State of Rhode Island
Office of the Attorney General

150 South Main Street • Providence, RI 02903
(401) 274-4400 • www.riag.ri.gov

Peter F. Neronha
Attorney General

September 7, 2023

Via Electronic Mail

Luly Massaro
Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

RE: Docket No. 5209 - FY 2023 Electric Infrastructure, Safety, and Reliability Plan Reconciliation Filing

Dear Ms. Massaro:

On behalf of the Division of Public Utilities and Carriers, please accept for filing the attached Memoranda from John Bell, Chief Accountant and Gregory L. Booth, that provides the Division's comments regarding its review of the ISR Reconciliation filing.

Thank you for your attention to this submission.

Very truly yours,

/s/ Gregory S. Schultz

Gregory S. Schultz
Special Assistant Attorney General
On behalf of the Division of Public Utilities and Carriers

Enclosure
cc: 5209 Service List

Linda George, Esq., Division Administrator
John Spirito, Esq., Division Deputy Administrator
Christy Hetherington, Esq., Division Chief Legal Counsel
Paul Roberti, Esq., Division Chief Economic and Policy Analyst

STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
Accounting Section
89 Jefferson Boulevard
Warwick, Rhode Island 02888
(401) 941-4500
(401) 941-9248 - Fax

To: **Luly Massaro, Commission Clerk**
Public Utilities Commission

From: John Bell, Chief Accountant
Division of Public Utilities & Carriers

Date: **September 7, 2023**

Re: **Docket No. 5209, Rhode Island Energy's FY 2023 Electric ISR Reconciliation**

The purpose of this memo is to provide the Public Utilities Commission ("PUC" or "Commission") with the Division of Public Utilities and Carriers' ("Division") recommended position concerning the rate component of The Narragansett Electric Company's d/b/a Rhode Island Energy ("RIE" or the "Company") FY 2023 Electric Infrastructure, Safety and Reliability ("ISR") Plan Annual Reconciliation filing submitted on August 1, 2023 in the above referenced docket.

In response to the filing, Mr. Gregory Booth, Division Engineering Consultant, reviewed the filing related to the variances between the ISR Plan budget and the actual spend. Mr. David Effron, Division Accounting and Rate Consultant, along with myself, reviewed the reconciliation of the revenue requirements.

Variance Review

Mr. Booth provided the Division with the attached memo concerning his review of spend variances. As a brief summary, the total ISR capital budget for FY 2023 was \$104.7M and the actual spend was \$108.4M or a total variance of \$3.7M. The driver of the variance was a \$7.8M overspend in the Non-Discretionary component of the budget which includes Customer Request/Public Requirement and Damage Failure related projects. This overspend was offset by a \$4M underspend related to discretionary projects. The ISR Plan also has an Operations and Maintenance (O&M) expense component of which Vegetation Management is the largest spend category. The total O&M budget was \$13.1M and the actual spend was \$13.7M. The Vegetation Management category was overspent by \$873,094, while other O&M spending was underbudget by \$280,968 for a net O&M overspend of \$592,126. Mr. Booth's memo explains these variances in more detail. With the exception of a new Recloser Installation Project, which Mr. Booth discusses in more detail his memo, he concluded that based on his review there were no variances that raised any issue of prudency in the FY 2023 reconciliation.

Reclosers

The new Recloser Installation Project refers to spending for a recloser program that was not funded or discussed when the FY 2023 Plan was vetted and eventually approved by the PUC. Spending for the new program began in the First Quarter of the FY 2023 Plan, shortly after the Plan was approved. The associated $1.7 million of spend has not gone into service[1] yet so it is not included in the rate reconciliation in this filing. Since the spend is not proposed to go into rates as part of this ISR reconciliation, the Division is not making a final recommendation related to the spend and reserves our rights to comment on the appropriate rate treatment as part of a future ISR proceeding.

