

**BEFORE THE  
PENNSYLVANIA PUBLIC UTILITY COMMISSION**

Joint Application of PPL Interstate :  
Energy Company and PPL Electric :  
Utilities Corporation for All of the : Docket Nos. A-2014-2435752  
Necessary Authority, Approvals, and : A-2014-2435833  
Certificates of Public Convenience (1) :  
for the Transfer of PPL Corporation's :  
Ownership Interests in PPL Interstate :  
Energy Company to Talen Energy :  
Corporation, and Certain Post-Closing :  
Transactions Associated therewith; (2) :  
for the Transfer of Certain Property :  
Interests Between PPL Electric Utilities :  
Corporation and PPL Energy Supply, :  
LLC and its Subsidiaries in Conjunction :  
with the Transfer of All of the Interests :  
of PPL Energy Supply, LLC and its :  
Subsidiaries to Talen Energy :  
Corporation; (3) for any Modification or :  
Amendment of Associated Affiliated :  
Interest Agreements; and (4) for any :  
Other Approvals Necessary to :  
Complete the Contemplated :  
Transactions :

**JOINT APPLICANTS' STATEMENT No. 1**

**Direct Testimony of Jeremy R. McGuire**

August 27, 2014

1 **INTRODUCTION**

2 **Q. Please state your full name and business address.**

3 A. My name is Jeremy R. McGuire and my business address is Two North Ninth Street,  
4 Allentown, Pennsylvania 18101.

5  
6 **Q. By whom are you employed and in what capacity?**

7 A. I am currently the Vice President-Strategic Development for PPL Strategic Development,  
8 LLC, an indirect wholly owned subsidiary of PPL Corporation (“PPL Corp.”). Upon  
9 closing of the Proposed Transaction, as defined and described in further detail below, I  
10 will become the Senior Vice President and Chief Financial Officer for Talen Energy  
11 Corporation (“Talen Energy”).

12  
13 **Q. What are your current duties as Vice President-Strategic Development for PPL  
14 Strategic Development, LLC?**

15 A. My duties are strategic planning and analysis for PPL Corp., as well as the execution of  
16 transactions that advance the strategy of the company. Strategic planning and analysis  
17 entails crafting a perspective on how PPL Corp. can best align its business activities to  
18 create value and identifying what strategic alternatives may be available to achieve that  
19 objective. The transaction execution activity entails sourcing transaction opportunities  
20 and negotiating economic and contractual terms.

21 Upon closing of the Proposed Transaction, I will become the Senior Vice  
22 President and Chief Financial Officer of Talen Energy and will have ultimate

1 responsibility for financial planning and budgeting, strategy, accounting, tax, risk,  
2 treasury and investor relations.

3  
4 **Q. What is your educational background?**

5 A. I have a bachelor of science in business administration, with a concentration in finance,  
6 from Elizabethtown College and a master's degree in business administration from  
7 Bucknell University.

8  
9 **Q. Please describe your professional experience.**

10 A. I have approximately 20 years of finance and strategy-related work experience and have  
11 had a specific focus on the power and utility industry for the last 15 years. For 13 years I  
12 was employed as an investment banker, the last eight of which I was a member of the  
13 Global Power Group at Lehman Brothers. I have acted as advisor and principal on  
14 numerous strategic and debt and equity capital raising transactions. I joined PPL in 2008.

15  
16 **Q. What is the subject matter of your direct testimony?**

17 A. I will provide a description of Talen Energy, which will acquire indirect control over PPL  
18 Interstate Energy Company ("PPL IEC") as part of the Proposed Transaction. I will then  
19 describe Talen Energy's equity owners, which, immediately following the closing of the  
20 Proposed Transaction, will be the public shareowners of PPL Corp. as of the record date  
21 for the Proposed Transaction (as to 65% of Talen Energy's common stock) and entities  
22 which are ultimately controlled by Riverstone Holdings LLC ("Riverstone") (as to 35%  
23 of Talen Energy's common stock). I will next provide an explanation of the Proposed

1 Transaction that will result in the transfer to Talen Energy of PPL Corp.’s deregulated  
2 electric generation business and competitive retail electric and gas supply businesses,  
3 which include the dual use oil/gas pipeline currently owned by PPL IEC and regulated by  
4 the Commission. I also will describe Riverstone’s indirect control of a 35% ownership  
5 interest in Talen Energy, and why Riverstone’s indirect ownership interest in Talen  
6 Energy should not be treated as a controlling interest in PPL IEC, as well as possible  
7 internal restructuring and/or sell-down transactions involving the interests in Talen  
8 Energy held by Raven Power Holdings LLC (“Raven”), C/R Energy Jade LLC (“Jade”),  
9 and Sapphire Power Holdings LLC (“Sapphire” and together with Raven and Jade  
10 hereinafter collectively referred to as the “RJS Entities”), or an existing or newly formed  
11 holding company that will be wholly owned by the RJS Entities and controlled by Raven  
12 (the “RJS SPE”), that could occur following the closing of the Proposed Transaction. I  
13 will then explain the limited findings and approvals sought from the Commission by the  
14 Joint Applicants, PPL IEC and PPL Electric Utilities Corporation (“PPL EU”), with  
15 respect to the Proposed Transaction. I also will explain why Talen Energy has the  
16 requisite technical, financial, and legal fitness to own and operate PPL IEC. Finally, I  
17 will explain how the Proposed Transaction will promote the public interest.

