Memorandum

To: **Rhode Island Division of Public Utilities and Carriers**
John Bell
Alberico Mancini

From: **David Effron, Berkshire Consulting Services, on Behalf of the Division of Public Utilities and Carriers**

Re: **Gas Infrastructure, Safety, and Reliability Plan FY 2024, Docket 22-54-NG**

Date: **February 14, 2023**

cc: **Linda George, Administrator**
John Spirito, Deputy Chief Administrator
Christy Hetherington, Chief Legal Counsel
Paul Roberti, Chief Economic and Policy Analyst

On December 22, 2022, the Narragansett Electric Company d/b/a Rhode Island Energy ("Narragansett" or "the Company") submitted its Proposed Infrastructure, Safety, and Reliability (ISR) Plan for the period April 2023 – December 2024. Calculations supporting the revenue requirements associated with the safety and reliability expenses and qualifying capital investment components are included in the Gas ISR Plan. In compliance with the Rhode Island Public Utilities Commission ("PUC") ruling of January 20, 2023, the Company, on February 3, 2023, filed a supplemental Gas ISR Plan revenue requirement, rate design, and bill impact for the period April 1, 2023 through March 31, 2024 (Fiscal Year 2024).

Narragansett's Gas ISR Plan for Fiscal Year 2024 is the first under ownership of PPL Corporation ("PPL"). As noted previously, in Docket D-21-09 before the Division, PPL and National Grid USA elected to have the sale of the Company to PPL ("Acquisition") treated as an asset sale for federal income tax purposes, pursuant to Internal Revenue Code (IRC) §338. Accordingly, the new the tax basis of the Company's assets became equal the book basis when the Acquisition closed, and the balance of accumulated deferred federal income taxes ("ADIT") existing at that time was eliminated.

In Docket D-21-09, PPL represented that it would hold customer harmless from any rate impacts associated with the elimination of ADIT. Consistent with this representation, the ISR revenue requirement for Fiscal Year 2024 includes a "Hold Harmless Adjustment" of approximately $4.5 million (Section 3 Supplemental: Attachment 1, Page 1). Based on my review, the revenue requirement adjustment quantified by the Company properly holds customers harmless from the effect of the ADIT elimination on the Fiscal Year 2024 ISR revenue requirement. The testimony of the revenue requirements panel further states that:

> Because of the §338 election, PPL generated tax-deductible goodwill, which creates cash tax benefits to the Company. These cash tax benefits will be shared with the customer in the form of revenue credits to offset the increase in revenue requirements from the increase in rate base because of the elimination of deferred taxes from the Acquisition
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Joint Pre-filed Direct Testimony of Witnesses: Briggs, Oliveira, Elmore, and Hawk, p.15.

While this statement does not affect the quantification of the hold harmless credit for the purpose of the Fiscal Year 2024 ISR revenue requirement, it is not relevant to the Company's hold harmless commitment. The hold harmless commitment is not conditioned on the availability of other merger related tax benefits to finance that commitment. The Company is committed to hold customers harmless from the elimination of the ADIT from the Acquisition regardless of the existence of any offsetting tax benefits to PPL. If the tax benefits to PPL from tax-deductible goodwill are exhausted in the near future, that does not relieve the Company from its commitment to hold customers harmless from the effect of the ADIT elimination in future ISR, or base rate, applications.

On a separate matter, the Company addresses certain changes to its policies regarding capitalizing expenditures for plant, property, and equipment at pages 16-20 of the testimony of revenue requirements panel. This does not present issues in the present ISR filing. However, the effect of these changes in capitalization policy on the balances of plant capitalized in the future should be reviewed to verify that such changes do not result in expenditures already being recovered as operation and maintenance expense in base rates being also recovered through the ISR. One way to prevent such potential double recovery would be to coordinate any changes in capitalization policy with a base rate case.