approximately 4.63% of its total gas costs. Messrs. Reed and Dane also noted that the Kentucky Public Service Commission has found that LG&E *'has been successful in outperforming benchmarks to achieve lower gas cost and allowing its shareholders to benefit along with its customers through the sharing component of the PBR mechanism.'*⁴⁹⁶

Messrs. Reed and Dane testified that based on their review of LG&E's structure and performance:

⁴⁹⁵ Id., pp. 20-21.

⁴⁹⁶ Id., pp. 21-22.

"...the company appears to have experienced gas supply procurement, risk management and gas distribution operations personnel and well-documented procedures in place. LG&E has demonstrated compliance with stringent gas supply planning requirements and has achieved savings for customers. LG&E appropriately engages in risk management assessments for its gas operations. LG&E has management in place that is already experienced with business recovery readiness and contingency plans. PPL has plans to supplement existing management oversight with a Director of Gas Procurement dedicated to Rhode Island planning and operations and will have a TSA in place for the transition. For these reasons, we believe Narragansett will perform its gas supply responsibilities well under PPL's ownership and is positioned to achieve performance comparable to what National Grid USA has achieved under Narragansett's Gas Procurement Incentive Program and Natural Gas Portfolio Management Plan." ⁴⁹⁷

Messrs. Reed and Dane also opined that in their view, there is no difference in operating an LDC in Kentucky than operating an LDC in Rhode Island. They explained that multi-jurisdictional LDC management is not that simple, and regional differences exist in gas supply planning across any two states. However, the witnesses opine that sound management practices for an LDC begin with an adherence to gas pipeline safety practices, which are common across the country, and continue with sound commercial practices for gas supply planning, gas procurement and portfolio management, pipeline relations management, storage management, risk management, environmental management, operations management and customer service. Messrs. Reed and Dane testified that based on their review, they have concluded that PPL *"has certainly demonstrated its capability to reliably and safely operate Narragansett's LDC business. This*

⁴⁹⁷ Id., p. 23.

includes the management of Narragansett's LNG facilities and the use of financial instruments for gas cost hedging, where this form of hedging is appropriate." ⁴⁹⁸

Messrs. Reed and Dane next turned to a discussion on the concerns that have been expressed regarding the planned transitioning of Narragansett from National Grid USA's operating model to PPL's operating model. After providing an overview of the shared services model as it relates to utility operations, they asserted that there is not a "*one size fits all*" approach to providing shared services. Messrs. Reed and Dane testified that there is significant diversity of shared services approaches used across the United States. They related that each utility considers its own circumstances and operating model in finding the appropriate balance between shared versus local resources, as well as the manner in which costs are pooled and allocated. Messrs. Reed and Dane argue that geographic proximity is not a prerequisite for a shared services model.⁴⁹⁹ Messrs. Reed and Dane also testified that maintaining a local presence and local control has been an important element in recent U.S. utility transactions. They contend that "*utility buyers recognize the importance of local control of operations, including locally-based management. They acknowledge that certain functions like finance and legal departments can be successfully provided from remote locations, but local operational control, especially during storms and other emergency events, is considered best utility practice and is often an element that regulators consider in evaluating proposed mergers.*"⁵⁰⁰

⁴⁹⁸ Id., pp. 23-26.

⁴⁹⁹ Id., pp. 27-28.

⁵⁰⁰ Id., pp. 29-30.

In addressing concerns regarding the TSA, Messrs. Reed and Dane opine that the shared services provided by National Grid under the TSA provides economies of scale similar to current National Grid operations. They also note that PPL expects that it will serve Narragansett customers with an improved cost structure after the transition is complete.

The witnesses testified that TSAs serve two primary purposes. First, TSAs help ensure there is no disruption to service after the closing of the transaction. Second, TSAs facilitate the seamless transferring away of services from one organization to another. The witnesses opined that the TSA used by the Petitioners appropriately satisfies these two purposes.⁵⁰¹

The witnesses also support the Petitioners' decision to not finalize the TSA. They testified that it is important that PPL and National Grid USA take a deliberate and flexible approach to identifying the full suite of services and associated timing required under the TSA. They opined that *"to prematurely finalize those terms of the TSA could either lead to inefficiencies (in terms of the TSA requiring unneeded services) or gaps in support."* They added that it *"would be inappropriate and quite unusual to develop a full transition plan without taking the necessary time to work with both companies to fully understand the capabilities of each company."*⁵⁰²

In response to Mr. Booth's concern that the TSA period is too short, Messrs. Reed and Dane supported the two-year period of services provided under the planned TSA. They related *"that a two-year TSA is towards the longer end of terms*

⁵⁰¹ Id., pp. 31-33.

⁵⁰² Id., pp. 33-34.

that we have seen used by utility transfers." They testified that in this case, it is appropriate that PPL maintains flexibility with the TSA, "*particularly when the transition of certain functions proceed at a different pace (faster or slower) than anticipated.*" Messrs. Reed and Dane contend that the TSA "*provides sufficient flexibility to PPL to navigate the transition in a deliberate and prudent manner.*"⁵⁰³ The witnesses also provided several examples of similar TSAs used in other utility transactions to transition an operating company from one utility holding company to another. In the examples given the longest TSA term was two years.⁵⁰⁴

Messrs. Reed and Dane next responded to Mr. Ballaban's concern that '*customers will be paying twice*' when systems are replaced during the transition. They disagreed. They related that if PPL determines during the transition period that it needs to replace or upgrade systems, customers will not be paying twice for the same asset. The witnesses reasoned that any new or upgraded system would presumably have a longer useful life than the remaining life of the system that is being replaced; customers would have received service from the prior assets up until replacement, and the new assets once they are installed. Moreover, the witnesses noted, PPL has also committed that transition costs will not be recovered from customers unless PPL can demonstrate that there is an incremental benefit to customers from the incurrence of those costs. Messrs. Reed and Dane related that they were confident that the Commission with input

⁵⁰³ Id., p. 34.

⁵⁰⁴ Id., pp. 35-36.

from the Division, will effectively manage the ratepayer impact of any such costs.⁵⁰⁵

Messrs. Reed and Dane also rejected the Attorney General's argument that the Transaction should be denied because PPL has not submitted post-transaction financial statements. They assert that there is other information in this proceeding that allows for an assessment of PPL's cost structure and financial capabilities. They contend that PPL's detailed estimate of its costs to operate Narragansett and the submitted credit ratings reports are sufficient to prove that PPL ownership will maintain or improve Narragansett's financial status.⁵⁰⁶

Messrs. Reed and Dane next discussed the previous 2011 sale by National Grid USA of Granite State Electric Company ("Granite State") and EnergyNorth Natural Gas, Inc. ("EnergyNorth") to Liberty Utilities. They offered the details of the previous sale as industry precedent for operating company transfers. They testified that in that case, Liberty Utilities had only 47,000 electric customers across the United States and no natural gas customers; Granite State provided electric service to approximately 43,000 customers, and EnergyNorth provided gas service to approximately 86,000 customers. The witnesses testified that the standard for approval before the New Hampshire Public Utilities Commission ("NHPUC") required a finding that the transfer would not result in an adverse effect on rates, terms, service or operation of the utility, that the transfer is for the

⁵⁰⁵ Id., pp. 36-37.

⁵⁰⁶ Id., p. 37.

public good, and that the transaction be proper and in the public interest.⁵⁰⁷ Messrs. Reed and Dane testified that in that matter, National Grid USA and Liberty Utilities entered into a TSA that required National Grid USA to provide shared services during the transition period. The witnesses related that in approving the Transaction in that matter, the NHPUC found *'we recognize the importance of National Grid's role in collaborating with and assisting Liberty throughout the transition period and following cut-over.'* Messrs. Reed and Dane also related that National Grid also transferred LNG facilities to Liberty Utilities during that sale, which was also approved by the NHPUC, despite the NHPUC finding that *'Liberty Energy has no experience to date operating a gas distribution system.'*⁵⁰⁸

Messrs. Reed and Dane asserted that the sale by National Grid USA of Granite State and EnergyNorth to Liberty Utilities is relevant in this proceeding because it provides an example of National Grid USA successfully transferring an operating company out of a shared services organization to another utility operator, and also because Liberty Utilities was far smaller than the utilities it planned to acquire and had little to no experience operating a gas LDC. In contrast, Messrs. Reed and Dane testified that in this case, PPL is a large multi-jurisdictional utility with both electric and gas experience, and its TSA with National Grid USA further improves PPL's ability to continue to serve Rhode Island customers at similar or better levels of service.⁵⁰⁹

⁵⁰⁷ Id., p. 38.

⁵⁰⁸ Id., p. 39.

⁵⁰⁹ Id., pp. 39-40.

As an additional example of a utility sale transaction proven to be in the public interest, Messrs. Reed and Dane brought up the recent 2019 sale of Gulf Power to NextEra. The witnesses related that NextEra's acquisition of Gulf Power was far more complex compared to PPL's proposed acquisition of Narragansett. Gulf Power is described as a vertically integrated utility company, engaged in generation, purchase, transmission, distribution and sale of electricity to retail customers in Northwest Florida and to wholesale customers in Southeast Florida. Gulf Power was also operating as part of the integrated Southern Company system for over 90 years.

Messrs. Reed and Dane testified that since its acquisition by NextEra, Gulf Power has shown observable improvements in 2019 and 2020 in cost efficiency, reliability, generation fleet and emission performance metrics. They also related that Gulf Power system's equivalent forced outage rate for its generating units improved 90 percent, from 3.2 percent in 2018 to 0.3 percent in 2020. The witnesses related that these accomplishments all occurred even though Gulf Power was already owned and operated by a top-tier, large utility holding company operating under a shared-services model.

Messrs. Reed and Dane testified that the Gulf Power transaction is relevant in this proceeding because it represents a "*very recent and well documented case study of a divestiture that has clearly been in the public interest.*" They also note that the TSA used in that more complex transaction was limited to a 24-month period as well.⁵¹⁰

⁵¹⁰ Id., pp. 40-45.

8. The Advocacy Section's Surrebuttal Case

The Advocacy Section submitted pre-filed surrebuttal testimony in response to the rebuttal testimony received from the Petitioners. All five of the Advocacy Section's direct-case witnesses submitted surrebuttal testimony in this docket. The surrebuttal testimony from these witnesses was filed on December 9, 2021, in accordance with the approved procedural schedule.

A. Matthew I. Kahal

Mr. Kahal testified that the purpose of his surrebuttal is to provide a response to the November 23, 2021 rebuttal testimony that was filed by PPL's Tadd Henninger, Vice President - Finance and Treasurer. As an introduction, Mr. Kahal identifies several positive developments gleaned from Mr. Henninger's testimony. Mr. Kahal noted that Mr. Henninger appears to commit PPL to a set of ring-fencing measures similar to much of what he had recommended. Mr. Kahal also noted that Mr. Henninger states that Narragansett will participate in a new PPL Credit Facility that can serve as a source for short-term debt, and that post-closing, Narragansett will submit this Credit Facility to the Division for its review and approval.

However, Mr. Kahal also notes that Mr. Henninger, "*unfortunately... rejects my other recommended commitments, even though he does not appear to have any substantive disagreement with them.*" Specifically, Mr. Kahal relates that while Mr. Henninger states that Narragansett intends to maintain a common equity ratio of approximately 51 percent, he refuses to commit to that planned figure. Mr. Kahal also relates that although Mr. Henninger acknowledges that it

is the normal practice for all three PPL utilities to issue secured long-term debt (under first mortgage bond indentures), he states that post-closing Narragansett will only investigate, but not commit, to doing the same. Finally, Mr. Kahal notes that Mr. Henninger admits that it is standard practice for utilities to exclude goodwill from the ratemaking capital structure and that post-closing, he expects Narragansett to continue with this practice; but he is unwilling to commit to doing so. Because of this lack of commitment, Mr. Kahal concluded that Mr. Henninger's rebuttal testimony "*does not support Division approval of this Transaction as being consistent with the public interest.*"⁵¹¹

In further discussion of the issues, Mr. Kahal acknowledged that Mr. Henninger's commitment regarding ring-fencing measures is generally similar to his recommendation. Mr. Kahal related, however, that in his direct testimony he proposed that Narragansett be precluded from lending funds to corporate affiliates on a long-term basis, and that Narragansett be restricted to using the proceeds from its long-term debt issues solely for the purpose of financing its utility investments and operations. Mr. Kahal testified that since Mr. Henninger did not contest these two measures, "*I assume PPL would not object to their inclusion in a set of ring-fencing protections.*"⁵¹²

On the issue of goodwill, Mr. Kahal notes that Mr. Henninger testified that PPL will continue to exclude goodwill from its capital structure calculation '*so long as this treatment of goodwill remains consistent with prevailing regulatory best practices with respect to ratemaking capital structure*' and that Narragansett will

⁵¹¹ Advocacy Section Exhibit 6, pp. 3-5.

⁵¹² Id., pp. 5-6.

not change this practice *'unless the regulatory paradigm changes.'* Mr. Kahal questioned what Mr. Henninger means by a change in the *'regulatory paradigm'* *"or why this could possibly justify providing rate recovery (even in part) of goodwill, which is merely a non-cash accounting write-up which does not support either utility investment or utility operations."*⁵¹³

Mr. Kahal next testified that Mr. Henninger accurately observes that the ratemaking capital structure in base rate cases is subject to Commission approval. However, Mr. Kahal points out that there are two potential problems with leaving the discretion over capital structure calculation to PPL. First, he observes, *"Narragansett in a future rate case could include some amount of goodwill in the capital structure without informing the Commission that it has done so and has made this change to methodology. Second, if in a base rate case PPL were to propose the change in methodology (i.e., include goodwill) and the Commission decided to reject that proposed change as inappropriate, Narragansett could appeal the Commission's decision on the grounds that the goodwill it has included is part of its actual book equity."* Mr. Kahal opined that these possibilities *"expose utility customers to risks that are not present in the current structure."* Due to this risk potential, Mr. Kahal recommended that as a condition of approval, PPL must commit that Narragansett will follow its long-standing practice under National Grid USA ownership of excluding goodwill from the ratemaking capital structure.⁵¹⁴

⁵¹³ Id., pp. 6-7.

⁵¹⁴ Id., pp. 7-8.

Mr. Kahal also addressed Mr. Henninger's unwillingness to commit to a minimum common equity ratio during the first five-year transition period. Mr. Kahal relates that Mr. Henninger seems to suggest that PPL's expression of its intention and plans is sufficient assurance and that no enforceable commitment is needed. Mr. Kahal testified that while he appreciates PPL's statement of intention, as circumstances change, "*Narragansett's balance sheet during the first several years following the closing could unduly weaken absent a commitment by PPL to maintain a reasonable minimum common equity ratio.*" ⁵¹⁵

Mr. Kahal next discussed his continuing concern regarding the issuance of long-term debt. He related that in his direct testimony he talked about the potential for substantial savings for ratepayers if Narragansett were to issue long-term debt as secured instead of unsecured. But he sees that Mr. Henninger "*appears to object to PPL reporting back to the Division or committing to anything pertaining to secured debt.*" Mr. Kahal responded that secured debt can provide considerable savings for customers and that identifying potential savings from this Transaction is particularly pertinent given the very substantial risks that utility customers must bear if this Transaction is approved.⁵¹⁶

Finally, on the issue of short-term debt, Mr. Kahal testified that he interprets Mr. Henninger's statement regarding Narragansett's intention to file an application for Division review and approval of a new Credit Facility agreement as a commitment that largely meets his concerns. Mr. Kahal related that while Mr. Henninger does not specify the timing of this anticipated filing, Mr. Kahal believes

⁵¹⁵ Id., p. 9.

⁵¹⁶ Id., pp. 10-12.

that it would be appropriate to specify a time period for that filing of up to six months after the Transaction closes.⁵¹⁷

B. David J. Effron

Mr. Effron testified that the purpose of his surrebuttal is to provide a response to the November 23, 2021 rebuttal testimony that was filed by PPL's Bethany Johnson, Director of Regulatory Affairs for PPL Electric Utilities. He related that his testimony specifically responds to her comments on: (1) restatement of pension and postretirement benefits other than pensions ("PBOP") assets and liabilities to their fair value at the time of the merger or acquisition, and (2) the mechanism to hold customer impacts neutral in relation to the rate impact associated with the elimination of accumulated deferred income taxes ("ADIT") as of the date of the Transaction.⁵¹⁸

Mr. Effron acknowledged that Ms. Johnson testified that PPL and PPL Rhode Island agree with his assertion that the remeasurement at Transaction close should not alter Narragansett's revenue requirement. He also acknowledged that PPL agreed that it would not do so at the time of the Transaction close. Mr. Effron related that this commitment by PPL satisfies his concerns "*if it represents an enforceable commitment that any restatement of plan assets and liabilities to fair value upon acquisition after Transaction closing will not increase Narragansett's revenue requirement to a level higher than the level that would exist in the absence of the Transaction.*" He agreed that such a commitment does not mean that there should never be any adjustment to the revenue requirement based on the pension

⁵¹⁷ Id., pp. 12-13.

⁵¹⁸ Advocacy Section Exhibit 7, pp. 1-2.

and PBOP plan assets on an indefinite basis - only that it means that customers should be held harmless from the booking of any revaluation of plan assets and liabilities as a result of the Transaction.⁵¹⁹

Regarding the Accumulated Deferred Income Taxes (ADIT) matter, Mr. Effron notes that Ms. Johnson did not identify any problems or deficiencies with his recommendation that PPL agree to hold customers harmless from the elimination of ADIT as a result of the Transaction. Mr. Effron does not accept Ms. Johnson's statement that because PPL and PPL Rhode Island have not yet determined when they will make the next rate case filing for Narragansett, they cannot specifically identify the precise approach that will effectively hold impacts neutral. He related that his proposed mechanism takes account of both: (1) what the ADIT on the acquired assets from the time of the acquisition going forward under continuing National Grid ownership would be; and (2) the ADIT on the acquired assets going forward under PPL ownership. Mr. Effron testified that his proposed mechanism recognizes how the difference between those balances changes from year to year, and its efficacy is not dependent on the timing of the next rate case filing for Narragansett.⁵²⁰

C. Gregory L. Booth

Mr. Booth testified that the purpose of his surrebuttal is to address certain areas of the Petitioners' rebuttal testimony which contradicts his testimony. He added that his testimony addresses some of the distinct areas of disagreement and clarifies the record in places the Petitioners' witnesses have either

⁵¹⁹ Id., pp. 2-3.

⁵²⁰ Id., pp. 3-4.

misrepresented his testimony or made statements which lack any specific support.⁵²¹

Mr. Booth began with certain statements and statistics that came from National Grid's witnesses Christopher Kelly and Duncan Wiley, which Mr. Booth asserts actually supports his direct testimony. Mr. Booth notes that the National Grid witnesses confirmed that only 368 Service Company employees out of a workforce of 5,100 people will be transitioning to PPL, and that 103 of this group will support the electric operation. Mr. Booth related that their testimony identifies Alan LaBarre as the individual who will be guiding the long-range planning process and ISR Plan and Area Study process, "*although he has had very limited direct involvement, particularly over the last several years, in these processes.*"⁵²²

Mr. Booth disagreed with Messrs. Kelly and Wiley's assessment of his views regarding the inadequacy of the proposed 24-month transition period. He contended that they were incorrect in their claim that the only support for his position on the transition duration "*is my Delaware example.*" He related that his direct testimony also discusses Florida and Virginia acquisitions as well as a Colorado acquisition process. He emphasized that all of these acquisitions had transition periods well beyond 36 months, rather than the 24 months proposed here.⁵²³

⁵²¹ Advocacy Section Exhibit 8, p. 2.

⁵²² Id., p. 3.

⁵²³ Id., p. 4.

Mr. Booth also takes exception to Messrs. Kelly and Wiley's criticism that he has not offered any concrete support for a much longer transition duration. Mr. Booth argues that his direct experience with three Virginia clients who acquired significant portions of investor-owned utility systems is clear and indisputable concrete support. He also notes that he has witnessed many areas of transition through the Duke Energy acquisition of Progress Energy, two North Carolina utilities, which have taken many years and, in some areas, nearing a decade to complete. Mr. Booth reiterated his opinion "*that it is not possible to complete this transition in twenty-four months.*"⁵²⁴ Mr. Booth further argued that if "*National Grid is so confident this can be accomplished it should be expected to escrow at least \$200 million to assure it will either make the transition happen in twenty-four months or will remain committed beyond twenty-four months to accomplish the transition to the extent an acquisition is authorized.*"⁵²⁵

Mr. Booth still expressed concerns that PPL, even through Mr. Alan LaBarre, will not be prepared to advance the ISR Plan and Area Study, and long-range plan processes. Mr. Booth related that he recalls "*that Mr. LaBarre played a role in some limited collaboration with the Division in these areas many years ago, but his direct involvement on the past several fiscal years of ISR Plan filings, processes and conferences has been very limited, if not virtually non-existent.*" Mr. Booth also argues that *PPL has failed to offer any specifics on how it will develop the staff and experience necessary to accomplish the unique ISR Plan and Area Study processes in Rhode Island which are currently supported by 89...* [Service

⁵²⁴ Id., p. 5.

⁵²⁵ Id.

Company] *employees.*" Mr. Booth characterized this matter as "*a dramatic deficiency in the Petitioners' filing.*"⁵²⁶

Mr. Booth also criticizes National Grid USA for not adequately explaining how the Service Company employees will transfer to PPL to support existing functions. He opines that National Grid USA's witnesses have failed to show that an adequate quantity of Service Company employees will be transferred to PPL. He notes that of its 5,100 Service Company employees, only 103 will transfer to the electric operations for PPL. Mr. Booth opined that "*considering 89 company employees support just the ISR Plan and Area Study processes, of which 75 are service company employees, 103 total employees is an insufficient level of support staff to transfer.*" He added that "*the relatively low levels of anticipated transfers underscores the tremendous loss of synergies, economies and support that will result from approval of the acquisition.*"⁵²⁷

Mr. Booth next revisited the subjects that were addressed in his direct testimony that were ignored in the Petitioners' rebuttal cases. Mr. Booth was particularly critical of the Petitioners' silence on the AMF and Grid Modernization Plan implementation delays, and the inability to recover the loss of synergies, economies, and implementation timeline associated with these efforts. He related that these delays "*will place PPL at least thirty-six months behind where Rhode Island would have been by taking advantage of the National Grid New York process and related synergies.*"⁵²⁸

⁵²⁶ Id., p. 6.

