

ORDER NO. 88943

IN THE MATTER OF THE APPLICATION OF WASHINGTON GAS LIGHT COMPANY FOR APPROVAL OF A NEW GAS SYSTEM STRATEGIC INFRASTRUCTURE DEVELOPMENT AND ENHANCEMENT PLAN AND ACCOMPANYING COST RECOVERY MECHANISM	* * * * * * * * * *	BEFORE THE PUBLIC SERVICE COMMISSION OF MARYLAND _____ CASE NO. 9486 _____
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Issue Date: December 11, 2018

The Maryland Public Service Commission (“Commission”) approved the Washington Gas and Light Company (“WGL”) initial Strategic Infrastructure Development and Enhancement (“STRIDE”) five-year plan on May 6, 2014. WGL updated its plan in 2015, and the Commission approved the updated plan on July 2, 2015 (“STRIDE 1 Plan”) at an overall cost of \$218.5 million.¹ As of August 2018, WGL had completed 86 percent of Commission-approved STRIDE projects at a cost of \$190.9 million.²

1. WGL’s STRIDE 2 Application

On June 15, 2018, WGL filed an application entitled “Approval of a New Gas System Strategic Infrastructure Development and Enhancement Plan and Accompanying Cost Recovery Mechanism” (“Application”) along with supporting testimony (“STRIDE

¹ The Commission did not approve WGL’s proposed Transmission Project 1 because the work was located outside of Maryland in contravention of the language of Public Utilities Article (“PUA”), *Annotated Code of Maryland*, § 4-210(b), which expressly limits STRIDE projects to those located “in the State.” The Maryland Court of Appeals affirmed the Commission’s decision in *Washington Gas Light Company v. Maryland Public Service Commission*, 460 Md. 667 (2018).

² WGL Exhibit (“Ex.”) 4, Direct Testimony of Douglas Staebler (“Staebler Direct”) at 6-7.

2 Plan”). This Application seeks Commission approval of \$393.6 million to cover the costs of additional improvements to WGL’s gas infrastructure for years 2019 through 2023.³ The five distribution programs proposed in WGL’s STRIDE 2 Plan are identical to those approved in its STRIDE 1 Plan. Four of the five transmission programs contained in its STRIDE 2 Plan are also identical to those in its STRIDE 1 Plan, with the new addition of Transmission Program 5. In total, WGL’s STRIDE 2 Plan requests approval for the following programs:

Distribution Programs:

Program 1 – Targeted Service Replacement (replacement of all bare and/or unprotected steel services, targeted copper, and pre-1975 plastic services)

Program 2 – Bare and Targeted Unprotected Steel Main with Affected Services

Program 3 – Vintage (vintages 1952-1956 and 1962-1965) (Mechanically Coupled Pipe Main and Services with Affected Services)

Program 4 – Cast Iron with Affected Services for five years

Program 5A – Meter Set

Program 5B – Shallow Main

Program 5C - Steel Pressure Gauge Lines

Transmission Programs:

Transmission Program 1 – U.S. Department of Transportation (“DOT”) Transmission and High-Pressure Pipe Replacement

Transmission Program 2 – Remote Control Valve (“RCV”) Installation

Transmission Program 3 – DOT Transmission/High Pressure Block Valve Replacement

³ Of this amount, \$371.8 million is allocated to distribution programs and \$21.8 million to transmission programs. WGL Ex. 5, Direct Testimony of Wayne Jacas (“Jacas Direct”) at 8.

Transmission Program 4 – Riser Replacement for DOT Transmission and High Pressure Mainline Valves)⁴

Transmission Program 5 (new) – Replacement of Components of DOT Transmission and High-Pressure Pipes to Enable Use of In-Line Inspection (“ILI”) Tools

WGL’s current distribution system consists of approximately 6,137 miles of distribution main and 433,388 service lines, serving approximately 484,000 customers within its service territory.⁵ WGL testified that it identified the specific distribution facilities to be included in its STRIDE 2 Plan through its Distribution Integrity Management Program (“DIMP”), a program required under federal law.⁶ Pursuant to this methodology, WGL analyzed the leak and maintenance history of its main and service pipes by material type from January 2013 to February 2018 to determine the population of these pipes to replace pursuant to its STRIDE 2 Plan.⁷

