The attached document reflects audited annual financial statements for The Narragansett Electric Company, a PPL subsidiary doing business as Rhode Island Energy (RIE) for fiscal years ending Dec. 31, 2023, 2022 and 2021. In May 2022, RIE was acquired by PPL Corporation (PPL) from National Grid. Certain acquisition and related costs were reflected in both PPL's and RIE's financial statements for the periods ended December 31, 2023 and 2022, totaling $56 million and $109 million (after-tax), respectively. They include certain costs associated with RIE's integration, commitments made during the acquisition process and related costs. As discussed in PPL's Annual Report on Form 10-K for the period ended December 31, 2023 (2023 10-K), PPL management considers these costs as special items and they are excluded from PPL's Earnings from Ongoing Operations, a non-GAAP financial measure described below and used in PPL's 2023 10-K and other SEC filings.

Earnings from Ongoing Operations

Management utilizes "Earnings from Ongoing Operations" or "Ongoing Earnings" as a non-GAAP financial measure that should not be considered as an alternative to reported earnings, or net income, an indicator of operating performance determined in accordance with GAAP. PPL believes that Earnings from Ongoing Operations is useful and meaningful to investors because it provides management's view of PPL's earnings performance as another criterion in making investment decisions. In addition, PPL's management uses Earnings from Ongoing Operations in measuring achievement of certain corporate performance goals, including targets for certain executive incentive compensation. Other companies may use different measures to present financial performance.

The Narragansett Electric Company
(d/b/a Rhode Island Energy)
Financial Statements
For the years ended December 31, 2023, 2022, and 2021

RHODE ISLAND ENERGY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
The Narragansett Electric Company

Opinion

We have audited the financial statements of The Narragansett Electric Company (d/b/a "Rhode Island Energy") (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, cash flows and equity for each of the three years in the period ended December 31, 2023, and the related notes to the financial statements (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

/s/ Deloitte & Touche LLP

Morristown, New Jersey
February 16, 2024

RHODE ISLAND ENERGY
STATEMENTS OF INCOME

(In millions of dollars)

	Years Ended December 31,		
	2023	**2022**	**2021**
Operating Revenues	**$ 1,851**	$ 1,803	$ 1,695
Operating Expenses			
Energy purchases	**658**	631	506
Other operations and maintenance	**705**	795	661
Depreciation	**156**	150	141
Taxes, other than income	**156**	152	147
Total Operating Expenses	**1,675**	1,728	1,455
Operating Income	**176**	75	240
Other Income (Expense) - net	**19**	8	(5)
Interest Income (Expense) from Affiliate	**(16)**	2	—
Interest Expense	**67**	65	64
Income (Loss) Before Income Taxes	**112**	20	171
Income Tax Expense (Benefit)	**16**	—	30
Net Income (Loss)	**$ 96**	$ 20	$ 141

The accompanying Notes to Financial Statements are an integral part of the financial statements.

RHODE ISLAND ENERGY
STATEMENTS OF COMPREHENSIVE INCOME

(In millions of dollars)

	Years Ended December 31,		
	2023	**2022**	**2021**
Net income	**$ 96**	$ 20	$ 141
Other comprehensive income (loss):			
Amounts arising during the period - gains (losses), net of tax (expense) benefit:			
Defined benefit plans:			
Net actuarial gain (loss), net of tax of $0, $0, $0	**—**	—	1
Reclassifications from AOCI - (gains) losses, net of tax expense (benefit):			
Qualifying derivatives, net of tax of $0, ($1), $0	**—**	2	—
Defined benefit plans:			
Net actuarial (gain) loss, net of tax of $0, $0, $0	**1**	—	—
Total other comprehensive income (loss)	**1**	2	1
Comprehensive income	**$ 97**	$ 22	$ 142

The accompanying Notes to Financial Statements are an integral part of the financial statements.

RHODE ISLAND ENERGY
STATEMENTS OF CASH FLOWS

(In millions of dollars)

	Years Ended December 31,		
	2023	**2022**	**2021**
Operating activities:			
Net income	**$ 96**	$ 20	$ 141
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	**157**	150	141
Deferred income tax expense	**48**	50	26
Bad debt expense	**26**	45	16
Allowance for equity funds used during construction	**(10)**	(7)	(6)
Regulatory asset write-off	**—**	21	—
Pension and postretirement benefits (income) expenses, net	**(23)**	24	11
Other, net	**2**	(1)	1
Pension and postretirement benefits contributions	**—**	—	(6)
Environmental remediation payments	**(4)**	(12)	(13)
Changes in operating assets and liabilities:			
Accounts receivable, net and unbilled revenues	**21**	(158)	(4)
Accounts receivable from/payable to affiliates, net	**6**	(28)	—
Fuel, materials and supplies	**(36)**	(12)	(6)
Regulatory assets and liabilities, net	**(49)**	(61)	40
Regulatory assets and liabilities (non-current), net	**(32)**	89	(40)
Derivative instruments	**(1)**	—	(44)
Prepaid and accrued taxes	**13**	(33)	(11)
Accounts payable and other liabilities	**35**	175	58
Other, net	**(49)**	23	8
Net cash provided by operating activities	**200**	285	312
Investing activities:			
Capital expenditures	**(424)**	(396)	(336)
Intercompany money pool	**—**	96	32
Cost of removal	**(30)**	(38)	(22)
Other	**—**	—	8
Net cash used in investing activities	**(454)**	(338)	(318)
Financing activities:			
Redemption of preferred stock	**(2)**	—	—
Payments on long-term debt	**(1)**	(14)	(1)
Notes payable to affiliates	**267**	142	—
Net increase in short-term debt	**25**	—	—
Payment of common stock dividends to parent	**(53)**	—	—
Contributions from parent	**58**	—	—
Return of capital to parent	**(34)**	(75)	—
Net cash provided by (used in) financing activities	**260**	53	(1)
Net increase (decrease) in cash and cash equivalents	**6**	—	(7)
Cash and cash equivalents, beginning of period	**2**	2	9
Cash and cash equivalents, end of period	**$ 8**	$ 2	$ 2
Supplemental Disclosures of Cash Flow Information			
Cash paid (received) during the period for:			
Interest - net of amount capitalized	**$ 60**	$ 63	$ 63
Income taxes - net	**$ (61)**	$ (20)	$ 18
Significant non-cash transactions:			
Accrued expenditures for property, plant and equipment at December 31,	**$ 16**	$ 31	$ 12
Parent tax loss allocation	**$ —**	$ —	$ 7

The accompanying Notes to Financial Statements are an integral part of the financial statements.

RHODE ISLAND ENERGY
BALANCE SHEETS

(Unaudited, in millions of dollars)

	December 31, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	**$ 8**	$ 2
Accounts receivable (Less reserve: 2023, $43; 2022, $40)	**293**	327
Accounts receivable from affiliates	**4**	—
Unbilled revenues (Less reserve: 2023, $2; 2022, $2)	**94**	103
Fuel, materials and supplies	**78**	42
Regulatory assets	**226**	190
Price risk management assets	**1**	20
Other current assets	**23**	17
Total current assets	**727**	701
Property, plant and equipment		
Regulated utility plant	**5,492**	5,241
Less: accumulated depreciation - regulated utility plant	**1,312**	1,252
Regulated utility plant, net	**4,180**	3,989
Non-regulated property, plant and equipment	**5**	37
Less: accumulated depreciation - non-regulated property, plant and equipment	**—**	24
Non-regulated property, plant and equipment, net	**5**	13
Construction work in progress	**287**	186
Property, plant and equipment, net	**4,472**	4,188
Other noncurrent assets		
Deferred income tax assets, net	**87**	148
Pension benefit assets	**17**	36
Regulatory assets	**441**	443
Goodwill	**725**	725
Other noncurrent assets	**46**	36
Total other noncurrent assets	**1,316**	1,388
Total assets	**$ 6,515**	$ 6,277

The accompanying Notes to Financial Statements are an integral part of the financial statements.

RHODE ISLAND ENERGY
BALANCE SHEETS
(In millions of dollars)

	December 31, 2023	December 31, 2022
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	**$ 359**	$ 362
Accounts payable to affiliates	**24**	15
Short-term debt	**25**	—
Short-term debt with affiliates	**409**	142
Long-term debt due within one year	**1**	1
Taxes	**40**	27
Interest	**16**	16
Regulatory liabilities	**117**	141
Price risk management liabilities	**51**	62
Renewable energy certificate obligations	**29**	28
Other current liabilities	**89**	134
Total current liabilities	**1,160**	928
Long-term debt	**1,495**	1,496
Other noncurrent liabilities		
Regulatory liabilities	**658**	730
Asset retirement obligations	**8**	9
Environmental remediation costs	**92**	93
Other noncurrent liabilities	**46**	31
Total other noncurrent liabilities	**804**	863
Equity		
Common stock - $50 par value (a)	**57**	57
Preferred stock	**—**	2
Additional paid-in capital	**1,581**	1,557
Earnings reinvested	**1,418**	1,375
Accumulated other comprehensive loss	**—**	(1)
Total Equity	**3,056**	2,990
Total Liabilities and Equity	**$ 6,515**	$ 6,277

(a) 1,132,487 shares authorized, issued and outstanding at December 31, 2023 and December 31, 2022.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

RHODE ISLAND ENERGY
STATEMENTS OF EQUITY

(In millions of dollars)

	Common stock (a)	Preferred stock (b)	Additional paid-in capital	Earnings reinvested	Accumulated other comprehensive loss	Total
December 31, 2020	$ 57	$ 2	$ 1,436	$ 837	$ (4)	$ 2,328
Net income				141		141
Other comprehensive income					1	1
Parent tax loss allocation			6			6
December 31, 2021	$ 57	$ 2	$ 1,442	$ 978	$ (3)	$ 2,476
Net income				20		20
Return of capital to parent			(75)			(75)
Other comprehensive income					2	2
Adjustments related to acquisition by PPL Rhode Island Holdings			190	378		568
Adoption of financial instrument credit losses guidance cumulative effect adjustment (Note 1)				(1)		(1)
December 31, 2022	$ 57	$ 2	$ 1,557	$ 1,375	$ (1)	$ 2,990
Net income				96		96
Dividends declared on common stock				(53)		(53)
Capital contributions from parent			58			58
Return of capital to parent			(34)			(34)
Other comprehensive income					1	1
Redemption of preferred stock		(2)				(2)
December 31, 2023	$ 57	$ —	$ 1,581	$ 1,418	$ —	$ 3,056

(a) 1,132,487 shares authorized, issued and outstanding. All common shares of RIE stock are owned by PPL Rhode Island Holdings at December 31, 2023 and 2022.

(b) No shares authorized, issued or outstanding at December 31, 2023. 49,089 shares authorized, issued and outstanding at December 31, 2022. See Note 5 for additional information.

The accompanying Notes to Financial Statements are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

General

The accompanying financial statements are prepared in accordance with GAAP, including the accounting principles for rate-regulated entities. Capitalized terms and abbreviations appearing in the combined notes to financial statements are defined in the glossary. Dollars are in millions, except per share data, unless otherwise noted.

Business and Consolidation

RIE, whose service area covers substantially all of Rhode Island, is primarily engaged in the transmission, distribution and sale of electricity and the distribution and sale of natural gas.

On May 25, 2022, PPL Rhode Island Holdings, a wholly owned subsidiary of PPL, acquired 100% of the outstanding shares of common stock of The Narragansett Electric Company from National Grid U.S., a subsidiary of National Grid plc (the Acquisition). Following the closing of the Acquisition, Narragansett Electric provides services doing business under the name Rhode Island Energy (RIE). See Note 6 for additional information.

Certain prior period amounts included in these financial statements have been reclassified to conform to PPL's presentation and accounting policies, including "Operating Revenues" and "Other operations and maintenance" on the Statements of Income to conform to PPL's presentation of network transmission services. See Note 2 for additional information.

Regulation

RIE is a cost-based rate-regulated utility for which rates are set by regulators to enable RIE to recover the costs of providing electric or gas service and to provide a reasonable return to shareholders. Base rates are generally established based on a future test period. As a result, the financial statements are subject to the accounting for certain types of regulation as prescribed by GAAP and reflect the effects of regulatory actions. Regulatory assets are recognized for the effect of transactions or events where future recovery of underlying costs is probable in regulated customer rates. The effect of such accounting is to defer certain or qualifying costs that would otherwise currently be charged to expense. Regulatory liabilities are recognized for amounts expected to be returned through future regulated customer rates. In certain cases, regulatory liabilities are recorded based on an understanding or agreement with the regulator that rates have been set to recover expected future costs, and the regulated entity is accountable for any amounts charged pursuant to such rates and not yet expended for the intended purpose. The accounting for regulatory assets and regulatory liabilities is based on specific ratemaking decisions or precedent for each transaction or event as prescribed by the FERC or the state regulatory commissions. See Note 4 for additional details regarding regulatory matters.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Loss Accruals

Potential losses are accrued when (1) information is available that indicates it is "probable" that a loss has been incurred, given the likelihood of uncertain future events and (2) the amount of loss can be reasonably estimated. Accounting guidance defines "probable" as cases in which "the future event or events are likely to occur." RIE continuously assesses potential loss contingencies for environmental remediation, litigation claims, regulatory penalties and other events. Loss accruals for environmental remediation are discounted when appropriate.

The accrual of contingencies that might result in gains is not recorded, unless realization is assured.

Price Risk Management

Interest rate contracts are used to hedge exposure to changes in the fair value of debt instruments and to hedge exposure to variability in expected cash flows associated with existing floating-rate debt instruments or forecasted fixed-rate issuances of debt. Derivative instruments pursuant to regulator approved plans to manage commodity price risk associated with natural gas purchases to reduce fluctuations in natural gas prices and costs associated with these derivatives instruments are generally recoverable through approved cost recovery mechanism. Similar derivatives may receive different accounting treatment, depending on management's intended use and documentation.

Certain contracts may not meet the definition of a derivative because they lack a notional amount or a net settlement provision. In cases where there is no net settlement provision, markets are periodically assessed to determine whether market mechanisms have evolved to facilitate net settlement. Certain derivative contracts may be excluded from the requirements of derivative accounting treatment because NPNS has been elected. These contracts are accounted for using accrual accounting. Contracts that have been classified as derivative contracts are reflected on the balance sheets at fair value.

Cash inflows and outflows related to derivative instruments are included as a component of operating, investing or financing activities on the Statements of Cash Flows, depending on the classification of the hedged items.

RIE has elected not to offset net derivative positions against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

Derivative transactions may be marked to fair value through regulatory assets/liabilities if approved by the appropriate regulatory body. These transactions generally include the effect of commodity gas contracts that are included in customer rates.

To meet its obligations as last resort providers to their customers, RIE has entered into certain contracts that meet the definition of a derivative. However, NPNS has been elected for these contracts.

See Notes 12 and 13 for additional information on derivatives.

Revenue

Operating revenues are primarily recorded based on energy deliveries through the end of each calendar month. Unbilled retail revenues result because customers' bills are rendered throughout the month, rather than at the end of the month. Unbilled revenues for a month are calculated by multiplying an estimate of unbilled kWh or Mcf by the estimated average cents per kWh or Mcf. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur.

RIE's base rates are determined based on cost of service. Some regulators have also authorized the use of additional alternative revenue programs, which enable RIE to adjust future rates based on past activities or completed events. Revenues from alternative revenue programs are recognized when the specific events permitting future billings have occurred. Revenues from alternative revenue programs are required to be presented separately from revenues from contracts with customers. These amounts are, however, presented as revenues from contracts with customers, with an offsetting adjustment to alternative revenue program revenue, when they are billed to customers in future periods. See Note 2 for additional information.

Financing and Other Receivables

During 2022, RIE adopted accounting guidance, using a modified retrospective approach, that requires the use of a current expected credit loss (CECL) model for the measurement of credit losses on financial instruments within the scope of the guidance, which includes accounts receivable. The CECL model requires an entity to measure credit losses using historical information, current information and reasonable and supportable forecasts of future events, rather than the incurred loss impairment model required under previous GAAP. The adoption of this guidance did not have a material impact on RIE.

