STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC COMPANY	**:**
d/b/a RHODE ISLAND ENERGY'S FISCAL YEAR 2023	**: DOCKET NO. 5209**
ELECTRIC INFRASTRUCTURE, SAFETY, AND RELIABILITY	**:**
PLAN ANNUAL REPORT AND RECONCILIATION	**:**

REPORT AND ORDER

Pursuant to R.I. Gen. Laws § 39-1-27.1, on March 29, 2022, the Public Utilities Commission (PUC) approved The Narragansett Electric Company d/b/a National Grid's now doing business as Rhode Island Energy (RI Energy or Company)[1] Fiscal Year (FY) 2023 Electric Infrastructure, Safety, and Reliability Plan (2023 Electric ISR Plan). The PUC also approved rate factors for recovery of expenses related to the approved plan.[2] The 2023 Electric ISR Plan included a spending plan and proposed an annual reconciliation mechanism to allow for recovery related to capital investments and other spending undertaken pursuant to the approved budget. Discretionary capital investment must be reconciled to the lesser of the actual capital investment placed-in-service and the level of approved spending on a cumulative basis. Non-discretionary capital investment must be reconciled to the actual capital investment placed in service.

By August 1 of each year, the Company proposes Capital Expenditure (CapEx) Reconciling Factors and an Operation and Maintenance (O&M) Reconciling Factor to become effective on October 1 for the subsequent twelve-month period. The CapEx reconciliation compares the actual cumulative revenue requirement to actual billed revenue generated from the CapEx Factors. Any over- or under-recovery is refunded to or collected from customers through the CapEx Reconciling Factors. The O&M Reconciling Factor compares the actual Infrastructure

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[1] Since approval of the FY 2023 Electric ISR Plan, on May 25, 2022, PPL Rhode Island Holdings, LLC, an indirect wholly owned subsidiary of PPL Corporation, acquired 100 percent of the outstanding shares of common stock of The Narragansett Electric Company, now doing business under the name Rhode Island Energy.
[2] Order No. 24607 (Feb. 28, 2023).

and Maintenance (I&M) and Vegetation Management O&M expense to actual billed revenue generated from the O&M factors. Any over- or under-collection of actual expense is refunded to or collected from customers through a uniform per kWh charge applicable to all rate classes.[3]

On August 1, 2023, RI Energy filed its Annual Report and Reconciliation (2023 Reconciliation Filing). RI Energy submitted the testimony of Nicole A. Gooding, ISR Manager, to provide an overview of the filing and to provide detail on the status of projects and spending.[4] In particular, Ms. Gooding indicated that RI Energy's plant-in-service was approximately $10.5 million less than forecasted and cost of removal was $8.5 million lower than expected. The result was a net 2023 ISR investment of $94.76 million, approximately $10.5 million under RI Energy's planned amount of $105.3 million.[5]

Capital Spending was $3.7 million above budget, resulting from approximately $7.8 million above-budget amounts in non-discretionary spending and $4.1 million below-budget amounts in total discretionary spending, including large, separately tracked projects. The System Capacity & Performance budget was $3.4 million over budget, primarily from spending on planning, engineering, and design related to a new mainline recloser program that to be proposed in FY 2024 and in the blanket category on reclosers. The remaining under-spend was in the Asset Condition budget item.[6]

Ms. Gooding explained that Vegetation Management-related O&M expense was higher than expected in FY 2023 as a result of advancing cycle trimming along a feeder in Westerly and Hopkinton to address tree-related outages. However, O&M spending related to the I&M spending,

[3] Shields Test. at Bates 144-45; 149-50.
[4] Gooding Test. at 3-6.
[5] *Id*. at 3-4.
[6] *Id*. at 4; Attachment NAG-1 at Bates 24.

