STATE OF RHODE ISLAND

DIVISION OF PUBLIC UTILITIES & CARRIERS
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Memo To: Luly Massaro, Commission Clerk

From : Alberico Mancini, Chief Regulatory Analyst

Date : September 24, 2021

Subject : Dockets 5165, National Grid's Gas Infrastructure, Safety, and Reliability Plan Fiscal Year 2020 Reconciliation Filing and Pension Adjustment Factor Filing

The purpose of this memo is to provide the Public Utilities Commission ("PUC") with the Division of Public Utilities and Carrier's ("Division") position concerning National Grid's Gas Infrastructure, Safety, and Reliability ("ISR") Plan's Annual Reconciliation for Fiscal Year 2021 and National Grid's Gas Pension Adjustment Factor ("PAF") for effect November 1, 2021.

On August 2, 2021, National Grid ("NGrid" or "Company") submitted its Annual Gas ISR Reconciliation filing to the Public Utilities Commission for the period April 1, 2020 through March 31, 2021. Also, on August 2, 2021, 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 and PAF. The DAC factors other than the ISR reconciliation and PAF will be addressed by the Division in a separate memo by its consultants, Lafayette Morgan and Jerome Mierzwa of Exeter Associates.

Infrastructure, Safety, and Reliability Plan Annual Reconciliation FY2021

The Company's filing was supported by the testimony of Amy S. Smith and Nathan Kocon, who provided an overview and description of the $165.27 million of actual capital investment spending and an explanation of major variances to the budget of $198.61 million as approved by the Commission in Docket 4996. The filing was also supported by the testimony of Melissa A. Little who presented the updated FY2021 revenue requirement of $14,851,995 which resulted in a $7,909,534 decrease from the $22,761,529 approved by the Commission in Docket 4996. 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". The Company also transitioned from the capital spend model to the plant-in-service model for calculating the Gas ISR revenue requirement as required by PUC order 24042 in Docket 5099. As part of our review of the Company's filing, the Division reviewed spending variances and the calculation of the updated revenue requirements.

The FY2021 approved plan included $198.61 million in capital spending for the period April 1, 2020 through March 31, 2021. 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 FY2021 of $165.27 million is $33.34 million below the approved $198.61 million budget. There are several factors that contributed to this underspend by the Company. The main reason for the underspend was the Covid-19 Pandemic (Pandemic). As a result, the Company was forced to delay many projects, and in some cases, defer projects until FY2022. Due to limited interaction with customers and overall travel restrictions experienced during the Pandemic, the Company underspent in many categories with the most significant impact in the following categories:

• Public Works Proactive Main Replacement	$4.37 million
• Liquefied Natural Gas (LNG) Facilities	$3.80 million
• Pressure Regulating Facilities	$3.50 million
• Distribution Station Over Pressure Protection	$2.26 million
• Proactive Large Diameter Leak Prone Pipe	$1.98 million
• Gas System Reliability	$1.82 million
Total	$17.73 million

These six categories resulted in a $17.73 million underspend as most of the planned projects were deferred to FY2022. The underspend in most categories was partially offset by additional work completed as part of the Allen's Avenue Multi Station Rebuild Project which was overspent by $3.46 million.

The Company also experienced fewer leaks than estimated throughout the year resulting in an underspend of $4.53 million in the Reactive Main Leaks and Service Leaks categories.

Although the Company experienced many delays due to the Pandemic, the Company was able to complete more main replacement projects as a result of less traffic in congested areas. Overall, the Company installed a total of 57.2 miles of main vs. a planned 55.9 miles but was only able to abandon 30.1 miles of main which was well short of the Company's goal of 62 miles. The Pandemic impacted the Company's ability to complete portions of the meter service work associated with main replacement projects which resulted in the shortfall of abandonment miles.

The inability to complete main replacement projects also impacted the incremental paving costs as final restoration on incomplete projects were delayed to FY2022. The Company spent a total of $1.17 million vs. a budget of $5.6 million. Incremental paving costs for main replacement and

patches were also below budget as many Cities and Towns did not adopt the new Rhode Island Utility Fair Share Roadway Repair Act (Curb-to-Curb Paving Law). In total, the Company spent approximately $1.5 million vs. a budget of $10.4 million resulting in an $8.9 million underspend.