Accounts receivable are reported on the Balance Sheets at the gross outstanding amount adjusted for an allowance for doubtful accounts. Financing receivables include accounts receivable, with the exception of those items within accounts receivable that are not subject to the current expected credit loss model.

Financing receivable collectability is evaluated using a current expected credit loss model, consisting of a combination of factors, including past due status based on contractual terms, trends in write-offs and the age of the receivable. Specific events, such as bankruptcies, are also considered when applicable. RIE also evaluates the impact of observable external factors on the collectability of the financing receivables to determine if adjustments to the allowance for doubtful accounts should be made based on current conditions or reasonable and supportable forecasts. Adjustments to the allowance for doubtful accounts are made based on the results of these analyses. Accounts receivable are written off in the period in which the receivable is deemed uncollectible.

RIE has identified one class of financing receivables, "accounts receivable - customer", which includes financing receivables for all billed and unbilled sales with customers. All other financing receivables are classified as other.

The changes in the allowance for doubtful accounts are included in the following table. Amounts relate to financing receivables, except as noted.

	Balance at Beginning of Period	Additions: Charged to Income	Deductions (b)	Balance at End of Period
2023	$ 42	$ 27	$ 24	$ 45
2022 (a)	$ 62 (a)	$ 48 (c)	$ 68 (d)	$ 42

(a) Adjusted for $1 million cumulative-effect adjustment upon adoption of current expected credit loss guidance.
(b) Primarily related to uncollectible accounts written off.
(c) Includes $23 million related to the forgiveness of arrearages. See Note 6 for additional information.
(d) Includes $44 million related to the forgiveness of arrearages. See Note 6 for additional information.

Cash

Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

Fair Value Measurements

RIE values certain financial and nonfinancial assets and liabilities at fair value. Generally, the most significant fair value measurements relate to price risk management assets and liabilities, investments in securities in defined benefit plans, and cash and cash equivalents. RIE uses, as appropriate, a market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models) and/or a cost approach (generally, replacement cost) to measure the fair value of an asset or liability. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk.

RIE classifies fair value measurements within one of three levels in the fair value hierarchy. The level assigned to a fair value measurement is based on the lowest level input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are as follows:

- **Level 1** - quoted prices (unadjusted) in active markets for identical assets or liabilities that are accessible at the measurement date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.
- **Level 2** - inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for substantially the full term of the asset or liability.
- **Level 3** - unobservable inputs that management believes are predicated on the assumptions market participants would use to measure the asset or liability at fair value.

Assessing the significance of a particular input requires judgment that considers factors specific to the asset or liability. As such, RIE's' assessment of the significance of a particular input may affect how the assets and liabilities are classified within the fair value hierarchy.

Long-Lived and Intangible Assets

Property, Plant and Equipment

PP&E is recorded at original cost, unless impaired. If impaired, the asset is written down to fair value at that time, which becomes the new cost basis of the asset. Original cost for constructed assets includes material, labor, contractor costs, certain overheads and financing costs, where applicable. Included in PP&E are capitalized costs of software projects that were developed or obtained for internal use. The cost of repairs and minor replacements are charged to expense as incurred. RIE records costs associated with planned major maintenance projects in the period in which work is performed and costs are incurred.

AFUDC is capitalized at RIE as part of the construction costs for cost-based rate-regulated projects for which a return on such costs is recovered after the project is placed in service. The debt component of AFUDC is credited to "Interest Expense" and the equity component is credited to "Other Income (Expense) - net" on the Statements of Income.

RIE capitalizes interest costs as part of construction costs. Capitalized interest, including the debt component of AFUDC, for the years ended December 31 is as follows:

	2023	2022	2021
Capitalized Interest	$ 2	$ 3	$ 3

Depreciation

Depreciation is recorded over the estimated useful lives of property using the composite straight-line method. When a component of PP&E that was depreciated under the composite method is retired, the original cost is charged to accumulated depreciation. When all or a significant portion of an operating unit that was depreciated under the composite method is retired or sold, the property and the related accumulated depreciation account is reduced and any gain or loss is included in income, unless otherwise required by regulators. RIE accrues costs of removal net of estimated salvage value through depreciation, which is included in the calculation of customer rates over the assets' depreciable lives in accordance with regulatory practices. Cost of removal amounts accrued through depreciation rates are accumulated as a regulatory liability until the removal costs are incurred.

Following are the weighted-average composite rates of depreciation for the years ended December 31:

	2023	2022	2021
Electric	2.9 %	3.0 %	3.0 %
Gas	2.7 %	3.1 %	3.1 %

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price paid over the fair value of the identifiable net assets acquired in a business combination. As PPL elected not to reflect purchase accounting in the financial statements of RIE, the goodwill reflected in these financial statements does not include the goodwill recognized by PPL in connection with the acquisition of Narragansett Electric from National Grid U.S.

Other acquired intangible assets are initially measured based on their fair value. Intangibles that have finite useful lives are amortized over their useful lives based upon the pattern in which the economic benefits of the intangible assets are consumed or otherwise used. Costs incurred to obtain an initial license and renew or extend terms of licenses are capitalized as intangible assets.

When determining the useful life of an intangible asset, including intangible assets that are renewed or extended, RIE considers:

- the expected use of the asset;
- the expected useful life of other assets to which the useful life of the intangible asset may relate;
- legal, regulatory, or contractual provisions that may limit the useful life;
- the company's historical experience as evidence of its ability to support renewal or extension;
- the effects of obsolescence, demand, competition, and other economic factors; and,
- the level of maintenance expenditures required to obtain the expected future cash flows from the asset.

Asset Impairment (Excluding Investments)

RIE reviews long-lived assets that are subject to depreciation or amortization, including finite-lived intangibles, for impairment when events or circumstances indicate carrying amounts may not be recoverable.

A long-lived asset classified as held and used is impaired when the carrying amount of the asset exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. If impaired, the asset's carrying value is written down to its fair value.

A long-lived asset classified as held for sale is impaired when the carrying amount of the asset (disposal group) exceeds its fair value less cost to sell. If impaired, the asset's (disposal group's) carrying value is written down to its fair value less cost to sell.

RIE reviews goodwill for impairment at the reporting unit level annually or more frequently when events or circumstances indicate that the carrying amount of a reporting unit may be greater than the unit's fair value. Additionally, goodwill must be tested for impairment in circumstances when a portion of goodwill has been allocated to a business to be disposed. RIE has a single reporting unit that comprises its operations.

RIE may elect either to initially make a qualitative evaluation about the likelihood of an impairment of goodwill or to bypass the qualitative evaluation and test goodwill for impairment using a quantitative test. If the qualitative evaluation (referred to as step zero) is elected and the assessment results in a determination that it is not more likely than not that the fair value of a reporting unit is less than the carrying amount, the quantitative impairment test is not necessary. However, the quantitative impairment test is required if management concludes it is more likely than not that the fair value of a reporting unit is less than the carrying amount based on the step zero assessment. If the carrying amount of the reporting unit, including goodwill, exceeds its fair value, an impairment loss is recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. As of October 1, 2023, RIE elected to perform the qualitative step zero evaluation of goodwill. This evaluation considered the excess of fair value over the carrying value of the reporting unit that was calculated during step one of the quantitative impairment tests performed in the fourth quarter of 2022, and the relevant events and circumstances that occurred since the test was performed including:

- current year financial performance versus the prior year,
- changes in planned capital expenditures,
- the consistency of forecasted free cash flows,
- earnings quality and sustainability,
- changes in market participant discount rates,
- changes in long-term growth rates,
- changes in PPL's market capitalization, and
- the overall economic and regulatory environments in which these regulated entities operate.

Based on this evaluation, management concluded it was not more likely than not that the fair value of the reporting unit was less than the carrying value. As such, the step one quantitative impairment test was not performed and no impairment was recognized.

Asset Retirement Obligations

RIE records liabilities to reflect various legal obligations associated with the retirement of long-lived assets. Initially, this obligation is measured at fair value and offset with an increase in the value of the capitalized asset, which is depreciated over the asset's useful life. Until the obligation is settled, the liability is increased through the recognition of accretion expense classified within "Other operation and maintenance" on the Statements of Income to reflect changes in the obligation due to the passage of time. For AROs, deferred accretion and depreciation expense is recovered through cost of removal.

Estimated ARO costs and settlement dates, which affect the carrying value of the ARO and the related capitalized asset, are reviewed periodically to ensure that any material changes are incorporated into the latest estimate of the ARO. Any change to the capitalized asset, positive or negative, is generally amortized over the remaining life of the associated long-lived asset. See Note 4 and Note 15 for additional information on AROs.

Compensation and Benefits

Defined Benefits

Certain PPL subsidiaries sponsor various defined benefit pension and other postretirement plans. An asset or liability is recorded to recognize the funded status of all defined benefit plans with an offsetting entry to regulatory assets or liabilities. Consequently, the funded status of the defined benefit plan is fully recognized on the Balance Sheet.

The expected return on plan assets is determined based on a market-related value of plan assets, which is calculated by rolling forward the prior year market-related value with contributions, disbursements and long-term expected return on investments. One-fifth of the difference between the actual value and the expected value is added (or subtracted if negative) to the expected value to determine the new market-related value.

See Note 4 for a discussion of the regulatory treatment of defined benefit costs and Note 8 for a discussion of defined benefits.

Taxes

Income Taxes

PPL and its domestic subsidiaries file a consolidated U.S. federal income tax return.

Significant management judgment is required in developing RIE's provision for income taxes, primarily due to the uncertainty related to tax positions taken or expected to be taken on tax returns and valuation allowances on deferred tax assets.

RIE uses a two-step process to evaluate uncertain tax positions. The first step requires an entity to determine whether, based on the technical merits supporting a particular tax position, it is more likely than not (greater than a 50% chance) that the tax position will be sustained. This determination assumes that the relevant taxing authority will examine the tax position and is aware of all the relevant facts surrounding the tax position. The second step requires an entity to recognize in its financial statements the benefit of a tax position that meets the more-likely-than-not recognition criterion. The benefit recognized is measured at the largest amount of benefit that has a likelihood of realization upon settlement that exceeds 50%. Unrecognized tax benefits are classified as current to the extent management expects to settle the uncertain tax position by payment or receipt of cash within one year of the reporting date. The amounts ultimately paid upon resolution of issues raised by taxing authorities may differ materially from the amounts accrued and may materially impact the financial statements in future periods. At December 31, 2023, no significant changes in unrecognized tax benefits were projected over the next 12 months.

Deferred income taxes reflect the net future tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes, as well as the tax effects of net operating losses and tax credit carryforwards.

RIE records valuation allowances to reduce deferred income tax assets to the amounts that are more-likely-than-not to be realized. The need for valuation allowances requires significant management judgment. If RIE determines that they are able to realize deferred tax assets in the future in excess of recorded net deferred tax assets, adjustments to the valuation allowances increase income by reducing tax expense in the period that such determination is made. Likewise, if RIE determines that they are not able to realize all or part of net deferred tax assets in the future, adjustments to the valuation allowances would decrease income by increasing tax expense in the period that such determination is made. The amount of deferred tax assets ultimately realized may differ materially from the estimates utilized in the computation of valuation allowances and may materially impact the financial statements in the future.

RIE defers investment tax credits when the credits are generated and amortizes the deferred amounts over the average lives of the related assets.

RIE recognizes tax-related interest and penalties in "Income Taxes" on its Statements of Income.

RIE uses the portfolio approach method of accounting for deferred taxes related to pre-tax OCI transactions. The portfolio approach involves a strict period-by-period cumulative incremental allocation of income taxes to the change in income and losses reflected in OCI. Under this approach, the net cumulative tax effect is ignored. The net change in unrealized gains and losses recorded in AOCI under this approach would be eliminated only on the date the investment portfolio is classified as held for sale or is liquidated.

See Note 3 for income tax disclosures.

The provision for RIE's deferred income taxes related to regulatory assets and liabilities is based upon the ratemaking principles reflected in rates established by relevant regulators. The difference in the provision for deferred income taxes for regulatory assets and liabilities and the amount that otherwise would be recorded under GAAP is deferred and included on the Balance Sheets in noncurrent "Regulatory assets" or "Regulatory liabilities."

The income tax provision for RIE is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if RIE and any domestic subsidiaries each filed a separate return. Tax benefits are not shared between companies. The entity that generates a tax benefit is the entity that is entitled to the tax benefit. The effect of PPL filing a consolidated tax return is taken into account in the settlement of current taxes and the recognition of deferred taxes.

At December 31, 2023 and 2022, RIE recorded $4 million and $33 million in intercompany tax receivables.

Taxes, Other Than Income

RIE presents sales taxes in "Other current liabilities" on the Balance Sheets. These taxes are not reflected on the Statements of Income. See Note 3 for details of taxes included in "Taxes, other than income" on the Statements of Income.

Other

Leases

RIE determines whether contractual arrangements contain a lease by evaluating whether those arrangements either implicitly or explicitly identify an asset, whether RIE has the right to obtain substantially all of the economic benefits from use of the asset throughout the term of the arrangement, and whether RIE has the right to direct the use of the asset. Renewal options are included in the lease term if it is reasonably certain RIE will exercise those options. Periods for which RIE is reasonably certain not to exercise termination options are also included in the lease term. RIE has certain agreements with lease and non-lease components, such as office space leases, which are generally accounted for separately.

Short-term leases are leases with a term that is 12 months or less and do not include a purchase option or option to extend the initial term of the lease to greater than 12 months that RIE is reasonably certain to exercise. RIE has made an accounting policy election to not recognize the right-of-use asset and the lease liability arising from leases classified as short-term.

The discount rate for a lease is the rate implicit in the lease unless that rate cannot be readily determined. In that case, RIE is required to use their incremental borrowing rate, which is the rate RIE would have to pay to borrow, on a collateralized basis over a similar term, an amount equal to the lease payments in a similar economic environment.

RIE receives secured borrowing rates from financial institutions based on their applicable credit profile. RIE uses the secured rate which corresponds with the term of the applicable lease. See Note 7 for additional information.

Fuel, Materials and Supplies

Fuel, materials and supplies is composed of natural gas stored underground and materials and supplies. Natural gas stored underground and materials and supplies are valued using the average cost method. Natural gas supply costs are charged to expense when delivered to customers. See Note 4 for further discussion of the gas supply clause.

"Fuel, materials and supplies" on the Balance Sheets consisted of the following at December 31:

	2023	2022
Natural gas stored underground	$ 24	$ 23
Materials and supplies	54	19
Total	$ 78	$ 42

Renewable Energy Standard Obligation

Purchased Renewable Energy Certificates (RECs) are stated at cost and are used to measure compliance with state renewable energy standards. RECs support new renewable generation standards and are held primarily to be utilized in fulfillment of

RIE's compliance obligations. See Note 14 for the amount of RECs included in the gross carrying amount of other intangibles reported within the Balance Sheets.

2. Revenue from Contracts with Customers

RIE generates substantially all of its revenues from contracts with customers from its regulated tariff-based transmission and distribution of electricity and regulated tariff-based distribution of natural gas.

Distribution Revenue

Distribution revenues are primarily from the sale of electricity, natural gas, and related services to retail customers. Distribution sales are regulated by the RIPUC, which is responsible for approving the rates and other terms of services as part of the rate making process. Natural gas and electric distribution revenues are derived from the regulated sale and distribution of electricity and natural gas to residential, commercial, and industrial customers within RIE's service territory under the tariff rates. The performance obligation related to distribution sales is to provide electricity and natural gas to customers on demand. The performance obligation is satisfied over time because the customer simultaneously receives and consumes the electricity or natural gas as services are provided. RIE records revenues related to the distribution sales based upon the approved tariff rate and the volume delivered to the customers, which corresponds with the amount RIE has the right to invoice.

