STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

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

RE: FY 2024 Electric Infrastructure, Safety, and Reliability Plan Annual Reconciliation — **Docket No. 22-53-EL**

TESTIMONY OF
JACOB VAN REEN

ON BEHALF OF
THE RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS

January 13, 2025

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TESTIMONY OF JAKE VAN REEN

I. STATEMENT OF QUALIFICATIONS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jacob Van Reen. My business address is 360 Thames St., Unit 3B, Newport, Rhode Island, 02840.

Q. WHAT IS YOUR PRESENT OCCUPATION?

A. I am a Certified Public Accountant (CPA) and the owner of Van Reen Accounting LLC ("Van Reen Accounting," "us," "we"). In this capacity I advise utility stakeholders on regulatory matters.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND SUMMARIZE YOUR PROFESSIONAL EXPERIENCE?

A. I received my Bachelor of Science in Accounting and Finance from the University of Rhode Island. I am a Certified Public Accountant. Prior to forming Van Reen Accounting, I was a Senior Manager in Ernst & Young's Forensic Accounting practice. For over 10 years I specialized in assisting utility stakeholders with regulatory matters. Prior to Ernst & Young I was a Senior Associate with PricewaterhouseCoopers in their audit practice.

Q. WHAT EXPERIENCE DO YOU HAVE THAT IS RELEVANT TO THIS PROCEEDING?

A. I have extensive experience assisting utilities and regulators with regulatory matters. I have been engaged by dozens of utilities and/or regulators to assist with these types of matters.

II. PURPOSE OF TESTIMONY

Q. ON WHOSE BEHALF ARE YOU TESTIFYING?

A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers (the "Division" or "RIDPUC").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The Division is conducting an analysis of the accuracy of plant in-service additions reported in Narragansett Electric Company's, d/b/a Rhode Island Energy (Formerly d/b/a National Grid) ("RIE" or "The Company"), Fiscal Year ("FY") 2022 Electric Infrastructure, Safety, and Reliability ("ISR") Plan Annual Reconciliation filed on August 1, 2022 and the FY 2023 Electric ISR Plan Annual Reconciliation filed on August 1, 2023. Van Reen Accounting was engaged by the Division to assist with their analysis of the plant in-service additions for the fiscal years ended March 31, 2022 and March 31, 2023.

In October 2024, after discussing preliminary findings from the FY 2022 and FY 2023 plant in-service additions analysis, which are described below, the Division engaged Van Reen Accounting to also analyze the plant in-service additions in the FY 2024 Electric ISR Plan Annual Reconciliation filed on August 1, 2024, in Docket 22-53-EL.

Q. HAVE YOU COMPLETED YOUR ANALYSIS OF THE ISR PLANT IN-SERVICE ADDITIONS FOR THE FISCAL YEARS ENDED MARCH 31, 2022, MARCH 31, 2023, AND MARCH 31, 2024.

A. No. We are still conducting our analysis. For the analysis of the FY 2022 and FY 2023 ISR plant in-service additions, the Company was unable to provide evidence of capital expenditures to the underlying accounting records and evidence of the existence of assets to its operating system (Geographic Information System or "GIS") in a timely manner. The Company attributes this primarily to the transition from National Grid. Our experience is that a project to analyze capital expenditures in an infrastructure rider typically takes three to six months. Our analysis of the FY 2022 and FY 2023 ISR plant in-service additions, which started in August 2023, has taken well over a year and is not yet complete. As of January 10,2025, the Company was still gathering support for our testing selections and obtaining responses to our follow-up questions on data that was provided to us (a total of 10 outstanding requests). When the outstanding items are provided to us, there could be additional follow-up questions and requests.

Our work for the FY 2024 ISR plant in-service additions began in October 2024. Additional time will be required for the Company to provide data responses and for us to complete our work.

Because we have not completed our analysis, we are unable to provide a complete set of findings and do not have conclusions that can be relied upon to quantify an impact, at this time, on the FY 2022, 2023 or 2024 Electric ISR Plan Annual Reconciliation filings. However, we have observed three preliminary findings as of our work through January 10, 2025, as described below. As our work continues, additional findings may be identified.

