

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: THE NARRAGANSETT ELECTRIC COMPANY :
d/b/a RHODE ISLAND ENERGY’S PENSION :
ADJUSTMENT FACTOR FILING FOR THE : **DOCKET NO. 23-27-EL**
TWELVE-MONTH PERIOD ENDING MARCH 31, 2023 :

ORDER

On August 15, 2023, The Narragansett Electric Company d/b/a Rhode Island Energy (RI Energy or Company) filed its proposed electric Pension Adjustment Factor (PAF) with the Public Utilities Commission (PUC).¹ In support of its filing, RI Energy submitted the joint direct testimony and schedules of Jeffrey D. Oliveira, Regulatory Programs Specialist and George R. Sunder, Manager of the Benefits Accounting Department, both employed by PPL Service Corporation (the witnesses). The Company proposed a credit factor of \$0.00281/kWh for effect on October 1, 2023.²

In their joint testimony, the witnesses explained that the PAF is based on the difference between the Company’s actual pension and post-retirement benefits other than pension (PBOP) expenses for the prior twelve-month period and the allowance included in base distribution rates.³ The Company is required to contribute to the pension and PBOP plans at a Minimum Funding Obligation level, which equals the amount billed to customers plus the amounts of capitalized

¹ All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <https://ripuc.ri.gov/Docket-23-27-EL>. Pursuant to the Commission’s decision in Docket No. 4323, Order No. 21011 (Apr. 11, 2013), RI Energy is authorized to reconcile its actual pension and post-retirement benefits other than pensions expenses annually for the twelve-month period ending March 31. The difference between the Company’s actual expense and the allowance included in base distribution rates is either charged or credited to electric retail delivery customers on a uniform per kWh basis. The PUC approved the continuation of RIPUC No. 2119 as part of its decision in Docket No. 4770, In re: The Narragansett Electric Company d/b/a National Grid Electric and Gas Distribution Rate Filing, but with an adjusted rate allowance. See PUC Order No. 23823; [http://www.ripuc.ri.gov/eventsactions/docket/4770-4780-NGrid-Ord23823\(5-5-20\).pdf](http://www.ripuc.ri.gov/eventsactions/docket/4770-4780-NGrid-Ord23823(5-5-20).pdf).

² Jt. Test. at 15; Sched. JDO/GRS-2.

³ Jt. Test. at 6.

pension and benefits costs.⁴ On an annual basis, the Company reconciles its actual pension and PBOP expenses against the associated allowance in base distribution rates as determined in the most recent distribution rate case. Any difference between the pension and PBOP expenses and the associated allowance, either positive or negative, is reflected in rates assessed to the Company's electric customers through the PAF.⁵

This is the first filing made by Rhode Island Energy that encompasses the Acquisition of The Narragansett Electric Company from a National Grid entity to a PPL entity. The closing of occurred in May 2022. The period being reviewed in this matter is April 1, 2022, through March 31, 2023. This period coincided with National Grid's fiscal year. PPL's fiscal year is a calendar year. The result is that RI Energy's "reconciliation of pension and PBOP expenses for the one-year period ending March 31, 2023, must account for changes in pension expenses occurring over three time periods."⁶ In addition, as a result of the Acquisition, instead of one aggregated set of Pension and PBOP plans utilized by National Grid for the calculation of the minimum funding obligation, PPL has two separate plans, one for direct employees of RI Energy and one for PPL Service Company employees. There are also pension and PBOP expenses for National Grid employees providing services to RI Energy. These expenses are provided under a Transition Services Agreement (TSA).^{7,8} The impact of the three periods results in different discount rates

⁴ *Id.* at 7. The Company also incurs a carrying charge at the weighted average cost of capital if it fails to meet the Minimum Funding Obligation level.

⁵ *Id.* at 6.

⁶ Oliveira and Sunder Test. at 7-8. The periods are April 1, 2022-May 24, 2022; May 25, 2022-December 31, 2022; and January 1, 2023-March 31, 2024.

⁷ Oliveira and Sunder Test. at 8-9.

⁸ As a result of a court settlement between PPL and the RI Attorney General, "Recovery of Transition Costs. The Approval Order includes a condition that limits Narragansett's potential recovery of transition costs to no more than \$82,000,000. PPL now agrees that Narragansett will forgo potential recovery of any and all transition costs, reducing the total amount of potential transition cost recovery to \$0." (C.A. No. PC-2022-01095, Settlement Agreement, Exhibit C, ¶ 1.d); <https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2022-10/2207-Settlement%20Agreement%20May19-2022.pdf>.

and the expected return on assets applicable to the PPL pension plans as compared to the National Grid pension plans.⁹ However, the witnesses explained that the impact of the contributions to the plans is the result of process changes and not changes in cost.¹⁰ The witnesses stated, “assuming that the Company’s Pension and PBOP expense reconciliations continue to be performed on an April 1 to March 31 basis, the Company will calculate its pension and PBOP expense based on two periods: April 1 to December 31 of one calendar year and January 1 to March 31 of the following calendar year.”¹¹

Following its review of the filing but prior to the Division of Public Utilities and Carriers’ filing deadline, the Commission issued a data request inquiring whether it would be more efficient and less complex to set the factor and reconciliation based on a calendar year. The Company responded in the affirmative explaining:

Under the accounting guidance for pension and postretirement plans, companies are required to calculate costs based on their fiscal year. Historically, the rate filing year was based on the fiscal reporting year for National Grid, which is April 1 to March 31. As a result of the acquisition of the Company by PPL Rhode Island Holdings, LLC, the Company’s fiscal reporting year now corresponds to PPL Corporation’s, which is a calendar year from January 1 to December 31. Moving to a calendar year basis will allow for the use of the actuarial reports that are used to record and report the Company’s annual results. Updating the rate filing year to correspond to the calendar year will allow for the use of single versus multiple actuarial reports, measurement dates, corresponding assumptions, and market impacts for each pension and postretirement benefit plan.¹²

The Company suggested that this transition could be made through a May 1 annual filing with rates effective July 1 each year. This would allow the Company sufficient time to prepare the filing, avoid a conflict with other fiscal year end reporting obligations, and coincide with several other factor changes.¹³

⁹ Oliveira and Sunder Test. at 11-12.