Distribution revenue also includes estimated unbilled amounts, which represent the estimated amounts due from retail customers as a result of customer's bills rendered throughout the month, rather than bills being rendered at the end of the month. Unbilled revenues are determined based on estimated unbilled sales volumes and then applying tariff rates to those volumes. Any difference between estimated and actual revenues is adjusted the following month when the previous unbilled estimate is reversed and actual billings occur. This method of recognition fairly presents RIE's transfer of electricity and natural gas to the customer as the amount recognized is based on actual and estimated volumes delivered and the tariff rate per unit of energy and any applicable fixed charges or regulatory mechanisms as approved by the respective regulatory body.

Distribution customers are "at will" customers of RIE with no term contract and no minimum purchase commitment. Performance obligations are limited to the service requested and received to date. Accordingly, there is no unsatisfied performance obligation associated with RIE's retail account contracts.

Certain customers have the option to obtain electricity or natural gas from other suppliers where RIE facilitates the delivery. In those circumstances, revenue is only recognized for providing delivery of the commodity to the customer.

Transmission Revenue

RIE's transmission services are regulated by the FERC and coordinated with ISO – New England (ISO-NE). These revenues arise under tariff/rate agreements and are collected primarily from RIE's distribution customers. As of January 1, 2023 RIE is a transmission operator. The revenue is recognized over-time as transmission services are provided and consumed. This method of recognition fairly presents RIE's transfer of transmission services as the daily rate is set by a FERC-approved formula-based rate.

RIE's agreement to provide transmission services contains no minimum purchase commitment. The performance obligation is limited to the service requested and received to date. Accordingly, RIE has no unsatisfied performance obligations.

The following table reconciles "Operating Revenues" included in the Statements of Income with revenues generated from contracts with customers for the years ended December 31:

	2023	2022	2021
Operating Revenues (a)	$ 1,851	$ 1,803	$ 1,695
Revenues derived from:			
Alternative revenue programs (b)	2	(8)	2
Other (c)	(3)	(6)	—
Revenues from Contracts with Customers	$ 1,850	$ 1,789	$ 1,697

(a) Operating Revenues were increased by $120 million in 2021, with corresponding increases to "Other operations and maintenance expense" on the Statements of Income, to conform to PPL's presentation of network transmission services.

(b) This line item shows the over/under collection of rate mechanisms deemed alternative revenue programs with over-collections of revenue shown as positive amounts in the table above and under collections as negative amounts.

(c) Represents additional revenues outside the scope of revenues from contracts with customers such as leases and other miscellaneous revenues.

The following table shows revenues from contracts with customers disaggregated by customer class for the years ended December 31:

	Residential	Commercial	Industrial	Other (a)	Transmission	Revenues from Contracts with Customers
2023	$ 640	$ 228	$ 20	$ 792	$ 170	$ 1,850
2022	596	207	16	811	159	1,789
2021	552	161	10	817	157	1,697

(a) Primarily includes open access tariff revenues, which are calculated on combined customer classes .

Contract receivables from customers are primarily included in "Accounts receivable" and "Unbilled revenues" on the Balance Sheets.

The following table shows the accounts receivable and unbilled revenues balances that were impaired for the year ended December 31:

	2023	2022	2021
Impairments (a)	$ 26	$ 46	$ 16

(a) Includes $23 million for the year ended December 31, 2022 related to the commitment to forgive customer arrearages for low-income and protected residential customers. See Note 6 for additional information.

3. Income and Other Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their basis for income tax purposes and the tax effects of net operating loss carryforwards. The provision for RIE's deferred income taxes for regulated assets and liabilities is based upon the ratemaking principles of the applicable jurisdiction. See Notes 1 and 4 for additional information.

Net deferred tax assets have been recognized based on management's estimates of future taxable income.

Significant components of RIE's deferred income tax assets and liabilities were as follows:

	2023	2022 (a)
Deferred Tax Assets		
Plant - net	$ —	$ 22
Allowance for doubtful accounts	7	2
Regulatory liabilities	39	11
Environmental remediation costs	1	1
Intangibles (b)	78	85
Contributions in aid of construction	17	1
Goodwill (c)	126	141
Other	40	20
Total deferred tax assets	308	283
Deferred Tax Liabilities		
Plant - net	65	—
Accrued pension and postretirement costs	6	9
Regulatory assets	141	120
Other	9	6
Total deferred tax liabilities	221	135
Net deferred tax (asset) liability	$ (87)	$ (148)

(a) NGUSA and PPL elected to treat PPL's acquisition of RIE from NGUSA on May 25, 2022 as an asset transaction for U.S. federal income tax purposes under Internal Revenue Code Section 338(h)(10). As a result of this election, PPL was deemed to acquire the assets of RIE at fair market value (essentially equivalent to book value) for tax purposes resulting in a "step-up" in tax basis and the elimination of deferred taxes. Subsequently, as part of purchase accounting, RIE recorded deferred taxes on any differences between the book and tax basis of the assets acquired and liabilities assumed on the acquisition date. Such deferred taxes were recorded through book goodwill.

(b) Certain of the RIE assets acquired in 2022 are treated as intangibles for tax purposes and are amortized over a 15 year period. RIE recorded deferred tax assets on these intangibles, which will reverse as tax deductions are taken.

(c) The election to treat the acquisition of RIE as an asset transaction allows RIE to recognize tax deductible goodwill, which is amortized over a 15 year period. The tax deductible goodwill at RIE is greater than the book goodwill recorded at RIE, since the total book goodwill in excess of acquired book goodwill was recorded at PPL Rhode Island Holdings due to PPL's election to not "push-down" purchase accounting. This difference in book and tax goodwill results in a deferred tax asset that will reverse over a 15 year period as tax deductions are taken and will eventually result in a deferred tax liability that will remain as long as book goodwill exists.

Details of the components of income tax expense, a reconciliation of federal income taxes derived from statutory tax rates applied to "Income Before Income Taxes" to income taxes for reporting purposes, and details of "Taxes, other than income" were as follows:

	2023	2022	2021
Income Tax Expense (Benefit)			
Current Expense (Benefit) - Federal	$ (32)	$ (50)	$ 4
Deferred Expense (Benefit) - Federal	48	50	26
Total income tax expense (benefit)	$ 16	$ —	$ 30

In the table above, the following income tax expense (benefit) are excluded from income taxes:

	2023	2022	2021
Other comprehensive income	$ —	$ 1	$ —
Earnings reinvested	—	(399)	—
Additional paid-in capital	—	(189)	—
Total	$ —	$ (587)	$ —

	2023	2022	2021
Reconciliation of Income Tax Expense (Benefit)			
Federal income tax on Income Before Income Taxes at statutory tax rate - 21%	$ 24	$ 4	$ 36
Depreciation and other items not normalized	(1)	(1)	—
Amortization of excess deferred income taxes	(7)	(4)	(5)
Other	—	1	(1)
Total increase (decrease)	(8)	(4)	(6)
Total income tax expense (benefit)	$ 16	$ —	$ 30
Effective income tax rate	14.3%	—%	17.5%

	2023	2022	2021
Taxes, other than income			
State gross earnings	$ 59	$ 58	$ 55
Property	95	86	83
Other	2	8	9
Total	$ 156	$ 152	$ 147

Unrecognized Tax Benefits

The income tax provision for RIE is calculated in accordance with an intercompany tax sharing agreement, which provides that taxable income be calculated as if each domestic subsidiary filed a separate consolidated return. With few exceptions, at December 31, 2023, these jurisdictions, as well as the tax years that are no longer subject to examination, were as follows.

	RIE
U.S. (federal)	2020 and prior

Any audit settlements related to the period prior to PPL's acquisition of RIE on May 25, 2022 are the responsibility of NGUSA.

RIE is not subject to state income tax due to the State of Rhode Island's exclusion of public utilities from income tax.

4. Utility Rate Regulation

Regulatory Assets and Liabilities

RIE reflects the effects of regulatory actions in the financial statements for its rate-regulated utility operations. Regulatory assets and liabilities are classified as current if, upon initial recognition, the entire amount related to an item will be recovered or refunded within a year of the balance sheet date.

RIE is subject to the jurisdiction of the RIPUC, the Rhode Island Division of Public Utilities and Carriers, and the FERC. RIE operates under a FERC-approved open access transmission tariff. RIE's base distribution rates are calculated based on recovery of costs as well as a return on rate base. Certain other recovery mechanisms exist to recover expenses and capital investments with a return on rate base separate from the base distribution rate case process.

The following table provides information about the regulatory assets and liabilities of cost-based rate-regulated utility operations at December 31:

	2023	2022
Current Regulatory Assets:		
Gas supply clause	$ —	$ 28
Rate adjustment mechanism	118	96
Renewable energy certificates	14	14
Derivative instruments	51	41
Transmission service charge	12	—
Other	31	11
Total current regulatory assets	$ 226	$ 190
Noncurrent Regulatory Assets:		
Defined benefit plans	$ 117	$ 82
Net Metering	112	61
Environmental Cost recovery	99	102
Taxes recoverable through future rates	—	47
Derivative instruments	8	—
Storm costs	68	108
Other	37	43
Total noncurrent regulatory assets	$ 441	$ 443

	2023	2022
Current Regulatory Liabilities:		
Transmission service charge	$ —	$ 7
Rate adjustment mechanism	72	96
Energy efficiency	23	23
Other	22	15
Total current regulatory liabilities	$ 117	$ 141
Noncurrent Regulatory Liabilities:		
Accumulated cost of removal of utility plant	$ 291	$ 275
Net deferred taxes	232	295
Defined benefit plans	98	65
Energy efficiency	5	32
Other	32	63
Total noncurrent regulatory liabilities	$ 658	$ 730

Following is an overview of selected regulatory assets and liabilities detailed in the preceding tables. Specific developments with respect to certain of these regulatory assets and liabilities are discussed in "Regulatory Matters."

Defined Benefit Plans

Defined benefit plan regulatory assets and liabilities represent prior service cost and net actuarial gains and losses that will be recovered in defined benefit plans expense through future base rates based upon established regulatory practices and, generally, are amortized over the average remaining service lives of plan participants. These regulatory assets and liabilities are adjusted at least annually or whenever the funded status of defined benefit plans is remeasured.

In addition, the excess amounts received in rates over actual costs of RIE's pension and other postretirement benefit plans that are to be recovered from or passed back to customers in future periods, are also recorded as regulatory assets and liabilities.

Storm Costs

As provided in the Amendment Settlement Agreement (ASA), RIE has the authority from the RIPUC to treat certain incremental O&M expenses related to specific extraordinary storms as a regulatory asset and defer such costs for regulatory accounting and reporting purposes. Once all expenses for the extraordinary storm have been finalized, RIE files a final accounting of those storm expenses with the RIPUC that is subject to review by the RIPUC and the Rhode Island Division of Public Utilities and Carriers.

Accumulated Cost of Removal of Utility Plant

RIE charges costs of removal through depreciation expense with an offsetting credit to a regulatory liability. The regulatory liability is relieved as costs are incurred.

Net Deferred Taxes

Regulatory liabilities associated with net deferred taxes represent the future revenue impact from the adjustment of deferred income taxes required primarily for excess deferred taxes and unamortized investment tax credits, largely a result of the TCJA enacted in 2017.

Derivative Instruments

RIE evaluates open derivative instruments for regulatory deferral by determining if they are probable of recovery from, or refund to, customers through future rates. Derivative instruments that qualify for recovery are recorded at fair value, with changes in fair value recorded as regulatory assets or regulatory liabilities in the period in which the change occurs. The balance is reconcilable, and any over- or under-recovery from customers will be refunded or recovered annually in the subsequent year.

Energy Efficiency

Energy efficiency represents the difference between revenue billed to customers through RIE's energy efficiency charge and the costs of the RIE's energy efficiency programs as approved by the RIPUC.

The energy efficiency charge is designed to collect the estimated costs of the RIE's energy efficiency plan for the upcoming calendar year. The final annual over/under is reconciled in the next year's energy efficiency plan filing, as part of the reconciliation factor calculation. RIE may file to change the energy efficiency plan charge at any time should significant over-or under-recoveries occur.

Environmental Cost Recovery

RIE's rate plans provide for specific rate allowances for RIE's share of the estimated costs to investigate and perform certain remediation activities at sites with which it may be associated, with variances deferred for future recovery from, or return to, customers. RIE believes future costs, beyond the expiration of current rate plans, will continue to be recovered through rates. The regulatory asset represents the excess of amounts incurred for RIE's actual site investigation and remediation costs versus amounts received in rates.

Gas Supply Clause

RIE is subject to rate adjustment mechanisms for commodity costs, whereby an asset or liability is recognized resulting from differences between billed revenues and the underlying cost being recovered, as approved by the RIPUC. The regulatory assets or liabilities represent the total amounts that have been under- or over-recovered due to timing or adjustments to the mechanisms and are typically recovered or refunded within the next year.

Net Metering

Net metering deferral reflects the recovery mechanism for costs associated with customer-installed on-site generation facilities, including the costs of renewable generation credits. This surcharge provides RIE with a mechanism to recover such amounts. Net metering is reconcilable annually, and any over- or under-recovery from customers will be refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Rate Adjustment Mechanisms

In addition to commodity costs, RIE is subject to a number of additional rate adjustment mechanisms whereby an asset or liability is recognized resulting from differences between actual revenues and the underlying cost being recovered or differences between actual revenues and targeted amounts as approved by the RIPUC. The rate adjustment mechanisms are reconcilable, and any over- or under-recovery from customers are to be refunded or recovered annually in the subsequent year.

Renewable energy certificates (RECs)

Represents deferred costs associated with RIE's compliance obligation with the Rhode Island Renewable Portfolio Standard (RPS). The RPS is legislation established to foster the development of new renewable energy sources. The regulatory asset will be recovered over the next year.

Taxes Recoverable through Future Rates

Taxes recoverable through future rates represent the portion of future income taxes that are anticipated to be recovered through future rates based upon established regulatory practices. Accordingly, this regulatory asset is recognized when the offsetting deferred tax liability is recognized. For general-purpose financial reporting, this regulatory asset and the deferred tax liability are not offset; rather, each is displayed separately. This regulatory asset is expected to be recovered over the period that the underlying book-tax timing differences reverse and the actual cash taxes are incurred.

Transmission Service Charge (TSC)

RIE arranges transmission service on behalf of its customers and bills the costs of those services to customers, pursuant to its Transmission Service Cost Adjustment Provision. The TSC contains a reconciliation mechanism whereby any over- or under-recovery from customers is either refunded to, or recovered from, customers through the adjustment factor determined for the subsequent year.

Regulatory Matters

Rhode Island Activities

Rate Case proceedings

Pursuant to Report and Order No. 23823 issued May 5, 2020, the RIPUC approved the terms of an Amended Settlement Agreement (ASA), reflecting an allowed return on equity (ROE) rate of 9.275% based on a common equity ratio of approximately 51%. RIE is currently in year six of the multi-year rate plan (Rate Plan). On June 30, 2021, the Rhode Island Division of Public Utilities and Carriers consented to an open-ended extension of the term of the Rate Plan. Pursuant to the settlement with the Rhode Island Office of the Attorney General in connection with the acquisition of RIE by PPL, RIE currently does not anticipate filing a new base rate case before October 1, 2025. Pursuant to the open-ended extension, the Rate Year 3 level of base distribution rates under ASA will remain in effect and RIE will continue to operate under the current Rate Plan until a new Rate Plan is approved by the RIPUC.

The ASA includes additional provisions, including (i) an Electric Transportation Initiative (the ET Initiative) to facilitate the growth of Electric Vehicle (EV) adoption and scaling of the market for EV charging equipment to advance Rhode Island's zero emission vehicles and greenhouse gas emissions policy goals, (ii) two energy storage demonstration projects, which are on track for timely completion, (iii) a performance incentive for System Efficiency: Annual Megawatt Capacity Savings, which sunset in 2021 and is a tracking and reporting only metric and (iv) several additional metrics for tracking and reporting purposes only. The RIPUC discussed the ET Initiative at an Open Meeting on August 30, 2022, advising RIE to seek RIPUC authorization to continue the ET Initiative and/or to alter any of the targets established in the ASA for Rate Year 5 and beyond. No votes or official rulings were taken; however, based on this feedback, RIE has paused the ET programs in Rate Year 5.