Volt/Var Optimization and Conservation Voltage Reduction programs were net under budget.[7] Finally, Ms. Gooding stated that the Company met both reliability performance metrics in Calendar Year 2023.[8]

Additionally, Ms. Gooding provided an update of a review of how contributions for capital spending on DG projects is allocated by cost type. This was a commitment made during the PUC's review of the FY 2023 Electric ISR Program in this docket. While the Company had not completed its review, Ms. Gooding explained that the Company had reviewed $4.9 million in plant additions and determined that $1.2 million should remain in rate base as "system improvements or because project costs exceeded the estimate and the difference could not be collected from the customer."[9] In response to a data request, Ms. Gooding explained that:

> The $1.2 million was comprised of five different projects. One project had total plant additions of $344,000 which represents System Improvements. This amount is subject to the Company's ongoing review as the Company continues to obtain additional information that may impact what portion of these total plant additions represent System Improvements. An additional project makes up $495,000 of the $1.2 million and consists of labor costs including the use of apprentice crews. The remainder of the $1.2 million, approximately $376,000, relates to System Modifications where the actual costs exceeded the CIAC collected. As the Company continues to receive information from National Grid and continues to evaluate the remaining projects, new findings could result in adjustments to the plant in service. As the Company digs deeper into these projects, there could be adjustments to the $1.2 million.[10]

She explained that the remaining $3.6 million would be expensed because either the CIACs related to the projects were incorrectly applied to the cost types or the reconciliation process led to an improper refund to the customer. As a result of the Company's review, Ms. Gooding explained that $10.6 million of plant additions associated with DG projects would be removed from the

[7] *Id*. at 5.
[8] *Id*. at 5-6.
[9] *Id*. at 7.
[10] RI Energy Response to PUC 2-6.

revenue requirement until completion of the review of each project to be reviewed further by the Commission as part of the FY 2024 ISR Reconciliation.[11]

Following up on concerns raised by the Commission during its review of the Dyer Street Project, and consistent with the Company's response to Record Request 2, submitted in this docket in April 2022, Ms. Gooding explained that the Company has written off $0.855 million of the Dyer Street project costs related to the preconstruction costs for the DC building. Once the entire project is complete, she indicated that the Company will again review all costs to ensure spending related to the refurbishment of the DC building is not included in ISR rate base and revenue requirements.[12]

Stephanie Briggs, PPL Services Corporation's Senior Manager Revenue, Jeffrey D. Oliveira, PPL Services Corporation's Regulatory Program Specialist, and Natalie Hawk, PPL Services Corporation's Director of tax accounting reporting submitted joint testimony indicating the actual FY 2023 revenue requirement was $40,721,324, a decrease from the projected revenue requirement of approximately $49,721,324 million. They explained that this decrease is primarily attributable to three things: (1) a decrease in the actual effective FY 2023 property tax rate compared with the projected effective FY 2023 property tax rate in the FY 2023 ISR Plan; (2) a lower level of capital investment than expected; and (3) a reduction to the revenue requirement for the results of the DG project review previously described.[13] The witnesses discussed various tax

[11] Gooding Test. at Bates 7.
[12] *Id*. at Bates 8.
[13] Joint Test. at Bates 87, Schedule SAB/JDO-1. This amount reflects adjustments to rate base made in Docket No. 4770 In re: The Narragansett Electric Company d/b/a National Grid Electric and Gas Distribution Rate Filing. On September 1, 2018, new distribution base rates became effective. The revenue requirements on actual ISR additions made from FY 2012 through FY 2017 plus forecasted ISR additions for FY 2018 and FY 2019 were included in these new base rates.

issues and an adjustment made to comply with a "hold harmless" agreement that resulted from the acquisition of The Narragansett Electric Company.[14]

The Company also provided testimony and schedules of Tyler G. Shields, PPL Services Company Rates and Regulatory Specialist. He explained that the result of all adjustments was a small rate decrease for all classes of customers. The FY 2023 ISR factors resulted in an overcollection, requiring the credit of $7,504,113 to customers.[15]

On September 7, 2023, the Division of Public Utilities and Carriers (Division) filed a memorandum authored by John Bell, Chief Accountant, resulting from his review in discussion with David Effron, a Division consultant. The Division simultaneously filed a memorandum from Mr. Booth.[16] Mr. Bell explained that based on his review and Mr. Booth's review, the Division was recommending that the Commission disallow recovery of $1,669,833 from the instant filing. This amount associated with capital investment in reclosers in FY 2023 had been included in the System Capacity & Performance Blanket category which had an over-spend of the budget of approximately $1.4 million. The Division concurred with Mr. Booth's position that "'…while the recloser additions may contribute to improved reliability on select circuits, the investments were part of a new program that had not been presented or appropriately justified prior to the FY 2023 ISR Plan year commencing.'"[17] Mr. Bell indicated that the Division was not opposed to considering future rate recovery of these capital additions in the future, but the Company would have to justify, at a minimum, that the investments were "reasonable and cost justified and that they provide the intended ratepayer benefits."[18]

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[14] Joint Test. at Bates 87-88; Schedule NH-1.
[15] Test. of Blazunas 4-11, Attach. PRB-1, PRB-2, PRB-4.
[16] Bell Mem. (Sept. 7, 2023); https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2023-09/5209-DIV-Memo_9-7-23.pdf.
[17] *Id*. at 2.
[18] *Id*.

