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 13, 2022

Luly Massaro, Clerk
Division of Public Utilities and Carriers
89 Jefferson Blvd.
Warwick, RI 02888
Luly.massaro@puc.ri.gov

RE: In Re: Rhode Island Energy's FY 2022 Electric ISR Reconciliation
Docket 5098

Dear Luly:

Enclosed herewith for filing, please find a Memorandum which the Administrator has adopted as the Division's position in this docket.

Should you have any questions, please do not hesitate to contact me.

Regards,

/s/ Gregory S. Schultz
Special Assistant Attorney General
gschultz@riag.ri.gov

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: Linda George, Esq., Administrator
Division of Public Utilities and Carriers

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

CC: John Spirito, Esq., Deputy Administrator
Christy Hetherington, Esq., Chief Legal Counsel
Paul Roberti, Esq., Chief Economic & Policy Advisor
Division of Public Utilities and Carriers

Date: September, 13, 2022

Re: Docket No. 5098, Rhode Island Energy's FY 2022 Electric ISR Reconciliation

---

The purpose of this memo is to provide you with my recommended position concerning The Narragansett Electric Company's d/b/a Rhode Island Energy ("RIE" or the "Company") FY 2022 Electric Infrastructure, Safety and Reliability Plan Annual Reconciliation filing submitted on August 1, 2022 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.

<u>Variance Review</u>

Mr. Booth, provided me with the attached memo concerning his review of the variances. As a brief summary, the total ISR capital budget for FY 2022 was $101.6M and the actual spend was $106.7 M or a total variance of $5.1M The driver of the variance was a $15.1M overspend in the Non-Discretionary component of the budget which includes Customer Request/Public Requirement and Damage Failure related project. This overspend was offset by a $10M underspend related to discretionary projects. Mr. Booth's memo explains these variances in more detail. 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 $12M and the actual spend was nearly on target at $12.1M. Mr. Booth concluded that based on his review there were no variances that raised any issue of prudency in the FY 2022 reconciliation.

As part of the last year's review of the FY 2021 reconciliation, Mr. Booth noted that there were areas in the reconciliation report where clearer explanations of the variances would be beneficial. In response to this recommendation, the Company agreed to enhance its reporting. This year's report does include clearer explanations of variances which helped streamline our review of the reconciliation report.

Revenue Requirements Review

As part of the Company's filing, they provided calculations supporting the revenue requirements associated with the FY 2022 Plan. In addition, they provided the calculations and supporting schedules in Excel format for the Division's review. I, along with our consultant Dave Effron, reviewed the filing, including the detailed calculations and supporting documentation, and we concluded that the proposed reconciliation factors were accurately calculated and in accordance with the tariff. The calculations result in a decrease in the current O&M Reconciliation Factor from ($0.00010)/kWh to $0.00000/kWh and a decrease in the current CapEx Reconciliation Factor from ($0.00069)/kWh to ($0.00089). The bill impact of the proposed rate changes is a decrease of $0.06/month for a residential customer using 500 kWhs. It is my position that the Division recommend to the Public Utilities Commission that the proposed ISR reconciliation factors be approved as filed

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 2, 2022**

Subject: **Docket No. 5098; Rhode Island Energy FY 2022 ISR Annual Reconciliation**

This Memorandum is concerning the Rhode Island Energy FY 2022 ISR Plan spending variances reported in the Company's FY 2022 ISR Plan Reconciliation Filing. While your accounting consultant addresses the accuracy and appropriateness of the adjustments, you have requested that I address the variance between the ISR Plan budget and actual spend[1]. As shown below, the Company reports that capital spending for FY 2022 totaled $106.7 million, compared to a budget of $101.6 million (Table 4, Capital Spending by Category).