Advanced Metering Functionality (AMF)

In 2021, RIE filed its Updated AMF Business Case and Grid Modernization Plan (GMP) with the RIPUC in accordance with the Amended Settlement Agreement (ASA) approved by the RIPUC in August 2018, and which among other things, sought approval to deploy smart meters throughout the service territory. After PPL completed the acquisition of RIE, RIE filed a new AMF Business Case with the RIPUC in 2022, consisting of a detailed proposal for full-scale deployment of AMF across its electric service territory.

On September 27, 2023, the RIPUC unanimously approved RIE to deploy an AMF-based metering system for the electric distribution business. RIE is authorized to seek recovery of the approved capital investment through the ISR process with an overall multi-year cap on recovery at approximately $153 million, subject to certain terms, conditions and limitations with respect to the potential offsets and recoverability of certain costs. RIE is required to continue spending even if above the recovery cap, until it achieves the functionalities outlined in the AMF Business Case. RIE filed with the RIPUC (i) an updated electric Service Quality Plan on December 27, 2023 for RIPUC approval and (ii) additional compliance tariff provisions regarding recovery and cost schedules to reflect the RIPUC's decision on December 22, 2023 for RIPUC approval. RIE cannot predict the outcome of these matters.

Grid Modernization

RIE filed a new GMP with the RIPUC on December 30, 2022. The new GMP filing consists of a holistic suite of grid modernization investments that will provide RIE with the tools and capability to manage the electric distribution system more granularly considering a range of distributed energy resources adoption levels, accelerated by Rhode Island's climate mandates, while at the same time maintaining a safe and reliable electric distribution system. The GMP is an informational guidance document that supports the grid modernization investments to be proposed in future electric ISR plans. Consequently, RIE did not request approval from the RIPUC for any specific investments or seek cost recovery as part of the GMP; rather, RIE requested the RIPUC issues an order affirming RIE's compliance with its obligation to file a GMP that meets the requirements of the ASA. The RIPUC held a status conference on October 26, 2023, to discuss the scope of the RIPUC's review of the GMP and its potential impact future electric ISR plans.

Petition for Deferral of Credit Card Fees

On January 31, 2024, RIE filed a petition to request approval to recognize regulatory assets related to the credit card, debit card, and related fees (Electronic Transaction Fees) that RIE has waived and will continue to waive on a going forward basis pursuant to the RIPUC orders in RIPUC Docket No. 5022 related to COVID-19 impacts. If approved, RIE plans to include a proposal as part of its next base distribution rate case for the amortization/recovery of the regulatory assets and to include future Electronic Transaction Fees in base distribution rates. RIE simultaneously filed a Notice of Withdrawal of its April 2021 petition to create regulatory assets for COVID-19 related bad debt expense and the lost revenue from unassessed late payment charges pending in Docket No. 5154. RIE is continuing to evaluate these other COVID-19 related costs and intends to reserve its rights to file for recovery of these costs in the future. RIE cannot predict the outcome of this matter.

FY 2023 Gas Infrastructure, Safety and Reliability (ISR) Plan

At an Open Meeting on March 29, 2022, the RIPUC conditionally approved RIE's FY 2023 Gas ISR Plan and associated revenue requirement, subject to further review regarding RIE's Proactive Main Replacement Program and its decision to reconstruct and purchase heating and pressure regulation equipment located at RIE's Wampanoag and Tiverton take stations. The RIPUC held an Open Meeting on September 13, 2022, and issued its Order on November 18. 2022 regarding the Proactive Main Replacement Program and made the following rulings: (i) commencing with the Gas ISR plan to be filed in this calendar year 2022 (prospectively), new main constructed to replace leak prone pipe will not be considered used and useful, and therefore not eligible for rate base treatment, until the related old main is abandoned; and (ii) approved the proactive main replacement revenue requirement set forth in the FY 2023 Gas ISR plan. Also, the RIPUC directed RIE to submit prefiled testimony on the issue of its replacement of heating and pressure regulation facilities at the Wampanoag and Tiverton take stations and to address three issues, specifically: (i) a cost-benefit analysis arising from RIE's decision to take ownership of the reconstructed take station equipment; (ii) the potential that the benefits derived from the reconstruction and ownership transfer of the take station equipment will not be realized due to the future use of hydrogen or abandonment of the gas system; and (iii) the depreciation and accounting treatment of the reconstructed take station equipment. RIE filed this testimony with the RIPUC on May 16, 2022, and the RIPUC has not taken any action to date on this issue. The RIPUC continues to consider the appropriate rate recovery treatment of projects not covered by an ISR plan for the applicable fiscal year, and additional definitions and procedures that may be implemented related to the ISR plan process. A new docket has been opened to address this matter with the goal of implementing changes for the FY 2025 ISR Plan. RIE filed its proposed gas ISR plan budgetary and reconciliation framework with its FY 2025 ISR Plan filing on December 22, 2023. RIE cannot predict the outcome of these matters.

FY 2024 Gas ISR Plan

On December 23, 2022, RIE filed its FY 2024 Gas ISR Plan with the RIPUC. At its January 20, 2023 Open Meeting, the RIPUC directed RIE to file supplemental budget and rate schedules to reflect an April 1 to March 31 fiscal year. The supplemental budget that was filed with the RIPUC on January 27, 2023 includes $187 million of capital investment spend. The supplemental rate schedules were filed on February 3, 2023. RIE and the Rhode Island Division of Public Utilities and Carriers reached an agreement on an approximately $171 million capital investment spending plan, and RIE filed a second supplemental budget on March 13, 2023. The RIPUC held a hearing on the plan on March 14, 2023. At an Open Meeting on March 29, 2023, the RIPUC approved the plan with an adjustment to the budget for the Proactive Main Replacement Program category resulting in a total approved FY 2024 Gas ISR Plan of $163 million for capital investment spend. On March 31, 2023, the RIPUC approved RIE's March 30, 2023 compliance filing for rates effective April 1, 2023. The RIPUC continues to consider the appropriate rate recovery treatment of projects not covered by an ISR plan for the applicable fiscal year, and additional definitions and procedures that may be implemented related to the ISR plan review and approval process starting with the FY 2025 ISR Plan. A new docket has been opened to address this matter with the goal of implementing changes for the FY 2025 ISR Plan. RIE filed its proposed gas ISR plan budgetary and reconciliation framework with its FY 2025 ISR Plan filing on December 22, 2023. RIE cannot predict the outcome of these matters.

FY 2025 Gas ISR Plan

On December 22, 2023, RIE filed its FY 2025 Gas ISR Plan with the RIPUC with a budget that includes $185 million of capital investment spend and up to $11 million of contingency plan spend in light of the Pipeline and Hazardous Materials Safety Administration’s potential enactment of regulations during FY 2025 that would significantly alter RIE’s leak detection and repair obligations under federal regulations. RIE also filed its proposed gas ISR plan budgetary and reconciliation framework with its FY 2025 ISR Plan. The RIPUC has scheduled hearings on March 7 and 11, 2024, and is scheduled to rule on the plan by the end of March 2024. RIE cannot predict the outcome of these matters.

FY 2024 Electric ISR Plan

On December 23, 2022, RIE filed its FY 2024 Electric ISR Plan with the RIPUC. At its January 20, 2023 Open Meeting, the RIPUC directed RIE to file supplemental budget and rate schedules to reflect an April 1 to March 31 fiscal year. The supplemental budget filed with the RIPUC on January 27, 2023 includes $176 million of capital investment spend, $14 million of vegetation operations and management (O&M) spend and $3 million of Other O&M spend. The supplemental rate schedules were filed on February 3, 2023. RIE filed second supplemental budget schedules on March 21, 2023 which includes $166 million of capital investment spend, $14 million of vegetation management O&M spend and $1 million of Other O&M spend. The RIPUC held hearings in March 2023, and on March 29, 2023, approved the plan with modifications to the proposed capital investment spend, resulting in a total approved FY 2024 Electric ISR Plan of $112 million for capital investment spend, $14 million for vegetation management O&M spend, and $1 million for Other O&M spend.

On March 31, 2023, the RIPUC approved RIE's March 30, 2023 compliance filing for rates effective April 1, 2023. The RIPUC continues to consider the appropriate rate recovery treatment of projects not covered by an ISR plan for the applicable fiscal year, and additional definitions and procedures that may be implemented related to the ISR plan review and approval process. A new docket has been opened to address this matter with the goal of implementing changes for the FY 2025 ISR Plan. RIE filed its proposed electric ISR plan budgetary and reconciliation framework with its FY 2025 ISR Plan filing on December 21, 2023. RIE cannot predict the outcome of these matters.

FY 2025 Electric ISR Plan

On December 21, 2023, RIE filed its FY 2025 Electric ISR Plan with the RIPUC with a budget that includes $141 million of capital investment spend, $13 million of vegetation O&M spend and $1 million of Other O&M spend. RIE also filed its proposed electric ISR plan budgetary and reconciliation framework with its FY 2025 ISR Plan. The RIPUC has scheduled hearings on March 13 and 14, 2024, and is scheduled to rule on the plan by the end of March 2024. RIE cannot predict the outcome of these matters.

Federal Matters

Recovery of Transmission Costs

Until December 2022, RIE's transmission facilities were operated in combination with the transmission facilities of National Grid's New England affiliates, Massachusetts Electric Company (MECO) and New England Power (NEP), as a single integrated system with NEP designated as the combined operator. As of January 1, 2023, RIE operates its own transmission facilities. NE-ISO allocates RIE's costs among transmission customers in New England, in accordance with the ISO Open Access Transmission Tariff (ISO-NE OATT). According to the FERC orders, RIE is compensated for its actual monthly transmission costs, with its authorized maximum ROE of 11.74% on its transmission assets.

The ROE for transmission rates under the ISO-NE OATT is the subject of four complaints that are pending before the FERC. On October 16, 2014, the FERC issued an order on the first complaint, Opinion No. 531-A, resetting the base ROE applicable to transmission assets under the ISO-NE OATT from 11.14% to 10.57% effective as of October 16, 2014 and establishing a maximum ROE of 11.74%. On April 14, 2017, this order was vacated and remanded by the D. C. Circuit Court of Appeals (Court of Appeals). After the remand, the FERC issued an order on October 16, 2018 applicable to all four pending cases where it proposed a new base ROE methodology that, with subsequent input and support from the New England Transmission Owners (NETO), yielded a base ROE of 10.41%. Subsequent to the FERC's October 2018 order in the New England Transmission Owners cases, the FERC further refined its ROE methodology in another proceeding and has applied that refined methodology to transmission owners' ROEs in other jurisdictions, and the NETOs filed further information in the New England matters to distinguish their case. Those determinations in other jurisdictions have recently been vacated and remanded back to the FERC for further proceedings by the D.C. Circuit Court of Appeals. The proceeding and the final base rate ROE determination in the New England matters remain open, pending a final order from the FERC. PPL cannot predict the outcome of this matter, and an estimate of the impact cannot be determined.

Other

Purchase of Receivables Programs

In 2021 and 2022, the RIPUC approved various components of a Purchase of Receivables Program (POR) in Rhode Island for effect on April 1, 2022. Municipal aggregators and non-regulated power producers (collectively, Competitive Suppliers) are eligible to participate in accordance with RIE's approved electric tariffs for municipal aggregation and non-regulated power producers. Under the POR program, RIE will purchase the Competitive Suppliers' accounts receivables, including existing receivables, at discounted rates, regardless of whether RIE has collected the owed monies from customers. The program is intended to make RIE whole through the implementation of a discount rate or Standard Complete Bill Percentage (SCBP) paid by Competitive Suppliers. RIE calculates the SCBP for each customer class and files the calculations with the RIPUC for review and approval by February 15 of each year. At an Open Meeting on March 29, 2023, the RIPUC approved the SCBP for effect beginning on April 1, 2023 for a one-year period.

5. Financing Activities

Credit Arrangements and Short-term Debt

In March 2023, RIE was added as an authorized borrower under the PPL Capital Funding syndicated credit facility. At December 31, 2023, RIE's borrowing sublimit under the facility was $250 million. At December 31, 2023, RIE had borrowings outstanding of $25 million. In January 2024, RIE's borrowing sublimit was increased to $400 million.

Long-term Debt

			December 31,	
	Weighted-Average Rate (a)	Maturities (a)	2023	2022
RIE				
Senior Unsecured Notes:				
Senior Notes	5.64 %	2040	$ 300	$ 300
Senior Notes	4.17 %	2042	250	250
Senior Notes	3.92 %	2028	350	350
Senior Notes	3.40 %	2030	600	600
Senior Secured Notes/First Mortgage Bonds (b) (c):				
FMB Series R	7.50 %	2025	2	2
Total Long-term Debt before adjustments			1,502	1,502
Unamortized debt issuance costs			(6)	(5)
Total Long-term Debt			1,496	1,497
Less current portion of Long-term Debt			1	1
Total Long-term Debt, noncurrent			$ 1,495	$ 1,496

(a) The table reflects principal maturities only, based on stated maturities, sinking fund requirements, or earlier put dates, and the weighted-average rates as of December 31, 2023.

(b) Includes first mortgage bonds with an annual sinking fund requirement of $750,000 through maturity in 2025.

(c) RIE has a maximum 70% of debt-to-capitalization covenant. Furthermore, if at any time RIE's debt exceeds 60% of the total capitalization, each holder of bonds then outstanding, shall receive effective as of the first date of such occurrence, a one time, and permanent, 0.20% increase in the interest rate paid by RIE on its bonds. Failure to comply with this covenant, or to obtain waivers of those requirements, could in some cases trigger a right, at the lender's discretion, to require repayment of some of RIE's debt and may restrict RIE's ability to draw upon its facilities or access the capital markets. As of December 21, 2023 and 2022, RIE was in compliance with this covenant.

The aggregate maturities of long-term debt, based on sinking fund requirements, stated maturities or earlier put dates, for the periods 2024 through 2028 and thereafter are as follows:

	RIE
2024	$ 1
2025	1
2026	—
2027	—
2028	350
Thereafter	1,150
Total	$ 1,502

Equity Securities

In June 2023, RIE redeemed all 49,089 shares of its outstanding preferred stock at a redemption price equal to the par value of $50 per share, plus a premium of $5 per share, plus a prorated dividend of $0.1875 per share. The total payment was $3 million.

Distributions and Related Restrictions

The net assets of RIE are subject to legal restrictions. RIE is subject to Section 305(a) of the Federal Power Act, which makes it unlawful for a public utility to make or pay a dividend from any funds "properly included in capital account." The meaning of this limitation has never been clarified under the Federal Power Act. RIE believes, however, that this statutory restriction, as applied to its circumstances, would not be construed or applied by the FERC to prohibit the payment from retained earnings of dividends that are not excessive and are for lawful and legitimate business purposes.

6. Acquisition of Narragansett Electric Company by PPL Corporation

On May 25, 2022, PPL Rhode Island Holdings, a wholly owned subsidiary of PPL, acquired 100% of the outstanding shares of common stock of Narragansett Electric from National Grid U.S., a subsidiary of National Grid plc. PPL has elected to not reflect the effects of purchase accounting in the separate financial statements of RIE.

In connection with the Acquisition, National Grid USA Service Company, Inc., National Grid U.S. and Narragansett Electric have entered into a transition services agreement (TSA), pursuant to which National Grid has agreed to provide certain transition services to Narragansett Electric to facilitate the transition of the operation of Narragansett Electric to PPL following the Acquisition, as agreed upon in the Narragansett SPA. The TSA is for an initial two-year term and certain aspects have been extended to the third quarter of 2024. The TSA is subject to further extension as necessary to complete the successful transition. TSA costs of $228 and $123 million were incurred for the twelve month periods ended December 31, 2023 and 2022.

