

the CapEx Reconciling Factors. The O&M Reconciling Factor compares the actual Infrastructure 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

II. Rhode Island Energy's Filing

A. Gooding – Status of Projects, Spending, and DG Project Plant-in-Service

On August 1, 2024, RI Energy filed its Annual Report and Reconciliation (2024 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 \$8.3 million more than forecasted and cost of removal was \$6.4 million lower than expected. The result was a net 2024 ISR investment of \$106.6 million, approximately \$1.9 million over RI Energy's planned amount of \$104.7 million.⁵

Capital Spending was \$12.4 million above budget, resulting from approximately \$13.4 million above-budget amounts in non-discretionary spending and \$4.3 million below-budget amounts in total discretionary spending, excluding large, separately tracked projects. After including separately tracked projects, capital spending was over by an additional \$3.3 million, all within the System Capacity & Performance budget, primarily resulting from a delay in some substation work offset by an acceleration of other substation work.⁶

Ms. Gooding explained that Vegetation Management-related O&M expense was slightly lower than budgeted while O&M related to I&M spending, Volt/Var Optimization and

³ Shields Test. at Bates 144-45; 149-50.

⁴ Gooding Test. at 2-6.

⁵ *Id.* at 3-4.

⁶ *Id.* at Attachment NAG-1 at Bates page 35.

Conservation Voltage Reduction programs were basically on budget.⁷ Finally, Ms. Gooding stated that the Company met both reliability performance metrics in Calendar Year 2024.⁸

Additionally, Ms. Gooding provided an update of a review of how plant additions related to DG interconnection projects had been accounted for in rate base. Ms. Gooding explained that based on the Company's review of \$13.7 million in plant additions from FY 2013 through FY 2024, the Company had determined that \$2.2 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 The remaining amount had been misallocated and/or there was insufficient information available to justify including the dollars in rate base. Ms. Gooding explained that the Company was implementing process changes to minimize adjustments in the future.¹⁰

B. Oliveira – Revenue Requirement

Jeffrey D. Oliveira, PPL Services Corporation's Lead Rates and Regulatory Specialist, and Natalie Hawk, PPL Services Corporation's Director of tax accounting reporting submitted testimony indicating the actual FY 2024 revenue requirement was \$54,282,082, a decrease from the projected revenue requirement of approximately \$55,418,057 million. They explained the decrease in the revenue requirement is primarily due to: (1) a lower level of capital investment in FY 2023 and FY 2024; (2) a net reduction resulting from the DG project review as outlined in the testimony of Ms. Gooding; and (3) updated FY 2023 tax calculations as described in the testimony of Ms. Hawk. These decreases were partially offset by: (1) an increase in the actual FY 2024

⁷ *Id.* at 9.

⁸ *Id.* at 10.

⁹ *Id.* at 7. This issue led to issuance of data requests to better understand the testimony. The Company's rebuttal testimony was clearer than the direct testimony and is more fully summarized below.

¹⁰ *Id.* at 15-16; Attachment NAG-1 at Bates 49.

property tax rate compared to the projected rate in the FY 2024 ISR Plan; and (2) an increase related to updated FY 2023 and FY 2024 hold harmless adjustments, also discussed in Ms. Hawk's testimony.¹¹

C. Hawk – Taxes and Hold Harmless Adjustment

Ms. Hawk discussed various tax issues and an adjustment made to comply with a “hold harmless” agreement that resulted from the acquisition of The Narragansett Electric Company.¹² She explained that the Company updated its FY 2024 revenue requirement using revised estimates for the capital repairs deduction and tax loss on retirements, based on partial 2023 tax data, with final figures to be trued up in a future filing. For FY 2023, the revenue requirement was also adjusted to reflect actual tax data from multiple returns related to the Company's acquisition by PPL. These updates led to a small net decrease in the FY 2023 revenue requirement. Additional plant and DG-related adjustments described by Ms. Gooding further reduced the overall revenue requirement.¹³

Next, Ms. Hawk summarized the hold harmless commitment resulting from the acquisition of The Narragansett Electric Company. She explained that as part of the acquisition approval, PPL committed to hold Rhode Island customers harmless from changes to Accumulated Deferred Income Taxes (ADIT) resulting from the transaction. Due to the § 338 election, PPL generated tax-deductible goodwill, resulting in cash tax benefits for the Company. To mitigate the impact of the increased rate base from the elimination of deferred taxes in the Acquisition, the Company

¹¹ Oliveira Test. at Bates 105, 107-08, 111; Schedule 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. Oliveira Test. at 109-10.

