MEMORANDUM

To: Stakeholders and File
Copy: Commissioners
From: Cindy Wilson-Frias and Todd Bianco
Date: October 18, 2022
Re: Docket Nos. 5205 and 5206 Update

PUC Staff would like to thank the participants for a productive meeting on Wednesday, October 12, 2022.

Topic 1 (Docket No. 5206) RI Energy Update on changing the formatting of the ISA and Final Accounting cost estimates

- RI Energy advised that within a month, the Company expects to be providing ISA cost estimates in the same format as the Impact Studies.
  - National Grid is still conducting the final accountings. Changing the format of the final accounting is contingent upon completing the transition from National Grid to RI Energy.
  - This should assist developers in understanding where the costs changed from the impact study to the ISA to the final accounting.
- Around the same time, the Impact Studies will include in words assumptions used (such as those listed in response to PUC 6-2).
  - An example provided was that "the design assumed X% of poles need to be replaced."
  - Following completion of the new Impact Study template, the next step will be to quantify the assumptions. Using the example above, the next step will provide the dollar amount assumed for the number of poles.
- RI Energy expected to be able to provide a new template at the next meeting.

Topic 2 (Docket No. 5206) Transparency of Cost Estimates/Final Accounting

- The issue is how developers can have more visibility into the cost estimates and the final accounting to better manage risk on their end. The discussion was primarily around the application of a contingency in the estimating process and understanding how the contingency is used. Developers also indicated that visibility between the ISA and final accounting would be helpful.
  - RI Energy suggested that the Company may be able to put a process into place to hold a periodic meeting with developers to review their portfolio of projects; status; and forecasted cost compared to budget. RI Energy will consider that further and report back at the next meeting.
- Understanding Contingencies
  - RI Energy is required to provide Impact studies with cost estimates that "generally will have a probability of accuracy of plus or minus twenty-five percent (25%).
    - There is no methodology included in the law or tariff for arriving at the estimates within the bandwidth. The goal, however, appears to be that the

        developer is entitled to a cost estimate that has a probability of falling within the +/- 25% range.
    - Rhode Island Energy has explained that RI Energy's cost estimates are primarily based on historical costs. The cost estimates provided in the Impact Studies include a standard 30% contingency to address unexpected expense/change in market condition.
- The addition of the 30% overall contingency assumption, according to RI Energy, allows for an estimate that falls within the +/- 25%. They have indicated that if they assumed a contingency on each item of the estimate, the estimates would likely be higher than necessary and fall outside the bandwidth.
- RI Energy clarified the types of things that would and would not trigger a contingency.
    - Changes in scope are not changes in market condition. RI Energy explained that project scope is the ability to deliver energy. Therefore, if there is a design change made to the project, that would change the scope and require a new estimate.
    - Changes in market conditions are things that do not affect the scope of the project, but do affect the cost assumptions.
        - Unexpectedly hitting ledge, for example, may trigger the contingency because while it may be a contractual change, it doesn't change the project's ability to deliver energy and would not be a scope change.
        - A change to a local requirement could trigger the contingency. For example, if the Impact Study assumes paving to the center line but RIDOT ultimately requires curb-to-curb, that would not be a scope change, but a contingency item.
    - Developers indicated that it would be more helpful to see the 30% as a line item in the impact statement and in the final accounting to provide more transparency for developers to assess the risk of the contingency being tapped and later on how the contingency was ultimately used. This is something that could likely be done without a tariff change.
    - Another idea was to provide the costs with no contingency, but being able to later add the contingency costs to the overall cost above the current 10% limitation – that would require a tariff change.
- To advance the conversation in a more concrete way, Green Development is going to provide the documents from their Johnston wind turbine project (2018) that will include the Impact Study, ISA, and Final Reconciliation. They will also provide a "wish list" of what they would like to see in the documents, particularly in the final reconciliation. This will be provided for further comment/discussion. A future meeting will be held to go over the documents and discuss where there is consensus, what can and can't be done, and if there are other solutions.

Topic 3 (Docket No. 5205) Discussion of the Line Extension and Construction Advance Policy for Commercial, Industrial, and Existing Residential Customers

- There was discussion about how the calculation works insofar as load customers receive a revenue credit toward their contribution. The revenue credit is an offset that reflects the expected incremental revenue that will come from the addition of the new customer. A distributed generator, as a supplier of energy, provides little to no revenue against which to offset the interconnection costs. Thus, while the Company ultimately uses the same formula, the future expected revenue is zero.
    - The basis for a construction advance formula that allows for a direct assignment of costs with a revenue offset (calculated over the first year of service) is the assumption that the cost of incremental load is less expensive than the average cost of the electric system. Therefore, while the total cost of the system presumably increases with the addition of the new load customer, the total cost does not grow as quickly as the number of billing units (e.g., kWhs) added. In other words, the assumption is that the marginal cost of connecting load to the system is lower than the average cost of the system.
    - There was discussion that there is a difference between value and revenue. In terms of the point-of-view of the Rhode Island Test (from Docket 4600) this is a revenue offset (or reallocation of costs) and not a value compensation (or creation of true benefits). The DG customers do not produce sufficient additional <u>revenue</u> within a year to offset the cost of construction of the system modifications. The <u>value</u> a DG customer provides to the system is compensated by the statutory renewable net metering credit.
- RI Energy explained some of the terms in the formula used to calculate the contribution advance.
    - They discussed how they allocate customer contribution for a shared feeder. Currently, when looking at the capacity of a feeder for two customers (load and solar), even though they peak at different times, the Company ignores time for purposes of cost sharing.
    - They explained that removal is the cost associated with removal of an asset when replacing it with a new one. A brand-new asset (not replacing another) should have a $0 cost of removal. There was discussion that the template ISA language includes cost of removal as a term in the cost estimates, even for new assets. The Company agreed this could be clarified, and it may also be further clarified once the formatting is consistent between the Impact Study and ISA (cost may include removal, but on the breakout, the removal cost shows as $0).

Next Steps:

1. The next meeting is scheduled for October 26, 2022, but may be moved to October 31, 2022. We will review the Tiverton project that has been identified as a project that includes potential acceleration and cost contribution, necessitated by DG investment and reliability needs for load. More information will be sent out prior to that meeting.
    a. Principles will be discussed

    b. Review of the law and tariff and identification of areas where there could be interpretation as to timing
        i. Scenarios may be presented by RI Energy for discussion
    c. Process that will be followed for Commission review
    d. Identification of issues most important to developers and where there are ratemaking decision points that will need to be considered by the Division and Commission in various proceedings.
2. One issue that is still outstanding is visibility into the design of projects for which the costs are estimated. This is for future discussion.
3. Other future meetings will continue the cost transparency improvements for which there appears to have been some good progress. This will include a meeting on the Green Development Johnston wind farm project, as noted above.