For the projects associated with the main pipelines, WGL employed the Optimain risk assessment tool.⁸ This tool employs up to 82 factors to calculate a risk priority score based upon the probability of a leak occurring (i.e., the historic leak rate by material type, vintage, and pressure).⁹ The Commission previously approved this methodology in WGL’s STRIDE 1 Plan as consistent with the *Report of the Strategic Infrastructure Development and Enhancement Working Group*.¹⁰

⁴ The above-described nine programs constituted WGL’s STRIDE 1 Plan, covering the first five years (2014 through 2018) of WGL’s overall 22-year infrastructure replacement plan.

⁵ Jacas Direct at 8. Exhibit WAJ-1 details the specific pipes to be replaced pursuant to the proposed distribution programs.

⁶ Jacas Direct at 9-10. The applicable federal law is the Pipeline Inspection, Protection, Enforcement, and Safety Act, 49 U.S.C. § 60109 (2006); 49 CFR Part 192, Subpart P.

⁷ Jacas Direct at 10.

⁸ Jacas Direct at 13.

⁹ Jacas Direct at 14.

¹⁰ March 24, 2016 Letter Order (ML # 186636).

For service lines, WGL intends to employ a methodology similar to that employed in STRIDE 1 to replace bare and/or unprotected steel, copper, and black plastic lines within its distribution system.¹¹ WGL will continue to monitor the leak rates of its entire aging infrastructure, but notes that the overall leak rates may increase until sufficient replacements have occurred to offset the ongoing aging of the lines.¹²

WGL claims additional benefits stemming from its STRIDE 2 Plan, including moving inside meters outside to facilitate future access by WGL as well as emergency personnel. It also contends that peripheral benefits will result from relocating mains inside of the roadway curb instead of the street to minimize potential excavation damage due to proximity to other utility lines.¹³

WGL also proposed, where feasible, to upgrade low pressure systems to medium pressure, which will eliminate approximately 20 regulator stations and would reduce annual inspection and maintenance activity.¹⁴ Specifically, upgrading these low pressure systems eliminates the required maintenance to pump out and properly dispose of water and other liquids collected in the piping drips as well as eliminating the quarterly lab testing of liquids collected, providing both cost savings and environmental benefits.¹⁵

Regarding its transmission programs, WGL proposes to continue the four transmission programs approved in STRIDE 1 as well as an additional program targeting the replacement of components of DOT transmission and high-pressure pipes to enable ILI tools. Maryland customers will only pay their proportional share of the cost of these

¹¹ Jacas Direct at 15.

¹² Jacas Direct at 16.

¹³ Jacas Direct at 16; Hearing Transcript (“Tr.”) at 100-101.

¹⁴ Jacas Direct at 16. Pursuant to PUA § 4-210(a)(3)(iii), WGL will not increase the capacity of the infrastructure being replaced.

¹⁵ Jacas Direct at 17.

transmission programs, and all proposed projects are physically located within Maryland.¹⁶

WGL requests that the Commission authorize the continuation of Transmission Program 1, even though WGL does not currently identify any DOT transmission or high pressure pipelines located within Maryland. Nonetheless, WGL would like this program to remain open in the event such projects located in Maryland are identified in the future.¹⁷

Transmission Program 2 involves the installation of RCVs on WGL's transmission system. These valves allow a qualified technician to shut critical valves from a remote location in the event of an emergency.¹⁸

Transmission Program 3 involves the replacement of the older transmission and high-pressure valves in WGL's system. Due to aging, many of these valves have become difficult to operate. WGL has identified the most difficult to operate (and/or non-operational) valves to be replaced as part of its ongoing program that the Commission approved in STRIDE 1.¹⁹

Transmission Program 4 involves the replacement of steel gauge and grease risers that are prone to corrosion. WGL proposes to continue to replace the steel gauge risers, which are located both upstream and downstream of a mainline valve and are used to monitor pipeline pressure during normal mainline valve maintenance and construction activities as well as emergency conditions when WGL is required to control or shut off

¹⁶ Tr. at 265-266 (WGL witness James Wagner).

¹⁷ WGL Ex. 7, Direct Testimony of Aaron Stuber ("Stuber Direct") at 6.