⁵²⁷ Id., p. 7.

⁵²⁸ Id., p. 8.

Mr. Booth also took exception to Mr. Jirovec's criticism that Mr. Booth did not provide any detailed analyses in support of his direct testimony. Mr. Booth argues that it is the Petitioners' obligation to proffer such analyses. He also argues that Mr. Jirovec offered no corroboration to support his claim that a twenty-four month transition period is aligned with the length periods he has observed in other utility transitions. Mr. Booth also disagreed with Mr. Jirovec's assertion that the operating costs comparisons provided in Data Request 54-1 (Operating Cost Analysis) represents a "comprehensive" assessment of the anticipated Narragansett operating costs under PPL ownership. Mr. Booth insisted that the cost analysis that was provided contains many deficiencies and was not comprehensive.⁵²⁹

Mr. Booth next reiterated his concerns that PPL will incur additional costs to replicate assets and functions currently provided to Narragansett by the Service Company. Mr. Booth testified that to provide its intended operation model, PPL must invest in these assets and systems at a cost which at the time of the filing was unidentified; such examples include electric and gas control centers, the Supervisory Control and Data Acquisition (SCADA) system, call center, material handling and stores and spare materials. Mr. Booth opines that replicating these assets and systems will carry significant costs.⁵³⁰

Mr. Booth notes that PPL's witness, Bethany Johnson, argued that his concern regarding these costs is misplaced because PPL and PPL Rhode Island will not be seeking recovery of costs incurred solely for the purpose of replacing

⁵²⁹ Id., pp. 8-9.

⁵³⁰ Id., p. 10.

assets and functionality that Narragansett previously provided under National Grid USA ownership. In response, Mr. Booth asserts that Ms. Johnson "*has simply continued PPL's unsupported assertions that costs to operate PPL Rhode Island are not expected to be higher than costs if Narragansett remains with National Grid.*" Mr. Booth argues that "*PPL as offered only claims and has made no commitments to that effect.*"⁵³¹ He also offered the following assessment:

*On the surface, it appears that PPL is willing to absorb costs to create infrastructure and systems necessary to separate Narragansett from National Grid rather than seek rate recovery, or at most, seek only the portion of investments that provide 'incremental benefits' for customers. PPL does not consider that investments made today are unlikely to replace prior investments on a 'pure like-for-like' basis. An asset or system available today to replace one installed or implemented in the past is going to be different due to intervening industry and technology changes, making it unrealistic for new replacements to satisfy a 'pure like-for-like' criteria. In addition, today's investments will naturally bring some incremental benefits compared to existing assets or systems due to these same technology advancements. In other words, the majority if not all of PPL's proposed investments would be subject to rate recovery under PPL's self-imposed tests.*⁵³²

Mr. Booth concluded that it is improbable that PPL will be able to recreate assets or systems that exist under National Grid USA ownership on a "*pure like-for-like*" basis. He related that this provides PPL ample opportunity to argue that their transition investments would be fully recoverable. In sum, Mr. Booth argues that "*PPL's 'pure like-for-like' and 'incremental benefit' standards are unworkable.*"⁵³³

In his final comments, Mr. Booth testified that the Petitioners' rebuttal testimony has not presented any new positions or materials which would cause

⁵³¹ Id., pp. 10-11.

⁵³² Id., p. 12.

⁵³³ Id., pp. 12-15.

him to alter his previous testimony, opinions or recommendations. He maintains that PPL has not shown that the Narragansett acquisition is in the public interest and has failed to demonstrate that approval will leave Rhode Island ratepayers unharmed.⁵³⁴

D. Michael R. Ballaban

Mr. Ballaban testified that the purpose of his surrebuttal is to provide a response to the November 23, 2021 rebuttal testimony that was filed by PPL's witnesses David J. Bonenberger, Bethany Johnson, Todd J. Jirovec, John J. Reed and Daniel S. Dane relating to: (1) the review process for transition costs, (2) the elements of transition costs, (3) the attendant potential impact on customer rates relating to transition costs, (4) the managed cost analysis submitted by PPL during discovery, and (5) certain customer mitigation measures that he recommended his direct testimony.⁵³⁵

Mr. Ballaban began his testimony by identifying the following several specific statements made by the Petitioners regarding the review process for transition costs that he has concerns with:

1. *'We are confident that the RIPUC, with input from the Division, will effectively manage the ratepayer impact of any such [transition] costs' [footnote omitted].*
2. *'If Narragansett seeks recovery of transition costs on the grounds that the costs will result in incremental benefits to customers, then Narragansett will have to establish how it calculated those incremental benefits and how they arise from the costs such that the proposed benefit justifies cost recovery. This is the typical work of ratemaking. The possibility that such an analysis might be complex is not a reason to require*

⁵³⁴ Id., p. 15.

⁵³⁵ Advocacy Section Exhibit 9, p. 2.

that PPL and PPL RI refrain from seeking cost recovery for any transition costs. The Commission and the Division are experienced and knowledgeable in assessing cost recovery proposals' [footnote omitted].

3. *PPL will only seek recovery of costs that generate new customer benefits, and therefore the customers will not pay 'increased rates solely because of the Transaction' [footnote omitted].*

4. *'The PUC, with participation of the Division and any interested interveners, will carefully review any request to recover transition costs. The Hearing Officer should have confidence that the PUC and the Division have the experience and the knowledge to conduct this review and reject any speculation to the contrary' [footnote omitted].*

5. *PPL 'will make a case-by-case assessment as to whether it will seek recovery of any particular transition costs. It will only pursue recovery for those costs for which it can meet its burden to demonstrate the incremental benefits' [footnote omitted].*

Mr. Ballaban testified that PPL plans to spend approximately \$408 million on transition-related activities, which includes a \$332 million investment in new IT systems and operations facilities, most of which, he believes, is likely to be capitalized. He warns that if PPL seeks to include those costs in the rate base in the next rate case, *"the ratepayer impact (in the form of pre-tax return on rate base and depreciation) will be very significant."*⁵³⁶ Mr. Ballaban relates that PPL claims that it will be entitled to recover those costs from ratepayers if it can show some *'incremental benefits.'* But Mr. Ballaban is troubled because PPL offers no indication of what incremental benefits the new facilities and IT systems will provide, no guideposts on how this *'incremental benefit'* standard should be

⁵³⁶ Id., pp. 3-4.

applied, and no examples of how incremental benefits might be measured in any particular instance.⁵³⁷

Mr. Ballaban asserted that an after-the-fact review of costs by the Commission is inadequate because the regulatory standard that normally applies in rate cases will be difficult to adapt to transition costs. He related that the relevant standard of review allows for recovery if the costs are "*period appropriate, reasonable and prudently incurred.*" But with transition costs, he opined that the review "*is likely to be complex - especially when the review occurs in hindsight, without any opportunity for the Commission and the Division to have confirmed in advance that PPL's proposed investments are in the best interest of customers.*"⁵³⁸ To mitigate the risks associated with transition costs, Mr. Ballaban reiterated his previous recommendation for a 4-year rate freeze, the establishment of a clear framework for determining which transition costs are eligible for rate recovery, and implementation of a pre-approved process for evaluating such costs and benefits. He asserted that absent these measures, the Transaction should be rejected.⁵³⁹

Mr. Ballaban testified that as a framework for determining which transition costs would be eligible for rate recovery, he recommended that PPL "*should commit to not recovering any transition costs in rates unless it can demonstrate that the*

⁵³⁷ Id., p. 4.

⁵³⁸ Id., p. 5.

⁵³⁹ Id., pp. 5-6.

*investments produce verifiable, quantifiable savings that are equal to or in excess of the transition costs."*⁵⁴⁰

Mr. Ballaban also continues to recommend that the Commission and the Division should have the opportunity to verify any rate eligible transition costs in advance of such expenses being incurred. Mr. Ballaban opines that because the proposed transition costs are projected to exceed \$400 million, the Commission and the Division should be given an opportunity to examine in detail PPL's business case and cost benefit analysis to justify such investments. He opines that *"providing the Commission and the Division the opportunity to confirm customer interests (inclusive of the hold harmless standard) are robustly protected as the process unfolds rather than in an exclusively retrospective fashion is the best way to ensure PPL delivers on the promises it is making in this proceeding."* Mr. Ballaban also added that any 'pre-approval' by the Commission that the Company can proceed with an investment would not be tantamount to approval to include whatever costs are incurred in rates.⁵⁴¹

Mr. Ballaban related that a pre-approval mechanism for certain costs is not without precedent. He noted that in Docket No. 4770, Narragansett filed for rate recovery of certain IT and gas business enablement program ("GBE") costs that it proposed to incur in the period beyond the historic test year period used in the filing. He testified that the settlement approved by the Commission in that case can serve as a useful model here.⁵⁴²

⁵⁴⁰ Id., p. 6.

⁵⁴¹ Id., pp. 7-8.

⁵⁴² Id., pp. 8-12.

Mr. Ballaban next asserted that Ms. Johnson's dismissal of his three recommended customer mitigation measures should be rejected. He testified that he regards his recommended mitigation measures, including a rate freeze, *"as a bare minimum set of the elements that are needed to protect customers during and immediately following the transition period."* Regarding Ms. Johnson's dismissal, he notes that her reason for finding his mitigation measures unnecessary is because PPL does not expect to include any transition costs in Narragansett's next rate filing. Mr. Ballaban does not believe this position by Ms. Johnson is responsive to his concern. He testified that because PPL has not committed to his proposed rate freeze, *"it is reasonable to assume that the Company may seek to file a base rate case at any time during or immediately following the transition period."* He opines that the rate freeze is necessary to *"prevent PPL from seeking a rate hike prior to the availability of a twelve-month test period reflecting revenue requirements under PPL's exclusive control."*⁵⁴³

Mr. Ballaban faulted Ms. Johnson's dismissal of his recommendation that PPL be required to pre-file accounting documentation in advance of the submission of a rate case. He argues that incorporating these customer mitigation measures into the processes he has recommended for transition cost recovery can allow the Commission and Division to protect the public interest by influencing rate outcomes before investments are made and costs are incurred.⁵⁴⁴

Mr. Ballaban also disagreed with Mr. Jirovec's assertion that the managed cost analysis contained in Data Response 1-54 (Operating Cost Analysis) provides

⁵⁴³ Id., pp. 13-14.

⁵⁴⁴ Id., p. 14.

a basis to compare the operating model differences between PPL and National Grid USA resulting from the change in control. Mr. Ballaban still believes that the *"totality of these transition costs (pre-tax return on rate base and depreciation) likely exceeds total 'managed costs' as defined by the Petitioners."* Mr. Ballaban argues that *"for purposes of demonstrating total revenue requirement impacts to customers, it is not sufficient to focus almost exclusively on expense items. Instead, it is necessary to consider both capital and expense items to obtain a more accurate picture of customer impacts."*⁵⁴⁵

Mr. Ballaban next disagreed with Messrs. Reed and Dane's dismissal of Mr. Ballaban's concern that *'customers will be paying twice when systems are replaced.'* He related that while it is true that any new systems placed in-service as a result of the Transaction will presumably have longer service lives than the remaining lives of the assets that are being replaced, in the short-term, customer revenue requirements may, in fact, increase due to this accelerated replacement cycle. Mr. Ballaban explained that if any asset that is partially depreciated is replaced with a new asset, net plant in service eligible for rate base treatment will increase, resulting in upward pressure on customer revenue requirements and rates. He testified that *"only after the replacement assets are sufficiently depreciated - such that net plant in service for these capital items approximates the level exactly before Transaction closing - will customers become indifferent."*⁵⁴⁶

Based on his review of the rebuttal testimony proffered by the Petitioners, Mr. Ballaban reiterated his earlier opinion that he cannot confirm that separation

⁵⁴⁵ Id., pp 16-17.

⁵⁴⁶ Id., pp. 17-18.

from National Grid does not negatively impact Narragansett's retail revenue requirements, and consequently, customer rates. Accordingly, Mr. Ballaban urged the Division to reject the Petition.⁵⁴⁷

E. Bruce R. Oliver

Mr. Oliver testified that the purpose of his surrebuttal testimony is to provide a response to the November 23, 2021 rebuttal testimony that was filed by National Grid USA's witnesses Christopher Kelly and Duncan Wiley; and PPL's witnesses David J. Bonenberger, Lonnie E. Bellar, John J. Reed and Daniel S. Dane.⁵⁴⁸

As an introduction to his testimony, Mr. Oliver warned again that the approval of this transaction will mean the loss of economies of scale in the procurement and management of gas supplies in the gas markets on which Narragansett is dependent. This factor coupled with PPL's lack of experience in the procurement and management of LNG raises substantial concern that ratepayers will be exposed post-transaction to increases in gas costs that might otherwise be avoidable. Mr. Oliver added that the Petitioners' rebuttal testimony does not offer any workable solutions for addressing the Advocacy Section's concerns regarding: (1) PPL's large projected increases in salaries and benefits for Narragansett's Gas Operations and Customer Service functions, and (2) Protection of the Narragansett gas system from increases in the frequency of hazardous gas leaks per 100 miles of mains and/or per 1000 services operated in light of the

⁵⁴⁷ Id., pp. 22-23.

⁵⁴⁸ Advocacy Section Exhibit 10, p. 2.

worse-than-industry-average performance with respect to those metrics by PPL's only gas distribution subsidiary, LG&E.⁵⁴⁹

Mr. Oliver disagrees with Messrs. Kelly and Wiley's assertion that the Petitioners have met the requisite standard for approval in this case. Mr. Oliver cites two reasons for his opposition, first, he believes that the Petitioners need to provide greater specifics regarding how, when and where new facilities will be developed in Rhode Island (including a primary Gas Control Center, a backup Gas Control Center, a Customer Service Center, and a Training facility). Second, Mr. Oliver finds that the Transaction lacks identifiable synergies and provides no discernible immediate ratepayer benefits. For these reasons, he is unable to conclude that the Transaction will not diminish the facilities available to provide safe and reliable service to Rhode Island gas customers or that the Transaction is consistent with the public interest. Mr. Oliver also noted that even with a base rate stay out, the Petitioners cannot ensure that Rhode Island gas customers will be protected against otherwise avoidable increases in gas purchase costs.⁵⁵⁰

Mr. Oliver testified that the question of whether Narragansett can be integrated into PPL's corporate structure is of less importance than the impacts on service reliability, safety, and costs that may result from the integration. He stated that there is no guarantee that such integration processes will ultimately be cost-effective or favorable for customers of the acquired entity. He contends that for the proposed Transaction to be consistent with the public interest, the new ownership structure must render safe and reliable service at reasonable cost.

⁵⁴⁹ Id., pp. 3-4.

⁵⁵⁰ Id., pp. 4-6.

Mr. Oliver observes that PPL's gas operations with Narragansett included would still represent a comparatively small fraction of the size of National Grid's overall gas operations, and that claims that PPL will achieve similar economies of scale is not supported by any record evidence. He also rejects the notion that the development of a transition plan, in and of itself, can provide an adequate demonstration of confidence in PPL's ability to achieve comparable economies of scale in purchasing gas, gas transportation and storage services, and the equipment and materials needed to operate and maintain Rhode Island's gas system.⁵⁵¹

Mr. Oliver next questioned the value of those employees transferring to PPL. Noting the ease of the transfer, the lack of specified credentials and the fact that PPL has not provided them with greater compensation, Mr. Oliver suggested that these employees may not be as valuable as believed. Mr. Oliver contends that transferring comparatively junior employees to PPL would not ensure a full transfer of knowledge necessary to efficiently and cost-effectively operate the Narragansett gas system. He also questioned the value of the Service Company's proposed transfer of knowledge and historical data. He observes that no insight has been provided regarding what National Grid considers '*appropriate knowledge and historical data.*'⁵⁵²

Mr. Oliver also criticizes National Grid USA for not fully disclosing the fees to be assessed for many of the services to be provided under the TSA. Due to this lack of information, he argues that the Division remains unable to assess the

⁵⁵¹ Id., pp. 7-8.

⁵⁵² Id., pp. 8-12.

reasonableness of either the structure of costs or the total costs for the support National Grid will provide under the TSA.⁵⁵³

Mr. Oliver also questioned whether National Grid USA's contractual obligations under the proposed TSA can be viewed as an adequate assurance of the quality of services that National Grid will provide after the Transaction closing. He asserts that mention of this obligation "*is of little value in the absence of objective measures of its performance and more direct ties between National Grid's performance under such metrics and the amounts National Grid will bill for transition services.*" Mr. Oliver testified that he sees no assurance that each task will be performed by experienced and well-qualified personnel. He also questions whether the Service Company will prioritize the services it provides to the benefit of National Grid's New York and Massachusetts operations over Narragansett's needs under PPL ownership.⁵⁵⁴

Mr. Oliver additionally disagreed with Messrs. Kelly and Wiley's statement that the delay of the start-up of the Fields Point LNG Liquefaction Facility will be the same regardless of the ownership of Narragansett. Mr. Oliver relates that National Grid has experience with the procurement and trucking of gas liquids under adverse market conditions, unlike PPL.⁵⁵⁵

Repeating his concern for the adequacy of personnel transferring to PPL, Mr. Oliver points out that National Grid has only provided the numbers of employees transferring to PPL by broad functional categories. He relates that the

⁵⁵³ Id., p. 12.

⁵⁵⁴ Id., pp. 14-15.

⁵⁵⁵ Id., p. 16.

information does not segregate numbers of union and non-union employees; specify the responsibilities the transferred employees will assume; indicate the education, training and experience levels of transferring employees; or provide the qualifications of the transferring employees for the positions to which they will be assuming.⁵⁵⁶

Mr. Oliver also does not accept Messrs. Kelly and Wiley's assertion that the LNG employees transferred from the Service Company are the same employees that Narragansett presently relies upon. He notes that National Grid's witnesses *"fail to disclose that the two Senior Supervisors... who will be transferred to PPL... have very limited tenures with National Grid and very little time in their current positions."*⁵⁵⁷ Mr. Oliver also opines that National Grid's witnesses' statement that a *"Service Company employee was recently named the future Manager of LNG Operations at PPL,"* is of little value in the absence of the name and resume of the individual. Mr. Oliver notes that, in fact, National Grid has not disclosed the any specific information on the qualifications of the Service Company LNG personnel transferring to PPL. Because of this lack of information, Mr. Oliver testified that it is not possible to validate National Grid's claim that those transfers will *'ensure that Rhode Island gas customers continue to receive comparable LNG services under PPL ownership.'*⁵⁵⁸

Similarly, Mr. Oliver does not accept Messrs. Kelly and Wiley's claim that there is a *'plethora'* of gas utility management, forecasting, and planning

⁵⁵⁶ Id., pp. 16-17.

⁵⁵⁷ Id., pp. 17-18

⁵⁵⁸ Id., pp. 18-19.

personnel resident in Rhode Island. He related that National Grid's witnesses do not identify any such current personnel living in Rhode Island. Mr. Oliver contends that National Grid's rebuttal fails to provide any information regarding the number of persons presently residing in Rhode Island who are not currently employees of Narragansett, National Grid, or an affiliate who might be available to fill management, forecasting, and planning positions for PPL.⁵⁵⁹

Mr. Oliver also disagrees with National Grid's witnesses' claim that PPL can continue to manage Narragansett's Canadian assets in a manner similar to that currently used by National Grid. He contends that by removing Narragansett's comparatively small Canadian assets from National Grid's larger portfolio impacts Narragansett's bargaining power. He opines that 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 dekatherm of gas managed. Mr. Oliver opined that if the Transaction is approved, *"it should be expected that future Narragansett/PPL negotiations for management of such Canadian assets will yield lesser benefit for Narragansett and its gas customers than the current arrangement."*⁵⁶⁰

Mr. Oliver also does not support moving Narragansett's entire gas portfolio to third party asset management. He related that such a change would undermine the existing Natural Gas Procurement Management Program ("NGPMP") mechanism, which has produced substantial gas cost benefits for Rhode Island gas customers. Mr. Oliver testified that the NGPMP was designed to

⁵⁵⁹ Id., p. 19.

⁵⁶⁰ Id., p. 20.

create incentives for National Grid to maximize gas asset management benefits for Rhode Island gas customers through National Grid's in-house management of assets. He related that with a movement to broader use of third-party gas asset management, the NGPMP would need to be eliminated.⁵⁶¹

Mr. Oliver next turned his attention to Mr. Bellar's rebuttal testimony. He related that Mr. Bellar took his concerns about PPL's gas operations experience out of context and misconstrued their focus and intent. Mr. Oliver explained that when he discussed a '*dearth*' of experience, he was referencing the pool of talent currently available within Rhode Island to fill new or vacated positions for Narragansett's gas system. Mr. Oliver contends that "*neither Mr. Bellar nor any other rebuttal witness for the Petitioners has provided any evidence of the size of the pool of available gas management, forecasting, and planning expertise that presently resides in Rhode Island that would be available to fill open positions for Narragansett/PPL Rhode Island.*"⁵⁶²

Mr. Oliver also criticizes Mr. Bellar for his failure to provide "*a compelling answer to my concerns*" regarding PPL's experience with financial hedges. He asserts that Mr. Bellar's statement that the Kentucky Public Utilities Commission does not require the use of financial hedging does not address his concerns over LG&E's and PPL's lack of experience. Mr. Oliver notes that the Rhode Island Commission also does not require the use of financial hedging, and, thus, there is no relevant distinction presented. Mr. Oliver testified that Mr. Bellar "*fails to*

⁵⁶¹ Id., pp. 20-22.

⁵⁶² Id., pp. 22-23.

*acknowledge the substantial differences in the types of expertise required to engage in financial hedging as opposed to physical hedging."*⁵⁶³

Mr. Oliver also rejects Mr. Bellar's suggestion that there would be no loss of bargaining strength for Narragansett if it is separated from the National Grid portfolio of gas purchasing requirements. Mr. Oliver testified that although separate gas supply, transportation, and storage contracts are signed for each of the individual utilities that are operated as part of the National Grid gas utility portfolio, the contracts entered into by each utility are evaluated and negotiated by a single team of gas procurement and planning professionals within the Service Company. Because of this arrangement, Mr. Oliver related that there are often common elements in the portfolios of the utilities operated by National Grid. He added that there are times when gas supply arrangements are planned and simultaneously negotiated for two or more National Grid gas utility subsidiaries. Mr. Oliver related that the influence of the size of National Grid's overall portfolio of gas supply and transportation requirements can be readily observed in several of Narragansett's gas supply and transportation service arrangements. As an example, he argues that *"it appears unlikely that construction of a gas liquefaction facility, such as the Field's Point facility, would have been undertaken solely for Narragansett's requirements."*⁵⁶⁴

Mr. Oliver next asserted that Mr. Bellar's portrayal of his testimony on gas leak issues is *"inaccurate and misleading."* Mr. Oliver related that the focus of his concerns was with *"hazardous"* gas leaks, and that Mr. Bellar does not address

⁵⁶³ Id., pp. 23-25.

