STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION

IN RE: THE NARRAGANSETT ELECTRIC	**:**	
COMPANY d/b/a RHODE ISLAND ENERGY	**:**	
GAS INFRASTRUCTURE, SAFETY,	**:**	**DOCKET NO. 24-55-NG**
AND RELIABILITY PLAN	**:**	
FY 2026 PROPOSAL	**:**	

REPORT AND ORDER

R.I. Gen. Laws §39-1-27.7.1(d) requires the gas distribution company to file with the Commission an annual infrastructure, safety, and reliability plan for its anticipated capital spending forecasted for the next applicable fiscal year.[1] On December 20, 2024 and pursuant to R.I. Gen. Laws § 39-1-27.7.1(d), the Narragansett Electric Company d/b/a Rhode Island Energy (RIE or Company) filed its gas infrastructure, safety, and reliability plan for fiscal year 2026 (Plan or FY 2026 Plan). By oral notification on December 24, 2024, followed by written notification on December 30, 2024, the Commission rejected the Company's FY 2026 Plan. Specifically, the Commission informed the Company that the Plan did not comply with the Commission's directive in Docket No. 23-49-NG that directed the Company to treat paving costs as Operations & Maintenance ("O&M") expense and not as capital costs.[2] The filing disregarded that directive and the testimony and schedules submitted treated paving costs as capital costs in direct contradiction to the Commission's order. The Company was instructed to resubmit the filing treating paving costs as O&M expense and should it wish the Commission to consider changing its policy, to submit an alternate proposal with supporting schedules and testimony. On December 31, 2024, the Company resubmitted the filing as instructed.

[1] The statute also provides for a filing for the electric distribution business.
[2] December 30, 2024 email to Company counsel and service list from Commission counsel directing resubmission of the filing to comply with the Commission's prior order.

The Plan is designed to protect and improve the gas distribution system through: 1) proactively replacing leak-prone pipe; 2) upgrading the system's custody transfer stations, pressure regulating facilities, and peak shaving plants; 3) responding to emergency leak situations; and 4) addressing infrastructure conflicts that arise out of state, municipal, and third party construction projects, among other investments. The Plan also includes a forecast of projects going into service and proposes a rate adjustment to recover the applicable incremental revenue requirement.[3] Besides the Company, there were other participants and intervenors in the proceeding.[4]

The Company proposed spending of $186.62 million for capital investment through the Plan and up to $14.64 million of contingency relating to the federal Pipeline and Hazardous Materials Safety Administration (PHMSA) to account for the potential enactment of new regulations regarding leak detection and repair obligation that would significantly increase the Company's responsibilities and obligations. With $22 million of paving costs treated as O&M consistent with the Commission's decision in Docket No. 23-49-NG and minus the $14.64 million PHMSA contingency, the total forecasted spend of $208.62 million is about $31 million more than $177.12 million that the Company spent in FY 2024 per Section 2 Table 4 of the proposed plan. The FY 2026 revenue requirement, net of the hold harmless adjustment,[5] presented in the Plan is $108,561,885 which is an incremental revenue requirement of $24,581,919 over the amount in the

[3] All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or https://ripuc.ri.gov/Docket-24-55-NG.

[4] The Division is a party by statutory requirement. The Office of Energy Resources (OER) also has a statutory right to intervene and filed a timely notice of intervention on January 7, 2025. On January 17, 2025, the Rhode Island Attorney General (Attorney General) and the Conservation Law Foundation (CLF) filed motions to intervene. There were no objections filed to any of the motions to intervene.

[5] The "hold harmless adjustment" arises out of the acquisition by PPL of The Narragansett Electric Company. The adjustment holds ratepayers harmless from the increase in rate base and resulting distribution rate increases caused by the elimination of accumulated deferred income taxes (ADIT). PPL made an election under Section 338 of IRS rules to treat the acquisition as an asset purchase. Such election eliminated ADIT as of the closing. ADIT has the effect of reducing rate base. When eliminated, it would otherwise cause rate base to rise. The order approving the acquisition required the Company to hold ratepayers harmless from the rate increases that otherwise would be caused by the increase in rate base. Pre-filed Testimony of Natalie Hawk, at 8-10.

FY 2025 Gas Plan to be collected through the DAC effective April 1, 2024. The proposed FY 2026 ISR factors for the period April 2025 through March 2026 would amount to an annual bill increase of $78.58 for an average residential heating customer. Included in the resubmitted filing was a Company's proposal for the Commission to essentially reverse its prior decision to treat paving costs as O&M.

I. Rhode Island Energy's Filing

In support of the Plan, RIE submitted the pre-filed testimonies of Philip LaFond, Laeyeng Hunt, Lee Gresham, Jeffrey D. Oliveira, and Natalie Hawk to describe the Plan, the steps the Company is taking to reduce GHG emissions, the revenue requirement, and the calculation of the hold harmless adjustment, and the pre-filed testimony of Tyler G. Shields to discuss the rate design, calculation of the Gas ISR Factors, and the bill impacts.[6]

Mr. LaFond described the FY 2026 Plan which he stated was designed to meet state and federal safety and reliability requirements and maintain a safe and reliable system for the benefit of the Company's customers. He stated that the Plan was submitted to the Division on October 23, 2024 and that Company representatives met with representatives of the Division on November 4 and 6 of 2024. He described the categories of the Plan which were grouped according to similarity of work type and/or resource needs, how work is prioritized and how the budget caps operate.[7] The proposed budget for the Main Replacement and Rehabilitation category for FY 2026 is $151,350,000 as set forth in Section 2 of the proposed Plan.

