2023 GRAM Capital Budget

STF-16-1 The three tables below show comparisons from each GRAM quarterly report filings for 2023, filed in Docket No. 42315. In **Table-STF-16-1a** is a comparison of the Q 2023 actual numbers provided in each of the four (4) quarterly report filings. In **Table-STF-16-1b**, the comparisons are focused on the 2nd Q 2023 actual numbers. In **Table-STF-16-1c**, the focus is on the 3rd Q 2023 report actual numbers. The Staff has found that with each quarterly report filing after the 1st Q 2023, the dollar amounts changed in the 2nd Q, the 3rd Q, and the 4th Q report filings. These differences occurred in many of the budget categories and certainly the totals were all different. The concern for the Staff is that AGL appears to rechange actual numbers that were filed in the 1st Q 2023 report, and many of those numbers continued to change in the following quarters. This also occurred in the 2022 GRAM capital budget. Please provide a discussion as to why AGL changed actual dollar amounts in the 1st Q, 2nd Q, and 3rd Q 2022 and 2023 in the preceding quarterly reports.

Table-STF-16-1a: 1st Q 2023 Comparisons

	A	B	C	D	E	F
1						
2			1st Q 2023 Report	2nd Q 2023 Report	3rd Q 2023 Report	4th Q 2023 Report
3			Filed: 5-23-2023	Filed: 8-21-2023	Filed: 11-21-2023	Filed: 2-21-2024
4	Line #	GRAM Capital Budget Categories	Actual 1st Q 2023 Capital Budget Activity	Actual 1st Q 2023 Capital Budget Activity	Actual 1st Q 2023 Capital Budget Activity	Actual 1st Q 2023 Capital Budget Activity
5		**GRAM - Safety & Compliance (GRAM-S&C)**	**$29,783,637.32**	**30,075,705.69**	**$29,751,121.37**	**29,751,121.37**
6	1	Corrosion Work	$293,494.01	293,494.01	$293,494.01	293,494.01
7	2	DIMP*	$4,068,093.88	4,068,093.88	$4,067,580.74	4,067,580.74
8	3	DOT	$9,558,608.76	9,558,608.76	$9,293,254.19	9,293,254.19
9	4	TIMP (IVP)	$12,603,196.11	12,895,264.48	$12,837,539.53	12,837,539.53
10	5	Renewals***	$2,534.26	2,534.26	$2,534.26	2,534.26
11	6	System Reinforcement	$3,257,710.30	3,257,710.30	$3,256,718.64	3,256,718.64
12		**GRAM - Other than Safety & Compliance (GRAM-Other)**	**$51,984,959.57**	**52,252,498.58**	**$49,816,519.68**	**49,481,005.11**
13	7	Core New Business	$24,560,820.21	24,913,239.10	$22,717,572.11	22,457,700.73
14	8	Facilities	$1,140,887.82	1,140,887.82	$1,134,872.90	1,134,872.90
15	9	Fleet	$2,878,544.35	2,878,544.35	$2,871,773.08	2,871,773.08
16	10	IT (Base Business)	$2,551,944.23	2,551,944.23	$1,972,570.50	1,972,570.50
17	11	Measurement Ops (SCADA, Ctrls)	$107,728.26	107,728.26	$104,099.84	104,099.84
18	12	Operations - Blk svcs, bollards, ert repl, etc.	$350,720.42	350,720.42	$350,703.43	350,703.43
19	13	Other Large/Strat Efforts	($1,750,690.60)	(1,753,413.60)	($1,505,246.75)	(1,505,246.75)
20	14	Overheads	$13,505,657.72	13,738,203.10	$13,592,161.68	13,516,518.49
21	15	PT Meter	$2,279,730.20	2,257,096.31	$2,232,686.97	2,232,686.97
22	16	Rate Base Accruals**	($670,810.60)	(670,810.60)	($670,810.60)	(670,810.60)
23	17	Regulator Station	$3,280,602.40	3,280,602.40	$3,195,370.58	3,195,370.58
24	18	Removals	$3,226,267.58	2,934,199.21	$3,375,561.32	3,375,561.32
25	19	Removals (inactive services)	$3,464.65	3,464.65	$3,464.65	3,464.65
26	20	Renewals***	$388,233.32	388,233.32	$310,147.15	310,147.15
27	21	Strategic (CNG Stations)	$695.37	695.37	$457.90	457.90
28	22	Strategic (Other)				
29	23	Tools (blankets, NB, Field, Con Ops)	$131,164.24	131,164.24	$131,134.92	131,134.92
30		**Spending, Overheads, & AFUDC**	**$81,768,596.89**	**82,328,204.27**	**$79,567,641.05**	**79,232,126.48**