¹² Hawk Test. starting at Bates 158; Schedule NH-1.

¹³ *Id.* at 158-60.

committed to hold customers harmless from the increased revenue requirement resulting from the increased rate base. It has been doing this by providing revenue credits to customers. The credits are based on calculations comparing the impacts on the revenue requirement “with the transaction” and “without the transaction.” That practice was proposed again in this docket.¹⁴

She explained that the Company calculated a net \$30,228 increase to the FY 2024 revenue requirement, resulting from a review of the FY 2023 and FY 2024 rate base and tax impacts. For FY 2023, the hold harmless true-up adjustment resulted in an \$868,312 increase to the revenue requirement. This was primarily due to a significant rise in net operating loss (NOL) utilization under the "with acquisition" scenario, where the deferred tax asset reversals increased from \$937,665 to \$23.6 million. The acquisition by PPL allowed for immediate full utilization of the Company’s NOLs, while the "without acquisition" scenario assumed a slower, 7-year utilization period approved in the FY 2025 Electric ISR Plan. Because greater NOL utilization reduces deferred tax assets and thus the rate base, the acquisition ultimately lowered the revenue requirement, which is offset by the hold harmless adjustment to keep ratepayers neutral.

For FY 2024, the hold harmless adjustment decreased the revenue requirement by \$838,084, an increase of \$741,449 from the original FY 2024 ISR Plan estimate. This change was mainly driven by the FY 2023 increase in NOL utilization, which continued to affect the FY 2024 revenue requirement due to the method of averaging rate base between fiscal years. Other contributing factors included plant and tax updates related to DG projects before the acquisition, finalized FY 2022 and FY 2023 tax figures (including adjustments to capital repairs deductions, tax losses on retirements, and NOLs), updated FY 2024 tax estimates based on PPL’s 2023 tax return, and the shift to a 7-year NOL utilization period.¹⁵

¹⁴ *Id.* at Bates 162-64.

¹⁵ *Id.* at 165-66.

D. Shields – Calculation of Reconciling Factors and Rate Impact

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 increase for most classes of customers. The FY 2024 ISR factors resulted in an under-collection of \$1,338,559 to be recovered from customers through the combined ISR factors. Because the CapEx factors are developed using rate base allocators set in The Narragansett Electric Company's last base distribution rate case in Docket No. 4770, residential, small commercial customers, and lighting customers will experience an increase while large commercial and industrial classes and Amtrak will experience decreases.¹⁶ The impact of the increases or decreases would be less than 1% on any customer's bills.¹⁷

III. Suspension

Based on its review of the Company's discovery responses, on September 19, 2024, the Commission suspended the effective date of the rate change for one month, from October 1 to November 1, to allow for additional investigation and the filing of the Division of Public Utilities and Carriers' (Division) position. The Commission noted that there were pending questions about what was included and excluded from the Company's reconciliation filing.¹⁸

IV. Division of Public Utilities and Carriers Filing

On September 25, 2024, the Division filed a memorandum authored by John Bell, Chief Accountant, resulting from his review in discussion with David Efron, a Division consultant. The

¹⁶ Test. of Shields at Bates 180-85, Attach. TGS-1, TGS-2, TGS-3.

¹⁷ Attach. TGS-4.

¹⁸ Minutes (Sept. 19, 2024).