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[6] Mr. LaFond, Ms. Hunt, Mr. Gresham, Mr. Oliveira, and Mr. Shields are employed by The Narragansett Electric Company d/b/a Rhode Island Energy. Mr. LaFond is the Manager of Resource and Investment Planning for the Rhode Island Gas Division; and Ms. Hunt is the Director of Engineering and Asset Management; Mr. Gresham is the head of Gas Regulatory Strategy of within the External Affairs Team; Mr. Oliveira is a Regulatory Programs Specialist; Mr. Shield is a Rates and Regulatory Specialist. Ms. Hawk the Director of Tax Accounting and Reporting and is employed by PPL Services Corporation which provides administrative and support services to PPL and its subsidiaries which include The Narragansett Electric Company d/b/a Rhode Island Energy.

[7] LaFond Pre-Filed Direct at 3-15 (Dec. 31, 2024).

Mr. LaFond noted that paving costs for FY 2026 are $10 million more than they were in FY 2025. He indicated the reasons for this increase being timing of work and inflationary factors such as the cost of materials and paving contractor costs. He also noted that since the passage of the Rhode Island Utility Fair Share Roadway Repair Act in 2019 municipalities are requiring curb-to-curb paving as a condition to issuing a permit. He maintained that the net present value of future payments by customers relating to paving costs is higher when these costs are treated as O&M expense as opposed to being capitalized.[8]

Lastly, Mr. LaFond discussed the proposed PHMSA regulations category which is funded as a separate budget category previously approved by the Commission because the timing and substance of the regulations is not yet known. The Company anticipates proposed PHMSA regulations to take effect during the FY 2025 Plan Year which will require it to accelerate remediation of Grade 3 leaks. Thus, the Company requested the Commission conditionally approve the proposed budget so, in the event the regulations are promulgated, the Company will have the needed flexibility to address the requirements of the regulations during FY 2026. Like last year, it did not include the revenue requirement for the possible capital additions but plans to seek recovery through reconciliation at the end of FY 2026.[9]

Ms. Hunt's testimony set forth the steps that the Company is engaged in to reduce the GHG emissions associated with the gas distribution system. First, she noted that the Company participated in a free demonstration involving the use of a drawdown compressor to transfer natural gas from an isolated section of main to an active section. The Company also formed an integrated planning team between the electric and gas engineering sections to consider sections of the gas

[8] *Id.* at 15-19.
[9] *Id.* at 19-20.

system that could be abandoned. And finally, the Company is planning to engage in a study to determine the feasibility of a hydrogen blending project.[10]

Mr. Gresham provided additional testimony regarding GHG emissions and explained the uncertainties that exist with respect to the decarbonization strategies being considered. He maintained that the most effective way and only feasible method now to reduce GHG emissions is to replace leak-prone pipe. He noted that much work is needed to determine how to decommission segments of the system without jeopardizing reliability. Mr. Gresham asserted that there is no single technology to reduce GHG emission and decarbonize natural gas end uses. He cited the Heating Sector Transformation Report that recommended enacting a set of technology neutral measures that will reduce carbon intensity for all energy sources used for heating.[11]

Mr. Oliveira's testimony provided the calculation of the revenue requirement which he calculated to be $108,561,885, an incremental increase of $24,581,919 over the amount currently being billed. He noted that if paving costs were capitalized rather than treated as O&M expense, the revenue requirement would be $88,134,152.[12]

Ms. Hawk's testimony described the items used to calculate the ADIT in rate base for the calculation of the revenue requirement. She explained that treatment of paving costs as O&M expense did not change the federal tax treatment of those costs which are still capitalized but did create a temporary book to tax difference that requires the recording of a deferred tax asset thus reducing ADIT. She explained that the deferred tax asset increases rate base in the year that the paving costs are incurred but that rate base will decrease as the deferred tax asset reverses over the depreciable life of the asset. She noted that the decrease in the ADIT resulting from this has a

[10] Hunt Pre-filed Direct at 3-6 (Dec. 31, 2024).
[11] Gresham Pre-Filed Direct at 3-6 (Dec. 31, 2024).
[12] Oliveira Pre-Filed Direct at 3-6 (Dec. 31, 2024).

negative impact on customers. She represented that PPL is committed to hold harmless customers from any changes to the ADIT resulting from the acquisition of the Narragansett Electric Company. Lastly, she asserted that if paving costs are capitalized, rate base will decrease because the deferred tax asset computation, required because the book and tax treatment are different, will be removed from the calculation.[13]

Mr. Shield's testimony provided testimony to sponsor the proposed FY 2026 ISR factors and bill impacts treating paving costs as O&M consistent with the Commission's directive, as well as the impact if the Commission reversed its previous policy decision and allowed the Company to capitalize the costs and earn a return on the expenditures. He summarized the rate design he used to develop the proposed ISR factors if paving was treated as O&M which would range from $0.3710 for a residential customer to $0.0815 for an XL-High Load customer. A residential customer using 845 therms annually will experience a bill increase of $78.58 annually or 4.4%.[14]

II. Division of Public Utilities and Carriers Testimony

The Division presented pre-filed testimony from Alberico Mancini. He identified two significant adjustments agreed to by the Company and the Division. The first was a reduction of the Company's proposed $4.677 million budget for the Old Mill Lane Portable Equipment sub-category under the Separately Tracked Major Projects to $2.676 million. The second adjustment was for a $1.208 million reduction to the Replace Pipe on Bridges sub-category under the Main Replacement & Rehabilitation investment category proposed budget of $7.808 million. The result of the adjustments reduced the originally proposed budget of $212.416 million to the filed $208.618 million budget.[15]

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[13] Hawk Pre-Filed Direct at 2-11 (Dec. 31, 2024).
[14] Shields Pre-filed Direct at 5-7 (Dec. 31, 2024).
[15] Mancini Pre-filed Direct at 3 (Feb. 14, 2024).