¹⁸ Stuber Direct at 7.

¹⁹ Stuber Direct at 7.

pressure.²⁰ WGL also proposes to replace the grease risers, which are located on the valve body and used to internally lubricate the valve during annual maintenance.²¹

Transmission Program 5 is the only program that the Commission did not previously approve in STRIDE 1. This new program involves replacing components of its transmission system to allow the use of in-line inspection tools. Running ILI tools through these pipelines will allow WGL to identify more potential integrity issues such as corrosion, dents, and manufacturing defects.²² Currently, pipelines contain various valves and fittings that do not permit an ILI to pass through the system. WGL proposes to replace these components, which it claims is an eligible infrastructure replacement program under the STRIDE Act because it directly impacts and enhances the safety and integrity of the system by identifying areas where corrosion or pipe defects exist so they can be repaired as necessary.²³

2. The STRIDE Act

PUA § 4-210 (the “STRIDE Act”) establishes a mechanism for concurrent cost recovery (a surcharge) for reasonable and prudent gas infrastructure projects, separate from base rate proceedings. An “eligible infrastructure replacement” means a replacement or improvement in existing gas infrastructure made after June 1, 2013, that improves public safety and system reliability, does not increase Company revenues, has the potential to reduce greenhouse gases, and is not currently included in rate base.²⁴

²⁰ Stuber Direct at 8.

²¹ Stuber Direct at 8.

²² Stuber Direct at 10.

²³ Stuber Direct at 10.

²⁴ PUA § 4-210(a)(3).

The STRIDE Act specifies that it is the intent of the General Assembly to accelerate gas infrastructure improvements in the State. Gas companies are authorized to file a plan to invest in eligible infrastructure replacement projects with an associated cost recovery schedule.²⁵ The associated surcharge is limited to a maximum of \$2.00 per month for residential customers and is capped pursuant to a formula in § 4-210(c)(4) for non-residential customers. The STRIDE cost recovery mechanism mitigates regulatory lag, which incentivizes gas companies to modernize their gas systems at an expedited pace. The Commission has discretion to approve a plan if it finds the plan is reasonable and prudent, and improves public safety or infrastructure reliability.²⁶

Consistent with the STRIDE Act, the Commission has previously recognized the aging nature of Maryland’s gas infrastructure, as we do again in the context of this case for the elements of that infrastructure that WGL proposes to upgrade in its proposed STRIDE 2 Plan.

3. Objections

a) Proposed smaller scale STRIDE 2 Plans.

Both Commission Technical Staff (“Staff”) and the Maryland Office of People’s Counsel (“OPC”) propose that the Commission approve smaller versions of WGL’s STRIDE 2 Plan. Whereas WGL seeks a total distribution budget of \$371,760,000 and transmission budget of \$21,758,000, Staff recommends a smaller distribution budget of \$275,121,000. OPC recommends a distribution budget of \$307,072,000. All parties agree with WGL’s transmission budget; however, OPC contends that Transmission

²⁵ PUA § 4-210(d).

²⁶ PUA § 4-210(e)(3) (“The Commission *may* approve a plan if it finds that the investments and estimated costs of eligible infrastructure replacement projects are: (i) reasonable and prudent; and (ii) designed to improve public safety or infrastructure reliability over the short term and long term.” (emphasis added)).

Program 5 does not qualify for a STRIDE surcharge.²⁷ The proposed budgets for the various parties are set forth in the tables below:

Distribution

PROGRAM	WGL		STAFF		OPC	
Total Mains	120 Miles	\$186,996,000	77.8 miles	\$131,587,000	80 miles	\$128,397,000
Total Services	18,429	\$170,847,000	8,600	\$166,451,000	17,000	\$162,056,000
5A Meter Set Piping	26,500	\$6,797,000	4,650	\$1,190,000	17,400	\$4,323,000
5B Shallow Main	Incl. above	Incl. above	Incl. above	Incl. above	Incl. above	Incl. above
5C Gauge Lines	925	\$7,115,000	144	\$1,103,000	400	\$2,973,000
TOTAL		\$371,760,000		\$230,350,000		\$297,749,000