Mr. Bell noted that the remaining recloser spending on the "new Recloser Installation Project" referred to work on a recloser program that was rejected from the FY 2024 ISR budget. Because the $1.7 million associated with that spending had not yet gone into service and was, therefore, not part of the proposed revenue requirement in this filing, the Division was taking no position at this time.[19]

In his memorandum, Mr. Booth also argued that until the Company completed its review of the DG interconnection investments, it remains premature to determine whether any of the related costs should remain in rate base. He questioned the rationale behind the Company's conclusions that certain costs represented System Improvements subject to payment by the general body of ratepayers given the lack of a filing setting forth the basis for the Company's conclusions. He, therefore, opined that "the Company has not presented the necessary support to include $1.2 million related to DG interconnection costs in rate base, nor has [RI Energy] adequately explained its review process and demonstrated why remaining plant additions should be added in the future." Despite these concerns, he did not recommend removal of the $1.2 million until such time that the DG interconnection review was completed.[20] In his summary of conclusions, he reiterated that these investments have not been justified for recovery and warrant further Commission review and potential adjustment.[21] Otherwise, Mr. Booth indicated that with the exception of the reclosers and this issue, based on the Company's filing, he had found no variances which raise any issue of prudency in the FY 2023 reconciliation.[22]

Mr. Bell indicated that Mr. Effron's review of the calculation of the proposed factors although incomplete to date, had not resulted in any findings of inaccuracies. However, the

[19] *Id*.
[20] Booth Mem. at 2-3.
[21] *Id*. at 6.
[22] *Id*.

Division could not recommend approval because of their recommended reduction to the overall revenue requirement. The Division committed to a continued review and to provide a recommendation on any compliance filing made following a Commission decision.[23]

On September 11, 2023, the Company submitted reply testimony of Ms. Gooding, Kathy Castro, RI Energy's Director of Asset Management and Engineering, and Brian Grzesiuk, a RI Energy Senior Manager in Finance (Joint Reply). The witnesses contended that the Division conducts a prudence review of the Company's expenditures under the ISR during each reconciliation and that this is what Mr. Booth did in his review.[24] They suggested that there is no risk to customers from deviations from the budgeted amounts in spending as long as the spending was on investments related to safety and reliability.[25] The Commission would then review whether the investments were prudent for inclusion in the ISR reconciliation.[26]

Addressing the Division's recommendation to disallow inclusion in the revenue requirement of the FY 2023 investment in reclosers, the Company contended that instead of conducting a prudence review into each recloser installed under the Blanket category, Mr. Booth instead relied on his assertion that these investments were a "precursor to the Company's intended deployment of hundreds of reclosers."[27] The Company maintained that the recloser program rejected as part of the FY 2024 ISR Plan review was separate from the specific reclosers for which the Company is seeking recovery of in this matter.[28] According to the Company, it made specific decisions about each recloser consistent with its prior decisions to spend on reclosers in the past. Therefore, the Company stated that there should be a prudence review and "not a categorical

[23] *Id*. at 2-3.
[24] Reply Test. at 5-8.
[25] *Id*. at 8-9.
[26] *Id*. at 10.
[27] *Id*.
[28] *Id*. at 11.

rejection based on the subsequent rejection of a broader recloser project that was addressed to different circumstances."[29]

The Commission held a hearing on September 14, 2023. The Company presented Kathy Castro, Ryan Constable, Nicole Gooding, Daniel Glenning, Christopher Rooney, Jeffrey Oliveira, Stephanie Briggs, Tyler Shields, Brian Grzesiuk, and Natalie Hawk. The Division presented Mr. Booth. Uncontested issues addressed at the hearing included the adjustment to rate base from the hold harmless agreement,[30] the vegetation management overspending,[31] treatment of overheads,[32] the progress on the DG interconnection review and related adjustments to rate base,[33] and categorization of expenses between damage/failure and asset condition.[34] The hearing also explored the contested issue of whether the Company was attempting to recover costs related to commencement of a program that was ultimately not approved by the Commission.[35] After a break, the Company and Division advised that they had reached an agreement.[36]