⁵⁶⁴ Id., pp. 25-27.

his concerns for such leaks. Mr. Oliver contends that from a safety perspective there is a need to differentiate total leaks from hazardous leaks.⁵⁶⁵

Mr. Oliver also addressed Mr. Bellar's rebuttal testimony regarding LG&E's customer satisfaction survey results. Mr. Oliver makes a point to establish that LG&E's J.D. Power Company award for residential customer satisfaction was not as high as it was for LG&E's business customer satisfaction, and that there was a decline in business customer satisfaction from 2019 to 2020. Mr. Oliver also sees little value in Mr. Bellar's comparison to Narragansett's lower customer satisfaction results; he attributes Narragansett's lower results to the fact that "*Rhode Island gas costs are typically among the highest in the U.S.*" He also opines that "*the quality of 'customer service' and 'customer satisfaction' levels tend to be highly correlated.*"⁵⁶⁶

Mr. Oliver next criticized Mr. Bellar's position that LG&E will provide gas load forecasting for Narragansett. Mr. Oliver contends that "*sound load forecasting requires sensitivity to the local markets in which service is provided.*" He testified that forecasting methods and algorithms used for the Louisville, Kentucky area are not necessarily the same as those that would be appropriate for Narragansett's Rhode Island service territory. Mr. Oliver also related that the development of appropriate forecasts of gas service requirements typically requires substantial interaction between forecasters and a utility's marketing and field personnel to understand economic development and gas usage trends with a service territory. He opined that "*forecasters based in Kentucky would not have as*

⁵⁶⁵ Id., 27-28.

⁵⁶⁶ Id., pp. 29-30.

*much familiarity with local development patterns and would require substantially greater interface with Narragansett's Rhode Island service territory...."*⁵⁶⁷

Mr. Oliver also sees no relevance in Mr. Bellar's representation that LG&E's Distribution Integrity Management Group continues to monitor leaks and failures. He responded that essentially all gas distribution utilities monitor leaks and failures. Mr. Oliver testified that the key differences among gas distribution utilities lie in their effectiveness in reducing the numbers of hazardous leaks and timely repairing or replacing mains and services when hazardous leaks are identified.⁵⁶⁸

Mr. Oliver next commented on Mr. Bonenberger's transition cost estimates for six categories of transition costs. Initially, Mr. Oliver opines that the limited detail provided "*impedes any effort to assess the impacts of those expenditures....*" Mr. Oliver observes that of PPL's total transition cost estimate, \$315 million or 77% is associated with the implementation of new IT systems; he notes that PPL provides no information regarding the estimated portion of those costs that it anticipates will be incurred to provide incremental benefits to Narragansett customers and the portion that represents costs for replacing or modifying existing systems without enhancements.⁵⁶⁹

Next, Mr. Oliver related that Mr. Bonenberger identifies three types of facilities (i.e., Customer Service Center, Training Center, Distribution Control Center) for which PPL expects to incur transition costs. Mr. Oliver observes that

⁵⁶⁷ Id., pp. 30-31.

⁵⁶⁸ Id., pp. 31-32.

⁵⁶⁹ Id., pp. 32-33.

only an aggregate cost estimate is provided. Mr. Oliver stresses that, once again, no estimates are provided of either the value of expected incremental benefits from those facilities or the costs of obtaining such incremental benefits.⁵⁷⁰

Next, Mr. Oliver notes that Mr. Bonenberger does not address the costs that PPL will incur for transition support provided by National Grid under the TSA. As a result, Mr. Oliver questions whether any or all of the TSA costs are included in the transition cost estimates provided by Mr. Bonenberger.⁵⁷¹

Mr. Oliver also observes that the cost estimates provided by Mr. Bonenberger includes \$15.4 million for estimated severance costs, but PPL provides no information regarding the composition of those costs, the numbers of persons for which it expects to pay severance costs, and the positions vacated or eliminated through the severance of certain current employees. Mr. Oliver also testified that *"it seems unlikely that PPL would incur \$15.4 million of severance costs without incurring any costs for hiring and training new employees for either the positions vacated or for newly created positions."*⁵⁷²

Mr. Oliver also asserted that no weight should be given to Mr. Bonenberger's testimony that PPL will not need to pay a salary premium to attract qualified talent to work at Narragansett. Mr. Oliver testified that considering that PPL has no prior experience with respect to hiring persons for positions in either

⁵⁷⁰ Id., p. 33.

⁵⁷¹ Id., p. 33.

⁵⁷² Id., p. 34.

Rhode Island or New England, the basis for Mr. Bonenberger's assertion must be questioned.⁵⁷³

In response to Mr. Bonenberger's assertion that Mr. Oliver "*cherry picks*" certain data points, Mr. Oliver testified that he has highlighted two key elements of PPL's estimated costs that would adversely impact Narragansett's gas system customers - specifically, Gas Operations and Customer Operations. Mr. Oliver asserts that Mr. Bonenberger does not deny the accuracy of his projected increases in these operations (i.e., 21% for Gas Operations and 37% for Customer Operations), and only uses the phrase "*cherry picks*" to distract from the substance of his [Mr. Oliver's] presentation.⁵⁷⁴

In response to Mr. Bonenberger's arguments in favor of a hybrid management model (blending shared services with greater local control), Mr. Oliver claims that essentially every utility holding company engages in some version of a hybrid management model. Mr. Oliver also questions just how much decision-making authority will actually be delegated to Rhode Island-based management personnel, or whether the local control will be diluted over time.⁵⁷⁵

Mr. Oliver also rejects Mr. Bonenberger's expectation that operating costs for Narragansett will decrease after the transition period. Mr. Oliver notes that "*since PPL has not completed a full business plan and budget for Narragansett's operation after the transition period, his assessment of Narragansett's post-transition costs is purely speculative.*" Mr. Oliver related that if PPL was confident

⁵⁷³ Id., p. 35.

⁵⁷⁴ Id., pp. 35-36.

⁵⁷⁵ Id., pp. 36-37.

that Narragansett's costs will go down, he would have expected PPL's presentation to be "*laced with claims of synergy savings....*"⁵⁷⁶

Mr. Oliver also rejected Mr. Bonenberger's assertion that PPL could operate a pure shared services model that is substantially similar to National Grid USA's current model. He related that although PPL could attempt to operate a pure shared services model with centralized operations from Pennsylvania, he doubts that it would compare to National Grid USA's Service Company model. Mr. Oliver asserts that "*any suggestion that a local management team... will be sufficient to offset the economies of scale associated with a much larger portfolio of gas utility operations is at best speculative and not supported by any quantitative analysis.*" Mr. Oliver added that under National Grid, most of Narragansett's leadership and support is based in Waltham, MA, which is much more representative of a local presence than PPL's proposed reliance on leadership and support in Pennsylvania and Kentucky.⁵⁷⁷

Mr. Oliver next addressed the rebuttal positions espoused by Messrs. Reed and Dane. He started by disagreeing with their statement that PPL has a track record of successfully acquiring gas businesses. Mr. Oliver responded by asserting that PPL's track record is quite limited, pointing out that "*PPL's only foray into the gas distribution business prior to its acquisition of LG&E's combined gas and electric operations was short-lived. After acquiring two small gas distribution utilities in Pennsylvania in the 1990's, PPL soon resold those*

⁵⁷⁶ Id., pp. 37-38.

⁵⁷⁷ Id., pp. 38-39.

businesses to UGI Corporation under the rationale that gas distribution was not part of PPL's 'core business.'"⁵⁷⁸

Mr. Oliver additionally criticized Messrs. Reed and Dane for their assertion that the Advocacy Section is expanding the "*public interest*" standard to include consideration of issues typically reserved for cases before the Commission. Mr. Oliver argues that if the Division does not address these cost issues now, the Commission might have to later choose between either: (1) excluding substantial costs and jeopardizing the financial health of Narragansett's gas utility operations; or (2) allowing cost increases to the financial detriment of Rhode Island customers. Mr. Oliver argues that the "*Reed and Dane approach to considering the public interest impacts of the proposed transaction would inappropriately shift risk from PPL... to Rhode Island ratepayers.*"⁵⁷⁹

Mr. Oliver also disagreed with Messrs. Reed and Dane's claim that PPL has a larger gas operations "*footprint*" than National Grid USA. While LG&E has more gas customers than Narragansett, Mr. Oliver notes that LG&E and Narragansett, combined, would serve over 600,000 gas customers compared to National Grid's current 3.4 million customers (including Massachusetts, New York, and Rhode Island).⁵⁸⁰

Mr. Oliver also disagrees with Messrs. Reed and Dane's suggestion that PPL's Kentucky operations already have the needed in-house expertise to manage Narragansett's gas portfolio. Noting that Mr. Bellar made the same claim, Mr.

⁵⁷⁸ Id., pp. 39-40.

⁵⁷⁹ Id., pp. 40-41.

⁵⁸⁰ Id., pp. 41-42.

Oliver relates that Mr. Bellar admitted, however, that PPL will need to *'build upon its internal capabilities and gain expertise in managing the Narragansett portfolio in a manner consistent with past practices of National Grid.'* Mr. Oliver thereupon pointed out the inconsistency between the claims made by Mr. Bellar and Messrs, Reed and Dane.⁵⁸¹

Mr. Oliver also disagrees with Messrs. Reed and Dane's assertion that Rhode Island operations will benefit from PPL's experience in Kentucky, where PPL operates under rules and requirements to encourage the provision of low-cost gas supplies and reduce price volatility. He related that they must be unaware of the incentives structures under which Narragansett operates in Rhode Island, which have produced greater benefits for customers than the rules and requirements in Kentucky have produced for LG&E customers. Mr. Oliver argues that LG&E's gas procurement practices offer no incremental benefits for Narragansett's gas system.⁵⁸²

Mr. Oliver next argued that Messrs. Reed and Dane's reliance on a New Hampshire case to tout the success of utility ownership transfers between holding companies should have no bearing on the Division's determination regarding the Transaction in this proceeding. He related that the referenced transfers of ownership are labeled as successful without any discussion of the criteria used to assess *'success'* for each transaction. Mr. Oliver argues that what may be

⁵⁸¹ Id., p. 42.

⁵⁸² Id., pp. 42-43.

perceived as a success from a holding company's perspective may not necessarily be perceived the same way from the utility's customers' perspective.⁵⁸³

Mr. Oliver also argued that the New Hampshire case is distinguishable from the situation here for several reasons. He noted that the New Hampshire case was resolved through a negotiated settlement agreement and that the number and substance of the provisions of the settlement accepted by the NHPUC exceeded the commitments offered by the Petitioners in this docket. Mr. Oliver also noted that in New Hampshire, the regulatory body approving the merger is the same regulatory body responsible for the approval of rates. He also noted that the settlement in New Hampshire included requirements for National Grid's provision of \$28.5 million in escrow funds, which Mr. Oliver notes equates to over \$100 million if you compare the relative sizes of Granite State and EnergyNorth, compared to Narragansett.⁵⁸⁴

In his closing comments, Mr. Oliver concluded the proposed transaction "*is purely the product of corporate interests.*" He asserted that there are "*no indentified synergy savings to be derived from the transaction for Rhode Island or Rhode Island gas utility customers.*" Finally, Mr. Oliver concludes that gas distribution is not perceived by PPL as part of its core business and extracting Narragansett's gas operations from the larger and more advantageous National Grid portfolio of gas utilities for broader corporate purposes will not serve either

⁵⁸³ Id., pp. 43-44.

⁵⁸⁴ Id., pp. 44-45.

the interests of Rhode Island gas customers or Rhode Island's overall public interest.⁵⁸⁵

9. The Attorney General's Surrebuttal Case

The Attorney General submitted pre-filed surrebuttal testimony in response to the rebuttal testimony received from the Petitioners. The Attorney General's surrebuttal witnesses, Messrs. Mark D. Ewen and Robert D. Knecht, had previously submitted joint direct testimony in this docket, *supra*. The joint surrebuttal testimony from these witnesses was filed on December 9, 2021, in accordance with the approved procedural schedule.

A. Messrs. Mark D. Ewen and Robert D. Knecht

Messrs. Ewen and Knecht testified that the rebuttal testimony proffered by the Petitioners does not change their previous recommendations in this case. They contend that the Petitioners "*have not materially addressed the key threshold issues addressed in our testimony.*" The witnesses, did, however, recognize that PPL has committed to certain '*ring fencing*' provisions to protect Narragansett's financial viability and its ratepayers and clarified that the allocation of corporate costs in its comparative operations cost analysis reflects an estimate of the impact of the sale of WPD.⁵⁸⁶ They also acknowledged that PPL has provided additional detail regarding the magnitude and potential treatment of certain transition costs and has appeared "*to have at least begun to address some of our operational concerns, by retaining expertise in LNG operations.*"⁵⁸⁷

⁵⁸⁵ Id., pp. 45-46.

⁵⁸⁶ Attorney General Exhibit 2, p. 1.

⁵⁸⁷ Id., pp. 1-2.

Messrs. Ewen and Knecht also offered a clarification to one of the recommendations they made in their direct testimony. Specifically, they had concluded that ratepayers were at significant risk to higher rates due to the uncertainty associated with future costs arising from the proposal to substantially modify Narragansett's operating practices under the new owner. They now maintain that if the Transaction is to be approved, they recommend that the approval be conditioned on a "*a three-year 'stayout' for a base rate filing from the closing date of the transaction.*" They also recommend "*that the stayout be three years before filing a rate case.*"⁵⁸⁸

Messrs. Ewen and Knecht do not accept Mr. Henninger or Messrs. Reed and Dane's reasons for PPL's inability to provide "*basic post-transaction financial statements.*" They contend that without post-transaction financial statements, any analyses prepared by financial analysts and credit rating agencies "*are speculative at best.*"⁵⁸⁹ The witnesses also disagree with Mr. Henninger's statement that post-transaction financial statements for PPL Rhode Island are irrelevant. Messrs. Ewen and Knecht testified that because \$1 billion in goodwill associated with the proposed Transaction will be recorded on PPL Rhode Island's books, PPL may choose to attempt to issue PPL Rhode Island debt to finance that asset. The witnesses argue that if PPL were to do so, the financial leverage and risk of PPL Rhode Island would increase, "*which would likely be reflected in the debt ratings for [Narragansett].*" Messrs. Ewen and Knecht accordingly believe

⁵⁸⁸ Id., p. 2.

⁵⁸⁹ Id., p. 3.

that both the financials and the capital structure for PPL Rhode Island are relevant to the Division's evaluation of the proposed Transaction.⁵⁹⁰

Messrs. Ewen and Knecht also disagree with the Petitioners' assertion that because Narragansett will continue to be regulated by the Commission and the Division, ratepayers are adequately protected. They contend that this is not necessarily accurate because *"the standards that the Division and the PUC will apply in future proceedings are not necessarily the same as those that apply to this proposed transaction."* They note that in the current proceeding, PPL must demonstrate that the costs associated with these changes will not have a negative impact on ratepayers relative to continuing the status quo. Whereas, in regulatory rate proceedings, *"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."*⁵⁹¹

Messrs. Ewen and Knecht next observed that PPL did not update its September 30, 2021 cost comparison analysis (PPL-DIV 1-54-1)(Operating Cost Analysis), which compares its projected costs to operate Narragansett versus National Grid USA, when it submitted its rebuttal testimony. Therefore, they reiterated their concerns regarding operating cost uncertainty, which also reinforces their recommendation for a rate stay-out period of three years. Messrs. Ewen and Knecht related that PPL's analysis remains insufficient to demonstrate that ratepayers will not be negatively impacted by the proposed Transaction. They reiterate that the shortfalls in the PPL analysis fall into two categories: (1) it

⁵⁹⁰ Id.

⁵⁹¹ Id., pp. 3-4.

fails to reflect the risk that must be borne by ratepayers, and (2) it is incomplete.⁵⁹²

Messrs. Ewen and Knecht next argue that Mr. Jirovec's complaint that they never offered their own analysis of PPL's anticipated operating costs vis-à-vis National Grid USA, "*fails both in law and logic.*" Specifically, the witnesses contend that it is the Petitioners' burden to prove that the proposed Transaction will not harm ratepayers and is in the public interest. They argue that it is not their burden to demonstrate otherwise. Additionally, they contend that the even if it is assumed that PPL's analysis is complete and unbiased, the issue remains that there is substantial uncertainty associated with the cost projections.⁵⁹³

Messrs. Ewen and Knecht highlight that PPL acknowledges that it is adopting a significantly different operating model for Narragansett and that the cost estimates are uncertain. The witnesses also stress that there are also uncertainties that remain regarding the treatment of transition costs. They point out that PPL has provided some additional detail in rebuttal showing transition costs of about \$400 million. But they maintain that since it is unknown what transition costs will be claimed by PPL in a future rate case, it is also unknown what transition costs will be included in future rates. The witnesses note that PPL attempts to address this concern by arguing that none of these costs will be reflected in rates unless they provide a net benefit. But they contend that for this

⁵⁹² Id., pp. 4-5.

⁵⁹³ Id., pp. 5-6.

argument to be valid, PPL would need to demonstrate that the net benefit must be measured relative to the costs presented in the cost comparison.⁵⁹⁴

On the issue of ring-fencing, Messrs. Ewen and Knecht accept that PPL, through Mr. Henninger, confirms that it will commit to several specific ring-fencing protections for Narragansett. The witnesses recommend that those commitments be explicitly recognized in the order.⁵⁹⁵

Messrs. Ewen and Knecht next disagreed with Messrs. Reed and Dane's position that because Moody's indicated that it was considering an upgrade in its rating for Narragansett debt, separate ring-fencing commitments are not required. They argue that it is not in the public interest to retain inadequate ring-fencing protections while introducing a new and unknown owner in this jurisdiction. They also argue that "*it would not be unreasonable to assume that Moody's based its opinion about the potential for an upgrade at least in part on the assumption that ring-fencing provisions such as those we recommend will indeed be adopted by the new owner.*"⁵⁹⁶

Messrs. Ewen and Knecht also discussed PPL's response to their recommendation that the debt to capital ratio for Narragansett and PPL Rhode Island not exceed 50 percent, with goodwill assets excluded from the calculation. They note that Mr. Henninger has indicated that PPL intends to manage Narragansett's finances to maintain a debt to capital ratio that is '*substantially consistent*' with the implied 49 percent debt to capital ratio from the most recent

⁵⁹⁴ Id., pp. 6-7.

⁵⁹⁵ Id, pp. 7-8.

⁵⁹⁶ Id., p. 8.

rate case. They also note that Mr. Henninger has argued that a specific numerical constraint is not necessary, and that PPL will maintain Narragansett's credit metrics. However, Messrs. Ewen and Knecht consider this "*trust us*" position by PPL to be inadequate. They instead prefer to memorialize this commitment by PPL as a condition attached to the Division's order.⁵⁹⁷

Messrs. Ewen and Knecht also addressed Mr. Bonenberger's comments with regard to Narragansett's compliance with the Act on Climate, particularly with respect to future investments in gas distribution. The witnesses note that PPL has taken the position that it needs to become more familiar with Narragansett's operations before making any changes to investment policies. In response to this position, Messrs. Ewen and Knecht related that "*this consideration would make a prudent utility more cautious with its expansion investments until the policy environment is better understood.*" The witnesses also expressed disappointment with Mr. Bonenberger's position that the Act on Climate does not, in and of itself, impose any specific requirements for Narragansett. Messrs. Ewen and Knecht testify that this position by PPL represents an argument by PPL that Narragansett "*should be permitted to continue with a natural gas distribution investment program, with little fear that shareholders will ever be on the hook for stranded costs.*" Messrs. Ewen and Knecht maintain that what this line of argument by PPL "*ignores is certain specific aspects of the language of the legislation that we highlighted in our direct testimony, namely §42-6.2-9 which specifies that the emission reduction targets*

⁵⁹⁷ Id., p. 9.

specified for the plan are mandatory, and §42-6.2-10 which indicates that the mandatory reductions can be enforced through court proceedings brought by the RIAG, any Rhode Island resident, or any registered Rhode Island organization.” For this reason, Messrs. Ewen and Knecht retain their view that Narragansett *“should begin planning how it is realistically going to meet the mandatory greenhouse gas emission targets beyond simply participating responsibly in the governmental processes.”*

Lastly, Messrs. Ewen and Knecht offered a response to Mr. Bonenberger’s argument that any restriction on investment to expand the natural gas distribution system would ‘hamstring’ Narragansett’s ability to meet the energy needs of its customers. In response, they assert that Narragansett *“has an obligation to meet the energy needs of its customers in a way that is consistent with meeting the targets laid out in the 2021 Act on Climate.”*

10. Petitioners’ Statement of Existing and Additional Commitments

On Saturday and Sunday, December 11 and 12, 2021, the Petitioners submitted a list of seventeen (17) commitments that the Petitioners wanted to memorialize on the record. The list was filed in additional support of the Petitioners’ May 4, 2021 Petition filing and in further response to the concerns articulated by the Advocacy Section’s and Intervenors’ direct and surrebuttal cases.⁵⁹⁸ This list was subsequently modified on February 10, 2022.⁵⁹⁹

The seventeen (17) commitments are reproduced below:

⁵⁹⁸ Joint Petitioners, Exhibits 2 and 3.

⁵⁹⁹ Joint Petitioners, Exhibit 4.

1. Commitment to address the request for a stay-out agreement:

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 Rhode Island Holdings, LLC's ("PPL RI") acquisition of The Narragansett Electric Company ("Narragansett") from National Grid USA ("Transaction") closes (the "distribution base rate stay-out period").