18  
19 **Q. Are you sponsoring any exhibits?**

20 A. Yes. I am sponsoring Joint Applicants’ Exhibit No. 1, which is the “Joint Application of  
21 PPL Interstate Energy Company and PPL Electric Utilities Corporation for All of the  
22 Necessary Authority, Approvals, and Certificates of Public Convenience (1) for the  
23 Transfer of PPL Corporation’s Ownership Interests in PPL Interstate Energy Company to

1 Talen Energy Corporation, and Certain Post-Closing Transactions Associated therewith;  
2 (2) for the Transfer of Certain Property Interests Between PPL Electric Utilities  
3 Corporation and PPL Energy Supply, LLC and its Subsidiaries in Conjunction with the  
4 Transfer of All of the Interests of PPL Energy Supply, LLC and its Subsidiaries to Talen  
5 Energy Corporation; (3) for any Modification or Amendment of Associated Affiliated  
6 Interest Agreements; and (4) for any Other Approvals Necessary to Complete the  
7 Contemplated Transactions” (hereinafter the “Joint Application”) filed on July 30, 2014,  
8 at Docket Nos. A-2014-2435752 and A-2014-2435833. Attached to the Joint Application  
9 are Appendices in support of the Proposed Transaction. On behalf of Talen Energy, I am  
10 sponsoring all or portions of the following Appendices to the Joint Application:

- 11 • Appendix A – Separation Agreement [**HIGHLY CONFIDENTIAL treatment is**  
12 **required for the Separation Agreement Schedules (ALL FILED UNDER SEAL)**]
- 13 • Appendix B – Transaction Agreement [**HIGHLY CONFIDENTIAL treatment is**  
14 **required for the Parent Disclosure Letter and RJS Disclosure Letter (ALL**  
15 **FILED UNDER SEAL)**]
- 16 • Appendix C – Employee Matters Agreement
- 17 • Appendix E – Organizational chart showing Riverstone, the RJS Entities and its  
18 relevant affiliates prior to the closing of the Proposed Transaction
- 19 • Appendix G – Organizational chart showing PPL IEC, Talen Energy and relevant  
20 affiliates and the RJS Entities following the closing of the Proposed Transaction

21  
22 **DESCRIPTION OF TALEN ENERGY**

23 **Q. Please describe Talen Energy.**

24 A. Talen Energy is a corporation organized and existing under the laws of the State of  
25 Delaware. Talen Energy currently is a wholly owned indirect subsidiary of PPL Corp.  
26 Upon closing of the Proposed Transaction, Talen Energy will become a new stand-alone,

1 publicly traded Independent Power Producer and, at such time, is expected to be among  
2 the largest competitive power generators in the United States. Talen Energy will have  
3 significant asset diversity with a wide range of fuels (natural gas, nuclear, coal, oil,  
4 hydro) and dispatch profiles (baseload, intermediate/load following and peaking). Talen  
5 Energy will have significant scale with an estimated generating capacity of  
6 approximately 15.3 GW from 27 operating facilities located in New Jersey, Pennsylvania,  
7 Maryland, Texas, Montana, and Massachusetts.<sup>1</sup>

8  
9 **Q. Who will own Talen Energy upon closing of the Proposed Transaction?**

10 A. Under the terms of the relevant agreements, at closing of the Proposed Transaction, PPL  
11 Corp. will spin off its deregulated electric generation and retail electric and gas supply  
12 business lines to the shareowners of PPL Corp. and then immediately combine that  
13 business with the competitive generation assets owned by subsidiaries of the RJS  
14 Entities, which are ultimately controlled by Riverstone, to form Talen Energy. Upon  
15 closing of the Proposed Transaction, PPL Corp.'s shareowners as of the record date for  
16 the spinoff will own 65% of Talen Energy and the RJS Entities will directly or indirectly  
17 own 35% of Talen Energy. As described below, the 35% interest in Talen Energy will  
18 either be held by the RJS Entities or by the RJS SPE. Attached to the Joint Application  
19 as "Appendix E" is an organizational chart showing the Riverstone and the ownership  
20 structure of the RJS Entities prior to the closing of the Proposed Transaction. Attached to  
21 the Joint Application as "Appendix G" is an organizational chart showing the ownership  
22 structure of Talen Energy following the closing of the Proposed Transaction.

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<sup>1</sup> Figures reflect Talen Energy generation before the impact of any divestitures required to satisfy FERC market power tests, estimated at approximately 1,300 to 1,400 MWs.

1 **Q. Will Talen Energy be a publicly traded company?**

2 A. Yes. Upon the closing of the Proposed Transaction, Talen Energy will be a new stand-  
3 alone, publicly traded Independent Power Producer. Talen Energy's common stock is  
4 expected to be listed on the New York Stock Exchange and, as a publicly traded  
5 company, Talen Energy will be regulated by the United States Securities and Exchange  
6 Commission. Talen Energy's board will have a majority of independent directors, as is  
7 required with respect to all companies listing common equity securities on the New York  
8 Stock Exchange.

9

10 **DESCRIPTION OF TALEN ENERGY'S OWNERS**

11 **Q. Please describe the interest in Talen Energy held by PPL Corp.'s shareowners?**

12 A. Upon closing of the Proposed Transaction, PPL Corp.'s shareowners will own 65% of  
13 Talen Energy's common stock. The Talen Energy shares that will be owned by the PPL  
14 Corp. shareowners will be publicly registered shares.

15

16 **Q. Please describe Riverstone.**

17 A. As explained above, immediately following the closing of the Proposed Transaction, a  
18 35% interest in Talen Energy's common stock will be held by the RJS Entities or the RJS  
19 SPE, both of which will be ultimately controlled by Riverstone. Riverstone is a limited  
20 liability company organized and existing under the laws of the State of Delaware.  
21 Riverstone is an energy and power-focused private investment firm founded in 2000.  
22 Riverstone conducts buyout and growth capital investments in the exploration and  
23 production, midstream, oilfield services, power, and renewable sectors of the energy

1 industry. As of June 30, 2014, Riverstone has committed approximately \$26.0 billion to  
2 108 investments in North America, Latin America, Europe, Africa, and Asia. Riverstone  
3 ultimately controls the RJS Entities whose competitive generation assets will be  
4 contributed to form Talen Energy.

5  
6 **Q. Please describe each of the RJS Entities.**

7 A. The RJS Entities are owners of generation portfolio assets in Texas and in the northeast  
8 and mid-Atlantic regions of the United States. I will briefly describe each of the RJS  
9 Entities.

10  
11 Raven Power Holdings LLC

12 Riverstone is the direct parent of and wholly owns Riverstone Energy GP V  
13 Corp., which in turn is the direct parent of and wholly owns Riverstone Energy GP V,  
14 LLC. Riverstone Energy GP V, LLC is a limited liability company organized and  
15 existing under the laws of the State of Delaware. Riverstone Energy GP V, LLC is the  
16 general partner of Riverstone Energy Partners V, L.P., which in turn is the general partner  
17 of Riverstone V Raven Holdings, L.P.