In their agreement, the Company agreed to remove plant additions and related cost of removal associated with the spending on reclosers from the reliability blanket during FY 2023. The Division agreed to review and consider supporting investment on reclosers as a program in the FY 2025 ISR budget and, if so, the Company would be subject to a regulatory lag until it could include the plant in service associated with the FY 2023 spending on reclosers from the reliability blanket in the revenue requirement. In addition, the Company agreed to remove $26,729 from the revenue requirement associated with the costs associated with distributed generation projects that

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[29] *Id*. at 11.
[30] Hr'g. Tr. at 21-23.
[31] *Id*. at 32-42, 114-15.
[32] *Id*. at 24-32.
[33] *Id*. at 42-52.
[34] *Id*. at 52-55, 115-16.
[35] *Id*. at 58-67.
[36] *Id*. at 111

are still under investigation.[37] Mr. Bell confirmed his understanding of the agreement and testified that the Division was in support.[38]

As noted above, the inclusion of reclosers within the reliability blanket in the instant reconciliation filing raised a question of whether the Company was attempting to recover for investment in a program that was not contemplated by the FY 2023 ISR Plan and was ultimately rejected from the FY 2024 ISR Plan. Thus, this reconciliation process highlighted concerns raised in Docket No. 22-53-EL surrounding whether modifications should be made to the structure of the ISR budget approval and reconciliation process. Accordingly, the remainder of the hearing explored how the ISR budgeting and planning process worked, whether there could be improvements for clarity of what was being approved each year, and to ensure budgetary discipline in execution without unduly constraining the Company's ability to invest in necessary safety and reliability measures during the year.[39] The Chairman circulated a document as a straw proposal to illustrate how the budget-setting and reconciliation process might be amended. This document was provided in anticipation of a future technical session to further delve into these issues.[40]

At an Open Meeting on September 26, 2023, the PUC considered the filings made by RI Energy and the Division, approved the Settlement that was presented on September 22, 2023, and directed the Company to submit a compliance filing. The Company submitted the compliance filing on September 26, 2023. In a filing authored by Mr. Bell, the Division reviewed compliance filing and advised that it was consistent with the September 22, 2023 open meeting decision and the Settlement. The Division, therefore, recommended approval of the revised FY 2023 Electric

[37] Hr'g Tr. at ; Letter from Attorney Marcaccio (Sept. 22, 2023).
[38] Hr'g Tr. at .
[39] Hr'g. Tr. at 69-106; 116-25.
[40] Hr'g. Tr. at 128-35. The technical session was conducted on October 4, 2023 in Docket No. 23-34-EL. The circulated document can be found on the Commission's website under that docket number.

ISR CapEx and O&M Reconciliation factors. At an Open Meeting held on September 28, 2023, the Commission approved the Compliance Filing for effect October 1, 2023. The approved factors represent a reduction to customers' rates.[41]

The Commission notes that while the Company characterized Mr. Booth's review of its reconciliation filing as a "prudence review," the Commission views its decision today as the result of a rate reconciliation and not one that delves into the prudence of any particular investment. While there was nothing in the record that supported a need to conduct a prudence review for any of the revised costs resulting from the Settlement being included in rate base, the Commission makes it clear that in the event future evidence is presented that raises the question of prudence, this decision does not remove the Commission's responsibility to review such evidence.[42]

Accordingly, it is hereby,

(25131) ORDERED:

1. The Settlement Agreement presented in writing on September 22, 2023, is hereby approved.
2. The CapEx and O&M Reconciliation Factors proposed by the Narragansett Electric Company d/b/a Rhode Island Energy on September 27, 2023, for the FY 2023 Electric Infrastructure, Safety, and Reliability Plan Reconciliation are approved for effect on October 1, 2023.

[41] The approved factors are shown on Revised Attachment TGS-2(C), attached hereto for reference.
[42] The Commission will review all DG related costs that have been included or excluded from rate base after the Company submits its final report.

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 AUGUST 5, 2024.

PUBLIC UTILITIES COMMISSION

Ronald T. Gerwatowski

Ronald T. Gerwatowski, Chairman

Abigail Anthony

Abigail Anthony, Commissioner

John C. Revens, Jr.

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 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.