As part of the System Capacity & Performance Blanket category, there was a sizable increase in the spend on reclosers. The reclosers in this category were placed in service during FY 2023, and the associated revenue requirements are included in the rate reconciliation. The total spend in the System Capacity & Performance Blanket category was $1.4M over budget or approximately 70% of the approved budget of $2M. The driver of the overspend was $1,669,833[2] of spending on reclosers. It is typical for there to be some spend on reclosers in this category, however the FY 2023 spending was considerably higher than the recent 5-year history which ranged from $95,000 to $312,000.[3] The Division concurs with Mr. Booth, where he states: ". . . while the recloser additions may contribute to improved reliability on select circuits, the investments were part of a new program that had not been presented or appropriately justified prior to the FY 2023 ISR Plan year commencing." Since the spending for the recloser program was not approved as part of the FY 2023 Plan, the Division recommends that the Commission disallow recovery through the pending reconciliation filing of the $1,669,833 of capital additions related to reclosers that were placed in service in FY 2023. The Division is not opposed to considering future rate recovery of these capital additions, either through a base rate case or a future ISR Plan, however, the Company will have the burden of justifying the investments and at a minimum showing that the capital additions were reasonable and cost justified and that they provide the intended ratepayer benefits.

Revenue Requirements Review

As part of the Company's filing, they provided calculations supporting the proposed revenue requirements and reconciliation factors associated with the capital and O&M components of the FY 2023 Plan. The proposed CapEx Reconciling Factor is ($0.00148)/kWh and the O&M Reconciling Factor is $0.00016/kWh. The impact of the proposed factors is a small decrease of $0.23/month for a residential customer using 500kWh's. Though the Division is recommending an adjustment to the capital spending included in the rate reconciliation calculation, we reviewed the Company's filed revenue requirement calculations for reasonableness and accuracy. To date, we have not found any exceptions, however, due to time and other constraints, the Division has not completed its review of all the revenue requirement calculations in the Company's filing. The Division commits to working with the Company if we note any discrepancies with the calculations as we continue our review and we will be prepared to provide an update at the hearing.

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[1] Testimony of Nicole A. Gooding, page 9 of 11, Line 11.
[2] Response to PUC Data Request 1-4, Attachment 1-4-2.
[3] Response to PUC Data Request 1-7a.

In conclusion, since we are proposing an adjustment to the Company's capital additions that will impact revenue requirements, we recommend that the Commission require the Company to submit a compliance filing to reflect the PUC's decision on the reconciliation, if the decision includes any adjustments to the Company's filed position.

GREGORY L. BOOTH, PLLC
Engineering and Management Services

14460 Falls of Neuse Road, Suite 149-110, Raleigh, NC 27614
Phone: (919) 441-6440

Memorandum

To: **Rhode Island Division of Public Utilities and Carriers**
Mr. John Bell

From: **Gregory L. Booth, PLLC**
Gregory L. Booth, PE

Date: **September 7, 2023**

Subject: **Docket No. 5209; Rhode Island Energy FY 2023 ISR Annual Reconciliation**

This Memorandum is concerning the Rhode Island Energy (RIE) FY 2023 ISR Plan spending variances reported in the Company's FY 2023 ISR Plan Reconciliation Filing. As you requested, I address the variance between the ISR Plan budget and actual spend[1]. As shown below, the Company reports that capital spending for FY 2023 totaled $108.4 million, compared to a budget of $104.8 million (Table 4, Capital Spending by Category).

	Budget	Actuals	Variance Over / (Under)
Customer Request/Public Requirement	$27,182,550	$31,726,588	$4,544,038
Damage Failure	$14,250,910	$17,461,118	$3,210,208
Non-Discretionary Sub-total	*$41,433,460*	*$49,187,706*	*$7,754,246*
Asset Condition	$24,978,600	$23,370,422	($1,608,178)
Non-Infrastructure	$1,520,000	$1,553,797	$33,797
System Capacity & Performance	$9,188,070	$12,630,631	$3,442,561
Sub-total (excl. Large Projects)	*$35,686,670*	*$37,554,851*	*$1,868,181*
Large Projects Tracked Separately	$27,629,490	$21,701,442	($5,928,048)
Discretionary Sub-total	*$63,316,160*	*$59,256,293*	*($4,059,867)*
Total Capital Investment in System	**$104,749,620**	**$108,443,999**	**$3,694,379**