Division simultaneously filed a memorandum from its consultant Gergory Booth, P.E.¹⁹ On October 16, 2024, the Division also submitted pre-filed testimony from Mr. Booth.²⁰

Mr. Bell explained that based on his and Mr. Booth's review, the Division was recommending that the Commission disallow recovery of \$2.2 million DG related costs from the instant filing. The disallowance was calculated at \$80,601 for two reclosers which costs should have been assigned to the DG customer, \$630,475 for excess costs under the Distribution Generation Blanket for investments that were either attributable to the DG customer or unjustified System Improvements, and \$1,439,262 for excess DG interconnection costs that the Company failed to include in its cost estimates and also failed to collect from the DG customer.²¹

In his memorandum and testimony, Mr. Booth presented several concerns about the DG costs. He addressed two types of projects: (1) small projects that fell under the blanket category of spending; and (2) larger projects where the cost of the project exceeded the estimated cost by more than 10%. First, as to the smaller projects, he stated that the Company had included no detail supporting the variances for small projects that were included in the Company's blanket spending, and further stated that, "[c]osts associated with DG interconnection where the Company failed to collect the costs from the DG customer should be denied"²² Addressing cost recovery from the general body of ratepayers for costs not collected from DG interconnecting customers of the larger projects, Mr. Booth asserted that the Company had not shown that its estimating process was reasonable in light of the language of the tariff. First, Mr. Booth noted that the Company had

¹⁹ Bell Mem. (Sept. 25, 2024); https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2023-09/5209-DIV-Memo_9-7-23.pdf; Booth Mem. (Sept. 25, 2024); <https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2024-09/22-53-EL%20RIE%27s%20EI%20ISR%20Reconciliation%20-%20DPUC%20Position%20Memo%20of%20G%20Booth%20%289-25-24%29.pdf>

²⁰ Booth Test. (Sept. 25, 2024); <https://ripuc.ri.gov/sites/g/files/xkgbur841/files/2024-10/22-53-EL%20FY24%20ISR%20Plan%20Reconciliation%20-%20DPUC%20Direct%20Testimony%20of%20G%20Booth%20%2810-17-24%29.pdf>.

²¹ *Id.* at 19-20.

²² *Id.* at 9.

drafted the language limiting their cost recovery from DG customers. Second, he criticized the Company for providing estimates that are +/- 25% when they know there is a +/- limitation in the tariff (Interconnection Services Agreement). This practice, he stated, this mismatch creates an immediate risk of under-recovery. He stated, that under Rhode Island Energy's view of its tariff, "the Company can produce inadequate cost estimates that inform contributions from DG customers, be limited in the amount of costs that can be recouped from those DG customers in cases of overruns, and not be held responsible for the initial estimate accuracy and any other factor leading to cost overruns. The Company is in full control of the interconnection process, yet RIE proposes that ratepayers be responsible for failure points." This, Mr. Booth argued represents an unacceptable risk shift to customers from the Company. Consistent with his position on the blanket projects, Mr. Booth recommended denial of cost recovery through the ISR, noting the Company can seek cost recovery in a base distribution rate case.²³

Mr. Booth also raised other areas of concern to be addressed in future ISR matters related to cost estimating. He noted that "the Company has not been adjusting cost estimates in a timely manner, nor has it been informing the DG customers of scope creep and escalation impact. Second, the Company does not apply the most relevant information available to improve their forward-looking pricing."²⁴ This problem, however, is not just limited to DG customers, but to the entire estimating practices of the Company. By not reflecting updated scope nor providing cost estimate adjustments in a timely manner, the budget and overall rate impact of the ISR Plans is distorted. Thus, the Division determined that this reconciliation filing was an appropriate place to raise the concerns for future filings.²⁵

²³ *Id.* at 9-14.

²⁴ *Id.* at 16.

²⁵ *Id.* at 15-20.

V. Commission Decision on Rates

Following the Division's filings, the Commission extended the procedural schedule to allow the Company time to file rebuttal testimony and to schedule a hearing. On October 28, 2024, the Commission approved interim reconciliation factors designed to collect its costs over the 11-month period November 1, 2024 through September 30, 2025, adjusted downward to reflect the Division's position. Specifically, the Commission approved the CapEx reconciling factors calculated in Attachment PUC 4-2-2 (TGS-2) and the O&M reconciling factor calculated in Attachment PUC 4-2-3 (TGS-3) for effect November 1, 2025.

