

**STATE OF RHODE ISLAND  
PUBLIC UTILITIES COMMISSION**

**IN RE: PROPOSAL TO CHANGE RATE : DOCKET NO.: 25-33-GE**  
**ACCOUNTING AND ISSUE BILL CREDITS :**  
**RELATING TO A COMMITMENT TO HOLD :**  
**CUSTOMERS HARMLESS FROM AN :**  
**ACQUISITION-RELATED INCREASE IN RATES :**

**NOTICE COMMENCING REVIEW OF BILL CREDIT PROPOSAL**

Pursuant to Rhode Island General Laws § 39-3-11, the Commission has commenced an inquiry in this docket that relates to very complex tax and accounting issues, as well as substantial rate impacts and potential bill credits proposed by The Narragansett Electric Company d/b/a Rhode Island Energy (Company) and its parent company PPL Corporation (PPL). It is the Commission's duty under Title 39 to assure that rates are just and reasonable (including R.I. Gen. Laws §§ 39-1-1, 39-1-3, 39-1-7, 39-1-38). This inquiry is intended to carry out that duty.

In order to assure that this notice will provide the public with an understanding of the nature of this inquiry, the Commission describes the issues herein based on the facts that have been discerned from various documents available from Company filings with the Division of Public Utilities and Carriers (Division) and public statements made by the Company, all of which will be subject to confirmation during the Commission's inquiry.

**Background from PPL Acquisition of Narragansett Electric**

In this docket, the Commission will evaluate a proposal by Rhode Island Energy to issue bill credits, including an evaluation of the underlying rate accounting supporting the proposal. The proposal relates to a "Hold Harmless Commitment" made by the Company and its affiliates at the time PPL obtained Division approval of the acquisition of The Narragansett Electric Company by Rhode Island Energy's parent in 2022.

Rhode Island Energy filed a proposal with the Division to seek a ruling that issuing bill credits to its electric and gas distribution customers for the months of January, February, and March in 2026 and the same three months in 2027, instead of using the mechanism that has been in place since 2022, would satisfy the Hold Harmless Commitment. Following a review, the Division issued a decision on September 10, 2025. In its decision, the Division stated that "The Division further finds that the calculations and methods used in the proposed Settlement Agreement hold RI Energy's gas, electric, and transmission-only customers harmless from any changes to ADIT resulting from the Transaction. Provided, however, that implementation and distribution of the proposed bill credits must comply with all relevant rules, regulations, and provisions of law." (Order No. 25439 at 15). Now, the proposal must be addressed by the Commission exercising its exclusive jurisdiction over rates and the associated rate accounting before the Company can lawfully issue the proposed bill credits on customer bills at the beginning of 2026. The Company

will be required to file a tariff with the Commission for review and approval prior to January 1, 2026, on or before a date set by the Commission.

### **Nature of the Hold Harmless Commitment and Future Rate Increases**

When PPL acquired The Narragansett Electric Company, PPL committed to hold all electric and gas customers harmless from certain incremental distribution rate increases on the delivery side of its bills that otherwise would have occurred from the transaction, subject to the Commission's jurisdiction and approval. The projected increases were the result of a tax-related decision made by PPL, when it elected to treat the acquisition as a purchase of assets rather than a stock purchase. This election, by operation of the federal tax laws, gave a substantial tax benefit to the Company, but also would have caused an increase in Rhode Island Energy's rate base used for ratemaking subject to the Commission's jurisdiction. "Rate base" is a ratemaking term that refers to the original cost of all the Company's capital investments in the business, less depreciation. The Company, like all investor-owned utilities, earns a return on rate base, including a return (profit) for its shareholders.

In this instance, the rate base is increasing because of the tax election made by PPL, caused by the application and intersection of complex tax and rate accounting rules. Because rate base was substantially increased from PPL's tax election, this would have resulted in rate increases on ratepayers occurring over many years following the transaction. In other words, absent the Hold Harmless Commitment, Rhode Island Energy would have earned incremental returns for its shareholders over and above what would have been earned by the Company had National Grid retained ownership. As a result of this accounting impact on rates, PPL agreed to hold its electric and gas distribution customers harmless from this earnings effect, agreeing not to seek those incremental returns from ratepayers caused by the tax accounting.

To date, the Company has complied with the Hold Harmless Commitment in several ratemaking proceedings and filings before the Commission and the Commission has approved the methodology proposed by the Company which has been used consistently in those proceedings. This methodology has been incorporated into various approved rates. However, the Company is now proposing to change the accounting and the manner in which it carries out its obligations under the Hold Harmless Commitment.