Non-Discretionary Spend

In FY 2023, the Company was $7.8 million overbudget for non-discretionary spending. The Customer Request/Public Requirements category was overbudget by $4.6 million and Damage/Failure was overbudget by $3.2 million. Customer Request/Public Requirements major

[1] Sources used to evaluate variances include Docket 5209 FY 2023 Electric ISR Plan Annual Reconciliation, FY 2023 Electric ISR Plan Quarterly Update – Fourth Quarter ending March 31, 2023, and FY23 Q4 Quarterly Over-Under Variances file provided by the Company.

categories had varying results. Categories of underspend were Public Requirements projects ($0.7 million) due to lower spend than estimated, meters due to deferred landline meter replacement work ($0.8 million), and outdoor lighting ($0.2 million). Offsetting the categories of underspend were Third-Party Attachments at $0.4 million and transformer purchases exceeding budget by $1 million due to continued supply chain challenges impacting price and quantity of purchases. The escalation from January 1, 2020 to January 1, 2023 in overhead line transformers was 75 percent and for pad mounted transformers was 189 percent based on Handy Whitman indices. The Company has sought alternate sources of transformer supply and proactively ordered transformers in 2023 to increase inventory levels to support work plans and respond to emergencies. New Business commercial and residential emerging customer work was $2.1 million over budget, driven by one large job totaling $2.6 million offset by blanket project spend that was $0.8 million under budget. Strategic Distributed Energy Resource (DER) investments were unbudgeted but incurred $0.1 million of spend for Hopkins Hill feeder monitors that were previously deferred.

For the Distributed Generation (DG) category, spend was $3.7 million against a $1 million budget, for a $2.7 million overspend. The DG cost is net spending activity, or the difference between the cost incurred to interconnect DG customers and the amount of capital contributions in aid of construction (CIAC) the Company receives from customers to offset against capital spending. In the FY 2022 ISR Plan Reconciliation, the Company similarly reported costs that exceeded DG contributions. RIE committed to review DG projects in the March 9, 2022 hearing and states in the current Annual Reconciliation filing (Attachment NAG-1, page 6) that:

> The Company reviewed $4.8 million in plant additions and determined that $1.2 million will remain in rate base. These plant additions represent system improvements or projects where the actual costs exceeded the estimate, and the difference could not be collected from the developer. The Company is in the process of reviewing the remainder of the projects and validating assumptions with National Grid. From this review, the Company has decided to remove the remaining plant additions associated with DG projects from the revenue requirement until a review of each project is completed. The Company anticipates that any plant additions associated with the review will be incorporated into the Fiscal Year ("FY") 2024 ISR Plan Annual Reconciliation. The 2023 spending will also be reviewed in a similar manner.

Until the Company files the required report in accordance with the Commission's Order in Docket 5209, it remains premature to determine the prudency of whether any DG interconnection investments exceeding customer contributions should remain in rate base[2]. Specifically, the Company presents the rationale for recovery as a) the plant addition represents a system improvement, or b) actual costs exceed the estimate and cannot be collected from the developer[3]. These assumptions undoubtably warrant further scrutiny. Issues to address regarding system

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[2] In Docket 5209, FY 2023 ISR Plan Proposal Report and Order (issued February 28, 2023), the Commission ordered Narragansett Electric to review the allocation of DG customer contributions and file a report no later than August 1, 2022. In that report, the Company provided an update and explained that the preliminary review resulted in an adjustment of $391,000, or a reduction to the FY 2022 ISR Plan reconciliation factor (page 19). It is not clear how the adjustment amount relates to the information presented in this FY 2023 reconciliation.

[3] Under the Company's tariff, RIE can collect up to 10% over the DG interconnection cost estimate.

improvements include, but are not limited to, whether a system need existed that warranted the improvement (absent the DG interconnection), if the Company had identified the need and improvement in an approved ISR Plan, and if the system improvement is used and useful upon implementation. Similarly, the Company's intention to recover excess costs to interconnect DG customers raises a threshold question as to whether ratepayers should be responsible for cost overruns.

