

H--7887
PUC
Concerns



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STATE OF RHODE ISLAND

Public Utilities Commission

Chairman Ronald T. Gerwatowski
Commissioner Abigail Anthony
Commissioner Karen Bradbury

April 7, 2026

The Honorable Joseph J. Solomon, Jr.
Chair, House Committee on Corporations
State House
Providence, RI 02903

Re: House Bill 7887 – An Act Relating to Public Utilities and Carriers

Dear Chair Solomon:

On behalf of the Public Utilities Commission (PUC), I am submitting the following comments on House Bill 7887 which directs the PUC to establish a standardized framework for determining authorized common equity ratios, and to establish a single, authorized rate of return on equity applicable to all public utilities, unless otherwise justified. The proposed bill also directs the PUC to reconcile the authorized rate of return on equity from the prior rate period with the actual average monthly rate of return on equity produced by the generic financing methodology. The PUC has the following concerns about the proposed bill.

The bill departs from current regulatory practice by guaranteeing a specific return on equity for all utilities, rather than the opportunity to earn a return on equity.¹ Specifically, language under § 39-1-27.14(c)(1) directs a regulated utility to return excess returns on equity to ratepayers should the actual return exceed the authorized rate of return. However, in the very next subsection, the bill also authorizes the PUC to allow a utility to recover a shortfall should the actual rate of return fall below the authorized rate of return but does not specify the circumstances or a standard the utility must meet to recover from a shortfall.

The proposed bill as amended is potentially in violation of United States Supreme Court precedent. In *Federal Power Commission v. Hope Natural Gas Co.*, the court stated, “[T]he return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.” *Federal*

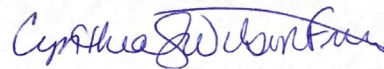
¹ Currently, Rhode Island Energy and Interstate Navigation are required to share any over-earnings with their customers.

Power Commission v. Hope Natural Gas Co 320 U.S. 591, 603 (1944). It is unlikely that Rhode Island Energy, Interstate Navigation, and A&R Marine all have similar risk profiles and earnings opportunities. Thus, any generic ROE could over-compensate one and under-compensate others – in fact, even the gas and electric operations could have different risk profiles.

Finally, the adoption of a generic financing methodology through an annual rulemaking for the establishment of a fair and reasonable authorized common equity ratio is impractical given the various requirements for promulgating such rules.

Please feel free to contact me with any questions at 401-780-2147 or cynthia.wilsonfrias@puc.ri.gov.

Sincerely,



Cynthia G. Wilson-Frias
Chief of Legal Services

Copy: Representative Cotter