Transmission

PROGRAM	WGL	STAFF	
TRANSMISSION ALLOCABLE			
1 Pipe	\$0	\$0	\$0
2 RCV	\$17,986,000	\$17,986,000	\$17,986,000
3 Valve	\$1,931,000	\$1,931,000	\$1,931,000
4 Riser	\$278,000	\$278,000	\$278,000
5 ILI	\$29,839,000	\$29,839,000	\$0
	\$50,034,000	\$50,034,000	\$20,195,000
Maryland Jurisdictional Allocation	43.23%	43.23%	43.23%
	\$21,630,000	\$21,630,000	\$8,730,000
TRANSMISSION DIRECT ASSIGNMENT			
1 Pipe	\$0	\$0	\$0
2 RCV	\$0	\$0	\$0
3 Valve	\$0	\$0	\$0
4 Riser	\$128,000	\$128,000	\$128,000
5 ILI	\$0	\$0	\$0
	\$128,000	\$128,000	\$128,000
TOTAL	\$21,758,000	\$21,758,000	\$8,858,000

²⁷ OPC Initial Brief at 16–18.

Staff proposes a smaller-scale plan that reflects what WGL has demonstrated it could achieve during implementation of its STRIDE 1 Plan. Because WGL is not proposing to extend its acceleration of replacements past the 22-years contained in its original STRIDE 1 Plan, Staff contends that WGL's STRIDE 2 Plan will require additional costs to maintain the current pace of acceleration and that WGL concedes as much.²⁸ Therefore, Staff's proposed revised STRIDE 2 Plan uses the same program categories that WGL has proposed, but replaces the target completion rates with those that WGL has proven it could meet. Staff claims that this maintains WGL's initial acceleration rate.²⁹ Staff also concludes that if WGL is successful in its cost estimates as well as actually completing the proposed projects, WGL's overall STRIDE program can be successful, while WGL remains obliged to continue reliability and safety improvements outside of STRIDE as warranted.³⁰

OPC also proposes a smaller-scale STRIDE 2 Plan based upon WGL's rate completing projects under STRIDE 1. OPC references the Commission's prior expression of "serious concerns" last year regarding WGL's ability to successfully complete projects.³¹ Those concerns caused the Commission to impose additional reporting requirements beyond those imposed on the other two Maryland gas distribution companies with STRIDE plans.³² Additionally, the Commission ordered Staff to "report

²⁸ WGL Ex. 6, Rebuttal Testimony of Wayne Jacas ("Jacas Rebuttal") at 20.

²⁹ Tr. at 369-370.

³⁰ Staff Initial Brief at 11.

³¹ December 17, 2017 Letter Order (ML# 218328).

³² *Id.*

to the Commission as to whether current reporting requirements are sufficient to evaluate the steps the Company uses to close a project.”³³

OPC does not oppose WGL’s continuation and current pace of its STRIDE work through another five-year plan. However, like Staff, OPC proposes a revised plan that reflects the same replacement levels that WGL was able to achieve in STRIDE 1. Even assuming WGL completes the remaining work projects for 2018, OPC notes that it will still be close to 30 miles of main and 2,600 services short of its STRIDE 1 commitments.³⁴ As a result, OPC asks the Commission to require WGL to refile a modified plan with replacement levels for mains and services commensurate with what WGL has demonstrated it can achieve.³⁵

Additionally, OPC asks the Commission to reject WGL’s Transmission Program 5 in its entirety as inconsistent with the STRIDE Act. OPC contends that replacing components to allow the installation of ILI tools fails to meet the five requirements for an “eligible infrastructure project” contained in PUA § 4-210(a)(3). OPC concedes that the installation of ILI tools themselves would “improve public safety or infrastructure reliability.” However, it contends the replacement of components to allow for ILI tools does not. Rather, if WGL wishes to proceed with these replacements, it should seek recovery of associated costs in its next base rate case.³⁶

³³ *Id.*

³⁴ OPC Initial Brief at 7. OPC relies upon WGL’s initial STRIDE 1 Plan for these deficits. WGL responded by noting that the more appropriate measure for the completion rates of mains and services should be the annual project lists that the Commission has approved. Pursuant to this metric, WGL has exceeded its estimates by 4.56 miles of main and 554 services. Jacas Rebuttal at 9-10.