RIE further stated that: "From this review, the Company has decided to remove the remaining plant additions associated with DG projects from the revenue requirement until a review of each project is completed, totaling $10.6 million". The Company further stated that $3.6 million be expensed pending validation with National Grid. From the Company's filing, it is unclear if the $3.6 million is a portion of the $10.6 million, however based on a follow-up discussion with the Company, they confirmed that it is part of the $10.6 million. In my opinion, the Company has not presented the necessary support to include $1.2 million related to DG interconnection costs in rate base, nor has RIE adequately explained its review process and demonstrated why remaining plant additions should be added in the future. If this process remains unchecked, the result may be that system improvements could be implemented outside of Commission approved capital investment plans, which the Division believes is inappropriate. Due to the many complexities arising from DG related costs incurred by the Company, any current or future recovery must be contingent on a full assessment to determine criteria for recovery. My understanding is that the report will be completed and submitted within a few months. As a result, I am not opposed to allowing the $1.2 million of DG costs to remain in rate base until this review is complete at which time the Division would reserve its right to recommend prospective adjustments. The outcome of a Commission proceeding on this topic could also provide insights on how RIE treats future DG related costs that are not directly assigned to DG customers. In summary, with the exception of DG costs which are expected to be further vetted, there are no concerns with the variances incurred for Customer Request/Public Requirements.

Within the Damage/Failure category, asset replacement work was $2.6 million overbudget. Although the Company adopted a new process of recording only work related to failed assets in this category, spend continues to trend higher. The Westerly #2 transformer replacement was underbudget by $0.3 million. The Company expended $0.7 million for the Nasonville failed switchgear against a reserve budget of $1 million. Large storms in December 2022 and February 2023 contributed to overspend by $1.2 million in the Storms and Weather Events category. In total, the Damage/Failure category was overbudget by $3.2 million. This category is expected to be unpredictable and highly variable.

<u>Discretionary Spend - Asset Condition</u>

Overall, asset condition spend (without separately tracked large projects) was $23.4 million which was $1.6 million under budget. The Underground Cable Replacement program was under budget by $1.7 million due to limited cable supply. The Company accelerated Underground Residential Cable replacement and exceeded budget by $3 million. The Division supports this accelerated spending in FY 2023 for several reasons: 1) this is a long term program in which deteriorated failing cables are replaced using a well-established protocol accepted by the Division many years ago; 2) the Division views the Underground Cable Replacement program (addressing 80 to 100 year old duct bank system) and the Underground Residential Development (URD) replacement program as complimentary and necessary so when one program is delayed it is reasonable to shift spending to the other program to maintain an adequate pace of cable replacement; and 3) these complimentary programs will continue for a decade or more and are essential for reliability and safety associated with a critical component of the distribution infrastructure. The Asset Replacement Blanket and Other categories were $0.6 million over budget. Remaining individual projects contributing to the underspend were I&M ($2 million which included a $1.2 million write-off for a previous project designed but not executed), battery replacements ($0.1 million), substation breaker and recloser replacements ($0.4 million), and 3763 pole replacement ($1 million due to supply limitations).

Discretionary Spend - System Capacity & Performance

System Capacity & Performance (excluding large projects) had an overspend of $4.9 million[4]. Individual categories had varying results, with total underspend of $0.6 million for 3V0 and Transformer Upgrades offset by $2.4 million in total overspend for COVID load shifts, continued EMS work, VVO/CVR deferred from previous years, and animal fence installations. These variances are within reason and do not raise concerns. Alternately, RIE expended $1.7 million (planning, engineering, design and material purchases) for a new Recloser Installation Project that was unfunded and not discussed when the FY 2023 ISR Plan was approved. The Company also exceeded budget by $1.4 million in the System Capacity & Performance Blanket category due to recloser installations. This spend was a precursor to the Company's intended deployment of hundreds of reclosers primarily driven by a Grid Modernization Plan that is currently before the Commission. There has been substantial discussion with the Company regarding its aggressive recloser installation strategy and ISR Plan impacts which are not addressed here. For the FY 2023 ISR Plan, however, my conclusion is that while the recloser additions may contribute to improved reliability on select circuits, the investments were part of a new program that had not been presented or appropriately justified prior to the FY 2023 ISR Plan year commencing. I disagree with including $1.7 million spend for the Recloser Installation Project and all investments related to recloser installations under the Blanket category, which led to a $1.4 million overspend, in the FY 2023 ISR Plan rate reconciliation. These costs warrant a closer examination by the Commission to determine appropriate treatment and timing for future recovery.