¹⁰ *Id.* at 12.

¹¹ *Id.*

¹² RI Energy Response to PUC 1-1 (Aug. 15, 2023).

¹³ *Id.*

The Company's rate allowance for the twelve months ending March 31, 2023, for pension and PBOP costs total \$8,572,228, with pension costs accounting for \$3,756,296 of that amount and PBOP costs accounting for the remaining \$4,815,932.¹⁴ The Company's reconciliation showed an over-recovery of pension expense in the amount of \$11,134,841 for the twelve months ending March 31, 2023.¹⁵ The Company over-recovered PBOP expense in the amount of \$8,497,243 during that time period.¹⁶ In addition, the Minimum Funding Obligation was underfunded on a cumulative basis and has a carrying charge of \$461,534 in carrying charges to be credited to customers.¹⁷

The Company then adjusted the current year over-recovery by accounting for a remaining total balance of a \$59,701 from prior year deferrals due to be collected from customers.¹⁸ The resulting net over-recovery from the current and prior years totals \$20,633,902, including interest. This figure is then divided by the 7,324,058,339 forecasted kWhs for the period October 1, 2023, through September 30, 2024, to arrive at the \$0.00281/kWh proposed credit factor.¹⁹

On September 20, 2023, the Division of Public Utilities and Carriers (Division) filed a memorandum from John Bell, Chief Accountant, indicating that the factor was calculated correctly. Commenting on the Commission's inquiry into the complexity associated with continued use of National Grid's fiscal year and the Company's response, the Division opined that the Company's proposal to transition to a Calendar Year reconciliation period with an October 1 filing followed by May 1 filings appears reasonable. The Company's proposal would keep the current 60-day review period in place, and it will result in a less complex filing. Moreover, because

¹⁴ Sch. JDO/GRS-1 at 1.

¹⁵ Sch. JDO/GRS-2 at 1.

¹⁶ *Id.*

¹⁷ *Id.*

¹⁸ *Id.*

¹⁹ *Id.*

there are other rate changes that take place July 1 of each year, moving the PAF effective date from October 1 to July 1 would not add to the current number of rate changes each year. The Division, therefore, supported the Company's proposal as a reasonable and efficient adjustment to the PAF factor setting and reconciliation process.²⁰

On September 22, 2023, RI Energy filed a supplemental response to the Commission's data request proposing a 9-month factor for the period October 1, 2023 through June 30, 2023 for consideration in the event the Commission were to approve a transition to a calendar year fiscal year. The result was a larger credit factor of \$0.00394/kWh.²¹

At an Open Meeting held on September 26, 2023, the PUC reviewed the filings and approved the use of a nine-month factor to realign the pension and PBOP calculations with the Company's fiscal year. The Commission directed the Company to submit a revised tariff. The Commission also requested the Division provide a recommendation on the revised tariff and associated factors.

On September 27, 2023, the Company submitted a revised tariff amendment to permit the reconciliation of the difference between the Company's actual pension and PBOP expense for the nine month period ending December 31, 2023 and the base distribution rate allowance, plus carrying charges at the weighted average cost of capital on the cumulative five quarter average underfunding of the pension and PBOP Minimum Funding Obligation for the fiscal year ended December 31, 2023. In following years, the PAF would be filed to reconcile this difference for twelve-month periods aligned with the Company's fiscal year (i.e. ending on December 31).²²

²⁰ Bell Mem. (Sept. 20, 2023).

²¹ RI Energy Response to PUC 1-1 Supp. (Sept. 22, 2023).

²² RI Energy Compliance Filing at Filing Letter (Sept. 27, 2023).

Also on September 27, 2023, the Division submitted a Memorandum from Mr. Bell indicating that the tariff filing was in compliance with the Commission's September 26, 2023 decision and further advising that the revised Pension and PBOP factors had been appropriately calculated. Mr. Bell thus recommended approving both compliance filings.²³

At an Open Meeting held on September 28, 2023, the Commission reviewed the revised tariff and Division Memorandum. The Commission approved the revised tariff and associated nine-month factor for effect on October 1, 2023.

Accordingly, it is hereby:

(24820) ORDERED:

1. The Narragansett Electric Company d/b/a Rhode Island Energy's Tariff RIPUC No. 2271, replacing RIPUC No. 2200 is hereby approved for effect October 1, 2023.
2. The Narragansett Electric Company d/b/a Rhode Island Energy's proposed 2023 Pension Adjustment Credit Factor of \$0.00394/kWh for effect on October 1, 2023, is approved.

²³ Bell Mem. (Sept. 27, 2023).

EFFECTIVE AT WARWICK, RHODE ISLAND ON OCTOBER 1, 2023 PURSUANT
TO OPEN MEETING DECISIONS ON SEPTEMBER 26, 2023 AND SEPTEMBER 28, 2023.
WRITTEN ORDER ISSUED OCTOBER 6, 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.