2. Commitments concerning the recovery of Transition Costs:

During the transition period and as part of the integration of Narragansett, PPL will (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 ("Transition Costs"). PPL estimates that it will incur approximately \$400M in relation to the defined Transition Costs. The current list of anticipated Transition Costs broken down by cost category is attached as Exhibit "A." With respect to these Transition Costs, PPL and PPL RI commit that:

- a. Narragansett will not seek recovery of any Integration and Regulatory Planning costs (currently estimated to be \$48.1 million); Severance Costs for National Grid Employees (currently estimated to be \$15.4 million); Pre-Close National Grid Costs to be Reimbursed to National Grid at Close for Branding (currently estimated to be \$4.4 million); or for enterprise resource planning ("ERP") Separation for Day 1

Transition Service Agreement (“TSA”) needs (currently estimated to be \$8.2 million).

- b. For the IT new systems implementation costs (currently estimated to be \$315 million), Narragansett will not seek recovery of \$250 million of the total, actual costs.
- c. Narragansett will seek recovery of IT system implementation costs exceeding \$250 million, **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.
- d. Narragansett will not seek to recover in rates, including but not limited to base distribution rates and the ISR recovery mechanisms, any Transition Costs that are duplicative of existing costs, services, or assets for which Rhode Island customers already have paid through distribution rates.

PPL reserves the right for Narragansett to request recovery for costs related to the Rhode Island Operations Facilities (currently estimated to be \$17.0 million) that will be invested in Rhode Island and will be the work location for Rhode Island employees and to serve Rhode Island customers. PPL acknowledges that Narragansett carries the burden to demonstrate that there is a direct benefit to customers as a result of the incremental investment. The Division of Public Utilities and Carriers (the “Division”), as

well as any other intervening parties to such proceeding, may elect to oppose all or part of any such request for recovery.

To the extent that Narragansett seeks recovery, whether through base distribution rates, the ISR recovery mechanisms, or any other rate adjustment factors, of any Transition Costs related to IT system implementation and/or Rhode Island Operations Facilities, Narragansett will limit the total amount of recovery it seeks to no more than \$82 million, regardless of whether the Transition Costs exceed current estimates.

PPL further agrees to establish transition cost accounting, reporting and monitoring procedures to apply during the distribution base rate stay-out period described above. PPL agrees that, at least 12 months before Narragansett files its next distribution base rate case, PPL will provide to the Division key accounting policies that address the procedures that establish how costs are developed, booked and reported in customer revenue requirements, including but not limited to its capitalization policy describing its policies regarding capitalizing expenditures for all plant, property and equipment used for regulatory reporting purposes, allocation of affiliate costs to Narragansett. PPL agrees that it will provide a depreciation study to the Division at least 3 months prior to filing its next base distribution rate case.

3. Commitment regarding TSA costs:

Narragansett will not seek to recover in rates any markup charged by National Grid and/or its affiliates in the provisioning of services under the

TSA. This commitment applies to the original term of the TSA and any extensions.

4. Commitments concerning Acquisition Premium and Transaction Costs:

Narragansett will not seek to recover in rates any Acquisition Premium or Transaction costs arising out of its acquisition of Narragansett. All Transaction costs will be expensed by PPL or PPL RI by Transaction closing and will not be included in the books and records of Narragansett. Transaction costs include:

- a. The costs of securing an appraisal, formal written evaluation, or fairness opinions related to the Transaction;
- b. The costs of structuring the Transaction or negotiating the structure of the Transaction;
- c. The costs of preparing and reviewing the documents effectuating the Transaction;
- d. The internal labor costs of employees and the costs of external, third-party, consultants and advisors to negotiate terms, to execute financing and legal contracts, and to secure regulatory approvals;
- e. The costs of obtaining shareholder approval; and
- f. Professional service fees incurred in the Transaction.

5. Commitments to address concerns regarding gas procurement and hedging:

PPL will establish a gas procurement organization for Narragansett staffed with individuals with significant experience and expertise managing gas procurement activities in the New England market. To supplement the

experience of the Narragansett and National Grid personnel that will transfer to PPL after the Transaction closes and the experience of existing PPL personnel in the establishment of this organization, PPL will continue to retain the services of a third-party consultant with significant and substantial experience in the energy industry in the Northeast and New England markets and has been involved in gas storage, gas pipeline projects, gas and power marketing, LNG, and other energy ventures to assist in developing PPL's gas procurement capabilities in the New England market. With the continued assistance of this third-party consultant, PPL also will continue to establish additional consultancy arrangements with New England-based individuals and former National Grid employees with expertise in gas procurement, hedging, trading, and retail choice programs. PPL will leverage the experience of its third-party consultants and National Grid to assist with the identification, recruitment, hiring, and knowledge transfer and training of experienced personnel for the Rhode Island-based gas procurement organization.

6. Commitment to implement ring-fencing measures:

PPL will implement the following ring-fencing measures:

- a. Narragansett will operate as a corporate subsidiary of PPL with its own officers and Board of Directors consistent with how the other utility subsidiaries of PPL are operated;

- b. Narragansett will maintain separate books, records, and financial statements, which are available to the Division and the Rhode Island Public Utility Commission (“PUC”) upon request;
- c. Narragansett will maintain the capability of issuing its own long-term debt;
- d. Narragansett will not make any long-term loans to other PPL affiliates;
- e. Narragansett will issue long-term debt only for its own utility investments and operations;
- f. Narragansett will not pledge or mortgage any of its assets or provide any guarantees for the benefit of other PPL affiliates; and
- g. Narragansett will obtain Division approval prior to entering into any money pool participation with PPL affiliates; and

PPL will not change these ring-fencing measures without prior regulatory approval.

7. Commitment regarding Common Equity Ratio:

Narragansett will maintain a common equity ratio of at least 48% for five (5) years after the Transaction closes.

8. Commitment regarding treatment of Goodwill:

Narragansett will follow its long-standing practice under National Grid ownership of excluding goodwill from the ratemaking capital structure, subject to the right to request a Division or Commission waiver or

modification to this commitment upon an appropriate public interest showing.

9. Commitment regarding liquidity and short-term debt financing:

PPL will file its application for Division review and approval of its proposed new Credit Facility agreement for Narragansett no more than six months after the Transaction closes.

10. Commitment regarding future issuances of long-term debt:

PPL will investigate whether issuing long-term debt as secured instead of unsecured is feasible and cost effective before seeking approval for Narragansett's next long-term debt issuance. As part of this investigation, PPL will evaluate the costs, benefits, and constraints associated with making Narragansett an SEC registrant and establishing a secured indenture, which would provide Narragansett the ability to issue senior secured, first mortgage bonds in the public market versus senior unsecured debt via private placement. Narragansett will include the results of that investigation as part of its filing with the Division in the next long-term debt issuance proceeding.

11. Commitment regarding decarbonization goals:

PPL will submit a report to the Division within twelve (12) months of the Transaction closing on its specific decarbonization goals for Narragansett to support the goals of Rhode Island's 2021 Act on Climate ("Act on Climate") and the long-term strategy for the gas distribution system in light of the Act on Climate.

12. Commitment regarding Distributed Energy Resources Management:

PPL will submit a report to the Division within thirty-six (36) months of the Transaction closing on its plans to implement its Pennsylvania Distributed Energy Resources Management System (“DERMS”) in Rhode Island.

13. Commitment regarding Grid Modernization and AMF:

Narragansett will submit an updated proposed Grid Modernization Plan and AMF Business Case to the Division and PUC within twelve (12) months of the Transaction closing.

14. Commitment regarding book values for property:

PPL will continue to state all gas and electric utility property at original cost when first devoted to public utility service. All Goodwill and fair value purchase accounting adjustments will be recorded by PPL RI and will not be reflected in the books and records of Narragansett.

15. Commitment relating to revenue requirement:

PPL agrees that any restatement of pension and post-retirement benefits other than pensions (“PBOP”) plan assets and liabilities to fair value after Transaction closing will not increase Narragansett’s revenue requirement to a level higher than what would exist in the absence of the Transaction.

16. Commitment to address Accumulated Deferred Income Taxes:

PPL will hold harmless Rhode Island customers from any changes to Accumulated Deferred Income Taxes (“ADIT”) as a result of the Transaction. PPL reserves the right to seek rate adjustments based on future changes to

ADIT that are not related to the Transaction (e.g., changes to applicable tax law).

17. Commitment regarding potential extension of the TSA:

PPL and National Grid agree and commit that the TSA will include terms that will extend the TSA beyond the initial two-year term as necessary to complete the successful transition to PPL. PPL and National Grid agree to provide transition reports to the Division at six-month intervals from the date of closing to the expiration of the TSAs, regarding the status of the transition and the progress made to complete the separation.

11. Stipulation

As a result of the December 11 and 12, 2021 submission of the "*Petitioners' Statement of Existing and Additional Commitments*," *supra*, the Petitioners and the Advocacy Section proffered the following stipulation on December 17, 2021:

1. The concerns raised by Mathew I. Kahal in his pre-filed direct testimony and pre-filed surrebuttal testimony have been addressed by Petitioners' Filed Commitments. Those concerns relate to: (a) ring-fencing measures, (b) common equity ration protections, (c) treatment of goodwill, (d) liquidity and short-term debt financing plans, and (e) long-term debt financing plans.

2. The concerns raised by David J. Effron in his pre-filed direct testimony and pre-filed surrebuttal testimony have been addressed by Petitioners' Filed Commitments. Those concerns relate to: (a) rate protections for acquisition premium and transactions costs, (b) accounting treatment of the valuation of Narragansett's assets, including treatment of goodwill and fair value purchase accounting adjustments, (c) revenue requirement treatment of the restatement of pension and post-retirement benefits other than pensions ("PBOP") plan assets and liabilities to fair value after Transaction, and (d) plans to hold customers harmless from any changes to

Accumulated Deferred Income Taxes ("ADIT") as a result of the Transaction.

3. Assuming the Filed Commitments referenced in Sections 1 and 2 are approved as conditions of the Transaction without material modification, Advocacy Section withdraws its objections to approval of PPL Rhode Island Holdings, LLC's proposed acquisition of the Narragansett Electric Company on the basis of the concerns expressed in Mr. Kahal's and Mr. Effron's pre-filed direct testimony and pre-filed surrebuttal testimony.

12. Public Comments

The Division heard public comment from thirty-four (34) entities and individuals in this docket, including the Honorable Kendra Anderson, State Senator, District 31; and the Honorable David Morales⁶⁰⁰, State Representative, District 7. Comments were also received from George P. Fogarty, III, President, Brotherhood of Utility Workers Council, Local 310 and 310B, affiliated with the Utility Workers Union of America, AFL-CIO; Selene Means; Michael F. Sabitoni, President, Rhode Island Building Trades; Attorney Seth H. Handy, Esq. on behalf of New Energy Rhode Island; Christy Collins; Susannah Hatch, Regional Lead, New England for Offshore Wind; Priscilla De La Cruz, President, Environment Council of Rhode Island; Francis Pullaro, Executive Director, RENEW Northeast, Inc.; Peter Trafton; Jordan Goyette; Nate Levin-Aspenson; Lillian Mathews; Alex KG Ellis; Lindsey Da Veiga; Amber Scheer; Caterina Maina; Greg Abrams; Tyson Bottenus; Arthur Parentier; Mary Filippo; John Fazzino; Richard Moschetti; Sean

⁶⁰⁰ Representative Morales offered public comment during the December 13, 2021 hearing and also submitted written comments on January 18, 2022 (Tr. 95-100; Public Comment Exhibit 9).

Sierra-Patev⁶⁰¹; Siraj Ahmed Sindhu; Michael Salzillo; Peter Haas; Liza Burkin; Matt LaBranche; Jenn Steinfeld; Martin Lynn; Jaime Palter and Jessie Kingston.

The theme and tenor of the comments is summarized below:

- The Brotherhood of Utility Workers Union ("Union") supports the sale of National Grid's Rhode Island gas and electric interests to PPL - primarily due to PPL's commitment to return a customer service presence back to Rhode Island. The Union maintains that *"while moving and consolidating certain operations may make sense in other business settings, Narragansett Electric is a public utility created and operated for the benefit of the people of Rhode Island not the corporate owners in the United Kingdom. PPL may not be headquartered in Rhode Island but at least they understand that its Rhode Island customers are entitled to be able to do business in person and talk to someone based in Rhode Island."* The Union is also *"impressed by PPL's plans to improve the state's infrastructure and its desire to increase its workforce within the state and to return to Rhode Island many of the jobs that were shipped out or done away with as part of the previous consolidation efforts."*⁶⁰²

- The Rhode Island Building and Construction Trades Council ("Trades Council"), comprised of seventeen (17) Local Trade Unions and approximately 10,000 members, supports the sale the Narragansett Electric Company to PPL. The Trades Council supports the sale *"because approval of the petition means more jobs for our members, and more investment in the state's infrastructure."* The

⁶⁰¹ Mr. Sean Sierra-Petev offered public comment during the December 13, 2021 hearing and also submitted written comments on January 15, 2022 (Tr. 8-9; Public Comment Exhibit 25).

⁶⁰² Public Comment Exhibit 1.

Trades Council is similarly *"impressed with [PPL's] emphasis on putting technology and innovation to work for their customers which has translated into one of the smartest grids in the country in their home state of Pennsylvania. Their pursuit of a smart grid here in Rhode Island would undoubtedly lead to significant infrastructure investment, replacing aging equipment with stronger, more durable materials capable of better withstanding severe weather and potential power outages."* The Trades Council also supports PPL's efforts *"to have a strong presence of senior leadership in the state and will also bring some jobs currently being performed in Massachusetts back to Rhode Island as part of a more localized operating model."* The Trades Council further supports the sale due to PPL decision *"to honor all collective bargaining agreements... [and its capability] of assisting the state in meeting its ambitious renewable energy goals."*⁶⁰³

- New Energy RI ("NERI") filed comments *"not...to influence this hearing officer's deliberation of the public interest [but instead] to establish how tragic is the loss suffered by and for RI's public interest when such qualified and uniquely affected members of the public are precluded from advocating on the public interest."*⁶⁰⁴

- New England for Offshore Wind ("NEFOW"), identifies itself as *"a coalition of environmental, academic, labor, business, and social justice organizations united by our vision to combat climate change by increasing the*

⁶⁰³ Public Comment Exhibit 3.

⁶⁰⁴ Public Comment Exhibit 4. NERI's Motion to Intervene in this docket was denied on August 19, 2021 (See Order No. 24109). NERI subsequently appealed the Division's decision to the Rhode Island Superior Court, which, after review and consideration of NERI's arguments, the Court affirmed the Division's decision. NERI's public comments in this case reflect the discovery questions it would have propounded and the direct testimony it would have proffered had it been permitted to intervene in this proceeding.

supply of clean energy to our regional grid through responsibly developed offshore wind." NEFOW asserts that Rhode Island cannot afford to delay offshore wind development. NEFOW expresses concern that *"the proposed utility sale to PPL has already resulted in a delay."* NEFOW asks the Division to consider (1) whether PPL has demonstrated that it can fulfill long-term contracting requirements and develop offshore wind contracts at least as well as National Grid at no additional cost to ratepayers; (2) whether PPL has demonstrated that it will support - or at least not oppose - policy, legislation, and regulation to accelerate offshore wind development in Rhode Island; and (3) whether the Division has sufficiently taken into account in its deliberations that Act on Climate's mandatory carbon emissions reduction goals.⁶⁰⁵

- The Environment Council of Rhode Island ("ECRI") identifies itself as *"a coalition of 60 environmental organizations in Rhode Island [whose] mission is to serve as an effective voice for developing and advocating policies and laws that protect and enhance Rhode Island's environment..."* ECRI expresses *"serious concerns"* about the sale of Narragansett to *"PPL, a Pennsylvania corporation."* ECRI urges the Division to *"consider the Act on Climate (RI General Law 42-6.2-9) central to the public interest."* ECRI states that *"selling the gas and electric utilities seems likely to result in a loss of Rhode Island's momentum towards its climate goals. While National Grid has a mixed record in the fields of energy efficiency and working to meet emissions reduction goals, PPL has an even worse record. In almost every measure and every energy program, PPL has not had to meet as*

⁶⁰⁵ Public Comment Exhibit 6.

ambitious carbon reduction requirements." ECRI asserts that *the Division should not approve any sale on the basis of promises from PPL. A decision that this sale is in the public interest must be based on specific, measurable, and enforceable commitments....*"⁶⁰⁶

- RENEW Northeast, Inc. ("RENEW") identifies itself as "*a non-profit association uniting environmental advocates and the renewable energy industry whose mission involves coordinating the ideas and resources of its members with the goal of increasing environmentally sustainable energy generation in the Northeast from the region's abundant, indigenous renewable resources.*" RENEW asserts that renewable energy procurements are the most cost-effective way for Rhode Island to meet its legally mandated renewable energy requirements established by the Renewable Energy Standard ("RES"), the Affordable Clean Energy Security Act ("ACESA") and the Act on Climate ("AOC"). RENEW asserts that the proposed sale is not in the public interest if PPL does not demonstrate a plan for and commitment to renewable energy procurement to meet Rhode Island's RES and greenhouse gas emission reduction requirements. RENEW further urges the Division to condition its approval of the sale on the Petitioners producing a plan detailing how they will comply with the ACESA and the AOC in addition to a specific commitment to engage in competitive renewable energy procurement, particularly for offshore wind.⁶⁰⁷

- Representative David Morales (House District 7) urges the Division to deny the proposed sale. Representative Morales states that "*the people of Rhode*

⁶⁰⁶ Public Comment Exhibit 7.

⁶⁰⁷ Public Comment Exhibit 8.

Island already pay some of the highest electric and gas costs in the entire country and if this transfer is approved, our utility rates will only continue to increase even further." Representative Morales points out that the CEO of PPL indicated that *"PPL 'reserves the right' to seek \$82 million from ratepayers through rate hikes as they transition into Rhode Island."* Representative Morales also notes that several expert witnesses at the hearing expressed concern *"that PPL lacks the experience of working with renewable energy, the interconnection process, and municipal aggregation programs which will lead to higher operating costs."* Representative Morales also expressed concerns that *"PPL will not have the ability and expertise to meet the mandated carbon emission reduction goals required by our recently enacted 2021 Act on Climate law."*⁶⁰⁸

- State Senator Kendra Anderson (Senate District 31) also expressed concerns regarding the sale of Narragansett to PPL. Senator Anderson advocated for no additional delays in reducing Rhode Island's carbon emissions and needing a strong commitment and cooperation from our utility companies. Citing provisions from the Act on Climate, Senator Anderson asserts that the Division *"must 'exercise among its purposes in the exercise of its existing authority' to rigorously pursue how the sale of National Grid's gas and electric businesses to PPL will impact the public interest and how PPL plans to work quickly to meet the mandatory carbon emissions reduction goals outlined in the Act on Climate."* Senator Anderson believes that *"PPL has not demonstrated or shown much interest in or knowledge of 'green' renewable energy and the need for Rhode Island to*

⁶⁰⁸ Public Comment Exhibit 9.

transition off of its reliance on fossil fuels." She also observes that "*there are many questions still unanswered such as how will PPL fulfill long term purchasing requirements for renewable energy with no additional cost to ratepayers?*"⁶⁰⁹

- Some members of the public have questioned whether PPL has recognized and accepted that its purchase of Narragansett carries obligations to support and effect the energy transitions mandated by the Act on Climate. Some similarly question PPL's experience with energy efficiency initiatives, offshore wind power generation, interconnection of renewable energy and dealing with a leaking gas system. They seek commitments from PPL that it will fully adhere to the State's carbon emissions reduction goals.⁶¹⁰

- Some members of the public urge denial of the Petitioners' proposed Transaction on grounds that such transition to PPL will result in avoidable rate increases or because PPL lacks experience with renewable energy programs and initiatives.⁶¹¹

13. Findings

A. Introduction

The Division acknowledges that some of the nine (9) parties in this proceeding felt that they were given insufficient time to properly participate in furtherance of their interests. Unfortunately, the adequacy of time is invariably in the eyes of the beholder. The Division believes that every party was afforded a reasonable opportunity to consider the issues presented in this docket and

⁶⁰⁹ Public Comment Exhibit 10.

⁶¹⁰ Public Comment Exhibits 11, 15, 21, 22, 31 and 34.

⁶¹¹ Public Comment Exhibits 2, 12, 13, 14, 16, 17, 18, 19, 20, 23, 24, 25, 26, 27, 28, 29, 30, 31 and 33.

advance their positions and arguments in a meaningful fashion. In view of the copious substantive reasons articulated by the Interveners and the Advocacy Section in support of their recommendations that the Division either reject and/or condition approval of the Petition, it is difficult to understand how additional time would have changed their ultimate conclusions and recommendations.

There were seventeen (17) witnesses that offered testimony in this proceeding. The testimony for each of these witnesses was pre-filed, thereby providing time for each of the parties to consider and prepare their own direct and rebuttal/surrebuttal cases and cross-examination. The Division has painstakingly endeavored to accurately depict the voluminous witness testimony in this decision.

Also of note, the lion's share of the discovery in this docket was propounded by the Advocacy Section, starting almost immediately after the Petition was submitted on May 4, 2021. Those discovery responses were publically available for review as soon as they were submitted by the Petitioners to the Advocacy Section and the Clerk. Indeed, there are literally thousands of pages of discovery responses that were provided by the Petitioners in this docket. Notably, the Interveners had access to such discovery long before their intervention motions were granted by the Division on August 19, 2021. The Interveners also knew that the Petitioners did not object to any of their motions to intervene when the Petitioners filed their responsive pleadings on July 9, 2021. The procedural schedule that was adopted in this docket further provided the parties until October 1, 2021 to propound additional discovery, a procedural schedule that was

adopted by agreement of the parties. The Division finds that the discovery period in this matter was fair and reasonable.

B. Applicable Law Regarding the Proposed Transaction

The relevant provisions of Rhode Island General Laws, Sections 39-3-24 and 39-3-25, the controlling statutory law in utility mergers and acquisition cases, are reproduced below:

- **39-3-24. Transactions between utilities for which approval required.** - *With the consent and approval of the division, but not otherwise:*

(2) Any public utility may purchase or lease all or any part of the property, assets, plant, and business of any other public utility or merge with any other public utility, and in connection therewith may exercise and enjoy all of the rights, powers, easements, privileges, and franchises theretofore exercised and enjoyed by the other public utility with respect to the property, assets, plant, and business so purchased, leased, or merged.

(3) Any public utility may merge with any other public utility or sell or lease all or any part of its property, assets, plant, and business to any other public utility, provided that the merger or a sale or lease of substantially all of its property, assets, plant, and business shall be authorized by a vote of at least two-thirds (2/3) in interest of its stockholders at a meeting duly called for the purpose...

- **39-3-25. Proceedings for approval of transactions between utilities.** - *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 purpose 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 deems 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.