The Division believes that the Company's underspend of $33.34 million below the approved budget of $198.61 million is reasonable as it was a direct result of the Pandemic.

Gas FY2021 ISR Revenue Requirement

In previous calculations of the Gas ISR revenue requirement, the plant included in the ISR rate base was based on capital spending (which would cover spending still in construction work in progress or "CWIP") rather than on additions to plant-in-service. In Order 24042 in Docket No. 5909, 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 Annual Reconciliation for its FY 2021 Gas ISR Plan filed on July 30, 2021 is the first Gas ISR revenue requirement calculation filed subsequent to that directive. To implement the Commission's directive "to commence using the plant-in-service methodology," the Company performed a one-time "cut-over" calculation to arrive at the FY 2021 Adjusted Capital Additions In-Service. The one-time cut-over entailed removing the CWIP as of March 31, 2021 from the capital additions for FY 2021. This resulted in a $45.1 million reduction to the plant included in the Gas ISR rate base (ASNK Table C) as compared to the previous method used by the Company. The effect of the one-time cut-over is to adjust the ISR rate base for the cumulative impact of including capital spend rather than additions to plant-in-service in the Gas ISR rate base.

Table C included a breakout of CWIP as of March 31, 2021 between Pre-FY21 capital spend and FY21 capital spend. In reviewing this table, anomalies were noted in the FY21 capital spend, in that certain of the line items were negative amounts. The Company explained that the negative amounts were attributed to errors in the transfers from CWIP to plant-in-service in FY 2021 between Pre-FY21 capital spend and FY21 capital spend. In Division 1-1, the Company presented a revised version that corrected the errors. The Pre-FY21 capital spend and FY21 capital spend amounts changed, but the total balance of CWIP as of March 31, 2021 did not change.

The Company's one-time cut-over is an appropriate mechanism to transition to the use of the plant-in-service methodology for the Gas ISR revenue requirement. If the Company had simply used 2021 additions to plant-in-service rather than 2021 capital spend in the FY 2021 reconciliation, this would have double counted certain plant additions, as they would been included in both the capital spend in years prior to FY 2021 and the additions to plant-in-service in FY 2021. The one-time cutover that removes the CWIP as of March 31, 2021 from the capital spend in FY 2021 to determine the FY 2021 plant additions eliminates any such double count. Prospectively, the Gas ISR revenue requirement will simply reflect additions to plant-in-service and not capital spend.

Prior to March 31, 2021, the Company did not accrue Allowance for Funds Used During Construction (AFUDC) on projects eligible for recovery through the Gas ISR. Effective April 1, 2021, the Company began to accrue AFUDC on Gas ISR-eligible project dollars when such projects reside in CWIP (Division 2-2). The accrual of AFUDC on Gas ISR-eligible projects when they are in CWIP is consistent with the use of the plant-in-service methodology for the Gas ISR revenue requirement.

It was also noted that in the past, the depreciation expense included in the Gas ISR revenue requirement was calculated by applying the composite depreciation rate to the capital spend rather than to additions to plant-in-service, which overstated the depreciation expense, as depreciation expense is not accrued on CWIP. In Division 2-1, the Company quantified this overstatement at $647,358. However, this overstatement of depreciation expense in previous years remains in the balance of accumulated depreciation that is deducted from plant in the determination of the Gas ISR rate base, and the ISR revenue requirement going forward is reduced accordingly. Given the relative magnitude of the overstatement and the future offsetting benefits, no further reconciliation adjustment is necessary to reverse the previously overstated depreciation expense.

The Division, along with its consultant, Dave Effron, have reviewed all calculations supporting the updated FY2021 revenue requirement of $14,851,995 and have no recommended adjustments.

Based on its review of the Company's ISR FY2021 Annual Reconciliation filing, the Division recommends its approval.

Pension Adjustment Factor

On August 2, 2021, the Company submitted its Pension Adjustment Factor (PAF) as part of their Distribution Adjustment Charge (DAC) filing. The Company's filing was 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 (PBOP) costs to the allowance for recovery in base distribution rates in accordance with RIPUC Tariff No. 2119.

On September 7, 2021, the Company responded to Division data requests seeking additional information, documentation and clarification relative to the PAF filing. Based on its review of the Company's filing and responses to associated data requests, the Division, along with its consultant, Dave Effron, have no recommended adjustments to the Company's gas PAF and recommends its approval for effect November 1, 2021.