18 Riverstone V Raven Holdings, L.P. is a limited partnership organized and existing  
19 under the laws of the State of Delaware. Riverstone V Raven Holdings, L.P. owns  
20 approximately 99% of the voting interests in Raven. A group of individuals providing  
21 services to or employed by Raven own profits interests (without voting rights) in Raven.  
22 There is no “managing member” of Raven; instead, a Board of Directors is appointed by  
23 Riverstone V Raven Holdings, L.P. as the managerial authority.

1 Raven is a limited liability company organized and existing under the laws of the  
2 State of Delaware. Raven owns a 2,648 MW coal generation portfolio located in the  
3 greater Baltimore area.

4  
5 C/R Energy Jade LLC

6 Riverstone is the direct parent of and wholly owns Riverstone Investment Group  
7 LLC, which is a limited liability company organized and existing under the laws of the  
8 State of Delaware. Riverstone and Riverstone Investment Group LLC, on the one hand,  
9 and TC Group Cayman Investment Holdings, L.P. and TC Group-Energy L.L.C. (The  
10 Carlyle Group (“Carlyle”) entities), on the other hand, own all of the membership  
11 interests of C/R Energy GP III, LLC, which is the general partner and controlling entity  
12 of Carlyle/Riverstone Energy Partners III, L.P. (“Fund III GP”).

13 Fund III GP is a limited partnership organized and existing under the laws of the  
14 State of Delaware. Fund III GP is the general partner and controlling entity of certain  
15 investment vehicle affiliates of Carlyle/Riverstone Global Energy and Power Fund III,  
16 L.P., which in turn own over 90% of the voting interests in Jade. Although both  
17 Riverstone and Carlyle have indirect interests in Jade, all of the board members of Jade  
18 are appointed by individuals designated by Riverstone to make such appointments.

19 Jade is a limited liability company organized and existing under the laws of the  
20 State of Delaware. Jade is a Texas-based independent power producer that owns a 1,928  
21 MW power generation portfolio.

22

1           Sapphire Power Holdings LLC

2           Riverstone is the direct parent of and wholly owns R/C Renewable Energy GP II,  
3           LLC, which is a limited liability company organized and existing under the laws of the  
4           State of Delaware. R/C Renewable Energy GP II, LLC is the general partner and  
5           controlling entity of Riverstone/Carlyle Renewable Energy Partners II, L.P. (“R/C L.P.”).

6           R/C L.P. is a limited partnership organized and existing under the laws of the  
7           State of Delaware. R/C L.P. is the general partner and controlling entity of certain  
8           investment vehicle affiliates of Riverstone/Carlyle Renewable and Alternative Energy  
9           Fund II-C, L.P., which in turn own over 90% of R/C Sapphire Power IP, L.P. (“R/C  
10          Sapphire IP”). R/C Sapphire IP owns 100% of the voting interests in Sapphire.

11          Sapphire is a limited liability company organized and existing under the laws of  
12          Delaware. Sapphire owns a 737 MW generation portfolio that includes seven combined-  
13          cycle gas-fired plants and one dual-fuel (natural gas/ultra low sulfur diesel) fired peaking  
14          unit located in competitive markets in the northeast United States.

15  
16          **DESCRIPTION OF THE PROPOSED TRANSACTION**

17          **Q. Please explain the overall purpose of the Proposed Transaction.**

18          A. PPL Corp. and the RJS Entities have agreed to combine their competitive power  
19          generation business lines into Talen Energy, which, upon the closing of the Proposed  
20          Transaction, will be a new stand-alone, publicly traded Independent Power Producer,  
21          Talen Energy. Under the terms of the relevant agreements, at the closing of the Proposed  
22          Transaction, PPL Corp. will spin off its deregulated electric generation and retail electric  
23          and gas supply business lines in PPL Energy Supply, LLC (“PPL Energy Supply”)

1 (including PPL EnergyPlus, LLC and PPL Generation, LLC (“PPL Generation”), which  
2 owns PPL IEC) to the shareowners of PPL Corp. and then immediately combine that  
3 business with the RJS Entities’ competitive power generation business to form Talen  
4 Energy.

5  
6 **Q. Please provide an overview of the Proposed Transaction for which findings and**  
7 **approvals are being sought.**

8 A. The contemplated steps in the Proposed Transaction are summarized below:

- 9 a. PPL Corp. creates a new subsidiary, Talen Energy Holdings, Inc. (“Talen  
10 Holdings”); Talen Holdings creates a new subsidiary, Talen Energy, and  
11 Talen Energy creates a new subsidiary, Talen Energy Merger Sub, Inc.  
12 (“Merger Sub”).<sup>2</sup>
- 13 b. PPL Energy Funding Corporation, which is a direct subsidiary of PPL  
14 Corp. and the direct parent of PPL Energy Supply, distributes 100% of the  
15 outstanding equity securities of PPL Energy Supply to PPL Corp.
- 16 c. PPL Corp. contributes 100% of the outstanding equity securities of PPL  
17 Energy Supply to Talen Holdings, resulting in PPL Energy Supply  
18 becoming a subsidiary of Talen Holdings.
- 19 d. PPL Corp. distributes the Talen Holdings<sup>3</sup> common stock pro rata to its  
20 shareowners who are shareowners as of the record date for the spinoff.<sup>4</sup>
- 21 e. Talen Holdings merges with Merger Sub, with Talen Holdings surviving  
22 as a wholly owned subsidiary of Talen Energy and Talen Holdings  
23 common stock converted into common stock of Talen Energy.

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<sup>2</sup> These steps have already been implemented.

<sup>3</sup> The shareowners do not ultimately receive shares of Talen Holdings, but rather the shares of Talen Holdings are converted into common shares of Talen Energy as a result of a reorganizational merger transaction contemporaneously with, but immediately following, the spinoff.

<sup>4</sup> PPL Corp.’s shareowners will receive a pro-rata distribution of shares Talen Energy common stock at closing based on the number of shares of PPL Corp. common stock owned as of the spinoff record date. The spinoff will have no effect on their ownership of PPL Corp. common stock and there will be no change in the number of shares of PPL Corp. common stock outstanding as a result of the Proposed Transaction.