Under the provisions of the law cited above, before the Division may approve the Petition filing in this docket, which seeks the approval of the Division for authority to transfer ownership of Narragansett to PPL Rhode Island, the Division is compelled to first find that the proposed transfer of Narragansett to PPL Rhode Island satisfies two conditions, specifically: (1) *that the facilities for furnishing service to the public will not thereby be diminished* [if the Petition is approved], and (2) *that the purchase... [and] sale... and the terms thereof are consistent with the public interest.*

With respect to the requirement that the proposed transaction be “*consistent with the public interest,*” the Division last examined the meaning of this requirement in the 2006 case of: *In re: Joint Petition for Purchase and Sale of Assets by the Narragansett Electric Company and Southern Union Company* (the “Southern Union Case”), Docket No. D-06-13.⁶¹² In the Southern Union Case, the Division observed that “*there is no instructive case law in Rhode Island on how this R.I.G.L. §39-3-25 criterion should be interpreted...*” The Division noted that the intervening parties in that docket had argued “*in favor of a broad interpretation, requesting that the Division consider such factors as speculative future environmental remediation costs, linked to contamination sites in Tiverton, Newport and elsewhere; and also, concessions for low-income ratepayers, including rate*

⁶¹² See Order No.18676.

*discounts, an arrearage forgiveness program, and more liberal “shutoff” and payment plan policies. Also in that case, “[s]ome members of the public argued that combining the two utility services [gas and electric] into one company is not in the public interest.” The “Advocacy Section discussed the issue in the context of the acquisition premium, and whether the ability to provide safe and adequate service at the lowest reasonable cost will be jeopardized.”*⁶¹³

In the Southern Union case, some of the interveners also argued that the phrase “*consistent with the public interest*” means that the proposed transaction must result in a “*net benefit*” to ratepayers and/or members of the general public in order to be properly approved by the Division. In response to that argument, the Division reached the following conclusion:

“[w]hile the law in Rhode Island has yet to be developed regarding this question, the Division finds that the plain meaning of the words must be controlling [footnote omitted]. Toward that end, the word “consistent” is defined as “being in agreement: compatible”, and the term “public interest” is defined as “the well-being of the general public” [footnote omitted].

These definitions would suggest that the Division could only approve the proposed transaction upon a finding that the sale... would not unfavorably impact the general public. It therefore appears that a “net benefit” is not a prerequisite for approval.

The Division has considered the approval criteria in R.I.G.L. §39-3-25 and 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 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.... This provision

⁶¹³ Id., p. 51.

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). The Division will not expand the parameters of this criterion, as urged by some of the parties, to include a prerequisite demonstration that the transaction produces a “net benefit” to ratepayers and the general public. The Division finds that such an expansion would constitute an improper attempt to augment the Division’s jurisdiction through a strained interpretation of an unambiguous statute [footnote omitted].

Notwithstanding this finding, the Division does agree with the Advocacy Section’s position that net savings resulting from the transaction, estimated currently at \$4.9 million per year for Rhode Island ratepayers, ought to be fairly distributed between shareholders and ratepayers; and between electric customers and gas customers. The Division also notes and acknowledges Narragansett’s commitment to share these savings with ratepayers.⁶¹⁴ However, this discussion must take place in the Commission docket established to consider the reasonableness of Narragansett’s future rate plan filing.

The Division also held in the Southern Union Case, that:

"...it is not in the public interest to deny or impede the State’s proper ratemaking authority, the Public Utilities Commission, from exercising its statutory duty to supervise and regulate gas and electric rates. It is abundantly clear from both statutory law and the case law that has developed therefrom that the Commission is the State agency solely responsible for setting gas and electric rates... [footnote omitted]. Therefore... it would be inappropriate for the Division to attempt to circumvent the Commission’s ratemaking authority under the guise of imposing arguably illegal rate-related conditions on the proposed transaction [footnote omitted].

⁶¹⁴ Narragansett’s Post-hearing Memorandum, p. 3.

C. Issues Presented

In the instant case, the Advocacy Section and Intervenors have essentially identified four areas of concern with the proposed Transaction. Namely, (1) potential negative rate impacts and program delays linked to the loss of synergies connected to National Grid USA's existing "shared services" arrangement and the ratepayer benefits attached to National Grid USA's current incumbent status; (2) whether PPL has the requisite experience and ability to ensure that no degradation of utility services occurs after the Transaction closes; (3) whether PPL has adequately taken measures to allay any regulatory accounting concerns that could impact future rate cases; and (4) whether PPL is willing to enthusiastically comply with the State's aggressive decarbonization goals. The Division will address these areas of concern below.

a. Rate Impacts: Shared Services, Delays and Incumbent Status

1. Advocacy Section and Attorney General Positions

The Advocacy Section and the Attorney General are effectively arguing that any potential negative rate impacts on Narragansett's customers, or any delays in starting and/or completing Division-supported programs, resulting from the loss of National Grid USA's current Rhode Island, Massachusetts, and New York shared services arrangement, automatically disqualifies acceptance of the proposed Transaction. The Advocacy Section in particular voices the most vociferous objections to the sale based on a litany of potential deleterious future rate impacts and delays linked to the loss of the current shared services model. The Advocacy Section characterizes the loss of these shared services synergies as

the "most fundamental" reason for denying the Petition.⁶¹⁵ Both parties argue that based on this issue alone, the proposed sale cannot be considered to be consistent with the public interest.

In its direct and surrebuttal cases, the Advocacy Section, and to a lesser degree the Attorney General, lists a number of shared services and initiatives that National Grid USA provides through its Service Company that it argues cannot be replicated by PPL and that, if lost or delayed, will inevitably lead to higher rates for Rhode Island ratepayers. The specific shared services, and the parties' concerns, are summarized below:

- The Petition *"should be rejected because Petitioners have failed to demonstrate that the Transaction will have no adverse impact on rates, and therefore have not met their burden of demonstrating that the Transaction is in the public interest;"*⁶¹⁶

- Because PPL's planned shared services arrangement is *"not exactly the same"* as National Grid's model, making a direct comparison is difficult;⁶¹⁷

- The Transaction lacks identifiable synergies and provides no discernible immediate ratepayer benefits.⁶¹⁸ PPL could attempt to operate a pure shared services model with centralized operations from Pennsylvania, but it is doubtful that it would compare to National Grid USA's Service Company model; *"any suggestion that a local management team... will be sufficient to offset the economies*

⁶¹⁵ Advocacy Section Brief, p. 2.

⁶¹⁶ Ballaban direct testimony, pp. 1-4.

⁶¹⁷ Id., p. 9.

⁶¹⁸ Oliver surrebuttal testimony, pp. 4-6.

of scale associated with a much larger portfolio of gas utility operations is at best speculative and not supported by any quantitative analysis;"⁶¹⁹

- There is no guarantee that such integration processes will ultimately be cost-effective or favorable for Narragansett's customers. For the proposed Transaction to be consistent with the public interest, the new ownership structure must render safe and reliable service at reasonable cost;⁶²⁰

- Narragansett currently benefits from the support of approximately 5,100 National Grid Service Company employees that provide significant cost and capacity synergies that will be lost as a result of this acquisition;⁶²¹

- National Grid has a long history of developing its multi-state shared service model in New England and New York, which cannot be duplicated by PPL in just 24 months.⁶²² *If "National Grid is so confident this can be accomplished it should be expected to escrow at least \$200 million to assure it will either make the transition happen in twenty-four months or will remain committed beyond twenty-four months to accomplish the transition to the extent an acquisition is authorized;"*⁶²³

- The proposed TSA and transition plan will not overcome the loss of National Grid synergies and economies; these synergies and economies will be lost unless

⁶¹⁹ Id., pp. 38-39.

⁶²⁰ Id., pp. 7-8.

⁶²¹ Booth direct testimony, p. 8.

⁶²² Id.

⁶²³ Booth surrebuttal testimony, p. 5.

the National Grid Service Company “*agrees to provide services indefinitely to PPL for Narragansett....*”⁶²⁴

- Regional efforts to implement Advanced Metering Functionality (AMF) and Grid Modernization Plan (GMP) are examples of the synergies currently available to Narragansett through National Grid;⁶²⁵ National Grid's AMF and GMP plans will suffer if the Transaction is approved. Most, if not all of the implementation costs and capital expenditures will no longer be used and useful and will become unrecoverable costs;⁶²⁶

- PPL has failed to prove “*that its operating model would satisfy the ‘hold harmless’ requirement in the absence of any analysis;*”⁶²⁷

- Narragansett is aligned and influenced by National Grid, which facilitates natural economies of scale across New York, Massachusetts, and Rhode Island jurisdictions;⁶²⁸ Because “*Narragansett is integrated with New England states strategically and operationally*” it will be difficult for PPL to overcome these challenges without harming Narragansett’s ratepayers;⁶²⁹

- Merging construction standards will likely take more than three years and the migration of materials standards and the supply chain will likely take decades;⁶³⁰

⁶²⁴ Booth direct testimony, pp. 9-10.

⁶²⁵ Id., pp. 12-13; Salem direct testimony, pp. 13-14.

⁶²⁶ Id., p. 49.

⁶²⁷ Id., p. 18.

⁶²⁸ Id., p. 23.

⁶²⁹ Id., p. 12.

⁶³⁰ Id., pp. 23-24.

- The design and construction of the Control Center, SCADA and Call Center Operations will likely take longer than 24 months to transition over to PPL; PPL *“appears to have completely ignored the tremendous cost of this effort and associated infrastructure, along with the lost synergies afforded to Narragansett since only a portion of control center and SCADA costs are presently allocated to Rhode Island....”*⁶³¹

- Operations such as *“maintenance strategy engineering and technical,” Shared Telecom Network (STN) and Distribution Pole Attachments Program,*” cannot be successfully transitioned within 24 months;⁶³²

- The ISR *“critical planning process cannot reasonably be transitioned in 24 months;”*⁶³³

- Work that National Grid has done to advance a Volt/Var optimization program and CYME modeling, including assessment of distributed energy resource (DER) integration and impacts will similarly be lost;⁶³⁴

- *“PPL’s acquisition of Narragansett’s gas utility operations offers no incremental value to Rhode Island and the state’s gas utility customers. Rather, if approved, the Transaction should be expected to result in a loss of economies of scale, an erosion of gas purchasing efficiency and effectiveness, redundant transition period costs, and increases in the overall costs of Narragansett’s natural gas service to Rhode Island customers;”*⁶³⁵

⁶³¹ Id., pp. 25-26.

⁶³² Id., pp. 26-27.

⁶³³ Id., p. 28.

⁶³⁴ Id., p. 50.

⁶³⁵ Oliver direct testimony, p. 4.

- PPL will incur increased costs to attract and retain experienced management and engineering personnel for Rhode Island's small operations;⁶³⁶
- There are at best limited opportunities to share employees between LG&E and Narragansett's gas utility operations. There are important differences between the two operations, unlike LG&E, Narragansett operates in a capacity constrained market, which makes it dependent on LNG to meet its peak requirements;⁶³⁷
- The separation of Narragansett's gas operations from National Grid gas utility portfolio portends a substantial loss of economies of scale, which suggests increased costs to Rhode Island gas customers. Neither the proposed Transaction nor the Petitioner's transition plan provides the necessary assurances of continued safe and reliable gas services at reasonable cost;⁶³⁸
- PPL does not demonstrate the necessary experience and expertise to operate the Narragansett gas system without assistance from National Grid.⁶³⁹
- *"Due to the extensive sharing of National Grid's resources and personnel by its gas utility subsidiaries, staffing of a stand-alone Rhode Island gas utility cannot be expected to reflect a one-to-one substitution of PPL or new Narragansett gas management, planning, and operating personnel for existing National Grid personnel;"*⁶⁴⁰

⁶³⁶ Id.

⁶³⁷ Id., p. 5.

⁶³⁸ Id., p. 6; Messrs. Ewen and Knecht direct testimony, pp. 29-30.

⁶³⁹ Id., pp. 8-10.

⁶⁴⁰ Id.

- The Transaction will result in a substantial loss of economies of scale in the management and operation of Narragansett's gas utility operations, and that PPL's LG&E gas utility operations are too remote from Rhode Island to provide significant opportunities for mutual support and sharing of scale economies;⁶⁴¹ Any value potentially derived from the combination of Narragansett and LG&E would be diminished by the more remote location of LG&E's system;⁶⁴²
- National Grid's combined gas utility operations provides National Grid with greater bargaining power in the negotiation of contracts, particularly in gas procurement activities;⁶⁴³
- PPL's representation that it would be able to replicate the current economies of scale is "*little more than speculation and conjecture*;"⁶⁴⁴
- Narragansett's removal from the much larger National Grid gas procurement portfolio will lead to a substantial loss of bargaining strength;⁶⁴⁵
- There is concern regarding the effective transition of emergency planning and operations activities, particularly storm response, after the closing of the proposed Transaction. There is the potential for the degradation of the quality of these services, and also an increase in cost. Because National Grid currently serves both Massachusetts and Rhode Island, there may be efficiencies to having co-located service personnel and shared supplies.

⁶⁴¹ Id., pp. 11-13.

⁶⁴² Id., pp. 32-35.

⁶⁴³ Id.

⁶⁴⁴ Id.

⁶⁴⁵ Id., pp. 70-72.

2. PPL's Response

The PPL asserts that it has adequately addressed these concerns through a demonstration of its experience as a large operator of electric and gas utilities and because its planned operating model also utilizes a shared services approach to achieve beneficial economies of scale. PPL also contends that it is inappropriate for the Advocacy Section to adopt a "new standard" that requires the Division "*to peer into a crystal ball and predict whether National Grid might outperform PPL in coming years in discrete functions culled out by the Advocacy Section.*"⁶⁴⁶ Instead, PPL asserts that the Division should adhere to precedent and follow a historical path by only considering "*known and measurable factors.*"⁶⁴⁷ A summary of the PPL's additional arguments on this topic is covered below:

- "[T]he Advocacy Section's 'new standard' is a transparent attempt to hand-pick the owner it prefers... no buyer could meet the... 'new standard,' and it would perpetually block National Grid from transferring ownership of Narragansett."⁶⁴⁸
- The "new standard" is not the statutory standard or consistent with legislative intent. It is "*unsurprising that the Advocacy Section might prefer to continue to oversee a utility it knows well with long-standing relationships.*"⁶⁴⁹
- National Grid is not a captive and remains free to sell Narragansett to another experienced, successful, and financially sound utility operator in accordance with the applicable legal standard.⁶⁵⁰

⁶⁴⁶ PPL Post-Hearing Brief, p. 4.

⁶⁴⁷ Id., pp. 3-4.

⁶⁴⁸ Id., p. 4.

⁶⁴⁹ Id.

⁶⁵⁰ Id.

- The Advocacy Section relies "*almost entirely on tasks that National Grid has worked on for years and presume that a potential buyer... should instantly be able to match estimates or otherwise step into the shoes of National Grid.*" "*No buyer could do so, and the applicable legal standard does not require it.*"⁶⁵¹
- The Advocacy Section's reliance on the geography of National Grid's current utilities is another factor that no buyer could match and is untethered to the legal standard.⁶⁵²
- The Advocacy Section is relying "*on divinations proffered by experts who ignored the three traditional factors and sponsored a series of guesses regarding the outcome of potential future events.*"⁶⁵³
- It is impossible to know today how the Transaction might impact future rates and policies. "*But we know today that future rate impacts and policy decisions [such as gas supply on Aquidneck Island] will be decided by the... Commission... in a rate proceeding held many years from now; those issues are not part of the Division's statutory review.*" "*For the Division to condition approval of the Transaction on assurances related to these issues would be tantamount to an attempted usurpation of a long-established Commission ratemaking function.*"⁶⁵⁴
- The "gravamen of the Advocacy Section's argument is that National Grid's alleged advantages as the incumbent operator and operator of other nearby utilities precludes approval of the Transaction."⁶⁵⁵

⁶⁵¹ Id., p. 5.

⁶⁵² Id.

⁶⁵³ Id.

⁶⁵⁴ Id., p. 8.

⁶⁵⁵ Id., p. 10.

- *"The standard does not and could not require that the incoming owner occupy exactly the same position as the incumbent operator on every aspect of utility ownership. Such an impassable standard would prevent any sale - no potential new owner could demonstrate that a change in ownership would have no potential impacts."*⁶⁵⁶
- *The Advocacy Section posits that National Grid will complete grid modernization faster and cheaper than PPL [or any other buyer]....Why? Because National Grid began working on a grid modernization plan for Narragansett four years ago. By contrast PPL has not completed a grid modernization plan for Rhode Island pending the conclusion of this docket, and therefore the Advocacy Section faults PPL and prefers to hold National Grid captive as the owner and operator.... [t]he Advocacy Section's stunningly unfair approach is a pretense to reward incumbency and keep National Grid."*⁶⁵⁷
- *"Perhaps the most stark incumbency argument advanced by the Advocacy Section is Mr. Booth's contention that the Division should disapprove the Transaction because Narragansett is so intertwined with National Grid that no utility can complete a transition within 24 months or recreate the alleged synergies and efficiencies from National Grid's shared services model. Narragansett will not become less intertwined next year or five years from now. Thus, the inescapable conclusion flowing from the Advocacy Section's premise is that the Division can never approve a change of ownership."*⁶⁵⁸

⁶⁵⁶ Id., p. 11.

⁶⁵⁷ Id., pp. 11-12.

⁶⁵⁸ Id., p. 12.

- The Advocacy Section's "*myopic approach ignores the larger context. It may be likely that incumbency provides... some advantages in certain areas over the short term. But it is just as likely that an experienced and successful utility operator like PPL will find other ways to produce value, reduce costs, and more efficiently operate Narragansett.*" ⁶⁵⁹

3. Findings

The Division finds that the Advocacy Section and Attorney General have overreached in their interpretation of the meanings of "*consistent with the public interest*" and "*diminished*," as prescribed in the statutory standard. In short, in the Division's view, they have adopted a "better-off-with-incumbent" ("BOWI") standard; due to their assertion that National Grid can perform faster, better and cheaper than PPL, and arguably faster, better and cheaper than any other prospective buyer of Narragansett. They maintain that National Grid USA, by virtue of its long-standing familiarity with Rhode Island's electric and gas distribution systems, its close-proximity-multi-jurisdictional shared services operating arrangement, its known and established leadership team and workforce, its already existing Division supported programs, and its demonstrated acceptance and compliance with Rhode Island's clean-energy and energy efficiency goals, stands in a superior position to outperform PPL and save the ratepayers money in the long-run. Through these unique attributes, the Advocacy Section and the Attorney General argue that National Grid USA possesses a demonstrated ability to conduct a faster-better-cheaper operation that invariably

⁶⁵⁹ Id., p. 13.

benefits Narragansett's customers. They argue that because PPL cannot guarantee like services and costs after the transition period ends, the proposed Transaction must be rejected. The Division finds that this advocated interpretation of the meanings of "*consistent with the public interest*" and "*diminished*" is hostile to the true meaning of the terms as used in Rhode Island General Laws, Section 39-3-25 ("Section 39-3-25") and inconsistent with the Division's previous interpretation of the Section 39-3-25 standard. Accordingly, the Division finds that it must further clarify and expound on its previous interpretation, as originally discussed in the Southern Union Case.

In the instant case, the Advocacy Section and the Attorney General have boiled the issue down to future rates. They assert that Narragansett's ratepayers will realize lower future electric and gas rates under National Grid's continued ownership of Narragansett due to the concomitant benefits connected to National Grid's unique operating scenario (the attributes delineated above), than would otherwise be available under PPL's ownership of Narragansett. The Advocacy Section argues that the potential for higher rates under PPL's ownership is determinative of whether the sale is in the public interest. The Advocacy Section further argues that the Division has previously accepted this "rate impact" argument in the Southern Union case. The Division disagrees.

In the Southern Union Case, the Advocacy Section urged the Division to base its decision on, *inter alia*, "[t]he degree to which the proposed transaction can be expected to impact ratepayer costs."⁶⁶⁰ However, in the Southern Union Case,

⁶⁶⁰ See Order No 18676, p. 16; 59-60.

the focus was on what "savings" could be expected from the transaction, not on whether any increased costs would be manifested. Moreover, the focus on that issue was principally linked to how the savings should be shared between shareholders and ratepayers. On this savings sharing issue, the Division made it clear that all rate issues should be decided by the Commission. The Division offered the following assessment:

*"the Division does agree with the Advocacy Section's position that net savings resulting from the transaction, estimated currently at \$4.9 million per year for Rhode Island ratepayers, ought to be fairly distributed between shareholders and ratepayers; and between electric customers and gas customers. The Division also notes and acknowledges Narragansett's commitment to share these savings with ratepayers [footnote omitted]. However, this discussion must take place in the Commission docket established to consider the reasonableness of Narragansett's future rate plan filing."*⁶⁶¹

*"...it is not in the public interest to deny or impede the State's proper ratemaking authority, the Public Utilities Commission, from exercising its statutory duty to supervise and regulate gas and electric rates. It is abundantly clear from both statutory law and the case law that has developed therefrom that the Commission is the State agency solely responsible for setting gas and electric rates... [footnote omitted]. Therefore... it would be inappropriate for the Division to attempt to circumvent the Commission's ratemaking authority under the guise of imposing arguably illegal rate-related conditions on the proposed transaction."*⁶⁶²

The Division does not agree that the Southern Union Case established a precedent for denying a utility sale based on the potential for literally any type or amount of increased cost in the future resulting from the change in ownership. Although the Division included a perfunctory closing finding that *"the proposed*

⁶⁶¹ See Order No. 18676, p. 53.

⁶⁶² Id., pp. 58-59.

*transaction will not jeopardize the future ability to provide safe, adequate, reliable, efficient, and least cost public utility service,"*⁶⁶³ there was no consideration paid to addressing the issue presented in the instant case, namely, whether a petition for a utility sale should be denied based exclusively on a fast-better-cheaper BOWI standard, *supra*.

In considering the Advocacy Section and Attorney General's interpretation of the meaning of "*consistent with the public interest*," the Division likened the inevitable outcome of their strained interpretation to a well-known principle of statutory interpretation. The "*absurd result principle*" in statutory interpretation provides an exception to the rule that a statute should be interpreted according to its plain meaning. This principle authorizes a judge to ignore a statute's plain words in order to avoid the outcome those words would require in a particular situation.⁶⁶⁴ While the Division would never presume to offer alternative wording in order to clarify the provisions of Section 39-3-25, the Division feels compelled to highlight the principle for the narrow purpose of revealing the absurdity of the Advocacy Section and Attorney General's preferred interpretation.