VI. Rhode Island Energy Rebuttal – DG Plant-in-Service and Estimating Processes

On October 31, 2024, the Company submitted rebuttal testimony of Ms. Gooding and Ryan Constable, an Engineering Manager in the Distribution Planning and Asset Management Department. Ms. Gooding provided additional explanation of the process followed by the Company to review DG interconnection costs that had been included in rate base for ISR recovery.²⁶ She explained that as a result, \$5.3 million had been expensed and determined not to be eligible for inclusion in rate base. A remaining amount, approximately \$4.3 million is subject to future review following project completion or reconciliation.²⁷

Turning to the specific adjustments included in Mr. Booth's recommendation, Ms. Gooding first explained that the recloser had been categorized as a System Improvement to be recovered from all customers because it will benefit customers other than just the DG customer. She indicated that the recloser-related estimate that had been given to the DG customer was because the work was required for that interconnection. However, between providing the estimate and doing the work, the Company had changed its practice away from the work quoted to full

²⁶ Gooding Rebuttal Test. at 2-4.

²⁷ *Id.* at 4.

replacement of the recloser. For that reason, the Company advised that it would be seeking cost recovery from all ratepayers because either the work benefitted multiple customers or conversely, the cost of the recloser exceeded the estimate provided to the customers. Either way, Rhode Island Energy posited that the cost should be eligible for recovery through the ISR.²⁸

Next, Ms. Gooding turned to the blanket projects. She conceded that each project had not been reviewed separately, noting that the total cost of \$630,475 for which the Company was seeking recovery through the ISR was composed of more than 100 projects. However, because these were either projects for which the cost exceeded the estimate or which were categorized by the Company as System Improvements, Ms. Gooding maintained that these categories of costs should be recovered through the ISR.²⁹

With respect to the remaining projects for which the Company did not collect the full project cost from the DG interconnecting customers, Mr. Gooding again pointed to the tariff language and advised that “it is nearly impossible to collect any amount above the original estimate from DG customers.”³⁰ She noted that of the total spent on DG projects over the past several years, the amount in dispute represents a small percentage and is not indicative of estimating deficiencies.³¹

Finally, Ms. Gooding acknowledged that the ISR Plan and budget contains some older estimates that have not been refreshed. She advised that the Company could provide additional updates to original estimates in future reconciliation filings.³² Mr. Constable then discussed the Company’s “revised estimating process,” still in its initial phases, to improve the early phases of

²⁸ *Id.* at 6-7.

²⁹ *Id.* at 7-8.

³⁰ *Id.* at 9-10.

³¹ *Id.* at 8-9.

³² *Id.* at 10.

project cost estimating. It will allow for better transparency when there are cost changes.³³ Mr. Constable posited that need for a project does not change with the estimates, but that it may require a reevaluation of alternatives, something the Company regularly conducts. He stated that the Company will communicate any such re-analysis with the Commission and Division as projects progress.³⁴

VII. Review of Plant-In-Service Additions

Following review of the Company's rebuttal testimony, additional discovery was issued and the Commission postponed the hearing that had been scheduled for November 19, 2024 to allow the Division to complete a review of the accuracy of plant-in-service additions in the FY 2022 through FY 2024 ISR reconciliation filings.

A. Division of Public Utilities and Carriers Testimony

On January 13, 2025, the Division submitted prefiled testimony of Jacob Van Reen, CPA, discussing his preliminary findings. Mr. Van Reen discussed three issues: (1) costs improperly classified as plant in-service-additions, particularly related to cost of removal; (2) erroneous capitalization of Allowance for Funds Used During Construction (AFUDC); and (3) payments received as contributions in aid of construction (CIAC) not being applied as offsets to rate base additions. Each of these errors separately results in an overstatement of the ISR revenue requirement, but with differing customer impacts.³⁵

Addressing the classification of plant-in-services additions related to cost of removal, Mr. Van Reen advised that the Company should fully review and reconcile project costs *before* including them in rate base to ensure proper classification as plant-in-service and cost of removal.³⁶

³³ Constable Rebuttal Test. at 4.

³⁴ *Id.* at 7.

³⁵ Van Reen Test. at 3-4, 5-8.

³⁶ *Id.* at 4-5 (emphasis added).