As a condition to the Acquisition, PPL made certain commitments to the Rhode Island Division of Public Utilities and Carriers and the Attorney General of the State of Rhode Island. As a result:

- RIE provided a credit to all its electric and natural gas distribution customers in the total amount of $50 million ($40 million net of tax benefit). Based on the relative number of electric distribution customers and natural gas distribution customers as of November 1, 2022, RIE refunded, in the form of a bill credit, $33 million to electric customers and $17 million to natural gas customers of amounts collected from customers since the Acquisition date. Each electric customer received the same credit, and each natural gas customer received the same credit. A reduction of revenue and a regulatory liability of $50 million for the amounts refunded were recorded during the quarter ended September 30, 2022. These credits were issued during the fourth quarter of 2022. The amounts refunded will not impact RIE's earnings sharing regulatory mechanism.
- RIE forgave approximately $44 million ($21 million net of allowance for doubtful accounts) in arrearages for low-income and protected residential customers, which represents 100% of the arrearages over 90 days for those customers as of March 31, 2022. PPL deemed these accounts uncollectible and fully reserved for them as of September 30, 2022, resulting in an increase to "Other operations and maintenance expense" on the Statement of Income of $23 million for the year ended December 31, 2022.
- RIE will not file a base rate case seeking an increase in base distribution rates for natural gas and/or electric service sooner than three years from the Acquisition date, and RIE will not submit a request for a change in base rates unless and until there is at least twelve months of operating experience under PPL's exclusive leadership and after the TSA with National Grid terminates.
- RIE will forgo potential recovery of any and all transition costs, which includes (1) the installation of certain information technology systems; (2) modification and enhancements to physical facilities in Rhode Island; and (3) incurring costs related to severance payments, communications and branding changes, and other transition related costs. These costs are being incurred by PPL and are not reflected in the operating results of RIE.
- RIE will not seek to recovery any transaction costs related to the Acquisition. These costs were incurred by PPL and are not reflected in the operating results of RIE.
- RIE will exclude all goodwill from the ratemaking capital structure.
- In June 2022, RIE expensed $20 million of regulatory assets as of the Acquisition date for the Gas Business Enablement (GBE) project and for certain Cybersecurity/IT investments related to GBE. The expense was recorded to "Other operations and maintenance" on the Statements of Income for the year ended December 31, 2022. RIE will not seek to recover these regulatory assets from customers in any future proceedings.
- RIE will hold harmless Rhode Island customers from any changes to Accumulated Deferred Income Taxes (ADIT) as a result of the Acquisition. RIE reserves the right to seek rate adjustments based on future changes to ADIT that are not related to the Acquisition.
- RIE will not increase its revenue requirement to a level higher than what would exist in the absence of the Acquisition as a result of any restatement of pension and other post-retirement benefits plan assets and liabilities to fair value after the close of the Acquisition.

- RIE will make available up to $2.5 million for the Rhode Island Attorney General to utilize as needed in evaluating PPL's report on RIE's specific decarbonizing goals to support Rhode Island's 2021 Act on Climate or to assess the future of the gas distribution business in Rhode Island. These costs were incurred by PPL and are not reflected in the operating results of RIE.
- Rhode Island Holdings contributed $2.5 million to the Rhode Island Commerce Corporation's Renewable Energy Fund and will not use any of the $2.5 million to meet its pre-existing renewable energy credit goals in Rhode Island or any other state. These costs were incurred by PPL and are not reflected in the operating results of RIE.
- Various other operational and reporting commitments have been established.

7. Leases

RIE has various operating leases, primarily related to buildings, land, and finance leases related to fleet vehicles used to support the electric and gas operations, with lease terms ranging between 1 and 28 years. In measuring lease liabilities, RIE excludes variable lease payments, other than those that depend on an index or rate, or are in substance fixed payments, and includes lease payments made at or before the commencement date. The variable lease payments were not material for the year ended December 31, 2023.

Lessee Transactions

The following table provides the components of lease cost for RIE's operating leases for the years ended December 31:

	2023	2022	2021
Lease cost:			
Finance lease cost:			
Amortization of right-of-use assets	$ 1	$ —	$ —
Interest on lease liabilities	—	—	—
Operating lease cost	7	6	8
Short-term lease cost	—	—	—
Total lease cost	$ 8	$ 6	$ 8

The following table provides other key information related to RIE's operating leases at December 31:

	2023	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from finance leases	$ —	$ —	$ —
Operating cash flows from operating leases	7	7	8
Financing cash flows from finance leases	1	—	—
Right-of-use asset obtained in exchange for new finance lease liabilities	7	—	—
Right-of-use asset obtained in exchange for new operating lease liabilities	14	11	6

The following table provides the total future minimum rental payments for operating leases, as well as a reconciliation of these undiscounted cash flows to the lease liabilities recognized on the Balance Sheets as of December 31, 2023.

	RIE	
	Operating leases	Finance leases
2024	$ 6	$ 2
2025	5	1
2026	4	1
2027	4	1
2028	3	1
Thereafter	2	2
Total	$ 24	$ 8
Weighted-average discount rate	3.51%	7.56%
Weighted-average remaining lease term (in years)	5	7
Current lease liabilities (a)	$ 5	$ 1
Non-current lease liabilities (a)	17	6
Right-of-use assets (b)	22	6

(a) Current lease liabilities are included in "Other current liabilities" on the Balance Sheets. Non-current lease liabilities are included in "Other noncurrent liabilities" on the Balance Sheets. The difference between the total future minimum lease payments and the recorded lease liabilities is due to the impact of discounting.
(b) Operating lease right-of-use assets are included in "Other noncurrent assets" and finance lease right-of-use assets are included in "Property, Plant & Equipment" on the Balance Sheets.

Lessor Transactions

There are certain leases in which RIE is the lessor. The following table shows the lease income recognized for the years ended December 31:

	2023	2022	2021
RIE	$ 3	5	5

8. Retirement and Postemployment Benefits

Defined Benefits

Post Acquisition

As a result of the acquisition, effective May 25, 2022, new pension and other postretirement benefit plans were established to provide eligible RIE employees the same benefits that they had under National Grid pension and other postretirement benefit plans.

The qualified pension plan is a defined benefit plan which provides most union employees, as well as non-union employees hired before January 1, 2011, with a retirement benefit. The plan is non-contributory with benefits based on length of service and final average pay. RIE also provides supplemental retirement benefits to a limited number of executive and other key management employees through unfunded nonqualified retirement plans.

The other postretirement benefit plan provides health care and life insurance coverage to eligible retired employees. Eligibility is based on age and length of service requirements and, in most cases, retirees must contribute to the cost of their coverage.

The following table provides the components of net periodic defined benefit costs (credits) for pension and other postretirement benefit plans for the year ended December 31.

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Net periodic defined benefit costs (credits):				
Service cost	$ 6	$ 5	$ 2	$ 1
Interest cost	29	16	8	5
Expected return on plan assets	(50)	(27)	(11)	(6)
Amortization of:				
Actuarial (gain) loss	—	—	(3)	(2)
Net periodic defined benefit costs (credits)	$ (15)	$ (6)	$ (4)	$ (2)
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:				
Net (loss)/gain allocated at acquisition	$ —	$ 33	$ —	$ (49)
Net (gain) loss	41	43	—	(8)
Amortization of:				
Actuarial gain (loss)	—	—	3	2
Total recognized in OCI and regulatory assets/liabilities	41	76	3	(55)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ 26	$ 70	$ (1)	$ (57)

Base mortality tables issued by the Society of Actuaries are used for all defined benefit pension and other postretirement benefit plans. The Pri-2012 base table and the MP-2020 projection scale with varying adjustment factors based on the underlying demographic and geographic differences and experience of the plan participants was used for all periods.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Discount rate	5.48 %	5.80 %	5.49 %	5.79 %
Rate of compensation increase	3.50 %	3.85 %	3.50 %	3.85 %

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the year ended December 31.

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Discount rate	5.80 %	4.83 %	5.79 %	4.83 %
Rate of compensation increase	3.85 %	3.65 %	3.85 %	3.65 %
Expected return on plan assets	8.25 %	7.25 %	7.17 %	6.00 %

(a) The expected long-term rates of return for pension and other postretirement benefits are based on management's projections using a best-estimate of expected returns, volatilities and correlations for each asset class. Each plan's specific current and expected asset allocations are also considered in developing a reasonable return assumption.

The following table provides the assumed health care cost trend rates for the year ended December 31:

	2023	2022
Health care cost trend rate assumed for next year		
– obligations	6.25 %	6.50 %
– cost	6.50 %	6.80 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)		
– obligations	5.00 %	5.00 %
– cost	5.00 %	4.50 %
Year that the rate reaches the ultimate trend rate		
– obligations	2029	2029
– cost	2029	2031

The funded status of RIE's plans at December 31 were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2023	2022	2023	2022
Change in Benefit Obligation				
Benefit Obligation, beginning of period	$ 515	$ —	$ 146	$ —
Service cost	6	5	2	1
Interest cost	29	16	8	5
Actuarial (gain) loss	45	(39)	11	(16)
Acquisition (a)	—	553	—	163
Gross benefits paid	(32)	(20)	(11)	(7)
Benefit Obligation, end of period	563	515	156	146
Change in Plan Assets				
Plan assets at fair value, beginning of period	548	—	155	—
Actual return on plan assets	54	(55)	22	(2)
Acquisition (a)	—	623	—	160
Gross benefits paid	(32)	(20)	(11)	(3)
Plan assets at fair value, end of period	570	548	166	155
Funded Status, end of period	$ 7	$ 33	$ 10	$ 9
Amounts recognized in the Balance Sheets consist of:				
Noncurrent asset	$ 7	$ 33	$ 10	$ 9
Current liability	—	—	—	—
Noncurrent liability	—	—	—	—
Net amount recognized, end of period	$ 7	$ 33	$ 10	$ 9
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:				
Prior service cost (credit)	$ —	$ —	$ —	$ —
Net actuarial (gain) loss	118	76	(53)	(55)
Total	$ 118	$ 76	$ (53)	$ (55)
Total accumulated benefit obligation for defined benefit pension plans	$ 534	$ 490		

(a) As a result of the acquisition effective May 25, 2022, PPL assumed all pension and other postretirement obligations and was transferred assets to fund the trusts of newly established plans. PPL remeasured the plan obligations using its methods and assumptions with the amount of assets transferred based on prescribed ERISA 4044 guidance for pension and negotiated amounts to proportionately fund other postretirement benefits assumed.

The actuarial loss for pension plans in 2023 was primarily related to a change in the discount rate used to measure the benefit obligations of those plans. For 2022, the actuarial gain was primarily related to the discount rate change from 2021 to 2022.

As of December 31, 2022 and 2023, the fair value of plan assets exceeded both the projected benefit obligation (PBO) and the accumulated benefit obligation (ABO).

Pre-Acquisition

Prior to the acquisition of Narragansett Electric from National Grid U.S.A. on May 25, 2022, eligible RIE employees were provided benefits under National Grid pension and other postretirement benefit plans. The following paragraphs provide the allocated activity from the National Grid plans for the period January 1, 2022 to May 24, 2022 and for the year ended December 31, 2021.

During the year ended December 31, 2021, RIE made contributions of approximately $6.5 million to the Qualified Pension Plans. No contributions were made to the other postretirement benefit plans during the year ended December 31, 2021.

The following weighted-average assumptions were used in the valuation of the benefit obligations at December 31.

	Pension Benefits	Other Postretirement Benefits
	2021	2021
Discount rate	2.95 %	2.95 %
Rate of compensation increase (non-union)	4.10 %	N/A
Rate of compensation increase (union)	4.05 %	N/A
Weighted-average cash balance interest crediting rate	2.75 %	N/A

The following weighted-average assumptions were used to determine the net periodic defined benefit costs for the years ended December 31.

	Pension Benefits		Other Postretirement Benefits	
	2022	2021	2022	2021
Discount rate	3.35 %	3.65 %	3.35 %	3.65 %
Rate of compensation increase	4.15 %	3.50 %	N/A	N/A
Expected return on plan assets	4.10 %	6.00 %	5.0% - 5.5%	6.5% - 7.0%
Weighted-average cash balance interest crediting cost	2.75 %	2.75 %	N/A	N/A

RIE selects its discount rate assumption based upon rates of return on highly rated corporate bond yields in the marketplace as of each measurement date. Specifically, RIE uses the Aon AA Only Bond Universe Curve along with the expected future cash flows from RIE retirement plans to determine the weighted average discount rate assumption both on analysis of historical rates of return and forward looking analysis of risk premiums and yields. Current market conditions, such as inflation and interest rates, are evaluated in connection with the setting of the long-term assumptions. A small premium is added for active management of both equity and fixed income securities. The rates of return for each asset class are then weighted in accordance with the actual asset allocation, resulting in a long-term return on asset rate for each plan.

The following table provides the assumed health care cost trend rates for the years ended December 31:

	2022	2021
Health care cost trend rate assumed for next year		
Pre-65	6.60 %	6.80 %
Post-65	5.00 %	5.40 %
Prescription	7.40 %	7.70 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	4.50 %	4.50 %
Year that the rate reaches the ultimate trend rate		
Pre-65	2031+	2031+
Post-65	2031+	2031+
Prescription	2031+	2031+

The following table provides the components of net periodic defined benefit costs (credits) for pension and other postretirement benefit plans for the period ended:

	Pension Benefits		Other Postretirement Benefits	
	May 24, 2022 (a)	December 31, 2021	May 24, 2022 (a)	December 31, 2021
Net periodic defined benefit costs (credits):				
Service cost	$ 3	$ 9	$ 1	$ 3
Interest cost	8	20	2	6
Expected return on plan assets	(11)	(29)	(3)	(8)
Amortization of:				
Actuarial (gain) loss	4	13	—	—
Net periodic defined benefit costs (credits)	$ 4	$ 13	$ —	$ 1
Other Changes in Plan Assets and Benefit Obligations Recognized in OCI and Regulatory Assets/Liabilities - Gross:				
Net (gain) loss	$ —	$ (47)	$ —	$ (38)
Amortization of:				
Actuarial gain (loss)	(4)	(13)	—	—
Total recognized in OCI and regulatory assets/liabilities	(4)	(60)	—	(38)
Total recognized in net periodic defined benefit costs, OCI and regulatory assets/liabilities	$ —	$ (47)	$ —	$ (37)

(a) Represents the pre-acquisition period from January 1, 2022 through May 24, 2022.

The funded status of RIE's plans at period end was as follows:

	Pension Benefits	Other Postretirement Benefits
	May 24, 2022 (a)	May 24, 2022 (a)
Change in Benefit Obligation		
Benefit Obligation, beginning of period	$ 654	$ 215
Service cost	3	1
Interest cost	8	2
Actuarial (gain) loss	(56)	(37)
Divestitures (b)	(601)	(177)
Gross benefits paid	(8)	(4)
Benefit Obligation, end of period	—	—
Change in Plan Assets		
Plan assets at fair value, beginning of period	649	184
Actual return on plan assets	(24)	(20)
Employer contributions	4	—
Divestitures (b)	(621)	(160)
Gross benefits paid	(8)	(4)
Plan assets at fair value, end of period	—	—
Funded Status, end of period	$ —	$ —
Amounts recognized in the Balance Sheets consist of:		
Noncurrent asset	$ —	$ —
Current liability	—	—
Noncurrent liability	—	—
Net amount recognized, end of period	$ —	$ —
Amounts recognized in AOCI and regulatory assets/liabilities (pre-tax) consist of:		
Prior service cost (credit)	$ —	$ —
Net actuarial (gain) loss	—	—
Total	$ —	$ —

(a) Represents the pre-acquisition period from January 1, 2022 through May 24, 2022.

(b) As a result of the acquisition effective May 25, 2022, PPL assumed all pension and other postretirement obligations and was transferred assets to fund the trusts of newly established plans. PPL remeasured the plan obligations using its methods and assumptions with the amount of assets transferred based on prescribed ERISA 4044 guidance for pension and negotiated amounts to proportionately fund other postretirement benefits assumed.