Mr. Mancini discussed the Division's assessment of the proposed investment categories. He noted that for the Main Replacement & Rehabilitation category, the Company's higher-than-expected costs caused it to exceed the approved budget and cut main replacement crews earlier than usual resulting in less miles of main installation. He stated that for FY 2026, the Company set a budget based on several assumptions to reflect higher costs related to outside labor and paving costs which would allow it to install 60.1 miles of main and abandon 57.2 miles of leak-prone pipe. He maintained that despite this significant increase in the budget from last year, it is the Division's position that the amount proposed is reasonable. He stated that review of the Company's proposed spending in the other sub-categories was reasonable. With regard to the other investment categories, Mr. Mancini stated that it was the Division's position that the budgets were reasonable and recommended approval.[16]

Mr. Mancini maintained that the installation and abandonment miles proposed by the Company are reasonable. He noted that there remain approximately 800 miles of leak-prone inventory and that even though leak receipts are trending downward, leak rates for cast iron and unprotected steel, which comprise most of the leak-prone pipe inventory, has increased.[17]

Like last year, Mr. Mancini stated that the Division recommends that the Commission reverse its policy decision to treat paving costs as O&M in order to minimize short-term rate hikes. Additionally, he represented the Division's concurrence with excluding the costs allocated for compliance with the pending PHMSA regulations from current rates and allowing the Company to file for rate relief as part of the FY 2026 reconciliation if the proposed PHMSA regulations become effective. His review of the CY 2023 System Integrity Report caused concern regarding the leak rate increasing for reconditioned cast iron, unprotected steel, and cast-iron mains. Because

[16] *Id.* at 3-11.
[17] *Id.* at 12-13.

of this, Mr. Mancini expressed that the Division continues to recommend systematic replacement of leak prone mains and services to mitigate safety risks. In conclusion Mr. Mancini recommended approving the $88.13 million revenue requirement.[18]

III. The Conservation Law Foundation

CLF filed the testimony of Michael J. Walsh. Mr. Walsh criticized the FY 2026 Plan as not incorporating a clear strategy for achieving the enforceable targets set by the Act on Climate. He acknowledged that the Company's position that replacing leak-prone pipe is the most effective way to reduce GHG emissions is an accurate statement in terms of how these emissions are accounted for by DEM's inventory methodology. But he stated that the leak-prone pipe replacement programs also advance the replacement of main that is not high risk. He asserted that a targeted program that focuses on advanced leak detection and includes a number of strategies including repair, replacement, and relining would be more effective. He maintained that a substantial reduction of combustible fuels and utility delivered gas is also necessary to reduce climate reduction and that heat source pumps are more efficient than natural gas to heat a space. He criticized the Company's consideration of hydrogen, biomethane, and RNG as a poor use of its resources and not sound. He cited E3's Report Scenario Analysis that highlights complementing forces disrupting the gas system. He observed growing costs being imposed on a dwindling number of customers and expressed that low-cost gas no longer exists. Finally, like last year, he made an argument in favor of segment decommissioning. He cited efforts in other states that have implemented similar policies to reduce gas infrastructure.[19]

[18] *Id.* at 13-20.
[19] Walsh Pre-filed Direct at 7-31 (Feb. 7, 2025).

IV. The Attorney General

The Attorney General did not sponsor any witnesses in the case, but filed comments. In his comments, he noted that the current plan is almost $31 million more than the Company's previous year spending. He expressed that the pattern of spending and other costs associated with reaching the goals of the Act on Climate will become an unacceptable burden on ratepayers if federal funding is limited. He asserted that in instances where the Company and the Division did not reach consensus, the Commission's powers are heightened. Citing to R.I. Gen. Laws § 39-1-27.7.1, he alleged that only investments needed for safety and reliability in the known short-term and long-term should be approved. The passage of the Act on Climate requires the Commission to consider things that it did not have to consider prior to the passage. He warned against approving unnecessary expenditures while Rhode Island is determining the future of natural gas in the state. He stressed that continuing to approve significant gas infrastructure spending creates the risk of stranded costs and future financial burdens for ratepayers.[20]

The Attorney General maintained that the Company continues to justify its spending primarily claiming that its leak-prone pipe replacements reduce methane emissions. He countered this assertion by stating that main and service line abandonment would reduce emissions at a lower cost and that continued spending on replacement locks in fossil fuel infrastructure for 50-100 years which is inconsistent with the goals of the Act on Climate. He also noted that the EC4 report does not rely on main replacement as a primary emissions reduction strategy to meet the Act on Climate mandates. He argued that the Company's acknowledging a need to consider change is insufficient, and the Plan lacks examples of the Company's approach to change.[21]

[20] Attorney General Stmt. at 1-6 (Feb. 7, 2025).
[21] *Id.* at 6-9.

