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Rhode Island Energy™
a PPL company

March 11, 2024

VIA ELECTRONIC MAIL

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket No. 23-49-NG – The Narragansett Electric Company d/b/a Rhode Island Energy's Proposed FY 2025 Gas Infrastructure, Safety, and Reliability Plan
Supplemental / Revised Responses to Data Requests

Dear Ms. Massaro:

On behalf of The Narragansett Electric Company d/b/a Rhode Island Energy, enclosed are the Company's supplemental and revised responses to the following data requests as discussed at the March 7, 2024 evidentiary hearing: Division 3-1-Supplemental, PUC 9-6-Supplemental, and PUC 9-27-Revised.

Thank you for your attention to this matter. If you have any questions, please contact me at 401-316-7429.

Very truly yours,

Jennifer Brooks Hutchinson

Enclosure

cc: Docket No. 23-49-NG Service List

PUC 9-6 – Supplemental
Municipal Property Taxes

Request:

Please explain the processes followed by the Company in paying property taxes relating to new gas mains that are placed in service in the local communities. Please also explain the extent to which repaving costs are included in any local tax valuations when the local community assesses property taxes and the extent to which the Company uses its depreciated regulated rate base as a reference for establishing the property values.

Original Response:

In the first quarter of each calendar year, the Company produces an Annual Return for submittal to each municipality in which the Company owns property. The Annual Return reports the value of assets owned by the Company as of the end of the most recent calendar year. Municipalities rely on the Annual Return to calculate the assessed value for property taxes.

Paving costs associated with new gas mains are included in the value of the gas mains in accordance with the FERC Uniform System of Accounts guidelines. Once the gas mains are placed in service, the paving costs are not separately identifiable, and they are depreciated as part of the gas mains. The Company will report the net book value of the gas mains at the end of the calendar year on the personal property tax return. Municipalities will rely on this tax return, reflecting the prior year's information, to assess the property tax value for the current year.

Supplemental Response:

As explained in the Company's original response, repaving costs associated with new gas mains are included in the value of the gas mains in accordance with the FERC Uniform System of Accounts guidelines. However, the repaving costs are excluded from the asset values for purposes of personal property tax assessments. The Company's tax software is programmed to use a specific accounting field to help identify and exclude the repaving costs from the value of the gas mains assets to report the appropriate asset values to the municipalities for the personal property tax assessment.

In the Gas ISR, property taxes are not computed in a manner used by the municipalities. The Company developed a reasonable approach to estimating a property tax value. This approach uses the net book value ("NBV") of total cumulative plant from the latest filed Gas ISR reconciliation plan (i.e. for the FY25 plan, this would be FY23) and this plant value includes paving costs. The Company divides this NBV of total cumulative plant by the property tax expense recorded on the ledger and reflected in the latest filed Gas ISR reconciliation plan.

Prepared by or under the supervision of: Natalie Hawk

PUC 9-6 – Supplemental, page 2
Municipal Property Taxes

The property tax expense reflected in the calculation is based on actual property tax assessments (i.e., where paving costs were excluded). The result is an effective property tax rate that is then used against the NBV of current year plant activity to calculate property tax in the ISR.

Please refer to Attachment PUC 9-6 – Supplemental for an illustrative example of how property taxes are computed in the context of the ISR. Column A reflects the methodology used for the computation of property tax expense, which includes paving costs in NBV of plant assets and is different from the NBV information provided to municipalities for property tax assessments. Although it may appear that the ISR is computing and charging customers an inflated property tax value, that is not the case. As explained below and illustrated in the Column B scenario, which excludes paving costs in the NBV for purposes of the illustration, the property tax will essentially remain the same due to the methodology used to compute property tax in the context of the ISR.

As explained above, paving costs are included in the NBV of total cumulative plant as reflected in Column A on Line 1, which is used to determine the effective tax rate, as reflected in Column A on Line 3. The effective tax rate is applied to the NBV of current year plant activity, which also includes paving costs and is reflected in Column A on Line 4 to calculate property tax on Line 6. If the paving costs are excluded from the NBV used to determine the effective tax rate in the ISR, as shown in Column B, Line 1, the effective tax rate will increase as shown in Column B on Line 3. However, if the paving costs are also excluded from the NBV of current year plant activity to determine property tax expense, then the higher effective tax rate will be applied to a lower NBV of current year plant activity, as shown in Column B on Line 4. This results in essentially the same property tax expense in the ISR.

Note that the increase in the effective tax rate on a lower NBV due to removing paving costs will most likely not be a one-for-one dollar value exchange as shown on Line 6. For instance, the example in Attachment PUC 9-6 – Supplemental assumes, for the sake of simplicity, that the ratio of paving costs removed from NBV of total cumulative plant on Line 1 is the same ratio of paving costs removed from NBV of current year plant activity on Line 4. If the ratio of paving costs removed from NBV of plant is different between Line 1 and Line 4, the property tax calculated will be different in Column B on Line 6. Although the amounts might be different when doing a comparison, as long as consistent approaches are used to calculate NBV of total plant and current year plant activity (i.e. either paving costs are included or excluded), the methodology used in the ISR is still the same because it is based on actual property tax expense recorded, which expense was based upon personal property valuations that exclude paving costs. Thus, the impact of the paving costs on the property tax calculation in the ISR, and in turn for customers, is relatively neutral.

The Narragansett Electric Company
d/b/a Rhode Island Energy

Example of the property tax methodology used in the Gas ISR

			A Includes Paving Costs	B Excludes Paving Costs	
1	NBV of Total Cumulative Plant	Input	100,000	80,000	
2	Property Tax Expense	Input	10,000	10,000	Note 1
3	Effective Property Tax Rate	(Line 1 / Line 2)	10.0%	12.5%	
4	NBV of Current Year Plant Activity	Input	10,000	8,000	
5	Effective Property Tax Rate	Line 3	10.0%	12.5%	
6	Property Tax on NBV of Current Year Plant Activity	(Line 4 x Line 3)	1,000	1,000	Note 2

Note 1: Line 2 represents actual property tax expense recorded on the ledger from the latest filed Gas ISR reconciliation plan, which is calculated on the NBV of qualified assets. The qualified assets do not include paving costs.

Note 2: This example assumes that that the ratio of paving costs removed from NBV of total cumulative plant on Line 1 is the same ratio of paving costs removed from NBV of current year plant activity on Line 4. If the ratio of paving costs removed from NBV of plant is different between Line 1 and Line 4, the property tax calculated will be different on Line 6