The Advocacy Section and Attorney General take the position that the "public interest" can only be safeguarded by preserving National Grid's long-standing familiarity with Rhode Island's electric and gas distribution systems, its close-proximity-multi-jurisdictional shared services operating arrangement, its known and established leadership team and workforce, its already existing

⁶⁶³ Id., p. 63.

⁶⁶⁴ "*Absurdity and the Limits of Literalism: Defining the Absurd Result Principle in Statutory Interpretation*," 44 Am U. L. Rev. 127 1994-1995. See Public Citizen v. United States Dept. of Justice, 491 U.S.440, 470 (1989).

Division supported programs, and its demonstrated acceptance and compliance with Rhode Island's clean-energy and energy efficiency goals. There are also concerns over PPL's ability to properly operate Narragansett, future rate case issues, and whether PPL is willing to adhere to the State's decarbonization goals, all which will be discussed, *infra*.

But what this position translates into is a BOWI "faster-better-cheaper" argument against PPL, and for that matter, any prospective successor utility that may be interested in purchasing Narragansett. It also unreasonably denies National Grid USA the freedom to sell Narragansett unless it is willing to sell all of its utility interests in the United States as part of a unified purchase and sale agreement - and then only if such a willing buyer exists. In its brief, in response to a question posed by the hearing officer at the close of hearings, on whether the Division may compel National Grid to operate Narragansett in perpetuity, the Advocacy Section offers the following argument:

The short answer is no.... [but]... [i]f 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.⁶⁶⁵

To the Division, this sounds like unambiguous double-speak; on the one hand arguing that the Division cannot compel perpetual ownership, and on the other, arguing that National Grid can only sell Narragansett if it can find a fantasy buyer

⁶⁶⁵ Post-Hearing Brief, pp. 20-21.

that operates, and is geographically situated, exactly like National Grid in every way; or the Company can just walk away from a \$5.3 billion asset. And then what would happen? The State would need to look for the fantasy buyer that National Grid was unable to hunt down in the first place. And then what would be the impact to ratepayers, with the State or an agent of the State in charge of Narragansett for an indefinite period of time? Definitely not a desirable or realistic scenario.

The Advocacy Section denies that it is giving "*preference to the incumbent*," instead arguing that it is merely examining "*where ratepayers are now versus where they will be if the Transaction moves ahead*."⁶⁶⁶ In obvious conflict with its "no preference to incumbent" claim, the Advocacy Section argues that Section 39-3-25 "*requires a comparison between the status quo - i.e., National Grid's continued ownership and the Petitioners' proposal*." Similarly, in opining on whether the proposed Transaction will result in "*diminished*" services, the Advocacy Section reduces the necessary evaluation to a demand that [the incumbent's] "high service reliability" be preserved to safeguard against possible future rate increases.⁶⁶⁷ The Advocacy Section readily asserts that the "most fundamental" reason why Narragansett's ratepayers will be harmed if the sale is approved, is that the acquisition of Narragansett will result in the loss of the shared service synergies currently provided by National Grid USA.⁶⁶⁸ The Advocacy Section argues that there "*is no dispute that arrangement has been beneficial for Rhode Island*

⁶⁶⁶ Reply Brief, p. 2.

⁶⁶⁷ Id., p. 5.

⁶⁶⁸ Post-Hearing Brief, p. 2.

customers."⁶⁶⁹ The Advocacy Section further argues that if the Division "*accepts PPL's [locally focused] operating model [different from National Grid USA's shared services model] in this proceeding, Rhode Island ratepayers will have no recourse when PPL files with the Commission to recover the full costs of that model.*"⁶⁷⁰ The Advocacy Section then "*disputes whether PPL has shown that its operating model will be as good or better than the status quo.*" The Advocacy Section contends that the "*central question in this case... [is]... has PPL demonstrated that its locally focused model can be expected to provide equally high quality service to Rhode Island ratepayers at costs that do not exceed National Grid's tightly integrated model?*"⁶⁷¹ From the multitude of incumbent attributes favored by the Advocacy Section, it is doubtful that Advocacy Section could ever accept that ratepayers will not be harmed by PPL's or any other buyer's operating model.

Predicated on the Advocacy Section and Attorney General's overbroad, unworkable, and most likely unconstitutional, interpretation of the approval requirements prescribed under Section 39-3-25, the Division shall provide clarification on its earlier interpretation of the meaning of these requirements, as previously established in the Southern Union Case.

In the Southern Union Case, the Division held that before approval can be granted the Division must determine that the proposed transaction (merger or acquisition) "*specifically addresses the present and future needs of ratepayers, and ...ensures no harm to the general public as a whole (including ratepayers).*" "The

⁶⁶⁹ Id.

⁶⁷⁰ Reply Brief, pp. 11-12.

⁶⁷¹ Id., p. 12.

*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..., "which requires a finding 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). The Division also concluded "that a 'net benefit' is not a prerequisite for approval."*⁶⁷²

As a clarification to the Division's previous interpretation, the Division does not find that the approval criteria contained in Section 39-3-25 prescribe or justify an evaluation of post-transaction rate impacts. As the Division has stated multiple times in previous decisions, the evaluation of all rate change proposals resides exclusively with the Commission, with input from the Division. Including such discussions and evaluations in Section 39-3-25 reviews not only inappropriately treads on Commission jurisdiction, it has the potential to reduce every Section 39-3-25 docket into a rate case, which the Division believes is fundamentally inconsistent with the legislative intent behind Section 39-3-25.

The Division confirms that Section 39-3-25 requires a determination that *"the facilities for furnishing service to the public will not thereby be diminished"* if the transaction is approved, *which requires a finding that "there will be no degradation of utility services after the transaction is consummated...."* But this examination must be based on an evaluation of the proposed buyer's ability to provide the utility services authorized under the incumbent's operating charter or

⁶⁷² See Order 18676, p. 52.

certificate. Comparing the utilities' respective operating costs for providing such utility services is not a valid legal prerequisite under this approval standard.

With respect to the second criterion for approval, that the proposed transaction be "*consistent with the public interest*" the Division reaffirms that the test "*requires a finding that the proposed transaction will not unfavorably impact the general public.*" But to avoid confusion, the Division no longer believes it is necessary to emphasize that "*ratepayers*" are included in this group. The statute's use of the word "public," would naturally include ratepayers thereby rendering the sub-group of "ratepayers" unnecessary. The Division also reaffirms "*that a 'net benefit' is not a prerequisite for approval.*"

The Division additionally finds that clarification is needed to make clear that the word "consistent" in the phrase "consistent with the public interest" denotes a requirement for a "generalized harmonious" relationship with the public as a whole rather than a particular benefit to an individual or group of individuals.

The Division also believes further clarification is needed to discourage attempts by future parties to define "*public interest*" so narrowly and subjectively as to render all Section 39-3-25 reviews unduly time consuming and expensive to adjudicate, and unduly burdensome to the petitioners; all of which the Division finds, paradoxically, to be "*inconsistent with the public interest.*" Specifically, the Division believes that confirmation of a generalized harmonious relationship to the public interest principally requires the Division to address Section 39-3-25 reviews in a fashion similar to the way the Division adjudicates the myriad other

applications for authorizing approval of new operating authority and transfers of existing operating authority that come before the Division - by thoroughly evaluating the petitioner's fitness, willingness, and ability properly to perform the services proposed and to conform to the provisions of Title 39 and the requirements, orders, rules, and regulations of the Division and Commission as well as the general laws of Rhode Island as a whole. The Division finds that such a review has abundant legal precedent, is consistent with many other licensing mandates contained in Title 39 and is incontrovertibly effective in promoting and safeguarding the general public good when authorizing the transfer of utility operating authority under Section 39-3-25. Interestingly, this is the standard that applies in lifeline ferry services application cases and would also be the standard that would apply if National Grid decided to walk away from Narragansett (an option suggested by the Advocacy Section) and the Division was faced with finding and approving a new owner for Narragansett.

In conclusion, the Division finds that it is improper to address speculative future rate impacts in any evaluation concerning the "public interest" and/or "service degradation" approval criteria. The Division has previously held that the approval or denial of rate change requests fall exclusively under the jurisdictional purview of the Commission and will not deviate from that treatment in this case.

b. Does PPL have the Requisite Experience and Ability to Ensure that no Degradation of Utility Services Occurs after the Transaction Closes

1. Advocacy Section and Attorney General Positions

The Advocacy Section and the Attorney General have contended throughout the proceeding that PPL has failed to demonstrate that it can perform as well as

National Grid USA in operating Narragansett, and therefore, has failed to prove that utility services will not be diminished and degraded if the proposed sale is approved. Many of their arguments are summarized below:

- The Petition fails to demonstrate how PPL can replicate the existing operations infrastructure, which it is not acquiring, without significant cost and degradation in safety and reliability;⁶⁷³

- PPL has also not conducted a site inspection of any major equipment to assess “*the condition of what it is purchasing or how the distribution system operation can be effectively integrated into the PPL model without harming the customers....*”;⁶⁷⁴

- The filing provides no evidence or analysis to demonstrate that such a transition is achievable in two years;⁶⁷⁵

- PPL’s current distribution planning and maintenance programs may not rise to the level of the more “*complex and robust*” ISR Plan process currently in place;⁶⁷⁶

- PPL's Long Term Infrastructure Improvement Plan (LTIIP) “*does not reflect anything remotely comparable to the Narragansett ISR Plan and associated Area Studies.*”⁶⁷⁷

- “*Except at the very highest levels, staffing of management, planning, and*

⁶⁷³ Booth direct testimony, p. 9.

⁶⁷⁴ Id., p. 14.

⁶⁷⁵ Id., p. 22.

⁶⁷⁶ Id., pp. 31-36.

⁶⁷⁷ Id., 36-44.

*engineering positions for Narragansett's gas utility operations remains unclear;"*⁶⁷⁸

- *"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 of Narragansett. Such higher leak rate experience must not be allowed to degrade the safety and quality of service for Rhode Island's gas operations;"*⁶⁷⁹

- *"LG&E's track record does not support a finding that PPL can be expected to provide improved customer service in Rhode Island;"*⁶⁸⁰

- *"PPL has not demonstrated sufficient staffing and expertise in key elements of Narragansett's gas operations (e.g., LNG facilities design, construction, and operations, as well as gas procurement in New England and Canadian gas markets) to assume responsibility for those activities. While it may be presumed that PPL can gain the required knowledge and expertise overtime [sic], it is unclear how long acquisition of the requisite knowledge will take and what the impacts on gas system costs and reliability will be experienced in the interim;"*⁶⁸¹

- Because few of the Service Company personnel that currently provide services for Narragansett are based in Rhode Island, and because Narragansett has the

⁶⁷⁸ Oliver direct testimony, pp. 8-10.

⁶⁷⁹ Id.

⁶⁸⁰ Id.

⁶⁸¹ Id., pp. 11-13.

only gas utility operation in the state, PPL will need to attract people from outside the state;⁶⁸²

- The reliability of gas service in Rhode Island “*is heavily dependent upon the storage and vaporization during periods of peak demand of LNG*” and that “*only one employee of LG&E is identified as having first-hand LNG experience;*”⁶⁸³
- PPL’s representation that LG&E is “*significantly ahead of where most of the gas industry is with [its] replacement programs*’ is not particularly meaningful from a gas system safety perspective;”⁶⁸⁴
- Although many Narragansett and Service Company employees have agreed to stay on at Narragansett both during the transition and after the Transaction closes, there is no assurance that these employees will be highly qualified individuals who possess ‘*significant institutional knowledge*’ of Rhode Island’s gas operations.⁶⁸⁵ PPL has not provided “specified credentials” for the transferring employees or has demonstrated their value.⁶⁸⁶ National Grid has only provided the numbers of employees transferring to PPL by broad functional categories. The information does not segregate numbers of union and non-union employees; specify the responsibilities the transferred employees will assume; indicate the education, training and experience levels of transferring employees; or provide the

⁶⁸² Id., pp. 37-38.

⁶⁸³ Id., pp. 40-41.

⁶⁸⁴ Id., pp. 48-51.

⁶⁸⁵ Id., pp. 63-65.

⁶⁸⁶ Oliver surrebuttal testimony, pp. 8-12.

qualifications of the transferring employees for the positions to which they will be assuming;⁶⁸⁷

- Concerns over whether National Grid USA's contractual obligations under the proposed TSA can be viewed as an adequate assurance of the quality of services that National Grid will provide after the Transaction closing;⁶⁸⁸
- PPL has not committed to fully gaining experience in the New England gas market during the transition period; nor does it have experience with portable or permanent LNG vaporization operations;⁶⁸⁹
- LG&E does not purchase gas in the Appalachian, New England, or Canadian gas markets, the markets most critical for Narragansett;⁶⁹⁰
- PPL has not committed to using financial hedging techniques when it takes over the ownership of Narragansett;⁶⁹¹
- Narragansett has successfully utilized two gas cost-related incentive programs for the benefit of ratepayers, the Gas Procurement Incentive Plan (“GPIP”) and the Natural Gas Portfolio Management Plan (“NGPMP”). PPL may not realize the same level of success in its gas procurement activities as National Grid;⁶⁹²
- Alan LaBarre, the individual who will be guiding the long-range planning process and ISR Plan and Area Study process, *“has had very limited direct involvement, particularly over the last several years, in these processes.”*⁶⁹³

⁶⁸⁷ Id., pp. 16-17.

⁶⁸⁸ Id., pp. 14-15.

⁶⁸⁹ Oliver direct testimony, pp. 67-68.

⁶⁹⁰ Id., pp. 70-72.

⁶⁹¹ Id., pp. 72-73.

⁶⁹² Id., pp. 75-79.

⁶⁹³ Booth Surrebuttal testimony, p. 3.

- National Grid USA's witnesses have failed to show that an adequate quantity of Service Company employees will be transferred to PPL;⁶⁹⁴
- Concerns over how much decision-making authority will actually be delegated to Rhode Island-based management personnel, or whether the local control will be diluted over time.⁶⁹⁵

2. Findings

On this issue, the record reflects that the Advocacy Section and the Attorney General are again exclusively focused on how National Grid USA operates Narragansett under National Grid USA's uniquely situated shared services model. The argument being made by the Advocacy Section and Attorney General is essentially that National Grid USA has a track record of high performance electric and gas service in Rhode Island, and that PPL does not. Not unlike the rate impact-based opposition to the proposed Transaction, namely, that PPL cannot guarantee zero rate impacts from the sale, the Advocacy Section and the Attorney General make the same argument with service quality, namely, that PPL cannot guarantee that it will operate Narragansett in an indistinguishable fashion, with the exact same resources, from the way National Grid USA operates Narragansett. And like with the rate impact issue, the Division finds that the Advocacy Section and the Attorney General have overreached and misapplied the Section 39-3-25 approval standard.

The Division finds that what is paramount in the assessment of this approval factor is a requisite finding that the proposed buyer is sufficiently

⁶⁹⁴ Id., p. 7.

⁶⁹⁵ Oliver surrebuttal testimony, pp. 36-37.

experienced and financially capable to operate the utility being sold. An exact match of operations is not the standard; and like with the no-rate impact position demanded by the Advocacy Section and Attorney General, the adoption of such a standard would, the Division finds, be to effectively deny the sale of Narragansett to any buyer.

The Division has carefully reviewed the record to appraise how PPL stacks up against what the Division believes is the proper standard for determining whether the proposed Transaction may result in a degradation of service quality to Narragansett's electric and gas customers. There is much evidence that provides a clear image of PPL's experience in operating regulated electric and gas utilities and of the Company's financial strength.

To start, PPL has been in the utility business for over 100 years, beginning operations in 1920. The Company has more than 2.5 million customers in the United States, comprised of more than 1.4 million electric customers in Pennsylvania, 1 million electric customers in Kentucky and over 300,000 gas customers in Kentucky. Notably, LG&E has more gas customers than Narragansett's 272,000 customers. Also relevant is the fact that one of PPL's subsidiaries has owned and operated Western Power Distribution (WPD), which is the largest electric distribution utility in the United Kingdom, serving approximately 8 million customers. All told, PPL has provided gas and electric services to over 10 million customers.

With respect to PPL's financial strength, the Company plans to purchase Narragansett with cash, from the proceeds it will derive from the sale of WPD.

The record also reflects that the credit rating companies give PPL high marks for its creditworthiness, which, incidentally, factor in the anticipated Narragansett purchase. In 2020, PPL's operating revenues were approximately \$7.6 billion, and its net income was about \$1.4 billion; PPL's market capitalization is about \$22 billion. PPL's total assets at the end of 2020 were about \$48 billion. Conspicuously, none of the parties in this docket have questioned PPL's financial wherewithal.

The Division also acknowledges PPL's record of outstanding service quality, as evidenced by the 58 J.D. Power and Associates awards it has received for its electric and gas services to both residential and business customers. Clearly, PPL Electric Utilities, LG&E and KU are providing well-managed and well-resourced utility services in Pennsylvania and Kentucky.

A deeper dive into PPL's experience and commitment to providing high quality electric and gas services is easily achievable from the abundant record that was produced in this docket. The record shows that in Pennsylvania and Kentucky, PPL has invested in constructing a state-of-the-art electric grid that has greatly minimized electric outages along its distribution system. These smart grid investments are used to immediately pinpoint the location of power outages and, in many cases, limit the impacted area and automatically restore service for most of the impacted customers. The record reflects that PPL has had much success in this area through its Fault Location, Isolation and Service Restoration (FLISR) technology. The record also reflects that PPL Electric Utilities won the Smart Electric Power Alliance's (SEPA) Investor-Owned Utility of the Year award in

2019 in response to the implementation of PPL Electric Utilities' Distributed Energy Resource Management System (DERMS). The DERMS system dynamically manages distributed energy resources (DER) connected to PPL Electric Utilities' grid to optimize power quality, while encouraging the adoption of DER. DERMS has proven to be a very effective tool in reducing interconnection costs. Rhode Island would unquestionably benefit if DERMS was incorporated into Narragansett's electric grid.

Additionally, PPL has had a great deal of experience with advanced meter functionality (AMF) and stands ready to develop its AMF and grid modernization plans for Narragansett based on the plans that National Grid has already developed. PPL has successfully installed over 1,000,000 AMF-enabled meters in Pennsylvania and Kentucky. Further, unlike the Advocacy Section, the Division finds credibility in PPL's claim that it can purchase smart meters with AMF capacity at favorable pricing, *"as good or better than the pricing available to National Grid USA."* PPL is one of the largest utility companies in the United States, it would be incongruous to discount PPL's purchasing power. Additionally, the Division does not accept that National Grid USA's anticipated cost of \$223 million for its Rhode Island AMF rollout is a hard and fast cost that must be matched by PPL, as argued by the Advocacy Section. The final cost for National Grid USA's AMF rollout in Rhode Island was far from conclusive. Finally, the notion that the proposed Transaction should be denied solely based on the attendant AMF implementation delay resulting from the filing of the instant

Petition is preposterous and yet another example of the Advocacy Section's incumbent bias in this proceeding .

The Division also acknowledges that PPL Electric currently is in the midst of a pilot program approved by the Pennsylvania Commission that allows PPL Electric to monitor and control distributed energy resources (DER), which has proven to expedite implementation of DER by increasing hosting capacity and reducing costs to developers. The Division finds that Narragansett customers and Rhode Island as a whole stand to benefit from such PPL smart grid initiatives.

Next, although PPL does not have a program that is identical in process and scope to the Narragansett's existing ISR program, PPL has other programs, such as the Long-Term Infrastructure Improvement Program ("LTIIIP"), that reflect PPL's capabilities in conducting these evaluations and making vigorous proposals for infrastructure investment and enabling the grid for distributed energy resources. PPL's Distribution System Improvement Charge (DSIC) also parallels the Rhode Island funding equivalent. The Division agrees with PPL's witness, Mr. Bonenberger, in his assertion that although the ISR and LTIIIP/DSIC are not identical, they are sufficiently similar to prepare PPL for engaging in Narragansett's ISR process. The Division also finds sufficient evidence on the record to conclude that many of the Service Company employees transferring to PPL after the sale has closed have ISR Program experience that will ensure the continued effectiveness of the program.

On the issue of shared services, the Division agrees with PPL that it too will provide shared services to Narragansett that will benefit Narragansett's

customers. The Division does not accept that Narragansett will be transformed into a stand-alone utility that will lose all of its current synergies. The hybrid model being proposed for Narragansett, post-Transaction, retains many of the economies of scale that were present under the National Grid USA shared services model (e.g., financing and accounting, treasury, risk management, legal, security (including cyber security), IT, regulatory accounting and reporting, business services, transmission, etc.). The hybrid model also looks to have the potential to actually reduce costs for Narragansett's ratepayers. Importantly, the Division finds that PPL's plan to keep its customer service resources in Rhode Island, unlike National Grid USA's out-of-state approach, represents a superior arrangement for Narragansett's electric and gas customers. The Division has long supported a local focus on customer service for ratepayers and is pleased to see that PPL's operating model includes such an approach.

With respect to PPL's (LG&E's) gas operations, the record reflects that PPL has taken a proactive approach to enhancing pipeline safety. It appears that LG&E has worked diligently to replace all of its leak prone gas mains and is working to replace all of its steel gas service lines since it took over ownership of those lines in 2010. The evidence also shows that LG&E has endeavored to eliminate water intrusion on its pipelines, increased the operating pressures on its system, and introduced more main line valves on the system for greater flexibility in management. The record also shows that LG&E strives to maintain a strong safety culture in its gas distribution operations; it has developed a Distribution Pipeline Integrity Management Program; it also conducts routine

pipeline safety inspections and constantly monitors its gas operations via a centralized control room. These are programs befitting a highly professional gas utility.