### **Summary of the Crediting Proposal and Future Rate Increases**

Under the Company's proposal relating to electric and gas distribution, the Company would provide a fixed amount as a bill credit on customer bills. For both electric and gas distribution, the credits would be distributed in two installments over the two winter periods in the months of January, February, and March, in 2026 and 2027, respectively. Every electric account would receive the same monthly credit applicable to electric distribution and every gas account would receive the same monthly credit applicable to gas distribution. These credits would be applied to all accounts regardless of the size of the account or usage at the account. For example, one residential account would receive the same fixed amount per month as any one commercial, industrial, or other non-residential account.

However, in exchange for crediting customers in this manner, the Company's proposal would allow it to increase future distribution and electric transmission rates over the course of many years to recover the incremental return on rate base that the original Hold Harmless Commitment was intended to eliminate. Under the proposal, the Company can commence recovery of those additional incremental returns through distribution rate increases as soon as 2026, including those incremental amounts in the Company's next electric and gas distribution rate case which the Company has indicated will be filed before the end of this calendar year.

### **Estimated Value of the Hold Harmless Commitment**

The bill credits were determined from the Company's calculation of the value of the Hold Harmless Commitment. The Company filed a schedule with the Division that calculated the value of the Hold Harmless Commitment in terms of future rate impacts caused by the tax issue over 37 years. The Company estimated that value to be over \$240 million (on a nominal basis), which included the electric distribution, gas distribution, and electric transmission business segments of the Company. The Company performed an analysis to take into account the time value of money, estimating the net present value (NPV) of that amount to be approximately \$148 million.<sup>1</sup> In its NPV analysis, the Company used a discount rate of between 8% and 9% to calculate the NPV, based upon the Company's weighted average cost of capital for each applicable business segment of the Company.

The "weighted average cost of capital" (or WACC) for a utility company is essentially the average rate of return a utility seeks to generate on its investments to satisfy its investors, both debt holders and shareholders. In the ratemaking process, it also is a key input reflecting the amount of return that the utility is allowed to earn on rate base, consisting of the interest rates on debt (such as bonds) and the Company's allowed return on equity for shareholders, weighted by funding source.

One key question before the Commission in this docket is whether using the Company's WACC as an NPV discount rate to determine the total owed to customers in lump sum was reasonable and, therefore, did not understate the value proposed to be credited to customers. Stated another way, the Commission will evaluate whether the use of the WACC was appropriate when ratepayers are not making an investment in utility facilities, but instead would be receiving the funds in lump sum that otherwise would be spread out over many years.

### **Treatment Between Residential and Non-Residential Accounts**

The Company proposes to determine the fixed credit amount by dividing the applicable amount of the Hold Harmless value by the total number of billed accounts for electric and gas distribution customers, respectively. Because the number of residential accounts is significantly higher than the number of non-residential accounts, the residential classes would receive the vast majority of the aggregate amount of the calculated Hold Harmless value compared to commercial, industrial, and other non-residential customer accounts.

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<sup>1</sup> Since the credits are proposed to be provided in two installments, the Company adds interest in between the installments, resulting in a final total credit of approximately \$154 million, as shown on the Company's schedules.

This method causes a mismatch between the amount of the credits designed to compensate customers and the increased rates in future years as the Company charges customers in the future for the returns on the increased rate base caused by PPL's tax-related election. In effect, non-residential customers over the long term would pay significantly more in rates relating to the increased rate base than the amount of the benefits received under the crediting proposal. The Commission will examine whether the proposed method of distributing the credits based on the number of accounts results in just and reasonable rates to all classes of customers.

### **The Commission's Inquiry and Expedited Process**

The Company's proposal involves significant changes in rate accounting treatment already established by the Commission in prior rate dockets. The Commission will evaluate the proposed change in rate accounting, the appropriateness of the discount rate being used to determine the amount to be credited (i.e., the discount rate chosen determines the size of the amount to be credited to ratepayers), and whether the proposed crediting mechanism results in just and reasonable rates or needs modifications.

Given the magnitude of the Company's proposal, the upcoming changes in electric rates and gas rates that annually occur in the last quarter of each year, and the impending filing of a combined electric and gas distribution rate case by the Company before the end of the year, the Commission is endeavoring to expedite its investigation.

Contemporaneously with this notice, the Commission is issuing a first set of data requests which has been posted on the Commission's website at the following link: <https://ripuc.ri.gov/Docket-25-33-GE>.

Parties desiring to intervene in these proceedings must file a motion to intervene with the Commission Clerk by no later than 4:00 p.m. on September 22, 2025. The Company shall have until 4:00 p.m. on September 26, 2025 to object to any motions to intervene. The Commission will post a procedural schedule for these proceedings on the website at a future date.

Stephanie De La Rosa,  
Commission Clerk  
September 10, 2025