- 1 f. The RJS Entities contribute 100% of the interests in a holding company  
2 that indirectly owns the competitive power generation business of the RJS  
3 Entities (“RJS HoldCo”) to Talen Energy. In exchange, the RJS Entities,  
4 or RJS SPE (an existing or newly formed holding company wholly owned  
5 by the RJS Entities and controlled by Raven), receive(s) 35% of the Talen  
6 Energy common stock, in the aggregate.
- 7 g. Talen Energy contributes the equity securities of RJS HoldCo to Talen  
8 Holdings and Talen Holdings, in turn, either (i) contributes the equity  
9 securities of RJS HoldCo to PPL Energy Supply, and/or (ii) causes RJS  
10 HoldCo to be merged with and into PPL Energy Supply, with PPL Energy  
11 Supply as the surviving entity in the merger.

12 Upon closing of the Proposed Transaction, PPL Corp.’s public shareowners will  
13 own 65% of Talen Energy’s common stock. The remaining 35% interest in Talen  
14 Energy’s common stock will either be held by the RJS Entities collectively or by the RJS  
15 SPE (an existing or newly formed holding company wholly owned by the RJS Entities  
16 and controlled by Raven). If the shares in Talen Energy are held by the RJS SPE, then  
17 the RJS SPE will own 35% of Talen Energy’s common stock. None of the RJS Entities  
18 will individually hold, directly or indirectly, an interest of 20% or more in Talen Energy.

19 An organizational chart showing PPL IEC, Talen Energy and relevant affiliates  
20 and the RJS Entities following the closing of the Proposed Transaction is attached to the  
21 Joint Application as “Appendix G.”

22

23 **Q. Are there any other corporate transactions contemplated as part of the Proposed**  
24 **Transaction that are relevant to the ownership of PPL IEC?**

25 A. Yes. Upon closing of the Proposed Transaction, the RJS Entities, collectively, or the RJS  
26 SPE (an existing or newly formed holding company wholly owned by the RJS Entities),  
27 will own 35% of Talen Energy’s common stock. Following closing of the Proposed  
28 Transaction, in the ordinary course of Riverstone’s management of its portfolio

1 investments, Riverstone expects over time to directly or indirectly sell down the interests  
2 in Talen Energy held by the RJS Entities or the RJS SPE to achieve liquidity and  
3 monetize its investment in Talen Energy. As discussed further below, the Joint  
4 Applicants hereby request that the Commission make a finding that Riverstone (directly  
5 or indirectly) does not have an actual controlling interest in Talen Energy and,  
6 accordingly, the below-described post-closing actions by Riverstone would not need  
7 future Commission approval. Alternatively, the Joint Applicants request that the  
8 Commission otherwise grant its approval for such sell-down transactions as part of the  
9 final order entered into in connection with this matter, solely to the extent that such sell-  
10 down transactions (if any) would not result in a new entity, other than an entity ultimately  
11 controlled by Riverstone, directly or indirectly holding 20% or more of the voting interest  
12 in Talen Energy or PPL IEC as a result thereof.

13 In addition, in the ordinary course of managing its portfolio investments and to  
14 facilitate customary corporate structuring and endeavors (for example, in connection with  
15 financings or tax planning), certain internal reorganizations may occur from time to time  
16 within Riverstone's corporate structure following the closing of the Proposed  
17 Transaction. Such internal reorganizations may take the form of interposing or  
18 eliminating intermediate holding companies or otherwise transferring equity interests in  
19 intermediate holding companies to affiliates of the RJS Entities (or the RJS SPE). No  
20 such internal reorganization will result in a change in the ultimate control of the RJS  
21 Entities or the RJS SPE by Riverstone. In each case, any such internal reorganization  
22 would result in the Talen Energy common stock being indirectly transferred to an affiliate

1 of the RJS Entities or the RJS SPE, and any such affiliate will, in each case, ultimately be  
2 controlled by Riverstone.

3  
4 **Q. Please identify the commercial agreements that are part of the Proposed**  
5 **Transaction.**

6 A. The Proposed Transaction will be effectuated pursuant to a Separation Agreement,  
7 Transaction Agreement, and Employee Matters Agreement, as well as certain ancillary  
8 agreements that are being or will be negotiated pursuant to, and in accordance with, these  
9 transaction documents.

10 The Separation Agreement sets forth the terms and conditions for the separation  
11 of PPL Corp.'s regulated electric utility business from PPL Corp.'s deregulated electric  
12 generation and retail electric and gas supply businesses and provides for the spinoff of the  
13 deregulated generation and retail electric and gas supply businesses to PPL Corp.'s  
14 shareowners. The Separation Agreement is attached to the Joint Application as  
15 "Appendix A" [**HIGHLY CONFIDENTIAL treatment is required for the Separation**  
16 **Agreement Schedules (ALL FILED UNDER SEAL)**]. Pertinent to the pending Joint  
17 Application, the Separation Agreement also provides, among other things: (i) that PPL  
18 Corp. and PPL Energy Supply and their subsidiaries will effect certain transfers of assets  
19 and assume certain liabilities such that each of PPL EU and PPL Energy Supply retain  
20 both the assets and liabilities primarily associated with their respective businesses; and  
21 (ii) for termination of all intercompany agreements and accounts between PPL EU and  
22 PPL Energy Supply, except for certain specified agreements and accounts that will  
23 remain in effect following the closing of the Proposed Transaction. These are further

1 described in the direct testimonies of Mr. Urban, Mr. Jackson, and Mr. Cummings. *See*  
2 Joint Applicants' Statement Nos. 2, 3, and 4.

3 The Transaction Agreement sets forth the terms and conditions for the  
4 combination of PPL Corp.'s deregulated electric generation and retail electric and natural  
5 gas supply businesses with generation assets owned by subsidiaries of the RJS Entities,  
6 which are ultimately controlled by Riverstone, to form Talen Energy. The Transaction  
7 Agreement is attached to the Joint Application as "Appendix B" [**HIGHLY**  
8 **CONFIDENTIAL treatment is required for the Parent Disclosure Letter and RJS**  
9 **Disclosure Letter (ALL FILED UNDER SEAL)**].