³⁵ OPC Ex. 10 (Public) and 10C (Confidential) of Brendan Larkin-Connolly (“Larkin Connolly Direct”) at 22.

³⁶ OPC Initial Brief at 18.

- **Commission Decision**

Although it has carefully considered Staff and OPC’s skepticism based upon WGL’s completion rate for projects under STRIDE 1, the Commission approves the scale of the projects proposed by WGL. The Commission also will maintain the extensive reporting requirements under which WGL currently updates the Commission on the progress of its STRIDE projects, potentially revising our approval in the future if warranted. The Commission notes that WGL’s proposed plan maintains WGL’s current acceleration rate that would allow completion of its overall 22-year STRIDE Plan initially proposed in STRIDE 1.³⁷ WGL witness Walshe testified that WGL achieved a “highly productive, steady state period” between 2014-2016 and concluded that:

Continuum³⁸ judges it to be very reasonable to assume that WGL can achieve and replicate the steady state achieved during 2015-2017. This would result in a production estimate of approximately 270 BCAs and 4,400 services completed each year or 22,000 services during the anticipated 5 years of STRIDE 2.³⁹

...For a significant period of time, two full years, the company was able to do this amount of work, this volume of work, and do it successfully and monitor the work in the field and things like that. So there’s no reason to expect that they could not do it again.⁴⁰

WGL also claims that its estimated service completion rate by the end of 2018 (16,000 services) is only slightly below the proposed total in STRIDE 2 (18,429), an increase of 15 percent.⁴¹ WGL provided evidence that it intends to retain crews from its STRIDE 1 projects to supplement the workers that will implement STRIDE 2 to ensure a

³⁷ Jacas Direct at Ex. WAJ-R4.

³⁸ “Continuum” is a report authored by Mr. Walshe reflecting WGL’s experience in STRIDE 1. WGL Ex. 9, Rebuttal Testimony of Brian Walshe (“Walshe Rebuttal”) at 9, Ex. BFW-R1.

³⁹ Walshe Rebuttal at 10; Tr. at 221 (Walshe).

⁴⁰ Tr. at 211-212 (Walshe).

⁴¹ Tr. at 138-140 (Jacas).

higher success rate going forward.⁴² Additionally, WGL has implemented additional procedures to improve cost estimates. Under STRIDE 1, WGL's actual costs exceeded its estimated costs by 18 percent.⁴³ The record reflects that WGL has taken concrete steps to improve its cost estimates. In addition to the historical data employed in STRIDE 1, WGL will incorporate estimates based on the size and length of the service pipe.⁴⁴ Incorporating this additional data will allow WGL to create more project-specific estimates that more accurately reflect the cost of the work.

WGL also has created a new Construction Program Strategy and Management department to provide oversight of its Accelerated Replacement Programs. While the success of this new department has yet to be demonstrated, the record supports the approval of WGL's STRIDE 2 Plan without the reductions recommended by Staff and OPC. No party objects to WGL's current reporting requirements, and the Commission expects WGL to continue to comply with these additional reporting requirements going forward. And the Commission emphasizes that it will remain vigilant to ensure that WGL's project completion rate is consistent with WGL's proposed plan.

The Commission also rejects OPC's contention that the projects contained within Transmission Program 5 are outside the scope of the STRIDE Act. The intent of the STRIDE Act was to incentivize gas companies to complete projects that improve the safety and reliability of their gas infrastructure. No party disputes that use of the ILI tools will ultimately further these goals. The Commission therefore finds that under the

⁴² Tr. at 140 (Jacas).

⁴³ Walshe Rebuttal at Ex. BFW-R-1. Staff Witness Cross calculated the overall variance at 16.7%. Staff Ex. 1, Direct Testimony of Jason Cross ("Cross Direct") at 15.

⁴⁴ Jacas Direct at 20.

facts presented in this case the projects within Transmission Program 5 are “eligible infrastructure projects.”

b) WGL’s approach to STRIDE cost reconciliation.

