

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: VEOLIA WATER RHODE ISLAND, INC. :
GENERAL RATE FILING : **DOCKET NO. 4800**
DISTRIBUTION SYSTEM IMPROVEMENT CHARGE :
SEPTEMBER 2022 :

ORDER

On October 5, 2018, as part of its approval of a Settlement Agreement between Suez Water Rhode Island, Inc. (Suez) and the Division of Public Utilities and Carriers (Division), the Public Utilities Commission (Commission) approved a Distribution System Improvement Charge (DSIC) that was designed to encourage accelerated capital investment in Suez’s system.¹ Suez’s approved tariff included DSIC language but had no associated charge. The charge would be set following Suez’s first DSIC filing once Suez had completed sufficient DSIC qualified improvement projects (non-revenue producing qualified additions). As part of its approval, the Commission found that:

The evidence presented on the DSIC supported a finding that the DSIC design represented a reasonable balance between the utility having expedient cost recovery and the PUC’s responsibility to continue ensuring just and reasonable rates through adequate review processes. There is an annual filing due 90 days after the end of each 12-month period. The filing includes supporting data for all qualified additions. The PUC had been concerned with the short timeframe to review semiannual filings (45 days). While there will be semi-annual filings to set the DSIC surcharge within the 45-day period, the annual filing will also allow for a prudence review of the investments. This will provide a balance between the utility having expedient cost recovery and the PUC’s responsibility to continue to ensure just and reasonable rates through adequate review processes.

...

The design in this case would only allow DSIC surcharges to be based on investment in qualified additions put into service during the prior six-month period. To address PUC concerns that there might be a possibility of double-counting of recovery, the utility must back out the revenue requirement for DSIC-related projects that are already included in the base rates. Another protection is that rather than setting a specific annual spending threshold against which to measure the incremental investment, the annual spending threshold increases to whatever the annual depreciation is. This balances the utility’s motivation to add plant investment resulting from the DSIC with a consumer

¹ Order No. 23825 (May 20, 2020); http://www.ripuc.ri.gov/eventsactions/docket/4800-Suez-Ord23825_5-7-2020.pdf.

protection, i.e., if there is no increase in net plant, there is no increase in rate base, and in that period, there should be no DSIC increase.

The charge is capped at 2.5% per year, with the cumulative effect of the surcharge between rate cases capped at 7.5% of the total revenue allowed in the most recently approved rate case. The annual percentage cap was proposed by the Division. It provides a balance between recovery of the accelerated investment and ratepayers' interests in predictable rates.²

Suez's first DSIC charge of 2.5% was approved on November 5, 2021.³ On August 15, 2022, Veolia Water Rhode Island, Inc. (Veolia), successor to Suez,⁴ filed a request for an additional 2.5% DSIC charge to bring the total DSIC charge to 5%.⁵ Veolia requested an effective date of September 29, 2022. Veolia also filed revised tariffs to provide a clearer explanation of the DSIC and to reflect the requested charge, for approval commensurate with the decision on the DSIC. The first page of the filing was revised on September 22, 2022 to reflect a minor adjustment to the reconciliation portion of the report.

According to Veolia, the company completed \$6,012,711 comprised of \$3,682,933 worth of DSIC qualified improvement projects between October 1, 2018 and July 31, 2022, \$2,504,737 between the period August 1, 2021 through January 1, 2022,⁶ and \$37,316 for the period February 1, 2022 through July 31, 2022.⁷ To calculate the eligible investment for the DSIC charge, Suez removed \$2,224,330 already included in base rates together with \$314,148 of base spend.⁸ The resulting amount was then further reduced by accumulated depreciation and deferred tax. The

² *Id.* at 7-8 (citations omitted).

³ Order No. 24418 (June 3, 2022).

⁴ Veolia Environment S.A. ("Veolia") and SUEZ S.A. ("SUEZ") merged on January 18, 2022. The Competition and Markets Authority (CMA) provided antitrust clearance for the transaction in the United Kingdom on March 10, 2022 clearing the way for Veolia and SUEZ to commence the integration of the Veolia North America (VNA) and the SUEZ North America (SNA) businesses, which includes SUEZ Water Rhode Island, Inc. now Veolia Water Rhode Island, Inc. ("VWRI") VWRI's immediate parent company, SUEZ Water Resources LLC, was renamed Veolia Utility Resources, LLC. There has been no change in the ownership structure of VWRI.