Plan Assets - Pension Plans

All of PPL's qualified pension plans are invested in the PPL Services Corporation Master Trust (the Master Trust) that also includes 401(h) accounts that are restricted for certain other postretirement benefit obligations. The investment strategy for the Master Trust is to achieve a risk-adjusted return on a mix of assets that, in combination with PPL's funding policy, will ensure that sufficient assets are available to provide long-term growth and liquidity for benefit payments, while also managing the duration of the assets to complement the duration of the liabilities. The Master Trust benefits from a wide diversification of asset types, investment fund strategies and external investment fund managers, and therefore has no significant concentration of risk.

The investment policy of the Master Trust outlines investment objectives and defines the responsibilities of the EBPB, external investment managers, investment advisor and trustee and custodian. The investment policy is reviewed annually by PPL's Board of Directors.

The EBPB created a risk management framework around the trust assets and pension liabilities. This framework considers the trust assets as being composed of three sub-portfolios: growth, immunizing and liquidity portfolios. The growth portfolio is comprised of investments that generate a return at a reasonable risk, including equity securities, certain debt securities and alternative investments. The immunizing portfolio consists of debt securities, generally with long durations, and derivative positions. The immunizing portfolio is designed to offset a portion of the change in the pension liabilities due to changes in interest rates. The liquidity portfolio consists primarily of cash and cash equivalents.

Target allocation ranges have been developed for each portfolio based on input from external consultants with a goal of limiting funded status volatility. The EBPB monitors the investments in each portfolio and seeks to obtain a target portfolio that emphasizes reduction of risk of loss from market volatility. In pursuing that goal, the EBPB establishes revised guidelines from time to time. EBPB investment guidelines as of the end of 2023 are presented below.

The asset allocation for the trust and the target allocation by portfolio at December 31 are as follows:

	Percentage of trust assets		Target Asset Allocation
	2023	2022	2023
Growth Portfolio	**54 %**	**55 %**	**55 %**
Equity securities	31 %	31 %	
Debt securities (a)	12 %	13 %	
Alternative investments	11 %	11 %	
Immunizing Portfolio	**43 %**	**43 %**	**43 %**
Debt securities (a)	36 %	33 %	
Derivatives (b)	7 %	10 %	
Liquidity Portfolio	**3 %**	**2 %**	**2 %**
Total	100 %	100 %	100 %

(a) Includes commingled debt funds, which PPL treats as debt securities for asset allocation purposes.
(b) Includes posted collateral to support derivative instruments subject to counterparty risk.

The fair value of the RIE Retirement Plan assets of $570 million and $548 million at December 31, 2023 and 2022, represents a 17.3% and 16.7% undivided interest in each asset and liability of the Master Trust, which is fully disclosed below.

The fair value of net assets in the Master Trust by asset class and level within the fair value hierarchy was:

	December 31, 2023				December 31, 2022			
	Fair Value Measurements Using				Fair Value Measurements Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
PPL Services Corporation Master Trust								
Cash and cash equivalents	$ 226	$ 226	$ —	$ —	$ 306	$ 306	$ —	$ —
Equity securities:								
U.S. Equity	36	36	—	—	34	34	—	—
U.S. Equity fund measured at NAV (a)	542	—	—	—	574	—	—	—
International equity fund at NAV (a)	431	—	—	—	403	—	—	—
Commingled debt measured at NAV (a)	528	—	—	—	526	—	—	—
Debt securities:								
U.S. Treasury and U.S. government sponsored agency	159	159	—	—	153	153	—	—
Corporate	915	—	906	9	834	—	818	16
Other	14	—	13	1	14	—	14	—
Alternative investments:								
Real estate measured at NAV (a)	61	—	—	—	60	—	—	—
Private equity measured at NAV (a)	105	—	—	—	96	—	—	—
Private credit partnerships measured at NAV (a)	13	—	—	—	6	—	—	—
Hedge funds measured at NAV (a)	192	—	—	—	194	—	—	—
Derivatives	93	—	93	—	8	—	8	—
PPL Services Corporation Master Trust assets, at fair value	3,315	$ 421	$ 1,012	$ 10	3,208	$ 493	$ 840	$ 16
Receivables and payables, net (b)	(16)				67			
401(h) accounts restricted for other postretirement benefit obligations	(124)				(126)			
Total PPL Services Corporation Master Trust pension assets	$ 3,175				$ 3,149			

(a) In accordance with accounting guidance, certain investments that are measured at fair value using the net asset value per share (NAV), or its equivalent, have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.
(b) Receivables and payables, net represents amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2023 is as follows:

	Corporate debt
Balance at beginning of period	$ 16
Actual return on plan assets:	
Relating to assets still held at the reporting date	(2)
Relating to assets sold during the period	4
Purchases, sales and settlements	(8)
Balance at end of period	$ 10

A reconciliation of the Master Trust assets classified as Level 3 at December 31, 2022 is as follows:

	Corporate debt
Balance at beginning of period	$ 20
Actual return on plan assets:	
Relating to assets still held at the reporting date	(2)
Relating to assets sold during the period	2
Purchases, sales and settlements	(4)
Balance at end of period	$ 16

The fair value measurements of cash and cash equivalents are based on the amounts on deposit.

The market approach is used to measure fair value of equity securities. The fair value measurements of equity securities (excluding commingled funds), which are generally classified as Level 1, are based on quoted prices in active markets. These securities represent actively and passively managed investments that are managed against various equity indices.

Investments in commingled equity and debt funds are categorized as equity securities. Investments in commingled equity funds include funds that invest in U.S. and international equity securities. Investments in commingled debt funds include funds that invest in a diversified portfolio of emerging market debt obligations, as well as funds that invest in investment grade long-duration fixed-income securities.

The fair value measurements of debt securities are generally based on evaluations that reflect observable market information, such as actual trade information for identical securities or for similar securities, adjusted for observable differences. The fair value of debt securities is generally measured using a market approach, including the use of pricing models, which incorporate observable inputs. Common inputs include benchmark yields, relevant trade data, broker/dealer bid/ask prices, benchmark securities and credit valuation adjustments. When necessary, the fair value of debt securities is measured using the income approach, which incorporates similar observable inputs as well as payment data, future predicted cash flows, collateral performance and new issue data. For the Master Trust, these securities represent investments in securities issued by U.S. Treasury and U.S. government sponsored agencies; investments securitized by residential mortgages, auto loans, credit cards and other pooled loans; investments in investment grade and non-investment grade bonds issued by U.S. companies across several industries; investments in debt securities issued by foreign governments and corporations.

Investments in real estate represent an investment in a partnership whose purpose is to manage investments in U.S. real estate properties diversified geographically and across major property types (e.g., office, industrial, retail, etc.). The partnership has limitations on the amounts that may be redeemed based on available cash to fund redemptions. Additionally, the general partner may decline to accept redemptions when necessary to avoid adverse consequences for the partnership, including legal and tax implications, among others. The fair value of the investment is based upon a partnership unit value.

Investments in private equity represent interests in partnerships in multiple early-stage venture capital funds and private equity fund of funds that use a number of diverse investment strategies. The partnerships have limited lives of at least 10 years, after which liquidating distributions will be received. Prior to the end of each partnership's life, the investment cannot be redeemed with the partnership; however, the interest may be sold to other parties, subject to the general partner's approval. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

Investments in private credit represent pools of actively managed loans that span capital structure and borrower type. Strategies carry different types and levels of risk. Returns from those strategies will vary in terms of yield, fees generated, loan loss rates and the pace of principal repayment. Investments have limited lives of approximately 2-8 years. The investment cannot be redeemed with the general partner; however, the interest may be sold to other parties, subject to the general partner's approval. Fair value is based on an ownership interest in partners' capital to which a proportionate share of net assets is attributed.

At December 31, 2023, the Master Trust had unfunded commitments of $85 million that may be required during the lives of the real estate, private equity and private credit partnerships.

Investments in hedge funds represent investments in a fund of hedge funds. Hedge funds seek a return utilizing a number of diverse investment strategies. The strategies, when combined aim to reduce volatility and risk while attempting to deliver positive returns under most market conditions. Major investment strategies for the fund of hedge funds include long/short equity, tactical trading, event driven, and relative value. Shares may be redeemed with 45 days prior written notice. The fund is subject to short term lockups and other restrictions. The fair value for the fund has been estimated using the net asset value per share.

The fair value measurements of derivative instruments utilize various inputs that include quoted prices for similar contracts or market-corroborated inputs. In certain instances, these instruments may be valued using models, including standard option valuation models and standard industry models. These securities primarily represent investments in treasury futures, total return swaps, interest rate swaps and swaptions (the option to enter into an interest rate swap), which are valued based on quoted prices, changes in the value of the underlying exposure or on the swap details, such as swap curves, notional amount, index and term of index, reset frequency, volatility and payer/receiver credit ratings.

Plan Assets - Other Postretirement Benefit Plans

The investment strategy with respect to other postretirement benefit obligations is to fund VEBA trusts and/or 401(h) accounts with voluntary contributions and to invest in a tax efficient manner. Excluding the 401(h) account included in the Master Trust, the other postretirement benefit plan is invested in a mix of assets for long-term growth with an objective of earning returns that provide liquidity as required for benefit payments. The plan benefits from diversification of asset types, investment fund strategies and investment fund managers and, therefore, have no significant concentration of risk. Equity securities include investments in a global exchange-traded fund. Ownership interests in commingled funds that invest entirely in debt securities are classified as equity securities, but treated as debt securities for asset allocation and target allocation purposes. Ownership interests in money market funds are treated as cash and cash equivalents for asset allocation and target allocation purposes. The asset allocation for the VEBA trusts and the target allocation, by asset class, at December 31 are detailed below.

	Percentage of Plan Assets		Target Asset Allocation
	2023	2022	2023
Asset Class			
Equity securities	47 %	45 %	46 %
Debt securities (a)	48 %	49 %	49 %
Cash and cash equivalents (b)	5 %	6 %	5 %
Total	100 %	100 %	100 %

(a) Includes commingled debt funds and debt securities.
(b) Includes money market funds.

The fair value of RIE assets in the other postretirement benefit plans by asset class and level within the fair value hierarchy was:

	December 31, 2023				December 31, 2022			
	Fair Value Measurement Using				Fair Value Measurement Using			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Money market funds	$ 8	$ 8	$ —	$ —	$ 8	$ 8	$ —	$ —
Equity securities:								
Global equity exchange-traded fund	72	72	—	—	61	61	—	—
Long-term bond exchange-traded fund	74	74	—	—	65	65	—	—
Total VEBA trust assets, at fair value	154	$ 154	$ —	$ —	134	$ 134	$ —	$ —
Receivables and payables, net (a)	(12)				—			
401(h) account assets (b)	24				21			
Total other postretirement benefit plan assets	$ 166				$ 155			

(a) Receivables and payables represent amounts for investments sold/purchased but not yet settled along with interest and dividends earned but not yet received.
(b) RIE specific interest in total Master Trust 401(h) account.

Investments in money market funds represent investments in funds that invest primarily in a diversified portfolio of investment grade money market instruments, including, but not limited to, commercial paper, notes, repurchase agreements and other evidences of indebtedness with a maturity not exceeding 13 months from the date of purchase. The primary objective of the fund is a level of current income consistent with stability of principal and liquidity. Redemptions can be made daily on this fund.

Investments in global equity exchange-traded fund represents a passively-managed pooled investment vehicle that invests in developed market equities and is designed to track the performance of the MSCI World Index. Fair value measurements can be obtained from a quoted price on the exchange. Redemptions can be made daily on this fund.

Investments in long-term bond exchange-traded fund represents a passively-managed pooled investment vehicle that is designed to track the performance of the Bloomberg U.S. Long Government/Credit Float Adjusted Index, which includes all medium and larger issues of U.S. Government, investment-grade corporate and investment-grade international dollar-denominated bonds that have maturities of greater than 10 years. Fair value measurements can be obtained from a quoted price on the exchange. Redemptions can be made daily on this fund.

Expected Cash Flows - Defined Benefit Plans

RIE does not plan to contribute to its pension plan in 2024.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the plans and the following federal subsidy payments are expected to be received.

		Other Postretirement	
	Pension	Benefit Payment	Expected Federal Subsidy
2024	$ 34	$ 10	$ —
2025	35	10	—
2026	36	10	—
2027	36	11	—
2028	37	11	—
2029-2033	200	54	—

Savings Plans

Substantially, all employees of RIE are eligible to participate in a deferred savings plan (401(k)). Employer contributions to the plan were:

	2023	2022	2021
RIE	$ 9	$ 4	$ 3

9. Commitments and Contingencies

Energy Purchase Commitments

RIE has several long-term contracts for the purchase of electric power. Substantially all of these contracts require power to be delivered before RIE is obligated to make payment. Additionally, RIE has entered various contracts for gas delivery, storage, and supply services. Certain of these contracts require payment of annual demand charges, which are recoverable from customers. RIE is liable for these payments regardless of the level of service required from third-parties.

These contracts include the following commitments:

Contract Type	Maximum Maturity Date
Electric power	2025
Gas-related	Beyond 2029

RIE's commitments under these long-term contracts subsequent to December 31, 2023 are summarized in the table below.

	Total	2024	2025-2026	2027-2028	Thereafter
Energy Purchase Obligations	$ 1,087	$ 425	$ 196	$ 97	$ 369

Long-term Contracts for Renewable Energy

Several of the obligations included in the table above relate to certain long-term contracts for renewable energy, including:

- the Deepwater Wind PPA, involving a proposal for a small-scale renewable energy generation project of up to eight offshore wind turbines with an aggregate nameplate capacity of up to 30 MW to benefit the Town of New Shoreham and an underwater cable to Block Island, which entered into service in October 2016;
- the Three-State Procurement, involving six clean energy long-term contracts pursuant to the Rhode Island Long-Term Contracting Standard (LTCS) of which 36.427 MW is currently operational and with respect to which RIE collects 2.75% remunerations in the annual payments pursuant to the LTCS; and
- the Offshore Wind Energy Procurement, pursuant to a 20-year PPA with Deep Water Wind Rev I, LLC (Revolution Wind), with an expected nameplate capacity of 408 MW expected to be operational in 2026; this contract was approved without remuneration but allows RIE to seek costs incurred under the agreement.

In addition, RIE is obligated under the LTCS (as amended in 2014) to annually solicit for renewable projects until 90 MW of renewable contracting capacity has been secured. The RIPUC-approved solicitations currently in service include: (i) a 15-year PPA with Orbit Energy Rhode Island, LLC for a 3.2 MW nameplate anaerobic digester biogas project located in Johnston, Rhode Island, placed in service in 2017, (ii) a 15-year PPA with Black Bear Development Holdings, LLC for a 3.9 MW nameplate run-of-river hydroelectric plant located in Orono, Maine, placed in service in 2013, (iii) a 15-year PPA with Copenhagen Wind Farm, LLC for an 80 MW nameplate land-based wind project located in Denmark, New York, placed in service in 2018, and (iv) a 15-year PPA with Rhode Island LFG Genco, LLC for a 32.1 MW nameplate combined cycle combustion turbine generating facility fueled by a landfill gas project located in Johnston, Rhode Island, placed in service in 2013. On December 29, 2023, RIE filed an RFP with the RIPUC for approval under LTCS to backfill approximately 17.2 MW of renewable contracting capacity resulting from a terminated PPA to fulfill the required 90 MW under LTCS.

In addition to the LTCS, in October 2023, RIE issued a request for proposals (RFP) for 300 MW to approximately 1,200 MW of newly developed offshore wind energy projects, under the Affordable Clean Energy Security Act (ACES), as amended in 2022. Based on the RFP schedule, RIE anticipates beginning conditional project selection in June 2024. RIE must negotiate in good faith to achieve a commercially reasonable contract and may file such contract with the RIPUC for approval in December 2024, unless RIE shows that the bids are unlikely to lead to a contract that meets all of the statutory and RFP requirements.