Under its existing and proposed STRIDE tariff, WGL applies carrying charges to both over- and under-recovery amounts when comparing revenues to actual STRIDE costs on a monthly basis. OPC objects to this monthly mechanism of reconciliation. OPC witness Larkin-Connolly testified: “It is true that the Company does not impose carrying costs if there is a net undercollection at the end of the year. However, by imposing carrying costs on undercollections at the end of each month in order to derive the 12 amounts that determine a net under- or over-collection at the end of the year, customers could end up paying such costs.”⁴⁵

WGL maintains that its current method of monthly reconciliation is consistent with the STRIDE law as well as its existing tariff. WGL claims that its practice is consistent with the STRIDE law because it only adds carrying costs to the net of the twelve monthly balances if there is an over-collection.⁴⁶

- **Commission Decision**

The governing provision of the STRIDE Act is Section 4-210(g)(2)(i), which states that “[i]f the actual cost of a plan is less than the amount collected under a surcharge, the gas company shall refund to customers the difference on customer bills, including interest.” Section 4-210(h) further states that “[e]ach year a gas company shall file with the Commission a reconciliation to adjust the amount of a surcharge to account

⁴⁵ Larkin-Connolly Direct at 33.

⁴⁶ WGL Ex. 11, Rebuttal Testimony of James Wagner (“Wagner Rebuttal”) at 6.

for any difference between the actual cost of a plan and the actual amount recovered under the surcharge.”

The Commission agrees with OPC that under the STRIDE Act, gas companies should reconcile their surcharge collections with actual costs on a monthly basis for over-collections, refunding customers with interest, but there is no basis for the monthly imposition of carrying costs for under-collections. OPC persuasively argues that when carrying costs are applied to monthly under-collections, they are a part of the calculation at the end of the year as to whether or not there was an over-collection or under-collection. The record also supports that requiring customers to pay monthly carrying costs on under-collections resulted in customers paying carrying costs on under-collections in WGL’s 2017 STRIDE surcharge reconciliation.⁴⁷

Additionally, WGL’s practice is inconsistent with that of the other two Maryland gas companies who have submitted STRIDE plans. Commission Staff is currently in discussions with Baltimore Gas and Electric Company and Columbia Gas of Maryland to ensure consistency across all Maryland gas companies, and the Commission will address any recommendations that result. In this Order, the Commission requires WGL to amend its STRIDE tariff to state that the carrying costs calculation will determine the over- or under-collection on an annual basis, and that carrying costs apply only if there has been an over-collection, and WGL then owes a refund to customers.

⁴⁷ OPC Ex. 12, Updated Surrebuttal Testimony of Brendan Larkin-Connolly (“Larkin Connolly revised Surrebuttal”) at 16.

c) WGL’s proposal to add a twenty percent contingency to all project estimates.

In its STRIDE 2 Plan, WGL proposes to add a twenty percent contingency to contractor costs within its project estimates.⁴⁸ It contends that such a contingency is a generally accepted engineering practice that should apply to all STRIDE cost estimates.⁴⁹

WGL witness Walshe testified that:

[a] contingency isn’t padding, it’s not extra funding. It’s an item included in the budget to allow for uncertainties in the scope definition. ...[These] uncertainties as they apply to the STRIDE program are things like when the project is scoped out and budgeted and the BCA is written, and the crew goes to the field, the situation is different than what was the original estimate. That’s the appropriate use of contingency calculated.⁵⁰

WGL contends that any contingency spent in a calendar year will be recognized in the reconciliation mechanism for that calendar year, and the following year if necessary, as happens with all estimated STRIDE projects. WGL further contends that its proposed contingency will not affect cost recovery in its STRIDE plan, because only actual costs will be passed through to customers, with or without a contingency.⁵¹ WGL also contends that the contingency proposal will help manage the risk impact to the Company of project costs that fall outside historic experience.⁵²

OPC urges the Commission to reject the proposed contingency in its entirety.⁵³

OPC contends that the STRIDE Act is not identical to a typical construction contract.

Witness Larkin-Connolly contended that “customers are going to be paying not only the

⁴⁸ This contingency applies only to contractor costs, and is approximately 12% of the overall STRIDE 2 Plan.

⁴⁹ Jacas Direct at 16.

⁵⁰ Tr. at 173 (Walshe).

⁵¹ Tr. at 127-128 (Walshe).

⁵² Walshe Rebuttal at 13.