In the current filing, the cost of main replacement and rehabilitation is expected to rise by 41% from FY 2025 to FY 2026 and ratepayers are still being impacted by $66.2 million of incremental capital costs from FY 2018 through FY 2025. The AG warned that excessive spending will reduce customers' ability to afford alternative investments and leave them burdened with the Company's unrecoverable costs. Noting that federal support for clean energy is uncertain because of policy shifts, the AG maintained that without federal backing, Rhode Island customers will bear more financial responsibility for its clean energy transition making fiscal prudence in gas infrastructure spending even more critical.[22]

The AG urged the Commission to reject any components of the Plan that fail to meet the "reasonably needed" standard. He warned that the business-as-usual approach by continuing to approve gas infrastructure investment creates the risk of stranded assets, increasing customer rates, and jeopardizing the transition to a net zero economy. He claimed that in order to accomplish this, the Commission must deny any costs that are not necessary for the immediate maintenance of safe and reliable service.[23]

V. Rhode Island Energy's Rebuttal

In response to the direct testimony filed by CLF and the position statement of the Attorney General, the Company filed rebuttal testimony sponsored by Laeyeng Hunt. She disagreed with the AG's assertion that the investments are not reasonably needed stating that it would not be either prudent nor consistent with the Company's federally mandated DIMP or state or federal regulations to halt maintenance and improvements. She maintained that Rhode Island's system is one of the oldest in the country with a higher-than-average inventory of leak-prone pipe which the

[22] *Id.* at 10-13
[23] *Id.* at 13-14.

Company has no way to tell when a leak will develop which could present a threat to health, safety and reliability. She expressed that the longer the leak-prone pipe remains in the ground, the greater the risk to safety becomes. Furthermore, it is more economical to replace that pipe in coordination with municipalities which will minimize road openings.[24]

While maintaining that the proactive main replacement program is consistent with the Act on Climate, Ms. Hunt stated that the Company is exploring and supports non-pipe alternatives and has screening criteria and a team working on identifying segments that could be candidates for segment decommissioning. She noted that because of barriers including the cost to electrify customers, the Company has not been able to identify a candidate yet. She pointed out that CLF has acknowledged that segments of leak-prone pipe requiring replacement sooner that 3-5 years are not candidates for segment decommissioning because of the time needed for outreach and implementation. She emphasized that replacing leak-prone pipe is the best method for providing safe and reliable service because of the threat to safety and reliability.[25]

VI. Hearing

The Commission conducted evidentiary hearings on March 17 and March 25, 2025. The Company, the Division, and CLF all presented witnesses to adopt their pre-filed testimony and answer questions.

Mr. LaFond and Ms. Hunt testified regarding the programs in the Main Replacement and Rehabilitation category, how these programs are ranked, and the process in choosing what projects are undertaken. Mr. LaFond testified that the Company risk ranks its inventory and the highest risk of cast iron and steel main that relate to utility infrastructure and contribute to safety and reliability are included in the Company’s work plan. He explained that the Company has an

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[24] Hunt Rebuttal at 2-7 (Feb.28, 2025).
[25] *Id.* at 8-11.

algorithm to assess the risks on mains and that those with a past history of leaks are considered the highest risk, because they will continue to leak in the future.[26] He maintained that the Company considers paving to be part of utility infrastructure.[27] Although there is still no indication of whether the proposed PHMSA rules will go into effect, Mr. LaFond testified that if the Company begins spending to comply with those rules, it will seek recovery through the reconciliation process.[28]

Mr. LaFond testified that abandonment is more important than replacement because it removes risk. He stated that even though there was no abandonment target set by the Commission for the 2024 Plan, the Company was still aiming for the 60-mile abandonment goal set in 2023. He noted that for 2025, the forecast is that the Company will abandon somewhere in the mid 40-mile range. He warned that there should be concern that abandonment has fallen below the 60-mile targe. He noted the Company's concern because it considers every mile of leak-prone main presenting a risk to safety and reliability. He indicated that at 60 miles of abandonment a year, the leak-prone pipe will not be fully replaced for another 13 to 14 years and that at current pace it will be more than 20 years.[29] Mr. LaFond pointed out that during January and February the Company experienced a higher number of Grade 1 leaks especially on cast iron main which was an increase from the two previous years which the Company suspects was the result of extreme cold weather.[30]

On cross examination, Mr. LaFond testified that the PHMSA regulations are aimed at Grade 3 leaks which are on the margin of what the Company considers for main replacement.[31] He admitted that proactive main replacement costs are significantly higher than last year because

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[26] Hr'g Tr. at 32-25 (Mar. 17, 2025).
[27] *Id.* at 36.
[28] *Id.* at 39-40.
[29] *Id.* at 41-45.
[30] *Id.* at 49-50.
[31] *Id.* at 75-76.

the cost of everything has increased. These costs include costs resulting from new contract negotiations, increase in materials, specialized labor, internal and external labor, police details and paving. And while the Company has tried to keep costs down, he noted that the costs have been in step with the general economy rate of inflation.[32]

Ms. Hunt maintained that Rhode Island Energy is managing the system better than its predecessors and has reduced the leak rate per mile dramatically since the program has started.[33] While acknowledging the tension between how much leak-prone pipe replacement to accomplish and the strain on cost and affordability, Mr. LaFond maintained that the 2026 Plan is reasonable necessary to maintain the safety and reliability of the system.[34] He referred to post pandemic inflationary increases and increases in the cost of doing business. He also admitted that if there were no ISR program, the Company would be undertaking the same level of work in the same projects that it has proposed for FY 2026. He noted that there are about 98.5 miles of high priority main and explained that at the current pace of replacement, it would be unlikely to accomplish replacement within 5 years and stressed that as time goes on, more main is included in this high priority group.