As approved by the RIPUC, RIE is allowed to pass through commodity-related/purchased power costs to customers and collect remuneration equal to 2.75% for long-term contracts approved prior to January 1, 2022, pursuant to LTCS as amended in 2022, and that have achieved commercial operation. For long-term contracts approved pursuant to LTCS or ACES, both as amended, on or after January 1, 2022, RIE is entitled to financial remuneration equal to 1.0% through December 31, 2026, for those projects that are commercially operating. For long-term contracts approved pursuant to LTCS or ACES on or after January 1, 2027, RIE is not entitled to any financial remuneration, unless otherwise granted by the RIPUC. Also, the 2022 amendments to

LTCS and ACES added a provision, which provides that for any calendar year in which RIE's actual return on equity exceeds the return on equity allowed by the RIPUC in the last general rate case, the RIPUC may adjust any or all remuneration to assure that such remuneration does not result in or contribute toward RIE earning above its allowed return for such calendar year.

Legal Matters

RIE is involved in legal proceedings, claims and litigation in the ordinary course of business. RIE cannot predict the outcome of such matters, or whether such matters may result in material liabilities, unless otherwise noted.

Narragansett Electric Litigation

Energy Efficiency Programs Investigation

Narragansett Electric, while under the ownership of National Grid, performed an internal investigation into conduct associated with its energy efficiency programs. On June 27, 2022, the RIPUC opened a new docket (RIPUC Docket No. 22-05-EE) to investigate RIE's actions and the actions of its National Grid employees during the time RIE was a National Grid USA affiliate being provided services by National Grid USA Service Company, Inc. relating to the manipulation of the reporting of invoices affecting the calculation of past energy efficiency shareholder incentives and the resulting impact on customers. The Rhode Island Attorney General and National Grid USA intervened in the docket.

On January 19, 2023, the Rhode Island Division of Public Utilities and Carriers (the Division) filed a motion to dismiss RIPUC Docket No. 22-05-EE without prejudice. As grounds for its motion, the Division stated that sufficient evidence exists in the docket to warrant an independent summary investigation by the Division, to include an audit of RIE, pursuant to Rhode Island General Laws Section 39-4-13. If the Division finds sufficient grounds, the Division may proceed to a formal hearing regarding the matters under investigation pursuant to Rhode Island General Laws Sections 39-4-14 and 39-4-15. Upon the conclusion of its investigation, the Division will provide the RIPUC with a report outlining the Division's findings and final decision. On January 30, 2023, the Rhode Island Attorney General filed an objection to the Division's motion to dismiss; RIE and National Grid each filed responses with the RIPUC requesting that any additional action taken by the RIPUC or the Division be considered after National Grid completes its internal investigation report, which National Grid filed with the RIPUC on March 10, 2023. On February 24, 2023, the Division initiated the independent summary investigation that it had referenced in its motion to dismiss. The RIPUC held a hearing on March 28, 2023 to hear oral arguments regarding the Division's motion to dismiss and subsequently denied the motion. On November 27, 2023, the Division filed testimony recommending the RIPUC disallow a portion of the performance incentive awarded from 2012 through 2021, an amount of approximately $13 million, including interest. On January 19, 2024, the Division and the Rhode Island Attorney General filed their respective briefs recommending that the RIPUC assess financial penalties on the Company. The Division also recommended that the RIPUC consider further regulatory investigations and analysis within each of the energy efficiency dockets from 2012 through 2020, to confirm the accuracy of claimed savings and to document all conduct and actions that would trigger penalties pursuant to R.I. Gen. Laws §§ 39-2-8 and 39-1-22. This proceeding remains open and, in parallel, the Division's summary investigation remains ongoing. At this time, it is not possible to predict the final outcome or determine the total amount of any additional liabilities that may be incurred by RIE in connection with this matter or the Division's summary investigation. RIE does not expect this matter will have a material adverse effect on its results of operations, financial position or cash flows.

Superfund and Other Remediation

RIE is potentially responsible for investigating and remediating contamination under the federal Superfund program and similar state programs. Actions are under way at certain sites including former coal gas manufacturing plants in Rhode Island previously owned or operated by, or currently owned by predecessors of RIE.

Depending on the outcome of investigations at identified sites where investigations have not begun or been completed, or developments at sites for which information is incomplete, additional costs of remediation could be incurred. RIE lacks sufficient information about such additional sites to estimate any potential liability or range of reasonably possible losses, if any, related to these sites. Such costs, however, are not currently expected to be significant.

The EPA is evaluating the risks associated with polycyclic aromatic hydrocarbons and naphthalene, chemical by-products of coal gas manufacturing. As a result, individual states may establish stricter standards for water quality and soil cleanup that could require more extensive assessment and remedial actions at former coal gas manufacturing plants. RIE cannot reasonably estimate a range of possible losses, if any, related to these matters.

RIE is a potentially responsible party for a share of clean-up costs at certain sites including former manufactured gas plant (MGP) facilities formerly owned by the Blackstone Valley Gas and Electric Company and the Rhode Island gas distribution assets of the New England Gas division of Southern Union Company and electric operations at certain RIE facilities. RIE is currently investigating and remediating, as necessary, those MGP sites and certain other properties under agreements with governmental agencies, the costs of which have not been and are not expected to be significant to RIE.

At December 31, 2023 and December 31, 2022, RIE had a recorded liability of $99 million and $100 million representing its best estimate of the remaining costs of environmental remediation activities. These undiscounted costs are expected to be incurred over approximately 30 years and generally to be subject to rate recovery. However, remediation costs for each site may be materially higher than estimated, depending on changing technologies and regulatory standards, selected end uses for each site, and actual environmental conditions encountered. RIE has recovered amounts from certain insurers and potentially responsible parties, and, where appropriate, may seek additional recovery from other insurers and from other potentially responsible parties, but it is uncertain whether, and to what extent, such efforts will be successful.

The RIPUC has approved two settlement agreements that provide for rate recovery of qualified remediation costs of certain contaminated sites located in Rhode Island and Massachusetts. Rate-recoverable contributions for electric operations of approximately $3 million are added annually to RIE's Environmental Response Fund, established with RIPUC approval in March 2000 to address such costs, along with interest and any recoveries from insurance carriers and other third-parties. In addition, RIE recovers approximately $1 million annually for gas operations under a distribution adjustment charge in which the qualified remediation costs are amortized over 10 years. See Note 4 for additional information on RIE's recorded environmental regulatory assets and liabilities.

Regulatory Issues

See Note 4 for information on regulatory matters related to utility rate regulation.

Electricity - Reliability Standards

The NERC is responsible for establishing and enforcing mandatory reliability standards (Reliability Standards) regarding the bulk electric system in North America. The FERC oversees this process and independently enforces the Reliability Standards.

The Reliability Standards have the force and effect of law and apply to certain users of the bulk electric system, including electric utility companies, generators and marketers. Under the Federal Power Act, the FERC may assess civil penalties for certain violations.

RIE monitors its compliance with the Reliability Standards and self-report or self-log potential violations of applicable reliability requirements whenever identified, and submit accompanying mitigation plans, as required. The resolution of a small number of potential violations is pending. Penalties incurred to date have not been significant. Any Regional Reliability Entity determination concerning the resolution of violations of the Reliability Standards remains subject to the approval of the NERC and the FERC.

In the course of implementing its programs to ensure compliance with the Reliability Standards, certain other instances of potential non-compliance may be identified from time to time. RIE cannot predict the outcome of these matters, and an estimate or range of possible losses cannot be determined.

Gas - Security Directives

In May and July of 2021, the Department of Homeland Security's (DHS) Transportation Security Administration (TSA) released two security directives applicable to certain notified owners and operators of natural gas pipeline facilities (including local distribution companies) that the TSA has determined to be critical. RIE has not been notified by the TSA that they are within the scope of this directive. The first security directive required notified owners/operators to implement cybersecurity incident reporting to the DHS, designate a cybersecurity coordinator, and perform a gap assessment of current entity cybersecurity practices against certain voluntary TSA security guidelines and report relevant results and proposed mitigation to applicable DHS agencies. The second security directive, revised in July of 2023, requires refinement of the cybersecurity implementation plan and the cybersecurity assessment plan.

10. Related Party Transactions

Support Costs

Prior to acquisition by PPL, the affiliated service companies of NGUSA provided certain services to RIE at cost without a markup. The service company costs are generally allocated to associated companies through a tiered approach. Costs are directly charged to the benefited company whenever practicable. In cases where direct charging cannot be readily determined, costs are allocated using cost/causation principles linked to the relationship of that type of service, such as number of employees, number of customers/meters, capital expenditures, value of property owned, and total transmission and distribution expenditures. All other costs are allocated based on a general allocator determined using a 3-point formula based on net margin, net property, plant and equipment, and operations and maintenance expense. Charges for the years ended December 31 are put forth in the table below.

Subsequent to the acquisition, PPL Services provides RIE and other PPL subsidiaries with administrative, management and support services. The costs of directly assignable and attributable services are charged to the respective recipients as direct support costs. General costs that cannot be directly attributed to a specific entity are allocated and charged to the respective recipients as indirect support costs. PPL Services uses a three-factor methodology that includes the applicable recipients' invested capital, operation and maintenance expenses and number of employees to allocate indirect costs. PPL Services may also use a ratio of overall direct and indirect costs or a weighted average cost ratio. PPL Services charged the following amounts for the years ended December 31, including amounts applied to accounts that are further distributed between capital and expense on the books of RIE, based on methods that are believed to be reasonable.

	2023	2022	2021
PPL Services to RIE	$ 70	$ 40	$ —
Pre-acquisition costs from NGUSA	—	118	301

Intercompany Borrowings

RIE maintains a $450 million revolving line of credit with CEP Reserves. At December 31, 2023, RIE had borrowings outstanding of $407 million. This balance is reflected in "Short-term debt with affiliates" on the RIE Balance Sheets. The interest rates on borrowings are equal to one-month SOFR plus a spread.

11. Other Income (Expense) - net

The components of "Other Income (Expense) - net" for the years ended December 31, were:

	2023	2022	2021
Defined benefit plans - non-service credits (Note 8)	$ —	$ 15	$ (2)
Interest income	13	2	4
AFUDC - equity component	8	7	6
Charitable contributions	—	—	(1)
Miscellaneous	(2)	(16)	(12)
Other Income (Expense) - net	$ 19	$ 8	$ (5)

12. Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). A market approach (generally, data from market transactions), an income approach (generally, present value techniques and option-pricing models), and/or a cost approach (generally, replacement cost) are used to measure the fair value of an asset or liability, as appropriate. These valuation approaches incorporate inputs such as observable, independent market data and/or unobservable data that management believes are predicated on the assumptions market participants would use to price an asset or liability. These inputs may incorporate, as applicable, certain risks such as nonperformance risk, which includes credit risk. The fair value of a group of financial assets and liabilities is measured on a net basis. See Note 1 for information on the levels in the fair value hierarchy.

Recurring Fair Value Measurements

The assets and liabilities measured at fair value were:

	December 31, 2023				December 31, 2022			
	Total	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3
Assets								
Cash and cash equivalents	$ 8	$ 8	$ —	$ —	$ 2	$ 2	$ —	$ —
Price risk management assets (a):								
Gas contracts	1	—	1	—	25	—	25	—
Total assets	$ 9	$ 8	$ 1	$ —	$ 27	$ 2	$ 25	$ —
Liabilities								
Price risk management liabilities (a):								
Gas contracts	60	—	41	19	66	—	10	56
Total price risk management liabilities	$ 60	$ —	$ 41	$ 19	$ 66	$ —	$ 10	$ 56

(a) Current portion is included in "Other current assets" and "Other current liabilities" and noncurrent portion is included in "Other noncurrent assets" and "Other noncurrent liabilities" on the Balance Sheets.

Price Risk Management Assets/Liabilities

Gas Contracts

To manage gas commodity price risk associated with natural gas purchases, RIE utilizes over-the-counter (OTC) gas swaps contracts with pricing inputs obtained from the New York Mercantile Exchange (NYMEX) and the Intercontinental Exchange (ICE), except in cases where the ICE publishes seasonal averages or where there were no transactions within the last seven days. RIE may utilize discounting based on quoted interest rate curves, including consideration of non-performance risk, and may include a liquidity reserve calculated based on bid/ask spread. Substantially all of these price curves are observable in the marketplace throughout at least 95% of the remaining contractual quantity, or they could be constructed from market observable curves with correlation coefficients of 95% or higher. These contracts are classified as Level 2.

RIE also utilizes gas option and purchase and capacity transactions, which are valued based on internally developed models. Industry-standard valuation techniques, such as the Black-Scholes pricing model, are used for valuing such instruments. For valuations that include both observable and unobservable inputs, if the unobservable input is determined to be significant to the overall inputs, the entire valuation is classified as Level 3. This includes derivative instruments valued using indicative price quotations whose contract tenure extends into unobservable periods. In instances where observable data is unavailable, consideration is given to the assumptions that market participants would use in valuing the asset or liability. This includes assumptions about market risks such as liquidity, volatility, and contract duration. Such instruments are classified as Level 3 as the model inputs generally are not observable. RIE considers non-performance risk and liquidity risk in the valuation of derivative instruments classified as Level 2 and Level 3.

The significant unobservable inputs used in the fair value measurement of the gas derivative instruments are implied volatility and gas forward curves. A relative change in commodity price at various locations underlying the open positions can result in significantly different fair value estimates.

Financial Instruments Not Recorded at Fair Value

The carrying amounts of other current financial instruments (except for long-term debt due within one year) and long-term debt (including long-term debt due within one year) are not recorded at fair value on the Balance Sheets. The other current financial instruments approximate fair values because of their short-term nature and long-term debt is classified as Level 2 and is net of debt issuance costs.

13. Derivative Instruments and Hedging Activities

Risk Management Objectives

RIE has a risk management policy approved by the Board of Directors to manage market risk associated with commodities, interest rates on debt issuances (including price, liquidity and volumetric risk) and credit risk (including non-performance risk and payment default risk). The Risk Management Committee, comprised of senior management and chaired by the Senior Director-Risk Management, oversees the risk management function. Key risk control activities designed to ensure compliance with the risk policy and detailed programs include, but are not limited to, credit review and approval, validation of transactions, verification of risk and transaction limits, value-at-risk analyses (VaR, a statistical model that attempts to estimate the value of potential loss over a given holding period under normal market conditions at a given confidence level) and the coordination and reporting of the Enterprise Risk Management program.

Market Risk

Market risk includes the potential loss that may be incurred as a result of price changes associated with a particular financial or commodity instrument as well as market liquidity and volumetric risks. Forward contracts, futures contracts, options, swaps and structured transactions are utilized as part of risk management strategies to minimize unanticipated fluctuations in earnings caused by changes in commodity prices and interest rates. Many of these contracts meet the definition of a derivative. All derivatives are recognized on the Balance Sheets at their fair value, unless NPNS is elected.

The following summarizes the market risks that affect RIE.

Interest Rate Risk

- RIE is exposed to interest rate risk associated with forecasted fixed-rate debt issuances. RIE may utilize interest rate swaps to hedge changes in benchmark interest rates, when appropriate, in connection with future debt issuances.
- RIE is exposed to interest rate risk associated with debt securities and derivatives held by defined benefit plans. This risk is significantly mitigated to the extent that the plans are sponsored at, or sponsored on behalf of, the regulated utilities due to the recovery methods in place.

Commodity Price Risk

RIE is exposed to commodity price risk through its subsidiaries as described below.

- RIE utilizes derivative instruments pursuant to its RIPUC-approved plan to manage commodity price risk associated with its natural gas purchases. RIE's commodity price risk management strategy is to reduce fluctuations in firm gas sales prices to its customers. RIE's costs associated with derivatives instruments are recoverable through its RIPUC- approved cost recovery mechanisms. RIE is required to purchase electricity to fulfill its obligation to provide Last Resort Service (LRS). Potential commodity price risk is mitigated through its RIPUC-approved cost recovery mechanisms and full requirements service agreements to serve LRS customers, which transfer the risk to energy suppliers. RIE is required to contract through long-term agreements for clean energy supply under the Rhode Island Renewable Energy Growth program and Long-term Clean Energy Standard. Potential commodity price risk is mitigated through its RIPUC-approved cost recovery mechanisms, which true-up cost differences between contract prices and market prices.

