

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: INVESTIGATION OF UTILITY MISCONDUCT :
OR FRAUD BY THE NARRAGANSETT ELECTRIC : **DOCKET NO. 22-05-EE**
COMPANY RELATING TO PAST PAYMENT OF : **DOCKET NO. 5189**
SHAREHOLDER INCENTIVE :

ORDER

In Docket No. 5189, The Narragansett Electric Company (Company) filed for approval of its 2022 Annual Energy Efficiency Plan. At the time of the filing, the Company was owned by National Grid USA, and was doing business as “National Grid.”¹ However, approval of the sale of the Company by National Grid USA to a subsidiary of PPL Corporation, a Pennsylvania utility company, was pending before the Division of Public Utilities and Carriers (Division).² During the time when the Company was owned by National Grid USA, employees of National Grid USA Service Company were providing operation and management services to the Company, including services relating to the management of the energy efficiency program.³

During the course of the proceedings in Docket No. 5189, the Company, through its National Grid employees, informed the Commission that it had discovered noncompliance with certain program rules by one program participant serving as a manufacturer/distributor of energy efficient lighting products for National Grid and its affiliate in Massachusetts. The Commission

¹ For purposes of this Order, the term “National Grid” will refer to The Narragansett Electric Company when it was owned by National Grid USA.

² The pending transaction was a proposed sale of 100% of the shares of The Narragansett Electric Company by National Grid USA to “PPL Rhode Island,” a wholly owned indirect subsidiary of PPL Corporation. See Division Docket No. D-21-09, found at: https://ripuc.ri.gov/eventsactions/docket/D_21_09.html

³ For purposes of this Order, the term “National Grid employees” will refer to employees of National Grid USA affiliates, including employees of the Company prior to the sale and employees of National Grid USA Service Company. National Grid USA Service Company is an affiliate of National Grid USA and provides certain common services across National Grid USA’s subsidiaries, including The Narragansett Electric Company. National Grid USA Service Company incurs costs associated with the provision of these common services and directly charges or allocates the costs of the shared services, as appropriate, to the National Grid USA subsidiary companies that receive the benefit of the provided services.

requested further information on the noncompliance and any investigations that National Grid or its affiliates had conducted. The Company, through its National Grid employees, then informed the Commission that it, along with other utilities in Massachusetts, had conducted an investigation into the allegations of noncompliance and determined that they were accurate.⁴

During this investigation, the manufacturer/distributor raised an allegation that, in late 2017, it was asked by National Grid employees to hold off on submitting invoices in Rhode Island for the last three months of 2017 until early 2018. The manufacturer also claimed that, in 2018, National Grid employees again asked the vendor to hold off submitting invoices in Rhode Island until early 2019. National Grid and its affiliates conducted an internal investigation and confirmed that certain National Grid employees managing the Company's residential upstream lighting program had engaged in a practice of manipulating invoices by requesting the manufacturer to delay submitting invoices for payment.⁵ The Company represented that it took disciplinary action against certain employees involved and conducted a further investigation of the residential upstream lighting program for the years 2016 through 2021 in order to quantify the impact on Rhode Island ratepayers.

As part of this investigation, National Grid performed an analysis of the impact of the activity on the Company's shareholder performance incentives, which were financial rewards to the Company's shareholders for meeting performance targets under the annual energy efficiency programs. The Company represented that it recalculated the total non-income eligible residential sector spend and savings, and resulting shareholder incentive, for each program year that was impacted to see if there was any impact on Rhode Island customers. According to the Company, these adjustments reflected a downward adjustment in earned performance incentive because

⁴ Docket No. 5189, National Grid Response to PUC 5-4.

⁵ *Id.*

National Grid was already above or sufficiently close to the maximum potential performance incentive earnings in specific areas in two of the years investigated. National Grid maintained that it quantified the impact on Rhode Island customers stemming from the corrected annual shareholder incentive amounts and calculated an aggregate, net downward adjustment of the shareholder incentive (meaning money returned to the energy efficiency program) of \$124,135. The Company informed the Commission that it intended to credit this money to the energy efficiency fund prior to February 1, 2022, so that this credit will be reflected in advance of a potential new energy efficiency surcharge for 2022.⁶

At a hearing in Docket No. 5189, the Commission attempted to question National Grid witnesses about the scope of the investigation and any other impacts on ratepayers. In particular, the Commission was concerned whether National Grid had investigated programs other than the residential upstream lighting program for similar conduct. However, National Grid's counsel informed the Commission that none of the witnesses knew the extent or scope of the investigation.⁷ The Commission then requested copies of any reports that resulted from the investigations discussed in National Grid's response to an information request, PUC 5-4, which had disclosed the matter that was under internal investigation. The Company then provided redacted copies of two reports.⁸

⁶ *Id.*

⁷ Docket No. 5189, Hr'g Tr. at 235-36 (Jan. 13, 2022).