Ms. Hunt interjected that priority is not based on age, but on the material of a main.[35] Further she noted that when ranking risk of a segments, the Company considers the type of material the main is made of, leak activity, proximity to a structure, paving, whether it is in a flood plain or if it is high or low pressure with the most prominent factor being leak activity. She described the work plan as a live plan that changes to respond to issues that may arise immediately. She stated

[32] *Id.* at 78-81.
[33] *Id.* at 95.
[34] *Id.* at 98-103.
[35] *Id.* at 108-109, 111-115, 129.

that in many scenarios, the Company is unaware of a condition underneath the ground until some event occurs.[36]

Mr. LaFond maintained that the cost of main replacement has risen dramatically in part due to the requirement of curb-to-curb paving and that each project be stamped by a professional engineer. He also noted that the work mix has changed with more work on larger mains in more difficult to work places which require additional traffic control and coordination with other agencies as well as shorter working hours and inflation that have all contributed to the increase in costs.[37] He discussed how work in the public works category is coordinated with a municipality when it has opened a road and that the mains being replaced are all leak-prone. And while some may not be leaking, the Company uses the opportunity of the road being open to replace the main because the activities the municipality is engaged in can cause problems post construction. If this were to occur, certain towns will not grant permits for road openings after a road is newly paved for 5 or 10 years.[38] Mr. LaFond testified that each public works opportunity is evaluated individually because the number of projects varies over years.[39] Ms. Hunter maintained that, at times, the Company is unable to do the work based on either budgetary or resource issues.[40]

Mr. LaFond testified that the way the Company manages risk is by eliminating leak-prone pipe. And while the Company knows that leak-prone pipe will be a problem in the future, it does not know which ones will begin to leak or when they will leak. He stated that the list is always reviewed and reprioritized so that the Company is addressing what it believes to be the riskiest main at any moment in time.[41] He reiterated that at times the Company has resource and timing

[36] *Id.* at 236-241.
[37] *Id.* at 242-244.
[38] Hr'g Tr. at 7-10 (Mar. 25, 2025).
[39] *Id.* at 11-12.
[40] *Id.* at 12-13.
[41] *Id.* at 15-16.

issues. Ms. Hunt added that the public works projects are not risk scored but are evaluated by looking at the historical behavior of the main and then tries to predict what will happen in the future. She noted that generally construction activities create a big risk to a segment of main and would cause its risk score to increase.[42]

Mr. Mancini testified on behalf of the Division. He noted that in FY 2024 there were 38 cast iron main breaks and that the trend for leaks is increasing, for the first two months of 2025, there were 45 breaks, and in two of the breaks, the individuals living there had to be evacuated from their homes. Although this year's budget is much greater than last year's, Mr. Mancini maintained that it is the Division's position that that the budget be approved to address safety and reliability concerns and that the Division supports replacing low pressure pipe that is not categorized as high priority with high pressure main through the neighborhood approach which is less expensive and disruptive to customers. Acknowledging that all safety concerns cannot be addressed in one year, Mr. Mancini asserted that the Division believes 60 miles being replaced a year is a reasonable goal. He testified that if the rate impact was so severe, the Division would recommend reducing the budget, but here its position is the impact is reasonable.[43]

On cross-examination by the Chairman, Mr. Mancini described the Division review process. When asked, he agreed that the Commission has the authority to allow capital spending that enhances or improves safety and reliability over the long-term even if it is not needed in the short-term as required by the statute, and has done that in the past. He also agreed that over the years, there have been various mileage targets that have not been tied to short term needs but tied

[42] *Id.* at 21-26.
[43] *Id.* at 126-131.

to the long-term objective of a safe and reliable distribution system. Mr. Mancini acknowledged that this year's main replacement budget is about $43 million more than last year's budget.[44]

Mr. Mancini agreed that it is within the Division's purview to evaluate and take steps to temper cost incurrences that are within the Company's control and that affordability needs to be measured by looking at the entire bill and all of the costs on the customers' bill. He expressed concern that if there was a cold winter and breaks on mains exceeded the Company's resources, that it would be preferable to have less miles that were at risk of this happening to. He testified that it is the position of the Division that the Company is using its best judgment to find highest risk main and address that first. Lastly, he asserted that of the remaining approximately 800 miles of leak-prone pipe, about 450 miles have leak activity.[45]

Mr. Walsh testified for CLF and like last year, he advocated for segment decommissioning noting how it had been accomplished in other states. He recommended that the Company review and update its criteria based on advances made over the course of the past year and provide a more detailed breakout of risk scores and risk assessments associated with each pipe while identifying segments that are potential candidates for targeted segment decommissioning projects. He testified that it is CLF's position that there be a managed transition off the gas system and that rather than investing in the gas system, targeted electrification should be scaled up.[46]

Mr. Walsh acknowledged that his pre-filed testimony recognized that a portion of investments are necessary to ensure safe and reliable operation of the gas system over the coming years and admitted that he did not evaluate or has the expertise to determine what portions of the system or investments are not necessary. He also admitted that the most effective approach to

[44] *Id.* at 140-144.
[45] *Id.* at 153-166.
[46] *Id.* at 64-66, 74-78, 101, 111-112.