	Budget	Actuals	Variance Over / (Under)
Customer Request/Public Requirement	$27,237,000	$34,334,178	$7,097,178
Damage Failure	$12,198,000	$20,200,300	$8,002,300
Non-Discretionary Sub-total	*$39,435,000*	*$54,534,478*	*$15,099,478*
Asset Condition	$20,329,612	$20,278,731	($50,881)
Non-Infrastructure	$1,309,600	$1,100,074	($209,526)
System Capacity & Performance	$20,373,460	$15,302,811	($5,070,649)
Discretionary Sub-total (excl. Large Projects)	*$42,012,672*	*$36,681,616*	*($5,331,056)*
Large Projects Tracked Separately	$20,152,678	$15,512,977	($4,639,701)
Discretionary Sub-total	*$62,165,350*	*$52,194,593*	*($9,970,757)*
Total Capital Investment in System	**$101,600,350**	**$106,729,071**	**$5,128,721**

Non-Discretionary Spending

In FY 2022, the Company was $15 million overbudget for non-discretionary spending. The Customer Request/Public Requirements category was overbudget by $7 million and Damage/Failure was overbudget by $8 million. Customer Request/Public Requirements major categories had varying results with New Business and Blanket project work coming in at $0.7 million overbudget for Residential and $0.7 million underbudget for Commercial, with no specific rationale provided. Several categories were under budget, including Third-Party Attachments

[1] Sources used to evaluate variances include Docket 5098 FY 2022 Electric ISR Plan Annual Reconciliation, FY 2022 Electric ISR Plan Quarterly Update – Fourth Quarter ending March 31, 2022, and FY22 Q4 Quarterly Over-Under Variances file provided by the Company.

($0.2 million) due to timing of customer advances, joint-owned pole agreement billings ($0.7 million), Public Requirements projects ($1 million) due to lower spend than estimated, Strategic DER investments ($0.3 million) due to deferred work until FY 2023, and meters ($1 million) due to vendor delivery delays and deferred Landline Meter Replacement costs until FY 2023.

Offsetting the categories of underspend were transformer purchases exceeding budget by $0.7 million due to supply chain challenges that required the Company to seek alternate sources of supply to support work plans and respond to emergencies, and an $8.8 million overspend for Distributed Generation (DG). The DG cost is net spending activity, or the difference between the cost incurred to interconnect DG customers and the amount of capital contributions (CIAC) the Company receives from customers to offset against capital spending. It is expected that this would result in a fairly balanced budget each year since the Company implemented a process to record CIAC when work is performed, as opposed to the time that CIAC is received. However, approximately $4.2 million of the $8.8 million over budget is still driven by timing differences, while the remainder primarily relates to $4.2 million for a substation project that is partially in service and has not been fully reconciled or invoiced to the customer. The outcome of full reconciliation is unknown but more information should be revealed when the Company, at the direction of the PUC, completes a review of its DG capital allocation process and variance drivers. The report will be beneficial in future evaluations of DG spend and prudency review. With the exception of DG costs, which will be vetted through the Company's upcoming report and PUC investigation, there are no concerns with the variances incurred for Customer Request/Public Requirements.

Within the Damage/Failure category, asset replacement work was $1.4 million overbudget. The Company adopted a new process of recording only work related to failed assets in this category in FY 2021 Trends indicate that annual spend will be closer to $11 million to $12 million and the Company has adjusted the FY 2023 budget accordingly. Storms and large asset failures contributed to overspend by $6 million and $0.6 million (spend exceeding reserves of $0.9 million) respectively. Tropical Storm Henri and an October 2021 Nor'easter were major weather events in FY2022. This category is expected to be unpredictable and highly variable.

Asset Condition

Overall, asset condition spend (without separately tracked large projects) was consistent with the FY 2022 budget level of $20.3 million with some variances between individual projects. The Company exceeded budget by $0.9 million for residential underground cable replacements, which has historically been impacted by higher material and labor costs in addition to requiring special equipment and labor for a specific project in FY 2022. Work associated with the Franklin St. 11 kV Substation project was $1.1 million over budget since project requirements were identified after the FY 2022 budget was set. Offsetting these were lower I&M spend ($1.7 million) and Franklin Square delayed breaker work ($0.7 million) due to lack of vendor availability.

