

**STATE OF RHODE ISLAND
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

_____))
**In Re: Petition of PPL Corporation, PPL) Docket No. D-21-09
Rhode Island Holdings, LLC, National Grid)
USA, and The Narragansett Electric)
Company for Authority to Transfer)
Ownership of The Narragansett Electric)
Company to PPL Rhode Island Holdings,)
LLC and Related Approvals)
_____)**

**PPL CORPORATION, PPL RHODE ISLAND HOLDINGS, LLC, NATIONAL GRID
USA, AND THE NARRAGANSETT ELECTRIC COMPANY’S
STATEMENT OF EXISTING AND ADDITIONAL COMMITMENTS**

Petitioners PPL Corporation (“PPL”), PPL Rhode Island Holdings (“PPL RI”), LLC, National Grid USA (“National Grid”), and The Narragansett Electric Company (“Narragansett”) have reviewed, evaluated, and carefully considered the direct testimony and the surrebuttal testimony filed by the Advocacy Section of the Division of Public Utilities and Carriers (the “Advocacy Section”), the direct testimony and the surrebuttal testimony filed by the Rhode Island Office of the Attorney General (the “RIAG”), the direct testimony filed by the Green Energy Consumers Alliance, Inc. (“GECA”), as well as the data requests served by the Advocacy Section, the RIAG, GECA, the Rhode Island Office of Energy Resources (“OER”), the Conservation Law Foundation (“CLF”), and the Acadia Center (“Acadia”). The Advocacy Section, the RIAG, and GECA have identified their concerns about the proposed transfer of ownership of Narragansett from National Grid to PPL RI and Narragansett becoming a part of PPL’s group of regulated utilities (the “Transaction”).

Petitioners have presented testimony and evidence in this matter that is sufficient to meet the legal standard for approval of the Transaction under R.I. Gen. Laws §§ 39-3-24 and 39-3-25. Nevertheless, Petitioners seek to address the concerns raised by clearly stating the existing and

additional commitments to Rhode Island. Those commitments are set forth below.

Petitioners' Commitments

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 RI's acquisition of Narragansett from National Grid ("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 Transition Costs that are duplicative of existing costs, services, or assets that Rhode Island customers already included in distribution rates set in Narragansett's most recent base rate proceeding.

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 as part of the next distribution base rate case. 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.

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 regarding 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 Utilities 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 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).

Date: December 11, 2021





<p>Respectfully submitted,</p> <p>NATIONAL GRID USA and THE NARRAGANSETT ELECTRIC COMPANY,</p> <p>By their attorneys,</p>   <hr/> <p>Cheryl M. Kimball, Esq. Robert J. Humm, Esq. Keegan Werlin LLP 99 High Street, Ste. 2900 Boston, Massachusetts 02110 (617) 951-1400</p>  <hr/> <p>Jennifer Brooks Hutchinson, Esq. Senior Counsel National Grid 280 Melrose Street Providence, Rhode Island 02907 (401) 784-7288</p>	<p>Respectfully submitted,</p> <p>PPL Corporation and PPL Rhode Island Holdings, LLC,</p> <p>By its attorneys,</p>  <hr/> <p>Gerald J. Petros (#2931) Adam M. Ramos (#7591) Hinckley Allen & Snyder 100 Westminster Street, Suite 1500 Providence, RI 02903-2319 (401) 457-5278 (401) 277-9600 (fax) gpetros@hinckleyallen.com aramos@hinckleyallen.com</p>
--	--

EXHIBIT "A"

<u>Transition Cost Categories</u>	<u>Cost estimates (millions)</u>
Integration and Regulatory Planning (PWC, Legal and internal)	\$ 48.1
Severance Costs for Grid Employees (per terms of SPA)	\$ 15.4
Pre-Close Grid Costs to be Reimbursed to Grid at Close	
Branding	\$ 4.4
ERP Separation for Day 1 TSA needs	\$ 8.2
IT new systems implementation ¹	\$ 315.0
RI Operations Facilities ²	<u>\$ 17.0</u>
Total Estimated Transition Costs	\$ 408.1

¹ **IT Systems including the following:**

Core Customer Service Center Capabilities, including IVR and Telephony
Essential Customer facing website and services
Customer Billing System
Gas Engineering/Specialty Technology
Gas Commodity Trading and Risk Management
Electric Engineering/Specialty Technology
Core Gas SCADA and Control Center
Core Electric SCADA and Control Center
Electric & Gas Work Management
Gas and Electric Geographic Information Systems
Data and Content Transfer and Rehosting Activities
Core Finance capabilities
Supporting Integration, Server, Infrastructure and Storage Technology
Core Network & Telephony capabilities
Employee Workstation & Mobile Devices
Core HR and employee service capabilities
Cybersecurity Technology and Supporting Capabilities
IT Service Management Capabilities

² **Rhode Island Operations Facilities include the following:**

Customer Service Center
Training Center
Distribution Control/Gas Control/Gas Dispatch