reducing GHG emissions associated with the natural gas distribution system is the replacement of leak-prone pipes and that the history of leak activity is the most important factor in prioritization of a main for replacement. While appearing to take aim at the public works category and replacement of main in those projects as not being high priority, he admitted that when determining what pipes to replace, engineering judgment should be considered. He recommended that the Company conduct a non-pipelines alternative (NPA) assessment to see what other NPAs are being evaluated and how the Company is applying the NPA framework to the current ISR projects and that it identify street segments that are going to be high candidates for target electrification.[47]

DECISION

The ISR provides special regulatory treatment of capital costs associated with the investments that the Company needs to make to the gas distribution system. The statute creating it was designed to encourage the Company to make investments in the system to maintain safety and reliability and to not delay necessary investments because of the regulatory lag in recovery of its costs in between base distribution rate cases. The Gas ISR Plan is focused largely on replacing the many miles of leak-prone pipe in Rhode Island.[48] The Company must exercise judgement to determine the riskiest main to be prioritized given the availability of the Company's financial and other resources.

In its review of the Gas ISR Plan, the Commission must determine whether the budget proposed and the resulting impact on rates relate to projects reasonably needed to maintain a safe and reliable system over the short and long term. In addition to determining whether the projects are truly needed, the Commission must consider the pace of investment in the context of the rate

[47] *Id.* at 73-74, 78-79, 91, 113-114.
[48] Pipe classified as "leak-prone" is not necessarily leaking but because of its age and what it is made of is prone to leak in the future.

impact to customers, and since there is a lag between the time of construction and when the asset goes into service (i.e., resulting in the costs being reflected in rates), the Commission needs to consider the future rate impacts of the ISR and other expenses[49].

Since passage of the ISR statute in 2010, the Company's annual ISR Plans have continued to grow over time. However, after the acquisition of the Narragansett Electric Company by PPL in 2022, the Commission saw a marked increase in spending, at a more aggressive pace, than the increases sought by PPL's predecessor, National Grid. Additionally, the Commission is aware of the representations that the Company has made to its shareholders indicating substantial increases in rate base totaling more than $1.0 billion resulting from an ambitious plan to increase capital investments over the next four years.[50] These ambitious investment goals, if approved by the Commission as contemplated by the Company, would have a significant impact on rates.

The Commission's budgeting approvals in the Company's ISR Plan do not prohibit the Company from additional spending if it believes such is necessary for safety and reliability. In fact, the Company has the legal obligation to address issues it believes necessary to maintain safety and reliability, even if not approved through the special rate mechanism of the ISR. In such cases, the Company has the right to seek recovery of such investments occurring outside of the ISR approval when it files a base distribution rate case.

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[49] The Commission also is cognizant of the other cost components of a customer's bill. Many bill components, when viewed in isolation, may have what is perceived to be only a modest impact on rates. However, each component, when taken together with the other components, contributes to straining the affordability of rates.
[50] PUC 7-1. *See* Attachment 7-1-1, slide 32; Attachment 7-1-2, slide 23.

A. *The Company failed to establish that the spending levels in the Main Replacement and Rehabilitation Category are necessary for safety and reliability in the short term*

The FY 2026 proposed Plan budget of $223.26 million includes a budget category for Main Replacement and Rehabilitation, with a category budget of $151.350 million.[51] This amount is approximately $43 million more than the FY 2025 approved budget. It also represents a substantial jump in spending when compared to the last five years, as shown below: [52]

FY 2021	**FY 2022**	**FY 2023**	**FY 2024**	**FY 2025***	**5-year Avg.**
82,827	102,189	107,818	128,263	118,220	107,863

*FY 2025 is forecasted.

While the Company can show a benefit resulting from increasing spending to this level, illustrating a benefit is not the legal standard for approval of special rate recovery treatment under the ISR. The standard for approval is that the capital expenditures must be "reasonably needed to maintain safe and reliable distribution service over the short and long term."[53] The Commission has the discretion to approve spending that provides benefits in general, even if the standard is not met. But it is not required to do so for the ISR unless the spending is needed for both the short and long term.

The Commission takes into account the significant increases over the course of the past few years within the ISR. This is especially important considering the numerous complaints and public comment the Commission has received regarding the rapid increase in and unaffordability of heating bills caused by high rates.[54] The percentage of a gas customer's total bill associated

[51] See Proposed Plan, Ex. RIE 1(d) Sec. 2, Table 1 at 41.
[52] *See* Att. PUC 5-2. Company data indicates that the actual spend in the Main Replacement & Rehabilitation category for FY 2023 was $107,818 and the five-year average for FY 2021-FY 2025 is $107,863.
[53] R.I. Gen. Laws §39-1-27.7.1(d).
[54] https://video.ibm.com/recorded/134266805 and https://video.ibm.com/recorded/134266999.

with capital spending arising out of the ISR has increased significantly over the last five years. In 2020, ISR spending was only 5% of the typical total residential bill. Under the Company's proposal, the share of the bill associated with the ISR would amount to 17% of the customer's total gas bill.[55]

The Company maintains that its plan is designed to address risk. However, while the Company has risk criteria with which to determine replacement priority, it also applies considerable judgment in project selection. The evidence presented did not sufficiently explain how the Company identifies and prioritizes the riskiest main segments. It is apparent that the Company's mileage target—to eliminate all leak-prone pipe within a set timeframe—continues to play a significant role in driving its investment decisions. However, a mileage target is not a reliable planning tool for ISR purposes. A step increase of the magnitude proposed should be supported by evidence that accelerated spending now produces greater value than spending in the future, particularly in light of the impact on ratepayers. The Commission acknowledges the importance of removing leak-prone pipe but finds that the Company's planning methodology must prioritize: (1) near-term risk; (2) long-term risk; and (3) opportunities for cost savings, such as reducing paving costs and minimizing stranded asset risk.