He then noted that the Company was completing its own investigation into the AFUDC errors.³⁷ Addressing the CIAC timing, similar to cost of removal, he suggested that the Company fully review and reconcile the accounting of all projects *before* including them in rate base for ISR purposes instead of putting the project in rate base with the intention to apply the CIAC credit in the future.³⁸

B. Rhode Island Energy Testimony

In response to Mr. Van Reen's testimony, the Company submitted testimony of John Schwartz, PPL's Director – Corporate Asset Accounting. Mr. Schwartz testified that the Company did not dispute any of the Division consultant's findings. Addressing the classification of cost of removal, he advised that the Company has created a removal-only work order intended to ensure alignment with the categorizations between systems.³⁹

Turning to the capitalization of AFUDC on blanket projects, Mr. Schwartz stated that it was committed to reversing the inappropriate charges to the category. The Company was working on a system solution but will be recording journal entries each month to reverse AFUDC recorded on blanket projects.⁴⁰

Moving on to application of CIAC payments, Mr. Schwartz stated that the Company will record CIAC received directly into the capital balances when possible. This should reduce or eliminate the misstatements of capital. In addition, for RIDOT projects, the Company is working on a process to accrue CIAC on a monthly basis to address timing issues. Further, the Company is working on a review process for third-party attachment capital costs.⁴¹ Finally, he advised that the

³⁷ *Id.* at 6.

³⁸ *Id.* at 8-9 (emphasis added).

³⁹ Schwartz Test. at 3-4.

⁴⁰ *Id.* at 4-5.

⁴¹ *Id.* at 5-7.

Company is committed to continuing to cooperate with the Division on its review of the Company's plant-in-service additions.

VIII. Withdrawal and Open Meeting

On February 6, 2025, Rhode Island Energy submitted a letter from legal counsel advising that the Company was withdrawing its request to seek cost recovery of the \$2.2 million in DG plant additions that had previously been included in the reconciliation filing. In the letter, counsel noted that the rates already reflect removal of the \$2.2 million and thus, no further adjustment is required at this time. Counsel advised that as a result of the withdrawal, the Company and Division had agreed no hearing was necessary at this time unless the Commission required one. In closing, counsel stated that, "the Company is committed to responding to data requests and working with the Division so that the Division can complete their analysis.... [and] once the Division's audit is complete, the parties will present their positions to the PUC on potential rate adjustments stemming from the audit findings."⁴²

Following review of the Van Reen and Schwartz testimony together with the February 6, 2025 letter, the Commission canceled the evidentiary hearing. Then, at an Open Meeting on February 20, 2025, the PUC discussed the status of the case, reiterating the criticality of proper accounting, particularly related to application of customer payments in contribution of construction. The Commission clarified that despite the Company's assertion that it is entitled to recovery of DG interconnection costs not recovered from interconnecting customers, the Commission has not made any decision with respect to that assertion.

Accordingly, it is hereby,

(25567) ORDERED:

⁴² Marcaccio Letter (Feb. 6, 2025).

1. The Narragansett Electric Company d/b/a Rhode Island Energy's proposed reconciliation factors filed on August 1, 2024, are hereby rejected.
2. The CapEx reconciling factors calculated in Attachment PUC 4-2-2 (TGS-2) are approved for effect November 1, 2024.
3. The O&M reconciling factor calculated in Attachment PUC 4-2-3 (TGS-3) are approved for effect November 1, 2024.
4. The Narragansett Electric Company d/b/a Rhode Island Energy shall continue to cooperate with the Division of Public Utilities and Carriers' review of the accuracy of plant-in-service additions in the FY 2022 through FY 2024 ISR reconciliation filings and report back to the Public Utilities Commissions when the findings are complete.

EFFECTIVE AT WARWICK, RHODE ISLAND ON NOVEMBER 1, 2024, PURSUANT TO OPEN MEETING DECISIONS ON SEPTEMBER 19, 2024, OCTOBER 28, 2024, OCTOBER 30, 2024, AND FEBRUARY 20, 2025. WRITTEN ORDER ISSUED DECEMBER 5, 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 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.