The Division finds that transitioning Narragansett's gas operations from National Grid USA's shared services model to a Rhode Island-based hybrid model will not result in the calamity forecasted by the Advocacy Section. The Division finds that a Rhode Island-focused gas system model with synergies and support through shared services from PPL and its operations in Pennsylvania and Kentucky is not, on its face, a flawed or deficient model. In fact, the Division notes that when National Grid USA acquired the gas assets of Southern Union in 2006, Southern Union was at the time, providing local distribution service to approximately one million customers in Missouri, Pennsylvania, Rhode Island and Massachusetts - with approximately 245,000 in Rhode Island and only approximately 50,000 customers in Massachusetts.⁶⁹⁶

The Division finds sufficient assurances on the record that PPL's planned gas utility management team for Rhode Island has considerable experience in all aspects of gas operations, including LNG facilities operations. In addition to the management resources available to PPL that will be based in Rhode Island on Day 1, the Division is satisfied that the shared services resources from LG&E, particularly with gas procurement matters, as well as resources from third-party consultants (i.e., Brant Energy), will adequately fill in any knowledge and experience voids vis à vis the resources currently available through National Grid

⁶⁹⁶ Southern Union Case, Order No. 18676, pp. 12-13.

USA. The Division makes this finding knowing that the Service Company will be handling all gas procurements, gas dispatch and gas control operations during the 24-month transition period, which will permit PPL to work closely with the Service Company to build its experience to complement the substantial experience PPL personnel already possess. The Division is also satisfied with PPL's efforts to engage former Service Company personnel to provide consulting support for financial hedging programs and PPL's plans to hire personnel with significant and particularized experience in New England, including financial hedging.

The Division also finds the Advocacy Section's concerns about storm response under PPL to be baseless. The Division agrees with PPL in its observations that storms that impact Rhode Island also typically impact Massachusetts and New York as well; clearly, Pennsylvania and Kentucky are less likely to be significantly impacted by the same storm that impacts Rhode Island.⁶⁹⁷ Moreover, there is nothing to prevent PPL and National Grid USA from having a mutual aid agreement in place that mirrors the existing mutual aid benefits that exist currently between the three National Grid USA state jurisdictions.

The Division also finds the Advocacy Section's contention that Narragansett will lose access to 5,100 Service Company employees if the sale is approved is exaggerated. The Division agrees with PPL's assertion that few, if any, of those 5100 employees are devoted full time to providing service to Narragansett. There is no evidence to suggest that PPL's model will not provide all the necessary time

⁶⁹⁷ An observation supported by Messrs. Ewen and Knecht. See direct testimony, pp. 32-33.

and attention to Narragansett customers, a model where many of the individuals who provide services to Narragansett under PPL ownership will be 100% dedicated to Narragansett.

The Advocacy Section and the Attorney General question PPL's ability to complete the transition with 24 months. For some functions under the TSA, the Advocacy Section suggests that the transition could take many more years to complete. The insinuation is that PPL lacks the capability and aptitude to operate Narragansett on its own and that inevitable delays will adversely impact ratepayers. The Division finds that the record does not support such a conclusion. First, transition periods are common in utility acquisition cases - the record contains many examples. Second, both PPL and National Grid USA are highly sophisticated utilities that have considerable experience with successful transitions. Next, the Division finds that the TSA provides a very detailed plan for transitioning the complicated and multi-faceted operations from National Grid to PPL; this transition plan was made easier as a result of the significant TMO and IMO personnel resources that each company has committed to designing and effectuating a safe and successful transition. Additionally, more than 1,000 Narragansett and Service Company employees will be shifting their employment to PPL; these personnel have direct knowledge and close experience with Narragansett's operations. Further, as insurance to allay any remaining concerns, National Grid USA and PPL have agreed to extend the TSA, on a function-by-function and service-by-service basis, if an extension becomes necessary after 24 months.

Relatedly, the issue of transition costs has materialized into another reason for the Advocacy Section and the Attorney General to oppose the proposed Transaction. They argue that the risk to ratepayers is too great and that but for the proposed sale this risk would not exist. Here again, the Division finds the perceived risk to ratepayers to be exaggerated. PPL has committed to cap the amount of transition costs it will seek in future rates at \$82 million. Under PPL's commitment, recovery is only possible if it can demonstrate that those costs deliver incremental benefits that are quantifiable, verifiable, and demonstrable. Notably, this definition of and process for recovering benefits to customers resulting from transition costs was recommended by the Advocacy Section and the Attorney General. Further, any such filing by PPL will be subject to the scrutiny of both the Commission and Division (and likely Interveners) and can only go into effect if the Commission approves the recovery. For the Commission to approve the request for recovery, it would have to find that the ratepayers have in fact received a quantifiable, verifiable, and demonstrable benefit from the costs incurred; in short, that the proposed rate change is just and reasonable. This is a common and appropriate ratemaking process, supported by both statutory law and abundant case law, and does not signify a special harm to ratepayers. The same PPL commitment and regulatory approach would also apply in ISR proceedings. Fundamentally, whether the \$82 million or any portion of that amount belongs in rates is a ratemaking matter that properly belongs before the Commission.

In conclusion, the Division finds ample evidence on the record to conclude that PPL has the requisite experience and ability to ensure that no degradation of utility services will occur after the Transaction closes. The fact that PPL will not operate Narragansett like National Grid USA has done is not a determinative factor in determining whether customers will experience diminished services after the sale. Indeed, utilities must be given meaningful latitude to operate their businesses as they see fit. The Courts have recognized that it is improper for regulators to dictate managerial policy and/or interfere in business decisions that are reserved to management.⁶⁹⁸ The relevant inquiry is whether PPL has the necessary utility experience, management team and financial strength to successfully operate Narragansett. After a thorough examination of the record, the Division must conclude that PPL has satisfied that test.

c. Regulatory accounting concerns that could impact future rates

a. Advocacy Section and Attorney General Positions

The Advocacy Section and Attorney General raised a number of concerns regarding what they perceived as future risks to ratepayers linked to various regulatory accounting issues connected to the proposed Transaction. A summary of these concerns are reflected below:

- *There are several areas of financial policy and practices that require greater clarity and certainty from PPL. This includes ring-fencing measures, sources of*

⁶⁹⁸ Blackstone Valley Electric, 543 A.2d 253 (1988); United Transit v. Nunes, 99 R.I. 513, 209 A.2d. 222 (1965); Providence Water Supply Board v. PUC, 708 A.2d 537 (1998); Providence Gas Company v. Malachowski, 600 A.2d 711 (1991).

*liquidity and short-term debt, capital structure policy and long-term debt issuance practices;*⁶⁹⁹

- PPL and Narragansett must commit to using best efforts to target a common equity ratio of at least 48 percent, as calculated on a regulatory basis (e.g., excluding goodwill from equity and including short-term debt), for a period of at least five years post-closing on the Transaction.⁷⁰⁰ The Division should establish as a condition for approving the sale that PPL not allow the debt share of capital for either PPLRI or NEC to exceed 50 percent of capital excluding goodwill, without regulatory approval;⁷⁰¹
- PPL asserts that it is standard practice for utilities to exclude goodwill from the ratemaking capital structure and that post-closing PPL expects Narragansett to continue with this practice - but PPL is unwilling to commit to doing so.⁷⁰²
- PPL's position on the treatment of \$1 billion in acquisition premium should "*be formalized as enforceable commitments;*"⁷⁰³
- PPL has represented that, post-Transaction, that the utility property on Narragansett's books of accounts will continue to be stated at its original cost when devoted to public utility service. PPL's representations should "*be formalized as enforceable commitments;*"⁷⁰⁴

⁶⁹⁹ Kahal direct testimony, pp. 10-11; Messrs. Ewen and Knecht direct testimony, pp. 11-12.

⁷⁰⁰ Id., pp. 12-13.

⁷⁰¹ Messrs. Ewen and Knecht direct testimony, pp. 10-11.

⁷⁰² Kahal surrebuttal testimony, pp. 3-5.

⁷⁰³ Effron direct testimony, p. 6.

⁷⁰⁴ Id., pp. 6-7.

- There should be no future adjustments to restate the balance sheet assets and/or liabilities for pensions and PBOP;⁷⁰⁵
- PPL has agreed that ratepayers should be held harmless from the elimination/reduction to the balance of ADIT but has not identified the mechanism that will be implemented to hold customer impacts neutral from the increase in Narragansett's rate base;⁷⁰⁶
- Petition lacks a financial forecast and rate impact analysis;⁷⁰⁷
- While PPL's Operating Cost Analysis "*indicates slightly lower, post-transition costs when compared to Narragansett operational cost, PPL in no way commits to the success of the organizational structure at the forecasted cost level;*"⁷⁰⁸
- The "*premise of its [PPL] entire analysis and assumption that it can operate Narragansett at a lower cost than National Grid is flawed and lacks credibility.*"⁷⁰⁹
- The Division will have more regulatory work in the future if the Transaction is approved because it "*will be required to monitor many undetermined programs, activities and efforts implemented by PPL in order to determine if PPL is actually meeting its proposals and assurances of accomplishing the necessary changes, additions, programs and processes to achieve its purported requirement to achieve the public interest in the acquisition.*"⁷¹⁰

⁷⁰⁵ Id., pp. 8-9.

⁷⁰⁶ Id., pp. 14-15; Messrs. Ewen and Knecht, pp. 10-11.

⁷⁰⁷ Booth direct testimony, p. 8; Messrs. Ewen and Knecht, pp. 10-11.

⁷⁰⁸ Id., pp. 19-21.

⁷⁰⁹ Id., pp. 45-47.

⁷¹⁰ Id., pp. 53-55.

- Since PPL has not completed a full business plan and budget for Narragansett's operation after the transition period, any assessment of Narragansett's post-transition costs is purely speculative;⁷¹¹
- *"Petitioners have not provided sufficient financial data to offer any confidence regarding the likely impact of the sale on customer rates;"*⁷¹²
- *"PPL has indicated that it may seek to recover at least a portion of... [its] transition costs from customers;"*⁷¹³
- PPL's cost analysis does not directly address many of the specific functions that National Grid will be providing through the TSA;⁷¹⁴
- PPL has not proposed a mitigation plan to protect customer rates during the transition period, nor has it made commitments to protect ratepayers from transition costs that might negatively impact Narragansett's revenue requirement;⁷¹⁵
- PPL's Operating Cost Analysis is only an estimate of its costs to operate Narragansett after the transition period ends;⁷¹⁶
- PPL's *"steady state costs are only likely to occur after the transition period is completed. No information is provided on the level of costs expected before that time, which is likely to extend at least two years after the Transaction close, and perhaps longer;"*⁷¹⁷

⁷¹¹ Oliver surrebuttal testimony, pp. 37-38.

⁷¹² Ballaban direct testimony, pp. 4-5.

⁷¹³ Id.

⁷¹⁴ Messrs. Ewen and Knecht, pp. 29-30.

⁷¹⁵ Ballaban direct testimony, pp. 6-7.

⁷¹⁶ Id., pp. 12-13.

⁷¹⁷ Id., p.

- *"PPL failed to address any impacts on the rate base during either the transition period or following entrance into the "steady state" period. Also, the study only includes selected costs and does not address what happens to other non-recurring O&M necessary to establish PPL RI as a separate company from National Grid or to continue operating Narragansett Electric on a going forward basis;"*⁷¹⁸
- PPL's Operating Cost Analysis does not provide a sound basis from which to draw any definitive conclusions about the Transaction's impacts on customer rates;⁷¹⁹
- Even though the Commission and the Division will have an opportunity to review the entirety of Narragansett's customer revenue requirements at the time of PPL's first base rate case, *"there is no ability to predict reliably either what evidence will come before the PUC, or how transition charges will ultimately impact customer rates."*⁷²⁰
- The Division should consider the following requirements for PPL as a condition of approval:
 1. *Implement a distribution base rate freeze... for at least 4 years from the date of the Transaction closing.*
 2. *Establish transition cost accounting, reporting, and monitoring procedures during the distribution base rate freeze period.*
 3. *File robust evidence regarding key accounting policies that form the building blocks for development of rate making revenue requirements well in advance of its first distribution base rate case before the PUC and Division;*⁷²¹

⁷¹⁸ Id., pp. 14-16.

⁷¹⁹ Id., p. 16.

⁷²⁰ Id., pp. 29-30.

⁷²¹ Id., pp. 30-39.

- *“The Division should not approve the transaction unless PPL commits to at least a three-year base rate stay out, by which time PPL should have a much better understanding of its costs to operate NEC;”*⁷²²
- *“PPL cannot assume full responsibility for Narragansett’s gas operations in Rhode Island absent the development of new Rhode Island-based facilities. Yet, the costs for establishing those new facilities appears to extend well beyond the proposed two-year transition period;”*⁷²³
- *“If the Transaction is approved, then Rhode Island ratepayers will need to be protected from redundant costs incurred during the period in which PPL personnel are introduced to, and attempt to gain knowledge of, key elements of Narragansett’s gas system operations and planning;”*⁷²⁴
- PPL states that it will not seek recovery through rates of items that it classifies as Transaction costs, but it *“reserves the right to seek recovery in future rate proceedings of costs associated with the transition to PPL control of Narragansett’s operations;”*⁷²⁵
- Costs should not be recoverable from ratepayers unless PPL *“demonstrates benefits that have a value to those customers in excess of the costs for which recovery through rates is requested;”*⁷²⁶
- It is improbable that PPL will be able to recreate assets or systems that exist under National Grid USA ownership on a "pure like-for-like" basis - this provides

⁷²² Messrs. Ewen and Knecht, pp. 10-11.

⁷²³ Oliver direct testimony, pp. 8-10.

⁷²⁴ Id.

⁷²⁵ Id., pp. 22-23.

⁷²⁶ Id., pp. 27-29.

PPL ample opportunity to argue that their transition investments would be fully recoverable;⁷²⁷

- *“PPL offers no indication of what incremental benefits the new facilities and IT systems will provide, no guideposts on how this 'incremental benefit' standard should be applied, and no examples of how incremental benefits might be measured in any particular instance;*⁷²⁸

- An after-the-fact review of costs by the Commission is inadequate because the regulatory standard that normally applies in rate cases will be difficult to adapt to transition costs;⁷²⁹

- PPL *"should commit to not recovering any transition costs in rates unless it can demonstrate that the investments produce verifiable, quantifiable savings that are equal to or in excess of the transition costs;"*⁷³⁰

- The Commission and the Division should have the opportunity to verify any rate eligible transition costs in advance of such expenses being incurred to examine in detail PPL's business case and cost benefit analysis to justify such investments;⁷³¹ Mr. Ballaban also added that any 'pre-approval' by the Commission that the Company can proceed with an investment would not be tantamount to approval to include whatever costs are incurred in rates;⁷³²

- That of PPL's total transition cost estimate, \$315 million or 77% is associated with the implementation of new IT systems - PPL provides no information

⁷²⁷ Booth surrebuttal testimony, pp. 12-15.

⁷²⁸ Ballaban surrebuttal testimony, p. 4.

⁷²⁹ Id., p. 5.

⁷³⁰ Id., p. 6.

⁷³¹ Id., pp. 7-8.

⁷³² Id.

regarding the estimated portion of those costs that it anticipates will be incurred to provide incremental benefits to Narragansett customers and the portion that represents costs for replacing or modifying existing systems without enhancements;⁷³³

- That only an aggregate cost estimate is provided for a new Customer Service Center, Training Center, Distribution Control Center for which PPL expects to incur transition costs. No estimates are provided of either the value of expected incremental benefits from those facilities or the costs of obtaining such incremental benefits;⁷³⁴

2. Findings

Before addressing the remaining issues, the Division believes it would be useful to highlight some of the positive conclusions offered by the Advocacy Section and Attorney General's witnesses regarding the proposed Transaction:

- *"PPL has the financial capability and qualifications to acquire Narragansett, including access to capital." (Kahal direct, p. 10-11).*
- *PPL's investment in NEC will substantially exceed the asset base on which it will be permitted to earn a return."* However, the witnesses related that this fact is *"unsurprising, as purchase prices for utility companies typically show a significant market price premium."* They also opined that *"this market premium should not have a significant negative impact on ratepayers, unless the market premium is financed by increasing the long-term debt, thereby increasing the overall riskiness of the enterprise."* The witnesses noted,

⁷³³ Oliver surrebuttal testimony, pp. 32-33.

⁷³⁴ Id., p. 33.

however, that “PPL indicates that it does not intend to use debt financing for the acquisition.” (AG witnesses, direct, p. 12-14.).

- The Attorney General's witnesses testified: “[o]verall, PPL is a much larger firm than NEC, with total book assets of \$36.8 billion compared to NEC’s book assets of 5.6 billion. We conclude that, if NEC is reasonably financed, PPL has the financial credibility to be able to raise funds in the capital markets to meet NEC’s investment requirements.” (AG witnesses, direct, p. 14-15.).
- Noting that PPL is using equity capital from the WPD sale to purchase the current equity of NEC plus the goodwill from the price premium - and because PPL intends to maintain a debt to capital ratio that is similar to the approved regulatory structure with goodwill excluded, Messrs. Ewen and Knecht opined that “there is no obvious reason to believe at this time that there will be any increase in the financial leverage for NEC (or PPLRI, with the goodwill asset) as a result of the transaction.” (AG witnesses, direct, p. 15.).
- First recognizing that high market to book price premiums is the norm for utility purchases, the witnesses stated that “it does not appear that the purchase price for NEC is out of line....” (AG witnesses, direct, p. 18-19.).
- Messrs. Ewen and Knecht related that they found that “the PPL share price does not indicate any particular negative effect associated with the announcement... [and that] the market reaction to the proposed transactions was at least neutral and generally favorable for PPL.” (Id.)
- Messrs. Ewen and Knecht opined that because the goodwill will be recorded on PPLRI’s books, and because the goodwill will not be recorded in rate

base, there will not be significant tax implications for NEC ratepayers. (Id., p. 27).

As an initial finding, the Division recognizes that the Stipulation executed between the Petitioners and the Advocacy Section resolved all of the regulatory accounting issues and concerns previously raised by Advocacy Section witnesses, Mathew Kahal and David Effron, *supra*. The Stipulation was reached after the Petitioners filed a list of seventeen (17) commitments on December 11 and 12, 2021, that were submitted in response to multiple concerns raised by the parties in their direct and surrebuttal cases. The Kahal issues related to: (a) ring-fencing measures, (b) common equity ration protections, (c) treatment of goodwill, (d) liquidity and short-term debt financing plans, and (e) long-term debt financing plans. The Effron issues related to: (a) rate protections for acquisition premium and transactions costs, (b) accounting treatment of the valuation of Narragansett's assets, including treatment of goodwill and fair value purchase accounting adjustments, (c) revenue requirement treatment of the restatement of pension and post-retirement benefits other than pensions (PBOP) plan assets and liabilities to fair value after Transaction, and (d) plans to hold customers harmless from any changes to Accumulated Deferred Income Taxes (ADIT) as a result of the Transaction. To the extent that the Attorney General's witnesses offered similar concerns with some of these issues, it appears that the Attorney General's concerns have been similarly allayed through the Petitioners' filed commitments.

Beyond the issues and concerns discussed above, a number of concerns were raised by the Advocacy Section and Attorney General witnesses that,

generally speaking, are connected to preparation for PPL's first base distribution rate filing. Chief among these concerns is the matter of predicting PPL's ultimate costs for operating Narragansett. The Advocacy Section was critical of PPL for not including a financial forecast and rate impact analysis with its Petition filing. When it subsequently proffered an Operating Cost Analysis, through a discovery response, the Advocacy Section remained critical by arguing that the analysis was speculative and incomplete. Which brings the Division to the issue of whether the Petition is fatally flawed because it lacked a detailed financial forecast and rate impact analysis.

The Division finds that requiring PPL to accurately forecast its costs for operating Narragansett is an unreasonable expectation in view of the considerable dynamics attached to the proposed sale. There are so many moving parts associated with the transition period, personnel issues, knowledge transfer, and new facilities development, it is not surprising that PPL was unable to satisfy the Advocacy Section's demand for substantial detail and accuracy. The Division, however, is not troubled by this weakness in PPL's case. The Division finds that there are sufficient safeguards in place to minimize the rate implications from this uncertainty, specifically:

1. PPL has committed to absorb at least 80 percent of all of the transition costs coupled with the sale and will only seek recovery of the balance if it can demonstrate that those costs deliver incremental benefits that are quantifiable, verifiable, and demonstrable - as determined by the Commission.

2. PPL has committed that 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 the Transaction closes.
3. PPL further agrees to establish Transition Cost accounting, reporting and monitoring procedures to apply during the distribution base rate stay-out period described above.
4. PPL agrees that, at least 12 months before Narragansett files its next distribution base rate case, PPL will provide to the Division key accounting policies that address the procedures that establish how costs are developed, booked and reported in customer revenue requirements, including but not limited to its capitalization policy describing its policies regarding capitalizing expenditures for all plant, property and equipment used for regulatory reporting purposes, and allocation of affiliate costs to Narragansett.
5. PPL commits that Narragansett will not seek to recover in rates any markup charged by National Grid and/or its affiliates in the provisioning of services under the TSA. This commitment applies to the original term of the TSA and any extensions.

The Division also notes that when National Grid purchased the assets of Southern Union in 2006, National Grid's petition similarly lacked definitive cost projections. In that case, like in this case, Mr. Oliver was the Advocacy Section's expert witness. In his direct testimony in the Southern Union Case, Mr. Oliver

found that "...the costs and benefits associated with the proposed transaction are not well developed at this point...."⁷³⁵ Mr. Oliver acknowledged that such cost details would not be available until after National Grid filed its related post-transaction rate plan.⁷³⁶

With respect to the distribution base rate stay-out period described above, the Division notes that the Advocacy Section and Attorney General's witnesses originally offered different recommendations. Messrs. Ewen and Knecht had taken the position that the Division "*should not approve the transaction unless PPL commits to at least a three-year base rate stay out, by which time PPL should have a much better understanding of its costs to operate NEC.*"⁷³⁷ In fact, the commitment from PPL was offered in response to Messrs. Ewen and Knecht's recommendation. However, the Advocacy Section's witness, Mr. Ballaban, argues for a stay-out period of four years.⁷³⁸ The Attorney General now agrees with the Advocacy Section's position. The basis for requesting the four-year stay out relates to lingering concerns that the Petitioners will not be able to complete the transition within 24 months.

PPL objects to a four-year stay out period for several reasons. First, PPL argues that further extending the stay out period would "*unreasonably and potentially harmfully preclude PPL from filing a base distribution rate case in three years.*"⁷³⁹ PPL is confident that it and National Grid USA can complete the

⁷³⁵ Southern Union Case, Order No. 18676, pp. 17-18.

⁷³⁶ Id., pp. 17-24.

⁷³⁷ Messrs. Ewen and Knecht, pp. 10-11.

⁷³⁸ Id., pp. 30-39.