For example, during the hearing, the Company reallocated $5 million from proactive leak-prone pipe work to public works projects but could not confirm whether those segments were originally part of its planned work or were newly added. Road reconstruction continues to drive prioritization, and the Company seeks a 60% increase in its public works budget. Yet, the Company testified that it does not use its documented prioritization policy to evaluate public works projects.

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[55] Att. PUC 4-1.

At the same time, the Division expressed concern over cast iron main breaks during the past winter, particularly in 2- to 4-inch cast iron mains—which have the highest break rate according to the system integrity report. Despite this, the Company's DIMP score for this asset class is only 1.65 out of a possible 3, and the Company did not demonstrate that these mains are being targeted in its current plan. If the Company and the Division agree that specific pipe characteristics signal elevated near-term risk, that should be reflected in a transparent and consistent methodology. The Commission supports the suggestion raised during the proceeding that a weighted metric—such as risk multiplied by miles replaced—may offer a more effective measure of ISR performance than mileage alone.

The Company failed to establish that the improvements proposed are all needed during this fiscal year to ensure safety and reliability or provide any indication that safety or reliability would be compromised if the proposed level of funding for the main replacement program was not approved. While the Commission recognizes the need to replace and abandon leak-prone main, the Company failed to convince the Commission that the pace at which it proposes to do so is critical to safety and reliability within the next fiscal year. Moreover, and as stated above, the Company has an obligation to provide safe and reliable service. Absent the ISR Plan, if the Company believes safety and reliability is being compromised, it has an obligation to address its concern immediately and can seek appropriate recovery in its next rate case.

The Commission finds that the Company did not provide sufficient evidence that the requested increase to the Main Replacement and Rehabilitation category is needed to maintain safety and reliability in the near term, and finds that a budget more similar to previous years' investment levels is sufficient to allow the Company to address immediate needs.. In an effort to temper both the pace and increase costs of the Main Replacement and Rehabilitation category, the

Commission is reducing the Main Replacement and Rehabilitation Program budget from the proposed $151,350,000 to the five-year average of capital spending $107,863,000, a reduction of $43,487,000. The Company shall reduce the in-service estimate by $38,361,000, and the net capital revenue requirement shall be reduced to reflect this reduction.

B. The Company failed to establish that capitalizing repaving costs is beneficial to ratepayers over the long-run.

In Docket No. 23-49-NG, the Commission first addressed the Company's treatment of repaving costs as capital.[56] There the Commission found the Company's and the Division's arguments to treat repaving costs as capital as opposed to O&M costs unpersuasive. The Commission directed the Company to treat all of its repaving costs incurred from its gas distribution business through its capital investment plan under the ISR as an annual O&M expense, to be recovered annually and reconciled through the ISR.[57] The Commission reasoned that while treating repaving costs as O&M can have a near term impact that results in a higher rate than if the costs were capitalized, there is a long-term consideration that implicates generational inequities well into the future, as customers leave the system.[58]

Paving costs have grown significantly in both magnitude and proportion of total project costs. For example, the Company's paving budget increased from $12 million in FY 2025 to a proposed $22 million in FY 2026. This rapid increase draws attention to how these costs are treated for ratemaking purposes. Unlike other components of a gas infrastructure project, the Company

[56] Utility Fair Share Roadway Repair Act was enacted into law in July of 2019. R.I. Gen. Laws §§ 39-2.2-1 *et seq*. The law required the utility to repave roads and highways curb-to-curb at the request of the state or local authority. This has substantially increased the cost to the gas distribution company. In that case, the Commission changed the rate accounting policy for repaving, requiring the utility to treat such costs as operation & maintenance expenses (O&M). *See In Re: The Narragansett Electric Company d/b/a Rhode Island Energy Gas Infrastructure, Safety, and Reliability Plan: FY 2025 Plan*, Docket No. 23-49-NG, Order No. 25228 at 2-3; 31-36 (January 8, 2025).
[57] *Id*.
[58] *Id.* at 31-36.

does not own, operate, or maintain the repaved surface The key point is that the Company has no ongoing liability or operational responsibility for the road surface. Nonetheless, if the repaving costs are capitalized, they are depreciated over 40 years and included in rate base, allowing the Company to earn a return on equity. This structure allows the utility to earn a return on an investment in which it has no equity stake and imposes costs on future gas customers long after the benefit has expired, the road surface has deteriorated, or the municipality has repaved again. Simply put, ratepayers should not be required to provide a financial return for an asset the utility neither owns nor maintains.

The inequity and unreasonableness of this treatment was illustrated financially in responses to Commission data requests. The Company forecasted repaving costs over five years to be approximately $129.1 million.[59] The Commission asked the Company to provide a schedule showing the amounts charged through rates, the total amount recovered as return on equity for shareholders over the first five years, and the total residual book value not yet recovered in rates as of the end of each year.[60] After five years of expenditures of $129 million, the cumulative total amount charged to customers was only $30 million, but $21.8 million of this was return on equity to the Company's shareholders. This leaves $108 million to be recovered from future generations of customers. In contrast, treating the costs as O&M requires current customers to pay for the newly paid road on nearly a pay-as-you-go basis.[61] Under that scenario, after five years, there is only $16 million of residual paving costs for future customers to cover.