10 The Employee Matters Agreement sets forth agreements between PPL Corp.,  
11 Talen Energy, and the RJS Entities as to certain employment, compensation, and benefits  
12 matters. The Employee Matters Agreement is attached to the Joint Application as  
13 "Appendix C."  
14

15 **FINDINGS AND APPROVALS SOUGHT FOR THE PROPOSED TRANSACTION.**

16 **Q. Please summarize the Commission findings and approvals requested by the Joint**  
17 **Applicants.**

18 A, The Joint Applicants seek certain limited approvals from the Commission associated with  
19 the transfer of PPL Corp.'s deregulated electric generation and retail electric and gas  
20 supply business lines to Talen Energy. I have been advised by counsel that the "spinoff"  
21 of PPL Corp.'s deregulated electric generation and retail electric and gas supply business  
22 lines from its regulated electric utility business lines does not require Commission

1 approval. However, certain ancillary transfers necessary and appropriate to this  
2 fundamental transaction may require Commission approval.

3 As part of the Proposed Transaction, PPL Corp.'s indirect ownership interests in  
4 PPL IEC, which holds a certificate of public convenience to transport oil and natural gas  
5 only to generating facilities, will be transferred to Talen Energy. As explained below, the  
6 Joint Applicants are seeking the Commission's approval pursuant to Section 1102(a)(3)  
7 of the Public Utility Code for the transfer of this indirect ownership interest in PPL IEC  
8 to Talen Energy.

9 As part of the Proposed Transaction, certain property rights for PPL EU's existing  
10 electric substation, transmission, and distribution facilities will be reaffirmed through  
11 new agreements. As explained in the Direct Testimony of Mr. Jackson, Joint Applicants'  
12 Statement No. 4, because these agreements are simply memorializing existing rights and  
13 no consideration will be exchanged, the Joint Applicants are seeking a finding by the  
14 Commission that Section 1102(a)(3) will not apply to these agreements. In the event that  
15 the Commission concludes that approval is nevertheless required with respect to these  
16 agreements, PPL EU requests such approval.

17 The Proposed Transaction also involves certain intercompany agreements  
18 between PPL Energy Supply subsidiaries and PPL EU or PPL IEC. As explained in the  
19 direct testimonies of Mr. Urban and Mr. Cummings, Joint Applicants' Statement Nos. 2  
20 and 3, because there will be no amendment or modification to these agreements and the  
21 only agreements that will terminate are certain interconnection agreements that will be  
22 replaced by FERC-jurisdictional interconnection agreements, the Joint Applicants are  
23 seeking a finding by the Commission that Chapter 21 of the Public Utility Code does not

1 apply to these intercompany agreements. Nevertheless, PPL EU requests approval under  
2 Section 2102 of the Public Utility Code, 66 Pa.C.S. § 2102, with respect to the  
3 termination or revision of such intercompany agreements in connection with the  
4 Proposed Transaction, to the extent deemed necessary by the Commission.

5 Finally, the Joint Applicants request, for the reasons set forth in more detail  
6 below, a finding from the Commission that the RJS Entities or the RJS SPE (as  
7 applicable) will not have a controlling interest in Talen Energy, and thereby PPL IEC,  
8 upon closing of the Proposed Transaction. Alternatively, if the Commission nevertheless  
9 finds that the RJS Entities (or the RJS SPE) have a controlling interest (which the Joint  
10 Applicants respectfully contend they should not), then the Joint Applicants request, as  
11 part of the final order entered in this proceeding, approval of the following actions by or  
12 with respect to the RJS Entities (or the RJS SPE) described above: (1) the acquisition by  
13 the RJS Entities (or the RJS SPE) of 35% of the common stock of Talen Energy, which  
14 will indirectly own 100% of PPL IEC upon the closing of the Proposed Transaction; (2)  
15 potential future sell-down transactions of the shares of Talen Energy common stock held  
16 by the RJS Entities (or the RJS SPE) to less than a combined 20% of the outstanding  
17 shares of Talen Energy's common stock as part of Riverstone's ordinary course  
18 management of its private equity portfolio interests, but solely to the extent that such sell-  
19 down transactions (if any) would not result in a new entity, other than an entity ultimately  
20 controlled by Riverstone, directly or indirectly holding 20% or more of the voting interest  
21 in Talen Energy or PPL IEC as a result thereof; and (3) potential future internal  
22 reorganizations that may occur from time to time within Riverstone's corporate structure,

1 to the extent any such internal reorganization would not result in a change in the ultimate  
2 control of the RJS Entities or the RJS SPE by Riverstone.

3  
4 **Q. Please explain why the Joint Applicants are seeking the Commission's approval of**  
5 **the transfer of PPL Corp.'s interests in PPL IEC to Talen Energy.**

6 A. Presently, all of the common stock of PPL IEC is owned by PPL Generation, a direct  
7 wholly owned subsidiary of PPL Energy Supply, which in turn is currently an indirect  
8 wholly owned subsidiary of PPL Corp. As a result of the Proposed Transaction,  
9 ownership of PPL Energy Supply, and therefore ownership of PPL IEC, will be  
10 transferred from PPL Corp. to Talen Energy. Following the closing of the Proposed  
11 Transaction, Talen Energy will indirectly own 100% of PPL IEC by virtue of its  
12 ownership of 100% of PPL Energy Supply. I am advised by counsel that the transfer of  
13 PPL Corp.'s interests in PPL IEC to Talen Energy requires the Commission's approval  
14 pursuant to Section 1102(a)(3) of the Public Utility Code because PPL Corp.'s ownership  
15 interests in PPL IEC will be transferred to Talen Energy, which, upon the closing of the  
16 Proposed Transaction, will be a stand-alone, publicly traded company with its own board  
17 of directors.