Discretionary Spend - Large Projects

Southeast, Dyer Street, Warren, East Providence and Providence Area Study projects comprise the large projects which are separately tracked and reported. Spending on these projects was $5.9 million underbudget in FY 2023. Southeast decorative fencing and deferred work was $0.6 million over budget. The majority of this project is in service. Dyer Street was $7.4 million over budget. The increases were due to previous deferred work, scope changes due to underground obstructions and a collapsed duct bank, and higher construction bids than expected. The Company has written off $0.9 million associated with refurbishment of the DC building which should not be included in the ISR rate base or revenue requirement. Warren Substation was $1.5 million underbudget due to design delays in order to coordinate site work with external parties. East Providence was $2 million underbudget due to real estate issues. Providence Area Study projects, which are in various phases of development and construction phase, were $10.4 million underbudget primarily due to construction delays at Admiral Street.

[4] RIE reported a total overspend of $3.4 million in the System Capacity & Performance category which included two large projects. Removing Aquidneck Island and New Lafayette variances results in $4.9 million overspend.

Aquidneck Island and New Lafayette are additional large projects within System Capacity & Performance that were not separately tracked but resulted in $1.5 million of underspend. Spending on Aquidneck Island was $0.4 million over budget. The station is in service and remaining work relates to distribution upgrades and other station retirements or improvements. New Lafayette work was deferred in order to coordinate transmission outages resulting in $1.9 million underspend. This brings the total variance in large projects to $7.4 million underspend, primarily due to construction delays. The Company has kept the Division apprised of project status and potential construction impacts during Quarterly Review meetings and I have no concerns with large project variances for the FY 2023 plan year.

Project delays and deferred work, however, continue to raise issues that I have previously noted. First, the Company does not report the full impacts of schedule and spending adjustments for projects that span multiple years. This information is critical in understanding both near and long term impacts to investment levels and ultimately to retail rates. A key component to this process is RIE's Long Range Plan (LRP) which forecasts projects and associated capital needs over a 10-15 year term. The outcome of the Company's recently completed Area Studies informs a significant portion of the LRP which then translates into ISR Plan discretionary spend. That discretionary spend is expected to be dominated by large substation projects driven by asset condition[5]. However, RIE is still refining its LRP so proposed future projects and ISR Plan spending are unknown. When a current project experiences delays there is no understanding of how the associated spend is shifted into the future or resulting impacts on the LRP. Layering deferred work on top of future planned work would result in untenable construction schedules and budget increases. I expect that the Company will monitor the level of work that shifts into future years and make strategic discretionary project adjustments to manage prospective ISR Plan budgets and implement cost controls.

Second, the Company has historically underestimated complex project costs, some of which have doubled between the time the project is first sanctioned and when final engineering and design is complete. The Company has stated over several years that it is working internally to improve initial cost estimates. The positive effects of that work remain to be seen. This has become a more critical component of distribution planning since RIE is developing a LRP and may be presenting longer term ISR Plans for Commission, Division, and stakeholder review. These filings, likely to be expanded to include future AMF and/or GMP investments, will be used to assess the prudency of capital investments and ratepayer impacts over a longer period of time. The data cannot be relied upon if project costs are dramatically underestimated. The lack of more refined budgets gives an inaccurate picture of investment needs. The Division will closely examine future spend for multi-year projects to monitor the estimating process and validate accuracy.