⁸ *See* Docket No. 5189, National Grid Response to RR-5. The Company identified three documents that were responsive to Record Request No. 5: (1) a Matson Driscoll Damico LLP Forensic Accounting Report (the "MDD Report") prepared at the direction of outside counsel representing Massachusetts utilities National Grid, Eversource, Cape Light Compact, and Unitil concerning the lighting manufacturer/distributors alleged misconduct; (2) an internal report prepared by National Grid's internal counsel concerning Company conduct relating to untimely lighting invoices (the "Internal Counsel Report"); and (3) a draft Forensic Accounting Summary (the "Forensic Summary") prepared at the direction of National Grid's internal counsel also pertaining to the lighting invoices. The Company filed an *Objection to Record Request 5* and a *Motion for Protective Treatment of Confidential Information*. The Company withheld the MDD Report in its entirety and produced redacted confidential versions of the Internal Counsel Report and the Forensic Summary. *Id.* At open meeting on January 25, 2022, the Commission Chairman granted temporary protective treatment over the reports and documents that were produced by the Company.

National Grid later informed the Commission that it was continuing to investigate the activities of energy efficiency program managers to determine whether out-of-period invoicing or other similar activity occurred in any energy efficiency program during the period 2012-2021.⁹ National Grid targeted June 1, 2022, to complete the expanded investigation and provide the Commission with a copy of any final reports.¹⁰

At a procedural conference attended by counsel for parties in Docket No. 5189 – also attended by counsel representing PPL Corporation¹¹ – the Chairman expressed concerns that the sale of The Narragansett Electric Company from National Grid USA to PPL could hinder any potential Commission investigation or review of this matter. Specifically, the Commission was concerned that it might not have access to the employees involved in the matter who were employees of National Grid affiliates but were not being transferred to the new PPL affiliate after the closing. In response, National Grid provided the Commission with a copy of an executed Cooperation Agreement among PPL Corporation, PPL Energy Holdings, LLC, PPL Rhode Island, National Grid USA Service Company, and The Narragansett Electric Company that provided, *inter alia*, that the companies would cooperate on providing the Commission with the ability to gather information from all personnel with relevant knowledge in connection with the Commission’s investigation of this matter.¹²

The Commission ordered National Grid to credit the \$124,135 from shareholder funds to the fund balance and withheld further ruling on this matter in Docket No. 5189 pending further

⁹ Docket No. 5189, National Grid Response to Post-Decisional 1-1 and 2-1.

¹⁰ *Id.*

¹¹ Counsel for all parties were notified of the conference, but not all parties to the original Docket No. 5189 attended.

¹² *See* Docket No. 5189, National Grid Supplemental Response to Post-Decisional 1-2.

investigation and proceedings.¹³ The sale of The Narragansett Electric Company to PPL then closed on May 25, 2022.

On June 7, 2022, the Company – now a subsidiary of PPL Corporation – submitted an internal report on the *Review of Invoices Within the Energy Efficiency Program*.¹⁴ The report described an internal investigation undertaken by National Grid and its affiliates, revealing that they had found 48 instances in which the Company wrongly reported invoices for payment of energy efficiency programs, resulting in National Grid earning a higher shareholder incentive than it should have earned. The National Grid internal review estimated this excess shareholder incentive at between \$1,564,423.00 and \$1,977,707.00.¹⁵ (These amounts are inclusive of the \$124,135 that the Commission previously ordered the Company to credit back to ratepayers in Docket No. 5189.)

On June 27, 2022, the Commission held an open meeting to discuss the Company’s report along with other information produced by the Company in response to data requests issued by the Commission.

Accordingly, it is hereby

(24441) ORDERED:

Pursuant to Rule 1.13 of the Commission’s Rules of Practice and Procedure (810-RICR-00-00-1.13), the Commission has opened a new docket (Docket No. 22-05-EE) in which the Commission will investigate the Company’s actions and the actions of its National Grid employees during the time it was a National Grid affiliate being provided services by National Grid USA

¹³ National Grid represented that it would make this credit prior to February 1, 2022. See Docket No. 5189, National Grid Response to PUC 5-4.

¹⁴ Available at [http://www.ripuc.ri.gov/eventsactions/docket/5189-RIEnergy-Energy Efficiency Invoices Update to PUC \(PUC 6-7-22\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/5189-RIEnergy-Energy%20Efficiency%20Invoices%20Update%20to%20PUC%20(6-7-22).pdf).

¹⁵ Docket No. 5189, National Grid Response to PUC Post-Decisional 3-1.

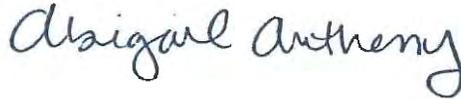
Service Company, relating to the manipulation of the reporting of invoices affecting the calculation of past energy efficiency shareholder incentives and the resulting impact on ratepayers.¹⁶

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 11, 2022. WRITTEN ORDER ISSUED JULY 11, 2022.

PUBLIC UTILITIES COMMISSION



Ronald T. Gerwatowski, Chairman



Abigail Anthony, Commissioner



John C. Revens, Jr., Commissioner



¹⁶ This Order will be served on The Narragansett Electric Company and National Grid USA Service Company, Inc. consistent with the Commission's Rules of Practice and Procedure.