⁵ Veolia's Filing (Aug. 15, 2022).

⁶ Veolia's February 2022 semi-annual filing resulted in no additional DSIC surcharge because the annual cap of 2.5% was approved in November 2021.

⁷ Veolia's Filing at 2, 6.

⁸ *Id.* at 5.

Eligible Net Investment for the period February 1, 2022 through July 31, 2022 was a credit. This amount was multiplied by 8.55%, Suez's pre-tax return on investment and then increased by depreciation expense to result in a revenue recovery credit of negative \$2,030. This was multiplied by revenue factor of 1.017061 which represented the annual Commission/Division assessment and recovery of gross receipts tax. Therefore, Suez calculated a DSIC revenue requirement recovery credit for the period of \$2,030.⁹ Factoring in the DSIC revenue requirement from the February 2022 filing and over-collections for the period November 5, 2021 through July 31, 2022, resulted in a DSIC revenue requirement of \$346,467. This was divided by projected revenues of \$2,404,944, leading to a DSIC of 14.41%.¹⁰ Because of the annual 2.5% cap, Suez requested a total 5.0% DSIC charge for effect on September 29, 2022.¹¹

On September 22, 2022, the Division of Public Utilities and Carriers (Division) submitted a memorandum from Utility Analyst AI Contente. Mr. Contente summarized the filing and concluded that the calculations, as revised, were consistent with the tariff. However, while the Division recommended approval of the DSIC, Mr. Contente stated that because the current 2.5% DSIC charge was effective November 5, 2022, in order to comply with the cap on the DSIC increase of 2.5% annually, the charge should be approved, not for September 29, 2022, but for November 5, 2022.¹² On September 23, 2022, Gary Prettyman, Senior Director Regulatory Business, advised through an e-mail that Veolia did not object to the Division's recommendation.¹³

On September 28, 2022, at an Open Meeting, the Commission considered the filing and found that a hearing and full investigation is not needed because this is a filing in compliance with

⁹ Veolia's Filing at 1 (revised).

¹⁰ Veolia's Filing at 1 (revised).

¹¹ *Id.*

¹² Contente Mem. at 2 (Sept. 22, 2022).

¹³ Prettyman E-mail (Sept. 23, 2022).

a methodology previously approved in Commission Order No. 23825.¹⁴ The Commission accepted the Division’s findings and recommendation that the Distribution System Improvement filing, and calculation were in compliance with Commission Order No. 23825, and also the Division’s recommendation that the effective date be changed to November 5, 2022. The Commission also approved the revised tariff, with the exception of the effective date.

Accordingly, it is hereby,

(24609) ORDERED:

1. Veolia Water Rhode Island, Inc.’s Distribution System Investment Charge of 5.0% is approved for effect November 5, 2022.
2. Veolia Water Rhode Island’s Revised Tariff filed on September 1, 2022 is hereby approved, with the exception that Sheet 25 shall be amended to reflect the November 5, 2022 effective date for the 5.00% Distribution System Investment Charge.
3. In future Distribution System Investment Charge filings, Veolia Water Rhode Island, Inc. or its successor, shall provide customer notification when it files any future Distribution System Investment Charge filing, whether or not there is a rate change.

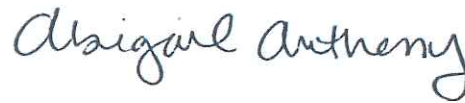
¹⁴ R.I. Gen. Laws § 39-3-12 states, in relevant part, “the commission may, in its discretion and for good cause shown, allow changes ...without holding the hearing and investigation therein provided for....”

EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 5, 2022, PURSUANT TO AN OPEN MEETING DECISION ON SEPTEMBER 23, 2022. WRITTEN ORDER ISSUED MARCH 1, 2023.

PUBLIC UTILITIES COMMISSION



Ronald T. Gerwatowski, Chairman



Abigail Anthony, Commissioner



John C. Revens, Jr., Commissioner



NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or order.