<u>Vegetation Management</u>

Vegetation Management spend was $0.9 million or seven percent overbudget due to increased work to expand clearance distances on some of current years' feeders to improve reliability and for accelerated trimming in Westerly and Hopkins to reduce tree related outages. RIE is

[5] The majority of projects identified in Area Studies are driven by substation asset condition. In August 2023, RIE arranged for the Division and its consultant to visit the sites and examine equipment condition and criticality. Based on visual inspection, load analysis and maintenance reports, I am supportive of RIE's plans to replace extremely old substation infrastructure, but these projects will require significant discretionary budgets that must be strategically implemented and balanced with ratepayer impacts.

implementing risk reduction tools and data analytics to guide more prescriptive vegetation management activities. In previous years, the Company consistently managed the clearing, pruning and hazard tree removal budgets very closely every year. This is one area where the Company has always performed at a very high level, resulting in excellent vegetation management cost control which is expected to continue. The biggest variables out of the Company's control have been the Gypsy Moth and Emerald Ashe Borer infestation. The Company has managed to stay ahead of these issues and reports that out of 750 hazardous trees removed in FY 2023, 537 were removed due to Ash Borer infestation.

Non-Infrastructure

Overall, capital spending in this category was effectively on budget. The Company reported Corporate Overhead charges of $1.2 million against a $0 budget and stated that these charges will be transferred to appropriate work orders through the normal capital allocation process during the FY 2024 ISR Plan year. This is consistent with treatment of Corporate Overhead charges, however the level incurred is well above the 5-year average of $12,000 where most years were negative. The overspend was offset by $1 million in lower Copper to Fiber conversion work and lower Telecommunications ($0.3 million) spend. There are no concerns with the Non-Infrastructure category but trending for the Corporate Overheads should be examined in future ISR Plan reconciliations to ensure that the Company is not incurring improper charges that may be coincident with the change in Narragansett Electric's ownership.

Other O&M

This category was $280,968 underbudget, driven by lower Opex Related to Capex and I&M repair costs because of the Company's focus on addressing priority work that reduced I&M capital.

Reliability

The Company continues to meet reliability goals in FY 2022 with SAIFI of 0.866 against a target of 1.05, and SAIDI of 62.48 minutes, against a target of 71.9 minutes. The Company should provide IEEE statistics and identify its specific position in these statistics so the Division and Commission can see if it remains in the first quartile of best performing utilities in the U.S.

Summary

There are no variances which raise any issue of prudency with the majority of investments in the FY 2023 reconciliation. However, there are two areas that warrant further Commission assessment, including one category of spend that should be excluded from rates. First, the Company included $1.2 million in rate base for DG interconnection costs. RIE characterized the costs as plant additions that represent system improvements or projects where the actual costs exceeded the estimate, and the difference could not be collected from the developer. These investments have not been justified for recovery and warrant further Commission review and potential adjustment. Second, the Company advanced new program recloser work in FY 2023 that was not presented or appropriately justified prior to the FY 2023 ISR Plan year commencing. The $1.7 million spend for the Recloser Installation Project and the investments for recloser installations under the System Capacity & Performance Blanket category that led to a $1.4 million overspend should be excluded from the FY 2023 reconciliation and warrant a closer examination by the Commission to determine appropriate treatment and timing for future recovery. The Company has enhanced the Reconciliation Filing based on Division recommendations including providing additional detail for variances in spending categories, submitting an ISR Plan spreadsheet indicating budget and actual spend for each project with more detail on variance drivers for each category, and expanding discussion when unplanned projects are executed. The Company also provided an updated Attachment G to track total actual, forecasted and budgeted spend for multi-year projects in order for the Division and Commission to have a clear picture of whether the projects are going to ultimately be under or over budget upon completion, since a one-year snapshot provides no meaningful indication of how close to budget the project will be when incorporated into rates. However, with the forthcoming Long Range Plan and pending AMF and/or GMP investments, the Division should expect more accurate initial cost estimates for complex, multi-year capital projects since there will be more reliance on this data in understanding the Company's long term investment strategy and ratepayer impacts.