III. PRELIMINARY FINDINGS

Q. PLEASE SUMMARIZE YOUR PRELIMINARY FINDINGS.

A. We have three preliminary findings. The first relates to costs being improperly classified as plant in-service additions. Specifically, we observed that cost of removal (the costs the Company incurs to retire an asset) was recorded as plant in-service additions. For example, during our testing to corroborate the existence of assets for the FY 2022 and FY 2023 plant in-service additions, we selected a work order for the Providence Study Phase 1A project (C078734), totaling approximately $261K, that indicated that a lightning arrester was installed. When gathering support to respond to our information request, the Company determined that this work order was solely for the removal of cable and no lightning arrester was installed. Therefore, the costs should have been recorded as cost of removal and not as a plant in-service addition. The Company recorded an accounting entry to reclass the costs from a plant in-service addition to cost of removal in December 2024. Because this error was identified after the Company filed its FY 2024 Electric ISR Plan Reconciliation, the ISR does not reflect a correction. Also, we observed in the FY 2024 Electric ISR Plan Annual Reconciliation filing that a project that was recorded as a plant in-service addition in the FY 2023 Electric ISR Plan Annual Reconciliation filing, totaling $61K, was recorded as a negative plant in-service addition in FY 2024 as it was subsequently determined that the costs should have been recorded as removal costs (i.e., capital costs in the FY 2023 rate base are offset by a negative amount in the FY 2024 rate base).

Q. HOW DOES IMPROPERLY CLASSIFYING COST OF REMOVAL AS PLANT IN-SERVICE ADDITIONS, AS DESCRIBED ABOVE, IMPACT THE ISR?

A. Improperly classifying cost of removal as plant in-service additions results in the overstatement of the ISR revenue requirement. Specifically, in each fiscal year that cost of removal is incorrectly reported as plant in-service additions in the ISR, depreciation is overstated in the revenue requirement. Because the ISR revenue requirement formula allows a return on cost of removal, there is no unfavorable impact to rate payers for the return on rate base.

Q. WHAT PROCESS SHOULD THE COMPANY FOLLOW TO AVOID MISCLASSIFYING COSTS AS PLANT IN-SERVICE ADDITIONS IN THE ISR?

A. The Company should review and fully reconcile the accounting for all projects before including them as rate base in the ISR. This would include reviewing project costs to ensure proper classification as plant in-service and cost of removal before inclusion and recovery in the ISR.

Q. ARE THERE ANY OTHER CONCERNS RELATED TO COSTS BEING IMPROPERLY CLASSIFIED AS PLANT IN-SERVICE ADDITIONS?

A. Yes. We observed cost of removal being improperly classified as plant in-service additions during our sample testing of ISR plant in-service additions. Because we did not test the Company's entire rate base, which is an accumulation of costs over multiple years, we are unable to provide assurance that the two errors are isolated. Since rate base drives the Company's earnings, any misclassification of costs as plant in-service additions would improperly increase rate base and lead to the Company overearning on that misstated rate base. This raises concern for rate base in the ISR, as well as rate base that will be included in the Company's future base rate filing.

Q. PLEASE DESCRIBE THE SECOND PRELIMINARY FINDING.

A. The second preliminary finding relates to the Company's accounting for Allowance for Funds Used During Construction ("AFUDC"). The Company's accounting policy does not allow AFUDC to be capitalized on blanket projects/work orders. During our testing of the FY 2024 ISR plant in-service additions, we inquired about AFUDC that was capitalized on a blanket project (COS0013 - Public Req Customer #6). The Company confirmed that AFUDC was recorded in error on COS0013, as well as other blanket projects/work orders. As of January 10, 2024, the Company had identified appropriately $1.4M[1] of AFUDC was capitalized on blanket projects for the period of January 1, 2023 through December 31, 2024.

[1] Company's response on January 10, 2025 to Division data request 7-3 in RIPUC Docket No. 22-53-EL, page 2.

Q. HOW DOES THE AFUDC ERROR IMPACT THE ISR?

A. The AFUDC error results in the overstatement of the ISR revenue requirement. Specifically, depreciation and return on rate base is overstated in the revenue requirement.

Q. WHAT IS THE COMPANY DOING TO CORRECT THIS ERROR?

A. The Company is currently investigating the blanket projects/work orders. When the investigation is complete, AFUDC on blanket projects/work orders will be reversed. The Company also indicated that it has begun efforts to modify systems and processes to ensure blanket projects/work orders do not receive AFUDC going forward. The Company expects to complete the investigation and record corrections in the first quarter of 2025.

Q. PLEASE DESCRIBE THE THIRD PRELIMINARY FINDING.

A. The third preliminary finding relates to the Company's treatment of contributions in aid of construction ("CIAC") and third-party reimbursements in the ISR. During our analysis of the FY 2022 and FY 2023 ISR plant in-service addition, we observed that construction contributions and third-party reimbursements were applied to capital projects after the associated capital costs were placed in-service and included in the ISR for recovery. The Company recorded the gross capital additions in the ISR but did not offset those costs with contributions/reimbursements until they were paid by the third-party, in some cases in subsequent years.