18  
19 **Q. Please explain why findings or approvals are being sought from this Commission**  
20 **with respect to the ownership interests of the RJS Entities (or the RJS SPE) in Talen**  
21 **Energy and certain potential post-closing actions by Riverstone in respect thereof.**

22 A. Immediately following the closing of the Proposed Transaction, Riverstone will  
23 indirectly control, through the RJS Entities or the RJS SPE, 35% of the shares of Talen

1 Energy's common stock. Under a technical reading of the Commission's Statement of  
2 Policy Regarding Utility Stock Transfer at 52 Pa. Code § 69.901 (the "Statement of  
3 Policy"), the RJS Entities (or the RJS SPE, as applicable) could be deemed to hold a  
4 "controlling interest" in Talen Energy and, thus, in PPL IEC. As detailed below, such  
5 construction would not comport with the facts in the instant proceeding where, by virtue  
6 of their 35% ownership interest in Talen Energy, the RJS Entities (or the RJS SPE) will  
7 not exercise the indicia of control over the utility or its parent upon which the  
8 presumptions contained in the Statement of Policy appear to be predicated. Mechanically  
9 applying a technical reading of the Statement of Policy without reference to the  
10 substantively and materially distinguishable facts in this proceeding would mean that, if  
11 the RJS Entities (or the RJS SPE) were treated as the holders of a "controlling interest" in  
12 Talen Energy, a future sell-down by the RJS Entities (or the RJS SPE) could be construed  
13 as a "dissipation of the largest voting interest in the utility or parent, regardless of the  
14 tier," See 52 Pa. Code § 69.901(1), and thus may be construed as subject to the  
15 provisions of Section 1102(a)(3) of the Public Utility Code. As discussed below, the  
16 Joint Applicants contend that the facts in the present proceeding are substantively and  
17 materially distinguishable from those contemplated by the guidance embodied in the  
18 Statement of Policy and, thus, that, the RJS Entities (or the RJS SPE) should not be  
19 deemed to have a "controlling interest" in Talen Energy or PPL IEC.

20

1 **Q. Would the RJS Entities (or the RJS SPE) have an actual controlling interest in PPL**  
2 **IEC after the closing of the Proposed Transaction as a result of their ownership of**  
3 **35% of Talen Energy's common stock?**

4 A. While the RJS Entities, collectively, (or the RJS SPE, as the case may be) will own 35%  
5 of Talen Energy's common stock, the RJS Entities (or the RJS SPE), will not actually  
6 control Talen Energy or PPL IEC. First, as explained above, upon the closing of the  
7 Proposed Transaction, Talen Energy will be a publicly traded company with a largely  
8 dispersed ownership base of public shareholders. The day-to-day management and  
9 governance of Talen Energy will be directed by its board of directors. As noted above, a  
10 majority of Talen Energy's directors will be independent, as is required under the rules of  
11 the New York Stock Exchange. The RJS Entities or the RJS SPE (as applicable) will  
12 initially have the right to appoint three of the eight members of the Talen Energy board of  
13 directors, at least one of whom must be independent (as defined in the rules of the New  
14 York Stock Exchange). Following such time that the RJS Entities or the RJS SPE (as  
15 applicable) own less than 10% of the Talen Energy common stock (as a result of the  
16 ordinary course sell-down described herein), they will only have the right to appoint two  
17 members (including one independent director) to the Talen Energy board of directors.  
18 None of the RJS Entities, either individually or collectively (or the RJS SPE), will have,  
19 by virtue of the 35% ownership interest in Talen Energy, the right to direct the day-to-day  
20 management or operations of Talen Energy.

21

1 **Q. Would the RJS Entities have a “controlling interest” in Talen Energy under the**  
2 **Commission’s Statement of Policy?**

3 A. As discussed above, the RJS Entities (or the RJS SPE) will not, upon the closing of the  
4 Proposed Transaction, have an actual controlling interest in Talen Energy and should  
5 likewise not be deemed to have a “controlling interest” in Talen Energy under the  
6 Commission’s Statement of Policy. I have been advised by counsel that, under the  
7 Commission’s Statement of Policy, the Commission focuses on the “beneficial holder of  
8 the largest voting interest in the utility or parent.” Such focus appears to hinge on the  
9 presumption that, by virtue of such voting interest, such beneficial holder is positioned to  
10 direct or influence (and, thus, exercise control over) the day-to-day management and  
11 operation of the utility or parent. The present situation is distinguishable, however, for a  
12 number of reasons and should not be deemed to fall within the ambit of the guidance for  
13 which the Statement of Policy was intended. First, as explained above, upon the closing  
14 of the Proposed Transaction, Talen Energy will be a publicly traded company with a  
15 largely dispersed ownership base of public shareholders. The day-to-day management  
16 and governance of Talen Energy will be directed by its board of directors. As noted  
17 above, a majority of Talen Energy’s directors will be independent, as is required under  
18 the rules of the New York Stock Exchange, and directors appointed by the RJS Entities or  
19 the RJS SPE (as applicable) will not constitute a majority of the board of directors. The  
20 instant situation also differs substantively from that where a private equity fund privately  
21 holds and controls a public utility. None of the RJS Entities, either individually or  
22 collectively (or the RJS SPE), will have, by virtue of the 35% ownership interest in Talen  
23 Energy, the right to direct the day-to-day management or operations of Talen Energy.

1           For the reasons set forth above, the Joint Applicants request, as part of the  
2 Commission’s final order in this proceeding, that the Commission make a finding of fact  
3 that the RJS Entities (or the RJS SPE, as the case may be) will not have a controlling  
4 interest in PPL IEC after the closing of the Proposed Transaction. Alternatively, if the  
5 Commission nevertheless finds that the RJS Entities (or the RJS SPE) have a controlling  
6 interest (which the Joint Applicants respectfully contend they should not), then the Joint  
7 Applicants request, as part of the final order entered in this proceeding, approval of the  
8 following actions by or with respect to the RJS Entities (or the RJS SPE) described  
9 above: (1) the acquisition by the RJS Entities (or the RJS SPE) of 35% of the Talen  
10 Energy common stock, which will indirectly own 100% of PPL IEC upon the closing of  
11 the Proposed Transaction; (2) potential future sell-down transactions of the shares of  
12 Talen Energy common stock held by the RJS Entities (or the RJS SPE) to less than a  
13 combined 20% of the outstanding shares of Talen Energy’s common stock as part of  
14 Riverstone’s ordinary course management of its private equity portfolio interests, but  
15 solely to the extent that such sell-down transactions (if any) would not result in a new  
16 entity, other than an entity ultimately controlled by Riverstone, directly or indirectly  
17 holding 20% or more of the voting interest in Talen Energy or PPL IEC as a result  
18 thereof; and (3) potential future internal reorganizations that may occur from time to time  
19 within Riverstone’s corporate structure, to the extent any such internal reorganization  
20 would not result in a change in the ultimate control of the RJS Entities or the RJS SPE by  
21 Riverstone.