⁵³ Commission Staff does not address the question of the contingency in its Briefs.

estimates, but this contingency factor from the beginning before the Commission has had a chance to understand ... the actual factors that led to some of these project cost variances.”⁵⁴

OPC also emphasizes that WGL’s requested contingency appears inconsistent with its contention that it has significantly improved its STRIDE cost estimation methodology.⁵⁵ Witness Larkin-Connolly testified that “[T]he Company’s new project estimate approach will already account for a full range of project outcomes by incorporating past project variances.”⁵⁶ According to OPC, the contingency, if approved, will only serve to “mask any variances that are occurring and will also remove the Company’s incentive to immediately address the estimation errors.”⁵⁷ Therefore, Witness Larkin-Connolly concludes that “rather than build some contingency into the estimate to account for these costs upfront, it is more appropriate to wait until the reconciliation stage of STRIDE so that the Commission can evaluate the cost driving the variance and determine if it is a prudent expense.”⁵⁸ Adopting internal procedures to address cost variances through the project lifecycle would “make it easier for the Commission to evaluate and approve cost overruns because the process, in and of itself, would provide documentation on the steps taken to monitor and address variances.”⁵⁹

OPC concludes that “the Company’s contingency proposal is not beneficial to customers, to management efficiency, or to regulatory oversight.”⁶⁰

⁵⁴ Tr. at 323 (Larkin-Connolly).

⁵⁵ OPC Initial Brief at 19.

⁵⁶ Larkin-Connolly Direct at 31-32.

⁵⁷ OPC Initial Brief at 20.

⁵⁸ Larkin-Connolly Direct at 32.

⁵⁹ Larkin-Connolly revised Surrebuttal at 14.

⁶⁰ OPC Initial Brief at 21.

- **Commission Decision**

The Commission will not approve any contingency factor in the proposed STRIDE 2 Plan. The proposed contingency is unnecessary, especially in light of the Commission's acceptance of WGL's assertions that its budget estimation process has been substantially improved.

5. Additional issues.

a) Surcharge approval

Section 4-210(e)(4)(i) states that the Commission "shall approve the cost-recovery schedule associated with the plan at the same time that it approves the plan." Because the Commission has made some modifications to WGL's proposed STRIDE 2 Plan, the approval of WGL's proposed surcharge is subject to WGL's recalculation based on the modifications discussed above.

b) 3% inflation factor

WGL requests that the Commission approve a 3% inflation factor into its STRIDE 2 Plan. No party objects to this request, and the Commission also agrees that this request is reasonable and in furtherance of the goals of the STRIDE Act. The Commission therefore approves the requested inflation factor.

c) Pipeline safety issues

In September 2018, Columbia Gas of Massachusetts experienced explosions in three communities in Andover, Massachusetts that killed one person, injured 21, and started fires in 131 homes and businesses. Preliminary findings indicate the cause of the explosions was over-pressured gas moving through Columbia Gas' distribution system. In response to concerns raised by this tragedy, WGL stated that it will evaluate and

strengthen its low-pressure mechanics and procedures.⁶¹ Specifically, WGL will incorporate any threat indicia learned from the Andover tragedy into its future maintenance plans and possibly into STRIDE 2, by amendment filing, if indicated. Separately, the Commission also intends to initiate a general proceeding outside of the STRIDE Act to address these and related issues.

IT IS THEREFORE this 11th day of December, in the year Two Thousand and Eighteen, by the Public Service Commission of Maryland,

ORDERED (1) That Washington Gas Light Company's STRIDE 2 Plan is approved, effective January 1, 2019, subject to the changes discussed herein;

(2) That Washington Gas Light Company's proposed cost recovery mechanism is approved subject to the changes discussed herein;

(3) That Washington Gas Light Company shall file a revised STRIDE tariff reflecting the changes discussed herein;

(4) That Washington Gas Light Company shall continue to comply with the reporting requirements imposed in its STRIDE 1 proceedings; and

(5) That all motions not granted herein are denied.

/s/ Jason M. Stanek

/s/ Michael T. Richard

/s/ Anthony J. O'Donnell

/s/ Odogwu Obi Linton

/s/ Mindy L. Herman

Commissioners

⁶¹ Tr. at 118-119 (Jacas); Tr. at 29 (Staebler).