⁷³⁹ PPL Reply Brief, p. 24.

transition period in 24 months. PPL also argues that if the transition extends beyond 24 months for some functions, test year adjustments would be used to normalize the costs for ratemaking purposes. PPL argues that such normalization and pro forma adjustments are common in rate cases.⁷⁴⁰ PPL also emphasizes that all test year adjustments will be subject to regulatory review and approval by the Commission. Finally, PPL queries whether a four-year stay out period is truly beneficial to ratepayers in view of the fact that Narragansett's last base distribution rate case concluded in August of 2018.⁷⁴¹

The Division has considered the arguments and position of the parties on this issue and finds that a three-year stay period is reasonable. The Advocacy Section has argued that the Petitioners will not be able to complete the transition within 24 months; for some activities, the Advocacy Section has suggested that the transition could literally take "*decades*."⁷⁴² The Division does not accept this extreme position. Inasmuch as it behooves the Petitioners to complete the transition as quickly as possible, and due to PPL's strong financial position, the Division finds insufficient justification to simply assume that the transition will more likely take 36 months to complete. The record shows that PPL has committed much financial capital and significant human resources to successfully completing the transition in 24 months. If there are any lingering transition activities remaining after 24 months, an adequate regulatory adjustment mechanism exists to tie up any loose ends.

⁷⁴⁰ Id.

⁷⁴¹ Id.

⁷⁴² Booth Direct Testimony, pp. 23-24.

The Advocacy Section had recommended that the Division compel PPL to establish transition cost accounting, reporting, and monitoring procedures during the distribution base rate freeze period, and also require PPL to file robust evidence regarding key accounting policies that form the building blocks for development of rate making revenue requirements well in advance of its first distribution base rate case before the PUC and Division. The Division finds that PPL's commitments related to these matters sufficiently addresses the Advocacy Section's concerns.

The Advocacy Section has urged the Division to require PPL to afford the Commission and the Division with the opportunity to verify any rate eligible transition costs in advance of such expenses being incurred to examine in detail PPL's business case and cost benefit analysis to justify such investments. The Division finds this recommendation unreasonable in that there is no legal or regulatory precedent for such a pre-rate case rate review. Demand for such 'pre-approval' by the Division would also violate the Commission's exclusive authority over rate matters. Moreover, as the Advocacy Section proposed 'pre-approval' by the Commission would not be tantamount to approval to include whatever costs are incurred in rates, the Division must question the value of such a time-consuming duplicative regulatory process.

The remaining issues of concern are all related to the potential rate impacts from transition costs and shared services synergies. As the Division has previously addressed these concerns elsewhere in this decision, the Division finds no further discussion is required.

d. PPL acceptance of Rhode Island's Aggressive Decarbonization Goals

1. Attorney General and Green Energy's Positions

In their direct cases, the Attorney General and Green Energy offered several observations and recommendations on the question of whether PPL will enthusiastically accept Rhode Island's aggressive decarbonization goals. A summary follows:

- The Division should require that PPL limit its capital expenditures for the natural gas distribution system to those projects that are already underway or are necessary for public safety. The Division should require PPL to prepare an evaluation of the long-term viability of the natural gas distribution system in the context of Rhode Island's 2021 Act on Climate, within 12 months of the closing date of the sale.⁷⁴³
- Does PPL have the requisite experience and record of success to comply with Rhode Island's renewable energy standard (RES) and renewable energy long-term contracting requirements;⁷⁴⁴
- The Division should require PPL to prepare an evaluation relating to standardizing policies for the incorporation of distributed energy resources to the electric distribution grid, along the lines of the analysis prepared in Pennsylvania, within 36 months of the closing date for the sale;⁷⁴⁵
- It is unclear how much corporate effort PPL can focus on meeting the aggressive goals set out in the Act on Climate legislation; PPL "*appears to be*

⁷⁴³ Messrs. Ewen and Knecht, pp. 10-11.

⁷⁴⁴ Salem direct testimony, pp. 11-12. Green Energy Brief, pp., 9-10.

⁷⁴⁵ Id.

operating on the expectation that NEC's natural gas load will continue to grow, and that substantial investments in the gas distribution business are needed ⁷⁴⁶

- The Division should require PPL to limit its capital spending for gas mains to that needed for public safety, and to complete projects already underway. Additionally, where possible, PPL should focus on repairing existing mains rather than replacing them. The Division should require PPL to prepare, within 12 months of the closing, *“a detailed evaluation of the economic efficacy of (a) any future efforts to expand the natural gas distribution grid, (b) its repair versus replace policies for the existing system, and (c) the potential to substitute abandonment/electrification for mains replacement.”*⁷⁴⁷

- PPL should commit to undertaking a Pennsylvania-like DER effort in Rhode Island once the Pennsylvania pilot is fully implemented and the implications have been reviewed. A three-year time horizon for this evaluation would be reasonable;⁷⁴⁸

- The provisions of Rhode Island's Act on Climate require the Division *“to consider climate impacts and to further the purposes of the Act in the exercise of its authority;”*⁷⁴⁹ *“I am not confident that the proposed transaction will either maintain or improve Rhode Island's ability to meet its obligations under the Act on Climate;”*⁷⁵⁰

⁷⁴⁶ Id., p. 22.

⁷⁴⁷ Id., p. 25.

⁷⁴⁸ Id., p. 26.

⁷⁴⁹ Salem direct testimony, pp. 3-4.

⁷⁵⁰ Id., pp. 5-6. Green Energy Brief, pp. 11-12.

- The Division should not wait for the Executive Climate Change Coordinating Council to complete its plan before exercising its authority and obligations under the Act. The “*public interest in addressing climate change cannot be ignored;*”⁷⁵¹
- “*Allowing a once in a generation utility transaction to be reviewed without considering this recently enacted legislation would be not only a disservice to the people of Rhode Island but would also be undermining the intent and will of our General Assembly;*”⁷⁵²
- National Grid plays a critical role in Least Cost Procurement, the Renewable Energy Standard, renewable energy long-term contracting, municipal aggregation, interconnections for net metering, and the Renewable Energy Growth program. National Grid is also a stakeholder in Power Sector Transformation as encapsulated in Commission dockets 4770 and 4780. “*For this sale to be in the public interest, the incoming company must be found to be able to administer these programs as well or better than National Grid currently does;*”⁷⁵³

2. CLF's Position

CLF argues that the Division has the authority to tailor the order approving a transaction as the circumstances require. CLF contends that for the proposed transaction to be consistent with the public interest, the Division must ensure that the transition of ownership “*does not negatively impact Rhode Island's GHG emissions or its ability to reduce its GHG emissions in compliance with the reduction*

⁷⁵¹ Id., p. 7.

⁷⁵² Id., p. 8.

⁷⁵³ Id., pp. 8-10.

mandates of the Act on Climate."⁷⁵⁴ CLF recommends that the Division approve this transaction only with the following conditions:

1. PPL shall agree to, within twelve months of the transaction closing, develop and file with the Division and the... Commission a detailed report outlining Narragansett's plan and vision for its role in facilitating, through its gas and electric divisions, the state's achievement of the mandatory emissions reductions contained in the Act on Climate. This report shall specifically identify how Narragansett will maintain and build upon the existing programs that contribute to emissions reductions and which have been successfully operated and managed by National Grid. It shall also include Narragansett's plan for achieving 100% renewable generated electricity supply by 2030. The Division shall oversee the process by which the scope and parameters of the report are developed, and shall ensure meaningful opportunities for public comment and input from a broad group of stakeholders. Similarly, in the development of the report, PPL shall hold periodic workshops in which updates and drafts of the report are shared with stakeholders and opportunities for public comment and input from a broad group of stakeholders are provided. In this process, PPL shall make particular efforts to facilitate involvement from those communities most burdened by energy infrastructure and impacted by energy policies, as well as environmental justice community members.

2. PPL shall agree to file, within twelve months of the transaction closing, jointly with the Division, a petition with the Commission requesting that it open a Future of Gas Docket. The outcome sought by the petition shall include an investigation and determination of the future role of Narragansett and its gas distribution system as the state seeks to achieve compliance with the Act on Climate's mandated emissions reductions and transitions to a clean and increasingly electrified heating sector. The petition will ask the Commission to investigate the prevailing concerns and relevant issues facing Narragansett and gas consumers as a result of this transition, and to develop policies and a regulatory framework to ensure an orderly and fair transition to a clean, Act on Climate-compliant heating sector, to ensure continued safe and reliable gas service even as demand declines, and to ensure that consumers do not pay

⁷⁵⁴ CLF Brief, p. 4.

unnecessary costs. The petition should also include a request for investigation of potential impacts upon consumers bearing heavy energy burdens, communities most burdened by energy infrastructure and impacted by energy policies, and environmental justice communities, and a plan for providing them with low-cost, clean energy; and a plan for retraining and transitioning the gas service workforce. Further details of the scope and purpose of the petition and the Commission proceeding initiated within six months of the transaction closing and run by the Division, guided by a consultant chosen by the Division and paid for by PPL, with input from the Office of Energy Resources. The petition development and scoping proceeding shall be transparent and involve frequent public comment opportunities designed to solicit input from a broad swath of stakeholders and community members from around the state. The proceeding sought by the petition shall be modeled on the substance of the Massachusetts Future of Gas Investigation, Mass. DPU. Case No. 20-80, include regular public comment opportunities at the various stages of the process, and designed to include regular reports to the EC4 and requests for its input. PPL shall agree that it will pay for consulting costs incurred, if any, by the Commission in any proceeding on the petition, up to a total of \$500,000.

3. PPL shall agree to, within twelve months of the transaction closing, file an updated Grid Modernization Plan and an updated Advanced Meter Functionality Business Case with the Commission. Both should be at least comparable to those previously filed by National Grid and should include an explanation of how PPL will keep the net benefits of these proposals roughly equivalent to, if not greater, than those provided in the pending National Grid proposals.

4. PPL shall agree to pay for independent consulting costs, totaling up to \$1 million, incurred by the state related to any modeling, analyses or studies, including but not limited to a comprehensive Deep Decarbonization Pathways analysis, associated with the state's efforts to design policies and identify pathways toward compliance with the Act on Climate, and development of a revised plan and any associated policies.

5. PPL shall agree to consider the Act on Climate's mandated emissions reductions and the risks of stranded assets and stranded costs when seeking recovery of the costs of new gas infrastructure and gas capacity and supply contracts. PPL

*shall not seek to amortize or depreciate such costs over time periods that are inconsistent with the reasonably expected useful life of such infrastructure, gas capacity, or supply in light of the requirements of the Act on Climate.*⁷⁵⁵

3. Acadia Center's Position

The Acadia Center argues that as a condition of any Division transaction approval, PPL must be required to adopt National Grid's Net Zero by 2050 corporate strategy as a starting point for its own plans for Narragansett. The Acadia Center also urges the Division to require PPL to, within six months, develop and submit any planned enhancements for Narragansett that go beyond National Grid's strategy and will help achieve Rhode Island's pathway to Net Zero by 2050.⁷⁵⁶

The Acadia Center also argues that the Division must compel Narragansett to halt new gas service connections not already in the queue, until such time that PPL's plans regarding the future of the gas distribution network are shared and approved by regulators. The Acadia Center contends that this action will protect ratepayers against approvals of unwarranted, long-lived gas infrastructure investments that are likely to contradict state efforts to reduce carbon dioxide and methane emissions in compliance with the Act on Climate.⁷⁵⁷

The Acadia Center further argues that the Division condition the sale on the following requirements: (1) a requirement that Narragansett submit a FY2023 energy efficiency plan budget equal to a minimum of 110 percent of the FY 2022

⁷⁵⁵ Id., pp. 4-7.

⁷⁵⁶ Acadia Center Brief, pp., 6-7.

⁷⁵⁷ Id., p. 11.

energy efficiency budget filed in PUC Docket 5189;⁷⁵⁸ (2) that PPL follow National Grid's leak protocol;⁷⁵⁹ and (3) that PPL submit Narragansett's updated GMP and AMF Business Case to the Division with six months, rather than the twelve months planned in the Petitioners' Commitment Number 13, and that filings project Benefit-Cost Ratios equal to or greater than those projected by National Grid on its multi-jurisdictional deployment basis in Dockets 5113 and 5114 and that any potential loss of benefits borne by Rhode Island ratepayers due to the change in plan filings be borne entirely by PPL's shareholders.⁷⁶⁰

4. PPL's Position

PPL cites the following language from the Division's Intervention Order in this docket in support of its argument that the Environmental Intervenors have exceeded the scope of their restricted participation in this docket:

These groups have indicated in their papers that they seek assurances from PPL, that if PPL's petition is approved, that there will be no deterioration in any of the existing programs or commitments related to the promotion of clean, renewable, and efficient energy production and heating. Accordingly, the Division shall restrict the participation of these parties to seeking only such assurances. PPL put it concisely in its argument in favor of a limited intervention, namely, that the "scope does not include attempting to reshape the State's renewable energy policies or seeking commitments to advocate for changes or new policies – matters that lie within the Commission's jurisdiction or are addressed through the legislative process." The Division supports this limiting language. The Division also wishes to emphasize that such assurances must be limited to currently existing programs and commitments from National Grid/Narragansett; such participation in this docket shall not be used to seek any expansion of such programs and/or commitments not

⁷⁵⁸ Id., pp. 12-13.

⁷⁵⁹ Id., pp 15-16.

⁷⁶⁰ Id., p. 18.

*otherwise specifically required by law or order of the Commission.*⁷⁶¹

PPL argues that the conditions the Environmental Intervenors seek to impose on PPL as conditions of approval exceed the limited scope of their approved interventions. PPL also rejects their argument that the Division should impose their desired conditions predicated on mandates contained in the Act on Climate.

PPL argues that although the Act on Climate does empower the Division to consider it when exercising its authority, *"it does not provide carte blanche to impose new requirements and conditions where none previously existed."* PPL maintains that *"the Act on Climate currently imposes no specific requirements on utilities."* Rather, *"there are ongoing processes that are working to establish the plans for the State to comply with the Act on Climate."*⁷⁶² PPL takes the position that *"the planning process takes an economy-wide view and will develop approaches that consider how the steps the State will take to comply with the Act on Climate will interact with one another to avoid unintended adverse consequences."*⁷⁶³

PPL represents that Narragansett is participating in those processes, and it will continue to do so under PPL ownership. PPL states that it looks forward to continuing the collaborative efforts to develop the right solutions and it stands ready to comply with any requirements that might be imposed on it. PPL argues that *"to establish any new policies or standards through this proceeding would in*

⁷⁶¹ PPL Reply Brief, p. 31, citing from Order No. 24109, pp. 73-74.

⁷⁶² PPL Reply Brief, p. 32.

⁷⁶³ Id.

*fact usurp the authority of the other bodies taking on this work and would freeze out participation of interested stakeholders who did not take part in this proceeding."*⁷⁶⁴

e. Findings

As an initial observation, the Division sees much relevance in the thoughts expressed by the Attorney General's witnesses on the issue of environmental impacts. Messrs. Ewen and Knecht "*acknowledge that many of the environmental issues facing electric and natural gas distribution companies are substantially addressed through legislation and regulation, and that NEC's obligations are no different under either... [National Grid] or PPL ownership.*" They also acknowledge that PPL has indicated that it will abide by all the laws and regulations.⁷⁶⁵ Messrs. Ewen and Knecht also opined that the Climate Act has implications for Narragansett regardless of whether it is owned by National Grid or PPL. Either would "*need to react immediately to the changed legislative environment and make efforts to prepare for potential changes.*"⁷⁶⁶

The Attorney General, CLF, Green Energy and the Acadia Center all raise "*public interest*" concerns with respect to PPL's willingness to acquiesce to the State's aggressive decarbonization goals. However, the Division finds that each of their demands would rise to the level of imposing a net benefit standard on PPL. None of their recommended conditions for approval are required under existing statutory law; they seek to impose conditions on the sale that not even National Grid is required to follow at this time. PPL has made it clear that it will

⁷⁶⁴ Id.

⁷⁶⁵ Messrs. Ewen and Knecht, Direct Testimony, pp. 20-21.

⁷⁶⁶ Id., pp. 21-22.

enthusiastically abide by all regulatory requirements designed to advance the State's environmental goals. These requirements will be imposed by the Commission, with Division participation.

In the meantime, PPL has committed to step into National Grid's shoes with respect to all existing programs and initiatives, including its energy efficiency programs and renewable energy procurement processes. PPL has also made several long-term commitments in support of its efforts to comply with the Act on Climate and to demonstrate its pursuit of a robust renewable energy agenda. Those commitments are noted below:

Commitment regarding decarbonization goals: PPL will submit a report to the Division within twelve (12) months of the Transaction closing on its specific decarbonization goals for Narragansett to support the goals of the Rhode Island's 2021 Act on Climate and the long-term strategy for the gas distribution system in light of the Act on Climate.

Commitment regarding Distributed Energy Resources Management: PPL will submit a report to the Division within thirty-six (36) months of the Transaction closing on its plans to implement its Pennsylvania Distributed Energy Resources Management System (DERMS) in Rhode Island.

Commitment regarding Grid Modernization and AMF: Narragansett will submit an updated proposed Grid Modernization Plan and AMF Business Case to the Division and PUC within twelve (12) months of the Transaction closing.

PPL has stated that it is taking the steps necessary to understanding the complex and interrelated issues that factor into the future of gas distribution operations as Rhode Island works to achieve net zero carbon emissions by 2050, while also meeting the energy needs of its citizens and businesses. The Division finds this approach by PPL to be reasonable and prudently measured to facilitate a more thoughtful analysis of the issues.

The interveners have approached their respective demands by bifurcating their arguments into demands on PPL and demands on the Division. In effect, arguing that the Act on Climate compels both the Division and PPL to act immediately without any additional process or involvement from the Commission or the Executive Climate Change Coordinating Council (EC4). The Division notes that the EC4 is made up of thirteen (13) members: CRMC, DOA, DEM, DOH, DOT, Division of Planning, EMA, RIIB, OER, RIPTA, DPUC, EOHHS and the Commerce Corporation. Under the Act, the council is charged with the responsibility to *"assess, integrate, and coordinate climate change efforts throughout state agencies to reduce emissions, strengthen the resilience of communities and infrastructure, and prepare for the effects on climate change, including, but not limited to, coordinating vulnerability assessments throughout state government."*⁷⁶⁷ The Act also requires the Division to *"assist the council in implementing the provisions of this chapter."*⁷⁶⁸ Accordingly, the Division finds that it would be inappropriate for the Division to sidestep the important and

⁷⁶⁷ R.I.G.L. §42-6.2-2

⁷⁶⁸ R.I.G.L. §42-6.2-3 (1)

inevitable efforts from these agencies to work cooperatively, and with other stakeholders, to advance the State's environmental and emissions goals.

D. Request for Final Decision by November 1, 2021.

In their joint petition, the Petitioners requested that the Division issue its final decision in this docket by November 1, 2021. The record reflects that this timing was designed to coincide with the beginning of the heating season for Narragansett's gas business "*and thus will allow for a smooth transition between the entities for reporting of financial information in 2021 and 2022.*"

As evidenced by the adopted procedural schedule in this docket, the Division effectively denied this request from the outset. Instead, the Division adopted a compromise target decision date of February 25, 2022, which the Division concluded provided a reasonable discovery period for the many parties in this docket, adequate time for the preparation of pre-filed witness testimony, four public hearings and a generous briefing schedule.

E. Narragansett's Corporate Charter

The Petition notes that Narragansett was originally incorporated as United Electric Power Company through a special act of the Rhode Island legislature on April 8, 1926. If the Transaction is approved, Narragansett will continue to operate under its corporate charter. The Petitioners maintain that there "*are no changes necessary to that corporate charter as a result of the Transaction.*"⁷⁶⁹

⁷⁶⁹ Petitioners' Exhibit 1., p. 14.

The Division finds that the Petitioners are correct in their understanding concerning the applicability of Rhode Island General Laws, Section 39-3-26 in this matter. This section is reproduced below:

39-3-26. Charters amended to authorize approved transactions. - *The charters of all corporations subject to regulation by the division are hereby amended to the extent necessary to authorize the carrying out of any agreement, merger, purchase, sale, or lease approved by the division as provided in §§39-3-24 and 39-3-25.*

The Division agrees that if the instant Petition is approved no changes to Narragansett's corporate charter would attach. The Division notes that the Advocacy Section and Interveners were silent on this issue.

F. Stockholder Approval

The Petitioners maintain that because National Grid USA is the sole holder of voting stock shares of Narragansett and owns 100 percent of the shares of outstanding common stock to be sold to PPL Rhode Island, the provisions of Rhode Island General Laws, Section 39-3-24(3) do not apply in this case. Rhode Island General Laws, Section 39-2-24(3), is duplicated, in pertinent part, below:

Any public utility may merge with any other public utility or sell or lease all or any part of its property, assets, plant, and business to any other public utility, provided that the merger or a sale or lease of all or substantially all of its property, assets, plant, and business shall be authorized by a vote of at least two-thirds (2/3) in interest of its stockholders at a meeting called for the purpose.

National Grid USA notes that it has taken all necessary corporate actions, including approval by the National Grid USA Board of Directors, to complete the

Transaction.⁷⁷⁰ National Grid USA asserts that no additional stockholder approval is necessary.

The Division finds that the Petitioners are correct in their understanding concerning the applicability of Rhode Island General Laws, Section 39-3-24(3) in this matter. The Division agrees that stockholder approval is not prescribed as a condition of approval. The Division notes that the Advocacy Section and Interveners were silent on this issue.

14. Conclusion

The Division finds that after a thorough examination of the record in this docket, including the many public comments that were offered, the evidence demonstrates: (1) *that the facilities for furnishing service to the public will not thereby be diminished* [if the Petition is approved], and (2) *that the purchase... [and] sale... and the terms thereof are consistent with the public interest.*

Now, therefore, it is

(24322) ORDERED:

1. That the May 4, 2021, joint petition filing by PPL Corporation, PPL Rhode Island Holdings, LLC, National Grid USA and The Narragansett Electric Company seeking the approval of the Division for authority to transfer ownership of Narragansett to PPL Rhode Island, is hereby approved.
2. That all of the commitments made by PPL in this proceeding are hereby

⁷⁷⁰ Id.

adopted by the Division as conditions attendant to the instant approval.

Dated and Effective at Warwick, Rhode Island on February 23, 2022.

Division of Public Utilities and Carriers

John Spirito, Jr., Esq.
Hearing Officer

APPROVED: _____
Linda D. George, Esq.
Administrator