Volumetric Risk

Volumetric risk is the risk related to the changes in volume of retail sales due to weather, economic conditions or other factors. RIE is exposed to volumetric risk, which is significantly mitigated by regulatory mechanisms. RIE's electric and gas distribution rates both have a revenue decoupling mechanism, which allows for annual adjustments to RIE's delivery rates.

Equity Securities Price Risk

RIE is exposed to equity securities price risk associated with the fair value of the defined benefit plans' assets. This risk is significantly mitigated due to the recovery methods in place.

Credit Risk

Credit risk is the potential loss that may be incurred due to a counterparty's non-performance.

RIE is exposed to credit risk from "in-the-money" transactions with counterparties, as well as additional credit risk through certain of its subsidiaries, as discussed below.

In the event a supplier of RIE defaults on its contractual obligation, RIE would need to seek replacement power or replacement fuel in the market. In general, subject to regulatory review or other processes, appropriate incremental costs incurred by these entities would be recoverable from customers through applicable rate mechanisms, thereby mitigating the financial risk for these entities.

RIE has credit policies in place to manage credit risk, including the use of an established credit approval process, daily monitoring of counterparty positions and the use of master netting agreements or provisions. These agreements generally include credit mitigation provisions, such as margin, prepayment or collateral requirements. RIE may request additional credit assurance, in certain circumstances, in the event that the counterparties' credit ratings fall below investment grade, their tangible net worth falls below specified percentages or their exposures exceed an established credit limit.

Master Netting Arrangements

Net derivative positions on the balance sheets are not offset against the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) under master netting arrangements.

RIE had no cash collateral posted under master netting arrangements at December 31, 2023 and $4 million cash collateral posted under master netting arrangements at December 31, 2022.

RIE had no obligation to return cash collateral under master netting arrangements at December 31, 2023 and 2022.

See "Offsetting Derivative Instruments" below for a summary of derivative positions presented in the balance sheets where a right of setoff exists under these arrangements.

Interest Rate Risk

RIE issue debt to finance their operations, which exposes them to interest rate risk. A variety of financial derivative instruments are utilized to adjust the mix of fixed and floating interest rates in their debt portfolios, adjust the duration of the debt portfolios and lock in benchmark interest rates in anticipation of future financing, when appropriate. Risk limits under RIE's risk management program are designed to balance risk exposure to volatility in interest expense and changes in the fair value of the debt portfolio due to changes in benchmark interest rates. In addition, the interest rate risk is potentially mitigated as a result of the existing regulatory framework or the timing of rate cases.

Cash Flow Hedges

Interest rate risks include exposure to adverse interest rate movements for outstanding variable rate debt and for future anticipated financings. Financial interest rate swap contracts that qualify as cash flow hedges may be entered into to hedge floating interest rate risk associated with both existing and anticipated debt issuances. RIE had no such contracts at December 31, 2023.

Cash flow hedges are discontinued if it is no longer probable that the original forecasted transaction will occur by the end of the originally specified time period and any amounts previously recorded in AOCI are reclassified into earnings once it is determined that the hedged transaction is not probable of occurring.

For 2023, 2022 and 2021, RIE had no cash flow hedges reclassified into earnings associated with discontinued cash flow hedges.

At December 31, 2023, RIE had no accumulated net unrecognized after-tax gains (losses) on qualifying derivatives expected to be reclassified into earnings during the next 12 months. Amounts are reclassified as the hedged interest expense is recorded.

Commodity Price Risk

Economic Activity

RIE enters into financial and physical derivative contracts that economically hedge natural gas purchases. Realized gains and losses from the derivatives are recoverable through regulated rates, therefore subsequent changes in fair value are included in regulatory assets or liabilities until they are realized as purchased gas. Realized gains and losses are recognized in "Energy Purchases" on the Statements of Income upon settlement of the contracts. At December 31, 2023, RIE held contracts with notional volumes of 48 Bcf that range in maturity from 2024 through 2025.

Accounting and Reporting

All derivative instruments are recorded at fair value on the Balance Sheet as an asset or liability unless the NPNS is elected. See Note 4 for amounts recorded in regulatory assets and regulatory liabilities at December 31, 2022 and 2021.

See Note 1 for additional information on accounting policies related to derivative instruments.

The following table presents the fair value and location of derivative instruments recorded on the Balance Sheets:

	December 31, 2023		December 31, 2022	
	Derivatives not designated as hedging instruments		Derivatives not designated as hedging instruments	
	Assets	Liabilities	Assets	Liabilities
Current:				
Price Risk Management				
Assets/Liabilities (a):				
Gas contracts	$ 1	$ 51	$ 20	$ 62
Total current	1	51	20	62
Noncurrent:				
Price Risk Management				
Assets/Liabilities (a):				
Gas contracts	—	9	5	4
Total noncurrent	—	9	5	4
Total derivatives	$ 1	$ 60	$ 25	$ 66

(a) Noncurrent portion is included in "Other noncurrent assets" and "Other noncurrent liabilities" on the Balance Sheets.

The following tables present the pre-tax effect of derivative instruments recognized in income or regulatory assets and regulatory liabilities:

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in Income on Derivative	2023	2022	2021
Gas contracts	Energy Purchases	$ (19)	$ 67	$ 22
	Other income (expense) - net	(1)	—	—
	Total	$ (20)	$ 67	$ 22

Derivatives Not Designated as Hedging Instruments	Location of Gain (Loss) Recognized as Regulatory Liabilities/Assets	2023	2022	2021
Gas contracts	Regulatory assets - current	$ 9	$ 41	$ (16)
	Regulatory assets - noncurrent	(8)	—	—
	Total	$ 1	$ 41	$ (16)

Offsetting Derivative Instruments

RIE has master netting arrangements in place and also enter into agreements pursuant to which they purchase or sell certain energy and other products. Under the agreements, upon termination of the agreement as a result of a default or other termination event, the non-defaulting party typically would have a right to set off amounts owed under the agreement against any other obligations arising between the two parties (whether under the agreement or not), whether matured or contingent and irrespective of the currency, place of payment or place of booking of the obligation.

RIE has elected not to offset derivative assets and liabilities and not to offset net derivative positions against the right to reclaim cash collateral pledged (an asset) or the obligation to return cash collateral received (a liability) under derivatives agreements. The table below summarizes the derivative positions presented in the balance sheets where a right of setoff exists under these arrangements and related cash collateral received or pledged.

	Assets				Liabilities			
		Eligible for Offset				Eligible for Offset		
	Gross	Derivative Instruments	Cash Collateral Received	Net	Gross	Derivative Instruments	Cash Collateral Pledged	Net
December 31, 2023								
Derivatives								
RIE	$ 1	$ —	$ —	$ 1	$ 60	$ —	$ —	$ 60
December 31, 2022								
Derivatives								
RIE	$ 25	$ 20	$ —	$ 5	$ 66	$ 62	$ —	$ 4

Credit Risk-Related Contingent Features

Certain derivative contracts contain credit risk-related contingent features which, when in a net liability position, would permit the counterparties to require the transfer of additional collateral upon a decrease in the credit ratings of RIE. Most of these features would require the transfer of additional collateral or permit the counterparty to terminate the contract if the applicable credit rating were to fall below investment grade. Some of these features also would allow the counterparty to require additional collateral upon each downgrade in credit rating at levels that remain above investment grade. In either case, if the applicable credit rating were to fall below investment grade, and assuming no assignment to an investment grade affiliate were allowed, most of these credit contingent features require either immediate payment of the net liability as a termination payment or immediate and ongoing full collateralization on derivative instruments in net liability positions.

Additionally, certain derivative contracts contain credit risk-related contingent features that require adequate assurance of performance be provided if the other party has reasonable concerns regarding the performance of RIE's obligations under the contracts. A counterparty demanding adequate assurance could require a transfer of additional collateral or other security, including letters of credit, cash and guarantees from a creditworthy entity. This would typically involve negotiations among the parties. However, amounts disclosed below represent assumed immediate payment or immediate and ongoing full collateralization for derivative instruments in net liability positions with "adequate assurance" features.

At December 31, 2023, derivative contracts in a net liability position that contain credit risk-related contingent features was $35 million. The aggregate fair value of additional collateral requirements in the event of a credit downgrade below investment grade was $36 million.

14. Goodwill and Other Intangible Assets

Goodwill

Goodwill for RIE was $725 million at December 31, 2023 and 2022. There were no accumulated impairment losses related to goodwill.

Other Intangible Assets

The gross carrying amount of other intangibles consists of renewable energy credits of $15 million at December 31, 2023 and $14 million at December 31, 2022. Renewable energy credits are expensed when consumed or sold; therefore, there is no accumulated amortization.

Current intangible assets are included in "Other current assets" and long-term intangible assets are included in "Other noncurrent assets" on the Balance Sheets.

15. Asset Retirement Obligations

RIE’s ARO liabilities are related to gas mains and PCBs. The PCBs are in gas distribution equipment, consisting mainly of gas pipes and meters, and electrical transmission and distribution equipment.

The changes in the carrying amounts of AROs were as follows:

	2023	2022
ARO at beginning of period	$ 9	$ 10
Changes in estimated timing or cost	(1)	(1)
ARO at end of period	$ 8	$ 9

16. Accumulated Other Comprehensive Income (Loss)

The after-tax changes in AOCI by component for the years ended December 31 were as follows:

		Defined benefit plans	
	Unrealized gains (losses) on qualifying derivatives	Actuarial gain (loss)	Total
RIE			
December 31, 2020	$ (3)	$ (1)	$ (4)
Amounts arising during the year	—	1	1
Reclassifications from AOCI	—	—	—
Net OCI during the year	—	1	1
December 31, 2021	$ (3)	$ —	$ (3)
Amounts arising during the year	—	—	—
Reclassifications from AOCI	2	—	2
Net OCI during the year	2	—	2
December 31, 2022	$ (1)	$ —	$ (1)
Amounts arising during the year	—	—	—
Reclassifications from AOCI	—	1	1
Net OCI during the year	—	1	1
December 31, 2023	$ (1)	$ 1	$ —

The following table presents RIE's gains (losses) and related income taxes for reclassifications from AOCI for the years ended December 31, 2023, 2022 and 2021. The defined benefit plan components of AOCI are not reflected in their entirety in the statement of income; rather, they are included in the computation of net periodic defined benefit costs (credits) and subject to capitalization. See Note 8 for additional information.

Details about AOCI	2023	2022	2021	Affected Line Item on the Statements of Income
Qualifying derivatives				
Unrealized gains on hedges	$ —	$ 3	$ —	
Total Pre-tax	—	3	—	
Income Taxes	—	(1)	—	
Total After-tax	—	2	—	
Defined benefit plans				
Prior service costs	—	—	—	
Net actuarial loss	(1)	—	—	
Total Pre-tax	(1)	—	—	
Income Taxes	—	—	—	
Total After-tax	(1)	—	—	
Total reclassifications during the year	$ (1)	$ 2	$ —	

17. New Accounting Guidance Pending Adoption

Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU 2023-09 which requires all entities that are subject to Topic 740 (Income Taxes) to provide additional income tax disclosures including information on income taxes paid. For entities other than public business entities, ASU 2023-09 requires qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate.

For entities other than public business entities, this guidance will be applied on a prospective basis. Retrospective application is permitted. This guidance will be effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

RIE is currently assessing the impact of adopting this guidance.

18. Subsequent Events

RIE has evaluated subsequent events and transactions through February 16, 2024, the date of issuance of these financial statements, and concluded that other than those matters already disclosed, there were no events or transactions that require adjustment to, or disclosure in, the financial statements as of and for the year ended December 31, 2023.

GLOSSARY OF TERMS AND ABBREVIATIONS

401(h) account(s) - a sub-account established within a qualified pension trust to provide for the payment of retiree medical costs.

AFUDC - allowance for funds used during construction. The cost of equity and debt funds used to finance construction projects of regulated businesses, which is capitalized as part of construction costs.

AOCI - accumulated other comprehensive income or loss.

ARO - asset retirement obligation.

CEP Reserves - CEP Reserves, Inc., a cash management subsidiary of PPL that maintains cash reserves for the balance sheet management of PPL and certain subsidiaries

CCR(s) - coal combustion residual(s). CCRs include fly ash, bottom ash and sulfur dioxide scrubber wastes.

COVID-19 - the disease caused by the coronavirus identified in 2019 that caused a global pandemic.

EBPB - Employee Benefit Plan Board. The administrator of PPL's U.S. qualified retirement plans, which is charged with the fiduciary responsibility to oversee and manage those plans and the investments associated with those plans.

EPA - Environmental Protection Agency, a U.S. government agency.

FERC - Federal Energy Regulatory Commission, the U.S. federal agency that regulates, among other things, interstate transmission and wholesale sales of electricity, hydroelectric power projects and related matters.

GAAP - Generally Accepted Accounting Principles in the U.S.

ISO - Independent System Operator.

kWh - kilowatt hour, basic unit of electrical energy.

Mcf - one thousand cubic feet, a unit of measure for natural gas.

NGUSA - National Grid U.S., an indirectly owned subsidiary of National Grid, Plc.

MW - megawatt, one thousand kilowatts.

Narragansett Electric - The Narragansett Electric Company, an entity that serves electric and natural gas customers in Rhode Island. On May 25, 2022, PPL and its subsidiary, PPL Rhode Island Holdings announced the completion of the acquisition of Narragansett Electric, which will continue to provide services under the name Rhode Island Energy.

NEP - New England Power Company, a National Grid U.S. affiliate.

NERC - North American Electric Reliability Corporation.

NPNS - the normal purchases and normal sales exception as permitted by derivative accounting rules. Derivatives that qualify for this exception may receive accrual accounting treatment.

OCI - other comprehensive income or loss.

PCB - Polychlorinated biphenyls – A group of man-made chemicals that were commercially manufactured from 1929 until production banned in 1979. They have a range of toxicity and vary in consistency from an oil to a waxy solid. Due to their non-flammability, chemical stability, high boiling point, and electrical insulation properties, they were used in industrial and commercial applications including electrical equipment, plasticizers, and pigments.

PP&E - property, plant and equipment.

PPA(s) - power purchase agreement(s).

PPL - PPL Corporation, the ultimate parent holding company of RIE and other subsidiaries.

PPL Rhode Island Holdings - PPL Rhode Island Holdings, LLC, a subsidiary of PPL Energy Holdings formed for the purpose of acquiring Narragansett Electric to which certain interests of PPL Energy Holdings in the Narragansett SPA were assigned.

PPL Services - PPL Services Corporation, a subsidiary of PPL that provides administrative, management and support services to PPL and its subsidiaries.

RIE - Rhode Island Energy, the name under which Narragansett Electric will continue to provide services subsequent to its acquisition by PPL and its subsidiary, PPL Rhode Island Holdings on May 25, 2022.

RIPUC - Rhode Island Public Utilities Commission, a three-member quasi-judicial tribunal with jurisdiction, powers, and duties to implement and enforce the standards of conduct under R.I. Gen. Laws § 39-1-27.6 and to hold investigations and hearings involving the rates, tariffs, tolls, and charges, and the sufficiency and reasonableness of facilities and accommodations of public utilities.

Rhode Island Division of Public Utilities and Carriers - the Rhode Island Division of Public Utilities and Carriers, which is headed by an Administrator who is not a Commissioner of the RIPUC, exercises the jurisdiction, supervision, power, and duties not specifically assigned to the RIPUC.

SOFR - Secured Overnight Financing Rate, a broad measure of the cost of borrowing cash overnight collateralized by Treasury securities.

Superfund - federal environmental statute that addresses remediation of contaminated sites; states also have similar statutes.

TCJA - Tax Cuts and Jobs Act. Comprehensive U.S. federal tax legislation enacted on December 22, 2017.

VEBA - Voluntary Employee Beneficiary Association. A tax-exempt trust under the Internal Revenue Code Section 501 (c)(9) used by employers to fund and pay eligible medical, life and similar benefits.