Southeast, Dyer Street and Providence Area Study projects comprise the large asset condition projects which are separately tracked and reported. Spending on these projects was $4.6 million underbudget in FY 2022. Southeast was $0.8 million over budget due to additional work at Dunnell Park substation. The majority of this project is in service. Dyer Street was $4.6 million under budget due to material delivery delays and Providence Area Study projects, most of which are in pre-construction phase, were $0.9 million underbudget. 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 2022 plan year.

Project delays and deferred work, however, do 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. 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, I have commented that the reconciliation process should include a projected total project cost versus budget for multi-year projects so the impact of these very large projects on the rates would be more transparent. In response, the Company has provided updated information in Attachment G of the Reconciliation Filing. The table below summarizes the current project cost estimate compared to sanctioned amounts, or to the most recent budget if the project is not fully sanctioned.

Attachment G - Large Project Variances Summary

($M)	Current Estimate	Sanction/ *Previous Budget*	Status
Southeast Substation	$23.3	$21.1	Design and Execute
Dyer Street	$16.9	$16.7	Design and Execute
Providence Study - Admiral Street Phase 1A	$8.6	$10.0	Construction
Providence Study - Admiral Street Phase 1B	$46.2	*$24.4*	Final Engineering
Providence Study - Admiral Street Phases 2-4	$45.5	*$33.9*	Develop & Sanction
Total	**$140.5**	**$106.1**	

The data suggests that the Company is close to budget for sanctioned projects, or those that have undergone comprehensive engineering analysis to derive final budgets[2]. Projects that are in development stage, however, are subject to significant increases as projects progress through the Company's Complex Capital Delivery Process. As indicated by Providence Study Phase 1B, the Company's current cost estimate is nearly double the original budget, which raises my last concern regarding complex project cost estimates. The Company has stated over several years that it is working internally to improve initial cost estimates which are entered into the five-year capital budget plan. The positive effects of that work remain to be seen. This has become a more critical component of distribution planning since Rhode Island Energy 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 the Company continues to dramatically underestimate project costs. The Division will need to closely examine future spend for multi-year projects to monitor the estimating process and validate accuracy[3].

[2] In general, complex capital projects progress through a stage-gate process. Once a preferred option is selected the Company seeks formal funding authorization (sanctioning) based on a high level cost estimate. The estimate is further refined in the design and execute phase. The Division relies on these cost estimates to assess overall spend for multi-year projects, their contributions to the ISR Plan budget, and associated ratepayer impacts.

[3] The Company also uses a discretionary budget line item referenced as "Reserves AR" for future years when a specific project has not been identified. The Division should expect less reliance on reserves during multi-year plan reviews.

System Capacity and Performance

This category had an underspend of $5.1 million, primarily driven by $2.5 million under-spend for Aquidneck Island projects due to work being shifted into FY 2021 and actuals coming in less than estimates. Similar to FY 2021, New Lafayette was overbudget as a result of the Company advancing civil work to coordinate with a DG project at the same site. The schedule shift is reasonable to optimize customer driven work. The Company has reduced spend on EMS Expansion work to align work with Area Studies, a strategy that I have consistently endorsed throughout ISR Plan proceedings. Expenditures for 3VO were $1.1 million underbudget due to the removal of projects from the FY 2022 Plan impacted by future retirements. Lastly, project work for VVO and feeder work related to COVID load shifts were moved to FY 2023 resulting in in less spend. Overall, there were no issues identified with the Company's FY 2022 System Capacity and Performance results.

Vegetation Management

Vegetation Management spend was $460,000 or four percent overbudget driven by an increase in contractor and police detail costs. The Company consistently manages 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. 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 it has completed removal of trees which were impacted by Gypsy Moth infestation and that no additional trees have been removed in FY 2022.

Other O&M

This category was $360,000 underbudget, driven by lower Opex Related to Capex and I&M repair costs. The Company did not discuss rationale.

Reliability

The Company continues to meet reliability goals in FY 2021 with SAIFI of 0.949 against a target of 1.05, and SAIDI of 68.8 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.

In summary, there are no variances which raise any issue of prudency in the FY 2022 reconciliation. The FY 2022 ISR Plan reconciliation for the project capital and O&M expenses is acceptable, with no troublesome variances. 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 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 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.