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Date: September 29, 2022

Re: Docket 22-13-NG Rhode Island Energy's Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2022 Reconciliation Filing and Pension Adjustment Factor Filing

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The purpose of this memo is to provide the position of the Division of Public Utilities and Carriers ("Division") concerning the Gas Infrastructure, Safety, and Reliability ("ISR") Plan's Annual Reconciliation for Fiscal Year 2022 of Rhode Island Energy ("RIE" or "Company") and RIE's Gas Pension Adjustment Factor ("PAF") for effect November 1, 2022.

On August 1, 2022, RIE submitted its Annual Gas ISR Reconciliation filing to the Public Utilities Commission ("Commission") for the period April 1, 2021 through March 31, 2022. Also, on August 1, 2022, the Company submitted its annual gas Distribution Adjustment Charge ("DAC") filing with the Commission. As detailed in Section 3, Schedule A of the Company's tariff, the DAC provides for the recovery and reconciliation of several adjustment factors including the gas ISR reconciliation and PAF. The DAC factors other than the ISR reconciliation and PAF will be addressed by the Division in a separate memo by its consultant, Lafayette Morgan, of Exeter Associates.

<u>Infrastructure, Safety, and Reliability Plan Annual Reconciliation FY2022</u>

The Company's filing is supported by the testimony of Nathan Kocon, who provides an overview and description of the $161.42 million of actual capital investment spending and an explanation of major variances to the budget of $173.25 million as approved by the Commission in Docket 5099. As part of its review of the Company's filing, the Division reviewed spending variances throughout the plan.

The FY2022 approved plan included $173.25 million in capital spending for the period April 1, 2021 through March 31, 2022. Throughout the year, the Company submitted quarterly reports to the Commission and Division detailing construction progress and reporting funds expended to date as well as forecasts through the end of the year. The Division reviewed each quarterly report and met with the Company to discuss each progress report.

The Company's actual capital spending for FY2022 of $161.42 million is $11.83 million below the approved $173.25 million budget. The total underspend in several categories was partially offset by an overspend in other categories which, in total, resulted in the $11.83 million underspend. Several factors contributed to the underspend including the Company's prioritizing several projects and deferring other projects until FY2023, limited Company resources, supply chain issues and a decrease in reactive leak repair. The Company underspent in many categories with the most significant impact seen in the following categories:

• Southern RI Gas Expansion Project	$4.49 million
• Reactive Leaks(CI Joint Encapsulation/Service Replacements)	$3.62 million
• Gas System Reliability	$2.83 million
• Proactive Main Replacement - Atwells Ave Project	$2.76 million
• Heater Installation Program	$2.69 million
• Replace Pipe on Bridges	$1.85 million
• Transmission Station Integrity	$1.48 million
• Service Replacement (Reactive – Non-Leaks/Other)	$1.22 million
• Aquidneck Island Low Pressure Valves	<u>$1.19 million</u>
Total	$22.13 million

These nine categories resulted in a $22.13 million underspend as several planned projects were deferred to FY2023 and FY2024. The Company also experienced fewer leaks than estimated throughout the year resulting in a $4.84 million underspend in the Reactive Main leaks, Reactive Service leaks and Reactive Service non-leak categories.

The $22.31 million underspend was partially offset by additional work completed in other categories with the most significant impact in the following categories:

- CSC/Public Works Reimbursement $2.45 million
- Proactive Main Replacement $2.24 million
- Allens Avenue Multi Station Rebuild $2.02 million
- Tools and Equipment $1.84 million
- Wampanoag Tr. & Tiverton GS Heater Replacement/Transfer $1.28 million
- Corrosion $1.03 million

Total $10.86 million

These six categories resulted in a $10.86 million overspend mainly due to additional work completed in each of the categories listed above.

Although the Company experienced some delays due to limited resources, supply chain issues, and overall timing for some projects resulting in the total $11.83 million underspend, the Company was able to abandon 67.9 miles of leak prone pipe. The 67.9 mile figure is the most leak prone pipe abandonment accomplished by the Company in one year since the initiation of the Gas ISR program. The Company also ended FY2022 with 37 miles of "Carryover" miles. These 37 miles are associated with projects in which new main has been installed but the associated old main has not yet been abandoned. The Division and the Company addressed these Carryover miles in the FY2023 plan. The Company is currently working to reduce the amount of carryover miles throughout FY2023. On September 13, 2022, the Commission ruled prospectively that new main installations are not includable in rate base until all the old main associated with a specific project has been abandoned. While the Company may seek an exception to this new rule at the time it files its ISR plan, the Company must provide the reason and benefits to ratepayers for the exception. The Division will monitor the Company's FY2023 and future ISR Plans with the aim of assessing whether the abandonment accomplishment of the FY2022 Plan can be maintained in future plan years.

The Division believes that the Company's underspend of $11.83 million or 6.8% below the approved budget of $173.25 million is reasonable given the extensive amount of projects throughout all categories.

Gas FY2022 ISR Revenue Requirement Reconciliation

The Company's Filing is also supported by the testimony of Stephanie Briggs who presented the updated FY2022 revenue requirement of $30,279,322 which results in a $7,962,565 decrease from the projected $38,241,887 previously approved by the Commission in Docket 5099. According to the Company's tariff, the ISR Reconciliation Mechanism "reconciles the actual Cumulative Revenue Requirements and any associated costs approved for recovery through this mechanism to the actual billed revenue for the prior fiscal year." As part of our review of the Company's filing, the Division reviewed the calculation of the updated revenue requirements.

In Order 24042 in Docket No. 5099, the Commission directed the Company "to commence using the plant-in-service methodology for the Gas ISR (revenue requirement) that is currently employed for the Electric ISR" (Order, Page 19). The Company's approved revenue requirement of $38,241,887 in Docket 5099 supported an estimated $158.26 million in Capital Additions. The proposed adjusted revenue requirement of $30,279,322 includes Capital Additions of $156.69 million for projects that were placed into service in FY2022 which complies with the Commission's Order.

Our consultant, Dave Effron, and I have reviewed the calculations supporting the updated FY2022 revenue requirement of $30,279,322 and do not have any recommended adjustments. We support approval of the proposed reconciliation factors as filed.

Pension Adjustment Factor

On August 1, 2022, the Company submitted its PAF as part of its DAC filing. The Company's filing is supported by the testimony of Jeffrey D. Oliveira and James H. Allen, who provided an overview and description of the reconciliation of the Company's Pension and Postretirement Benefits Other than Pensions costs to the allowance for recovery in base distribution rates in accordance with RIPUC Tariff No. 2119.

On August 19, 2022, the Company responded to Division data requests seeking additional information, documentation and clarification relative to the PAF filing. Based on my review and that of our consultant Dave Effron, of the Company's filing and responses to associated data requests, we did not have any recommended adjustments to the Company's gas PAF, and support its approval for effect November 1, 2022.