STATE OF RHODE ISLAND

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**To:** **Ms. Stephanie De LaRosa, Commission Clerk**
**Public Utilities Commission**

**From: Alberico Mancini, Chief Regulatory Analyst**
**Division of Public Utilities & Carriers**

**Date:** **October 3, 2024**

**Re:** **Docket 22-54-NG Rhode Island Energy's Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2024 Reconciliation Filing**

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The purpose of this memo is to provide the Division of Public Utilities and Carrier's ("Division") position concerning Rhode Island Energy's Gas Infrastructure, Safety, and Reliability ("ISR") Plan's Annual Reconciliation for Fiscal Year 2024 for effect November 1, 2024.

## Introduction

On August 1, 2024, Rhode Island Energy ("RIE" or "Company") submitted its Annual Gas ISR Reconciliation filing to the Public Utilities Commission for the period April 1, 2023 through March 31, 2024. Also, on August 1, 2024, the Company made its annual gas Distribution Adjustment Charge ("DAC") filing. 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. The DAC factors other than the ISR reconciliation will be addressed in separate memos by the Division and its consultant, Jerome Mierzwa of Exeter Associates.

The Company's filing was supported by the testimony of Nathan Kocon and Philip Lafond, who provided an overview and description of the $177.12 million of actual capital investment spending and an explanation of major variances to the budget of $163.42 million as approved by the Commission in Docket 22-54-NG.

The filing was also supported by the testimony of Jeffery D. Oliveira and Natalie Hawk, who presented the updated FY2024 revenue requirement of $61,351,854. 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 spending variances and the calculation of the updated revenue requirements. Below are the results and conclusions of the Division's review.

**<u>FY2024 Gas ISR Budget vs. Actual Spending Variances</u>**

The FY2024 approved plan included $163.42 million in capital spending for the period April 1, 2023 through March 31, 2024. Throughout the year, the Company submitted quarterly reports to the Commission and Division detailing construction progress and reported funds expended to date as well as forecasts through the end of the year. The Division reviewed each quarterly report and discussed the progress of the plan with the Company.

The Company's actual capital spending for FY2024 of $177.12 million was $13.70 million above the $163.42 million budget. There are several factors that contributed to this year's overspend by the Company. In FY2024, the Company focused its pipe replacement work on high priority, large diameter, leak prone mains which resulted in higher than anticipated costs per mile of installation due to the slower rate of installation. In an attempt to limit the overspend, the Company deferred many previously planned main replacement projects until FY2025. The Company overspent in many categories with the most significant impact in the following categories:

| | | |
|---|---|---|
| • Public Works Proactive Main Replacement | | $12.58 million |
| • Main Replacement (Reactive)-Maintenance & Leak Prone Pipe | | $7.44 million |
| • Main Replacement (Proactive)-Leak Prone Pipe | | $3.89 million |
| • Service Replacement (Reactive)-Non-Leak Prone Pipe | | $2.82 million |
| • Main Rehabilitation (Proactive)-Large Diameter LPCI Program | | $2.21 million |
| • Reactive Leaks (CI Joint Encapsulation/Service Replacement) | | $1.84 million |
| • Take Station Refurbishment | | <u>$1.44 million</u> |
| | Total | $32.22 million |

These seven categories resulted in a $32.22 million overspend. The overspend was partially offset by an underspend in several other categories. The main drivers of the underspend were construction delays, redesigning of projects, long lead times for materials and deferring other projects to FY2025. The Company underspent in many categories with the most significant impact in the following categories:

| | | |
|---|---|---|
| • LNG | | $6.09 million |
| • Purchase Meter (Replacement) | | $2.96 million |
| • Southern RI - Regulator Station Investment | | $2.07 million |
| • Heater Installation Program | | $2.07 million |
| • Transmission Station Integrity | | $1.70 million |
| • Distribution Station Over Pressure Protection | | $1.61 million |
| • Corrosion | | <u>$1.25 million</u> |
| | Total | $17.75 million |

These seven categories resulted in a $17.75 million underspend.

As the Company focused on the higher risk leak prone mains, the Company spent an additional $23.91 million above the total combined budget of $91.52 million for Proactive, Reactive and Public Works main replacement categories which specifically targeted some of the highest priority mains within the system.

Overall, the Company installed a total of 45.6 miles of main vs. a planned 60 miles but was only able to abandon 34.7 miles of main, well short of the Company's goal of 60 abandonment miles. The large concentration of projects with higher priority scores impacted the Company's ability to install more miles by requiring more Company resources which resulted in the shortfall of the 60 mile abandonment goal.

For the reasons explained by the Company, the Division concludes that the overspend was justified, and therefore, does not recommend any adjustments or disallowances subject to the following qualification:

The Company notified the Division in August 2023 of its intent, based on Contractor availability, project readiness, and moderate Company resource requirements for CISBOT work, to pursue two additional CISBOT jobs at the end of the first quarter for FY2024. The projects included Russell Street and Canal Street in the City of Providence. The Company and its contractor completed work on Russell Street during the third quarter of the fiscal year. Due to the moratorium on winter work in Providence, the Company was not able to execute the planned project on Canal Street. In March of 2024, the Division initiated an investigation of CISBOT work pursuant to R.I.G.L. §39-4-13, due to a concerning level of leaks on previously CISBOT treated joints, including the Russell Street project. The investigation is ongoing and the Division reserves its right to make recommendations in a future proceeding concerning the CISBOT work and the associated spend based on the outcome of our investigation.

## **FY2024 Gas ISR Revenue Requirement**

The Company's witnesses Jeffery Oliveira and Natalie Hawk presented the updated FY2024 revenue requirement of $61,351,854 which results in a $2,728,166 increase from the projected $58,623,688 revenue requirement previously approved by the Commission in Docket 22-54-NG.

In Order No. 24042 in Docket No. 5099, the Commission directed the Company to begin using a plant-in-service methodology for the Gas ISR revenue requirement as is used for the Electric ISR. The Company's approved FY2024 Gas ISR Plan included incremental revenues of $6,096,711 to support an estimated $155.814 million in Capital Additions. The actual Capital Additions for FY2024 totaled $138.447 million which reduced the associated incremental revenue requirement to $5,742,885. While the approved FY2024 revenue requirement associated with the FY2024 Capital Additions decreased from $6,096,711 to $5,742,885, the net impact of several other factors, including tax updates and hold harmless true-up adjustments as explained in the Company's testimony, results in a cumulative total revenue requirement of $61,351,854.

The proposed FY2024 adjusted revenue requirement of $61,351,854 also includes a hold harmless true-up adjustment of $1,503,915 for FY2023 and an adjustment of $2,133,044 for FY2024. This true-up adjustment is a result of the change in the net operating loss utilization period from 1 to 7 years as discussed in Ms. Hawk's testimony and as approved in Docket 23-49-NG.

The Division, along with its consultant, Dave Effron, have reviewed all calculations supporting the updated FY2024 revenue requirement of $61,351,854 and have no recommended adjustments.

Based on its review of the Company's ISR FY2024 Annual Reconciliation filing, the Division recommends its approval as set forth herein.