[59] PUC 2-7.
[60] PUC 6-1.
[61] There is a residual tax cost that remains to be recovered and is included in rates as a deferred tax asset. But the amount is minimal. *See, e.g.*, PUC 1-3 and PUC 1-4.

It is understandable that the Company would favor this approach, given the incentive to earn a return on equity for its shareholders. But at a time when the future of the gas distribution system is uncertain due to state policies in place to reduce greenhouse gas emissions and reduce reliance on fossil fuels, continuing with traditional ratemaking that allows the Company to capitalize this cost is highly questionable.[62]

The Commission notes that the Company acknowledged in the previous case that treating the costs as O&M does not financially harm the Company.[63] The Company receives dollar-for-dollar recovery through the ISR reconciliation. In sum, the Company's arguments in the instant matter were unpersuasive in convincing the Commission to reverse its policy decision and allow these costs to be treated as capital costs for ratemaking purposes.

Additionally, the Company was unable to adequately explain the almost $10 million increase to its FY 2025 paving expense forecasted to be spent in FY 2026. In particular, the Company was unable to show that the $12.5 million baseline paving costs did not include carry-over paving from the previous year.[64] The Commission stressed the importance of understanding the full extent and impact of paving costs being paid by gas customers, including but not limited to identification of the cities and towns that require curb-to-curb paving, how many miles are done each year, what specific costs are associated with it, and the cost-sharing arrangement/formula that the Company has with the municipality and/or third parties. The Commission decreased the Company's proposed budget for repaving by $2.9 million that the Company had identified as "outstanding obligation awaiting third party" and $1.1 million identified as "ongoing or early FY

[62] The Commission is also required to consider the effects of the Act on Climate in its decisions. *See* R.I. Gen. Laws § 42-6.2-8.
[63] Order No. 25228 at 36.
[64] PUC 2-5

2026 project expected to be paved in FY 2026" and ordered the Company to adjust the forecasted revenue requirement after this reduction.[65]

C. Refiling Segmentation Criteria

Lastly, the Commission noted that in Docket No. 23-49-NG, it had ordered the Company to provide criteria for determining whether gas segments were eligible for decommissioning. What was eventually filed did not provide sufficient detail to be actionable or as a basis for decision-making. The Company is ordered to refile, providing measurable and accountable criteria, among other clarifications specified in the Commission's ordering paragraph below.

Accordingly, it is hereby

(25485) ORDERED:

1. The Narragansett Electric Company d/b/a Rhode Island Energy's proposed FY 2026 Gas Infrastructure Safety and Reliability Plan and spending budget filed on December 31, 2024 is rejected.
2. The Main Replacement and Rehabilitation Program budget ($151,350,000) shall be reduced by $43,487,000. to the five-year average of capital spending (107,863,000).
3. The in-service estimate for FY 2026 shall be reduced by $38,361,000 and the net capital revenue requirement shall be adjusted to reflect that reduction.

[65] This was not a disallowance of cost. Rather, it was a budget adjustment and does not preclude the Company from seeking cost recovery should the actual costs be higher, subject to the budget framework rules for the FY 2026 program year.

4. Repaving costs shall be reduced by $4 million and the Company shall continue to treat curb-to-curb repaving costs as an operations expense for purposes of cost recovery and the calculation of the revenue requirement.
5. By May 1 the Narragansett Electric Company d/b/a Rhode Island Energy shall propose a form of report for the Commission regarding repaving costs designed to include information such as: the municipality where the paving is occurring, whether or not a third party was involved in any work, how much of any of the paving costs were allocated between the Company, the municipality, and a third party, the amount of paving required to be done, whether the repaving extended beyond work done by the municipality, etc.
6. The budgets for the Mandated & Non-Main Reactive, Reliability & Pressure Regulation, Separately Tracked Categories, Separately Tracked Major Projects, shall be approved.
7. Funds may not be transferred among categories.
8. The budget framework established in Docket No. 23-49-NG shall continue with separate "Soft Budget Limits" for the Main Replacement & Rehabilitation, Reliability & Pressure Regulation and Purchase Meters categories, set at the Commission approved budgets for those categories.
9. The Narragansett Electric Company d/b/a Rhode Island Energy shall move the Scott Road Take Station project into the Transmission Station Integrity subcategory in Reliability & Pressure Regulation category and reflect that change in its compliance filing.
10. The Narragansett Electric Company d/b/a Rhode Island Energy submit an update to its July 2024 filing within 90 days that includes technical criteria that are, to the extent possible, measurable and accountable.
    a. Where quantitative measurement is not possible, the Company should provide a clear explanation of how it will determine whether a criterion has been met.

b. Additionally, the Company should explain how it will weigh or prioritize among the criteria and provide justification for both the definitions and the prioritization.
c. Finally, the Company is directed to test the proposed criteria on a sample of gas distribution segments and report the results of that test in its revised filing.

11. The Narragansett Electric Company d/b/a Rhode Island Energy shall file an explanation of its current work methodology for public works and for pipes generally. The explanation should allow the Commission to understand whether that is a single work method. To the extent that either work methodology incudes an algorithm for risk or prioritization scoring please explain that as well.

FFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 1, 2025 PURSUANT TO AN OPEN MEETING DECISION ON MARCH 28, 2025. WRITTEN ORDER ISSUED ON AUGUST 18, 2025.

PUBLIC UTILITIES COMMISSION

Ronald T. Gerwatowski, Chairman

Abigail Anthony, 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 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.