1 **Q. What is your understanding of the standard by which the Commission will evaluate**  
2 **the Proposed Transaction?**

3 A. I have been advised by counsel that Talen Energy and PPL IEC must demonstrate their  
4 financial, technical, and legal fitness to own and operate PPL IEC. Moreover, the Joint  
5 Applicants must demonstrate that the Proposed Transaction will affirmatively promote  
6 the service, accommodation, convenience or safety of the public in a substantial way.  
7 The Commission will not necessarily require legally binding commitments in specific  
8 areas to assure public benefits or require the quantification of benefits where it may be  
9 impractical; rather, it will assess the “net benefits” of the overall transaction. It will  
10 determine whether the overall transaction is good for the public, which includes patrons  
11 of the utility as well as the larger community.

12  
13 **Q. In addition to the approvals and findings sought by the Joint Applicants from the**  
14 **Commission in this proceeding, what other governmental approvals are required**  
15 **for the consummation of the Proposed Transaction?**

16 A. The Proposed Transaction requires the following additional approvals prior to  
17 consummation: (i) approval of the Federal Energy Regulatory Commission under  
18 Section 203 of the Federal Power Act; (ii) approval of the Nuclear Regulatory  
19 Commission with respect to the indirect transfer of control over PPL Corp.’s indirect  
20 ownership interests in the facility operating licenses and the general license for the spent  
21 fuel storage installation for the Susquehanna Steam Electric Station, which is operated  
22 and 90% owned by PPL Susquehanna, LLC, a wholly owned, indirect subsidiary of PPL  
23 Corp.; (iii) clearance from the antitrust enforcement agencies (Federal Trade Commission

1 and U.S. Department of Justice) under the Hart-Scott-Rodino Antitrust Improvements  
2 Act of 1976; (iv) declaration by the United States Securities and Exchange Commission  
3 that the registration statement covering the shares of Talen Energy common stock to be  
4 issued in connection with the Proposed Transaction is effective and approval by the New  
5 York Stock Exchange with respect to the listing of such common stock on the exchange;  
6 and (v) approval of the Federal Communications Commission with respect to the transfer  
7 of and/or indirect transfer of control over wireless radio licenses.

## 8 9 **FINANCIAL, TECHNICAL, AND LEGAL FITNESS**

### 10 **Financial Fitness**

11 **Q. Does Talen Energy have the financial fitness necessary to own and operate PPL IEC**  
12 **in the public interest?**

13 A. Yes. As a preliminary matter, I note that Talen Energy will be a publicly traded company  
14 with its stock listed on the New York Stock Exchange. Talen Energy will have the  
15 financial fitness to own and operate PPL IEC. Talen Energy will have substantial  
16 financial resources available to PPL IEC. Talen Energy's balance sheet quality,  
17 measured by the ratio of debt-to-EBITDA,<sup>5</sup> is projected to be as strong as or stronger than  
18 its peers at approximately 3.5 times. Based on the valuations of peer companies (as of  
19 the date of this testimony), the market value of total equity is expected to be  
20 approximately \$5.1 billion and the enterprise value (the market value of equity plus total  
21 debt outstanding) is expected to be approximately \$8.8 billion. At this financial scale,

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<sup>5</sup> EBITDA is a company's earnings before interest, taxes, depreciation, and amortization and is used to analyze and compare a company's financial performance.

1 Talen Energy will have ready access to debt and equity capital as needed to fulfill its  
2 funding requirements to own and operate PPL IEC.

3 Talen Energy also is making arrangements to have a revolving credit facility of  
4 approximately \$1.85 billion available to it upon closing of the Proposed Transaction.  
5 The credit facility is in syndication and is expected to close in escrow by the end of  
6 August. The facility would be fully committed and available to Talen Energy upon the  
7 closing of the Proposed Transaction.

8  
9 **Q. What is the intended capital structure for PPL IEC under Talen Energy ownership?**

10 A. Currently, there is no debt at or allocated to PPL IEC, and PPL IEC is expected to have  
11 approximately \$8.3 million in equity as of December 31, 2014. This no-debt capital  
12 structure for PPL IEC is expected to continue following the closing of the Proposed  
13 Transaction. As of June 30, 2014, the *pro forma* capital structure of Talen Energy, which  
14 will indirectly own PPL IEC upon closing of the Proposed Transaction, was 45% debt  
15 and 55% common equity.<sup>6</sup> There are no plans to materially increase the amount of  
16 indebtedness from this level upon closing.

17  
18 **Q. Will PPL IEC guarantee the debt of Talen Energy or any of its other affiliates?**

19 A. No.  
20

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<sup>6</sup> These capital ratios were calculated by combining PPL EnergySupply debt and RJS Holdings debt and PPL EnergySupply book value of equity and RJS Holdings book value of equity as of June 30, 2014. These values do not reflect purchase accounting adjustments to RJS Holdings balance sheet that will be required at closing.

1 **Q. Does Talen Energy intend to recoup any transaction costs from PPL IEC's or PPL**  
2 **EU's ratepayers?**

3 A. No. Talen Energy recognizes that transaction costs are not recoverable in rates. As such,  
4 Talen Energy is willing to commit that there will not be any claim for such costs in PPL  
5 IEC's or PPL EU's future rate filings.

6

7 **Technical Fitness**

8 **Q. Do the management teams of Talen Energy have the technical expertise necessary to**  
9 **operate PPL IEC in the public interest?**

10 A. Yes. PPL IEC and Talen Energy will have the required managerial and technical  
11 experience to operate PPL IEC's pipeline assets upon the closing of the Proposed  
12 Transaction. PPL IEC is the only entity affected by the Proposed Transaction that  
13 currently operates oil and gas pipelines. As explained in the direct testimony of Mr.  
14 Cummings, Joint Applicants' Statement No. 3, all of the operating and management  
15 employees of PPL IEC immediately prior to the closing of the Proposed Transaction will  
16 remain employees of PPL IEC following the closing of the Proposed Transaction as  
17 required to meet the continuing operations and management needs of the business.