For example, there were approximately 100 projects placed in-service and included in the Electric ISR during FY 2022 and FY 2023 that had a negative (net credit) balance. These projects with negative balances totaled approximately $10.2 million. We inquired about the four largest projects with negative balances, which totaled approximately $6.5 million. We observed:

i) $3.1 million related to a distributed generation project. The assets associated with this project were placed in-service and included in the FY 2020 ISR for recovery. However, a $3.1 million construction contribution payment was not applied (credited) to the project and included in the ISR until FY 2022.

ii) $0.6 million related to a project requested by the Rhode Island Department of Transportation. The assets associated with this project were placed in-service and included in the FY 2021 ISR for recovery. However, a $0.6 million construction contribution payment was not applied (credited) to the project and included in the ISR until FY 2022.

iii) $2.8 million related to two project codes associated with the Company's joint-owned pole billing agreement, which is a contract the Company has with a third-party company that allows them to share ownership of utility poles. When joint-owned poles are newly installed or replaced, the Company initially capitalizes the full cost of the pole then bills the other joint pole owner for its share of the costs. Reimbursements from the joint pole owner are not recorded to the related plant in-service addition until payment is received, which is typically after the pole installation costs are recorded as plant in-service additions. Therefore, the cost of the pole installations may have been recorded as an ISR plant in-service addition in a fiscal year before the $2.8 million of reimbursements were credited (recorded as a negative balance) to the plant in-service additions in the FY 2022 and FY 2023 Electric ISR Plan

Annual Reconciliation filings.[2]

Q. HOW DOES THIS TREATMENT OF CIAC/THIRD-PARTY REIMBURSEMENTS, AS DESCRIBED ABOVE, IMPACT THE ISR?

A. Recording CIAC/third-party reimbursements to ISR plant in-service additions (a negative plant in-service addition) after the project's gross plant costs were recorded as ISR plant in-service addition results in the overstatement of the ISR revenue requirement. Specifically, in each fiscal year that CIAC/third-party reimbursements are not recorded as a reduction of the gross plant that was reported as plant in-service additions in the ISR, depreciation and the return on rate base in the revenue requirement is overstated (the Company will over collect). While the ISR depreciation and return on rate base will be lower starting in the year the CIAC/third-party reimbursement is recorded as a negative plant in-service addition in the ISR, the overcollection of the revenue requirement will not likely be fully passed back to the customer within the ISR mechanism because of the long life of the assets (the composite depreciation rate is just over 3%). To correct the over collection, a correction (restatement) would need to be made to the year the error occurred.

Q. WHAT PROCESS SHOULD THE COMPANY FOLLOW TO AVOID THIS OVERSTATEMENT OF THE ISR REVENUE REQUIREMENT?

A. The Company should review and fully reconcile the accounting for all projects before including

[2] Email to Van Reen Accounting on July 18, 2024, stated: "For the pole billing agreement, installations follow the normal closeout process for being placed into service. Credits associated with the bills to the joint owners are placed in service after pole installation and review by the joint owner, which is typically after the pole installations are in service. We meet with the other joint owner and there is some back and forth on the # poles to be billed. So, the plant additions for the installations might be captured in the same FY or earlier than the bills and may not align exactly with the credits seen in C086669/C086669A during FY22 and FY23."

them as rate base in the ISR. This would include ensuring all CIAC/third-party reimbursements are properly recorded as a reduction to gross plant costs before projects are included in the ISR as plant in-service additions.

Q. GIVEN YOUR PRELIMINARY FINDINGS, WHAT DO YOU RECOMMEND TO THE COMMISSION TO AVOID ADVERSE IMPACTS FOR RATEPAYERS?

A. The Commission should direct the Company to:

i) complete its investigation of AFUDC on blanket projects/work orders, complete required system and process modifications, and record corrections to its accounting records. The final results of this work should be reported to the Commission and Division.

ii) not include assets in the ISR rate base until all CIAC/third-party reimbursements are applied as a reduction of the gross plant costs.[3]

iii) adjust for the cost of removal and AFUDC errors and for the CIAC/third-party reimbursements that were applied in the incorrect fiscal year(s) in the next ISR reconciliation filing.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[3] While the Company has not completed its formal CIAC policy to replace National Grid's policy, the Company has indicated that it recently implemented processes for CIAC/third-party reimbursements that are designed to ensure that CIAC/third-party reimbursements are recorded to capital projects prior to the projects being recorded as plant in-service and included in the ISR, once the payments have been received. Company's response on December 27, 2024 to Division data request 5-3 in RIPUC Docket No. 22-53-EL, page 3.