18 Currently, PPL IEC is solely in the business of transporting oil and natural gas to  
19 electric generating stations. Since the operational and management experience of PPL  
20 Energy Supply in operating electric generating stations will be transferred to Talen  
21 Energy as part of the Proposed Transaction and combined with similar expertise from the  
22 generating facilities to be contributed to Talen Energy, the combined skill of Talen  
23 Energy in managing and operating electric generation stations and acquiring fuel to

1 power such stations will provide the necessary expertise to manage and operate PPL IEC  
2 in its function of providing oil and natural gas to electric generating stations following the  
3 closing of the Proposed Transaction.

4  
5 **Q. Please describe Talen Energy’s experience as an owner and operator of utilities.**

6 A. Because the operating and management employees of PPL IEC immediately prior to the  
7 closing of the Proposed Transaction will remain employees of PPL IEC and will be  
8 combined with Talen Energy following the closing of the Proposed Transaction, PPL IEC  
9 will have the same experience as an owner and operator of a utility that exists today.

10  
11 **Q. Who will run PPL IEC on a day-to-day basis following the closing of the Proposed  
12 Transaction?**

13 A. As noted in the direct testimony of Mr. Drew Cummings, Joint Applicant’s Statement  
14 No. 3, all of the operating and management employees of PPL IEC will remain  
15 employees of PPL IEC following the closing of the Proposed Transaction.

16  
17 **Q. Please describe whether Talen Energy will have a local presence.**

18 A. Talen Energy has committed pursuant to the Transaction Agreement that, for at least  
19 three years following the closing of the Proposed Transaction, it will maintain its  
20 headquarters in Pennsylvania and will use commercially reasonable efforts to maintain  
21 competitive retail energy supply business activity in the City of Allentown’s  
22 Neighborhood Improvement Zone.

23

1 **Q. Please describe the various affiliated relationships involved in the proposed**  
2 **acquisition of PPL IEC.**

3 A. As explained in the direct testimony of Mr. Cummings, Joint Applicants' Statement No.  
4 3, PPL IEC is a wholly owned indirect subsidiary of PPL Energy Supply and, thus,  
5 currently is an affiliate of both PPL Energy Supply and its subsidiaries. Upon closing of  
6 the Proposed Transaction, ownership of PPL Energy Supply and its subsidiaries,  
7 including PPL IEC, will be transferred to Talen Energy. As a result, PPL IEC will  
8 continue to be affiliated with PPL Energy Supply and its other subsidiaries –following  
9 the closing of the Proposed Transaction. No changes or amendments to the existing  
10 agreements between PPL IEC and PPL Energy Supply and/or its subsidiaries are  
11 contemplated at this time.

12 Further, to the extent there are any post-closing agreements between PPL IEC and  
13 any Riverstone affiliates, PPL IEC has committed to timely seek the Commission's  
14 approval of any such affiliated interest agreements to the extent required.

15  
16 **Q. Will there be any change in the fees that will be paid to and services performed by**  
17 **affiliates of PPL IEC after the closing of the Proposed Transaction.**

18 A. No. As previously stated, the existing intercompany agreements between PPL IEC and  
19 PPL Energy Supply and/or its subsidiaries will remain in place unchanged, including the  
20 fees to be paid and services to be performed. I do note, however, that to the extent there  
21 are any post-closing agreements between PPL IEC and Talen Energy and/or its affiliates,  
22 or any amendments or modifications to the existing agreements between PPL IEC and

1 PPL Energy Supply and/or its subsidiaries, PPL IEC has committed to timely seek the  
2 Commission's approval of any such affiliated interest agreements to the extent required.

3  
4 **Legal Fitness**

5 **Q. Is Talen Energy legally fit to own and operate PPL IEC?**

6 A. Talen Energy is legally fit to own and operate PPL IEC. Talen Energy will consist of a  
7 combination of PPL Corp.'s and the RJS Entities' competitive electric generation and  
8 related businesses. The RJS Entities are in compliance in all material respects with  
9 federal law and state law in the jurisdictions in which they operate. None of the entities  
10 have been prosecuted, indicted, or investigated for criminal activity.

11  
12 **Q. Please describe the Talen Energy corporate governance/Sarbanes-Oxley  
13 compliance.**

14 A. The Sarbanes-Oxley Act of 2002 was passed to protect shareholders and the general  
15 public from accounting errors and fraudulent practices, as well as improve the accuracy  
16 of corporate disclosures. The United States Securities and Exchange Commission  
17 administers the act, which sets deadlines for compliance and publishes rules on  
18 requirements. As a publicly traded company, Talen Energy will fully comply with the  
19 Sarbanes-Oxley corporate governance and accountability requirements. Talen Energy  
20 also will fully comply with the corporate governance standards contained in the New  
21 York Stock Exchange's Listed Company Manual.

1 **PUBLIC INTEREST**

2 **Q. Do you believe that the Proposed Transaction will provide promote the public**  
3 **interest?**

4 A. Yes. As explained in the direct testimony of Dennis Urban, Joint Applicants' Statement  
5 No. 2, the Proposed Transaction will separate the public utility business from the  
6 deregulated generation and retail supply businesses currently operated by PPL Corp. By  
7 doing so, it will provide separate and distinct business profiles to capital markets and  
8 business partners. Further, as explained in the direct testimony of Drew Cummings, Joint  
9 Applicants' Statement No. 3, the PPL IEC assets support the generation portion of the  
10 business and are not aligned in any material way with the regulated electric transmission  
11 and distribution businesses of PPL EU. It is clearly in the public interest for the  
12 ownership of PPL IEC to be indirectly transferred as part of the Proposed Transaction. In  
13 addition, as explained in the direct testimony of Marc Jackson, Joint Applicants'  
14 Statement No. 4, the separation of generating assets requires a clarification and further  
15 delineation of real estate rights. This clarification and delineation will permit PPL EU  
16 and Talen Energy to operate their respective assets more efficiently upon closing, which  
17 is in the public interest.

18  
19 **Q. Does this conclude your direct testimony?**

20 A. Yes, it does. However, I reserve the right to supplement my testimony if and as  
21 additional issues arise during the course of this proceeding.

22