Table-STF-16-1b: 2nd Q 2023 Comparisons

	A	B	C	D	E
1					
2			2nd Q 2023 Report	3rd Q 2023 Report	4th Q 2023 Report
3			Filed: 8-21-2023	Filed: 11-21-2023	Filed: 2-21-2024
4	Line #	GRAM Capital Budget Categories	Actual 2nd Q 2023 Capital Budget Activity	Actual 2nd Q 2023 Capital Budget Activity	Actual 2nd Q 2023 Capital Budget Activity
5		**GRAM - Safety & Compliance (GRAM-S&C)**	**35,587,531.52**	**$35,370,103.37**	**35,370,103.37**
6	1	Corrosion Work	788,790.51	$786,975.51	786,975.51
7	2	DIMP*	5,611,267.84	$5,552,589.47	5,552,589.47
8	3	DOT	10,164,161.46	$10,053,577.88	10,053,577.88
9	4	TIMP (IVP)	17,241,138.21	$17,195,238.97	17,195,238.97
10	5	Renewals***	0.01	$0.01	0.01
11	6	System Reinforcement	1,782,173.49	$1,781,721.53	1,781,721.53
12		**GRAM - Other than Safety & Compliance (GRAM-Other)**	**71,857,342.71**	**$65,521,856.58**	**65,111,250.15**
13	7	Core New Business	29,398,724.06	$25,988,750.99	25,636,489.90
14	8	Facilities	1,344,232.44	$1,341,050.08	1,341,050.08
15	9	Fleet	3,054,986.22	$3,051,454.94	3,051,454.94
16	10	IT (Base Business)	8,162,372.92	$6,971,928.07	6,971,928.07
17	11	Measurement Ops (SCADA, Ctrls)	353,253.49	$351,669.51	351,669.51
18	12	Operations - Blk svcs, bollards, ert repl, etc.	495,327.25	$495,327.25	495,327.25
19	13	Other Large/Strat Efforts	(1,475.54)	$991,580.32	991,580.32
20	14	Overheads	8,903,883.11	$8,745,808.96	8,687,463.62
21	15	PT Meter	2,257,845.44	$2,237,919.95	2,237,919.95
22	16	Rate Base Accruals**	3,116,328.13	$99,117.13	99,117.13
23	17	Regulator Station	5,653,645.33	$5,470,364.15	5,470,364.15
24	18	Removals	2,096,628.56	$2,737,840.31	2,737,840.31
25	19	Removals (inactive services)	-	$0.00	-
26	20	Renewals***	6,461,802.56	$6,479,256.18	6,479,256.18
27	21	Strategic (CNG Stations)	-	$0.00	-
28	22	Strategic (Other)			
29	23	Tools (blankets, NB, Field, Con Ops)	559,788.74	$559,788.74	559,788.74
30		**Total GRAM Direct Capital Spending, Overheads, & AFUDC**	**107,444,874.23**	**$100,891,959.95**	**100,481,353.52**

Table-STF-16c: 3rd Q 2023 Comparisons

	A	B	C	D
1				
2			3rd Q 2023 Report	4th Q 2023 Report
3			Filed: 11-21-2023	Filed: 2-21-2024
4	Line #	GRAM Capital Budget Categories	Actual 3rd Q 2023 Capital Budget Activity	Actual 3rd Q 2023 Capital Budget Activity
5		**GRAM - Safety & Compliance (GRAM-S&C)**	**$44,437,971.87**	**44,571,033.88**
6	1	Corrosion Work	$750,948.53	750,948.53
7	2	DIMP*	$3,673,568.52	3,673,568.52
8	3	DOT	$13,365,264.31	13,365,264.31
9	4	TIMP (IVP)	$25,836,793.26	25,836,793.26
10	5	Renewals***	$326.45	133,388.46
11	6	System Reinforcement	$811,070.80	811,070.80
12		**GRAM - Other than Safety & Compliance (GRAM-Other)**	**$70,069,273.96**	**69,617,083.62**
13	7	Core New Business	$25,129,611.11	24,828,987.56
14	8	Facilities	$6,472,686.64	6,472,686.64
15	9	Fleet	$3,375,222.31	3,375,222.31
16	10	IT (Base Business)	$5,192,786.54	5,192,786.54
17	11	Measurement Ops (SCADA, Ctrls)	$1,048,230.41	1,048,230.41
18	12	Operations - Blk svcs, bollards, ert repl, etc.	$524,879.74	524,879.74
19	13	Other Large/Strat Efforts	$3,669,799.78	3,669,800.78
20	14	Overheads	$9,992,726.82	9,973,281.92
21	15	PT Meter	$2,301,792.51	2,301,792.51
22	16	Rate Base Accruals**	$853,588.52	853,588.52
23	17	Regulator Station	$4,551,786.71	4,551,786.71
24	18	Removals	$4,169,350.73	4,169,350.73
25	19	Removals (inactive services)	$25,470.00	25,470.00
26	20	Renewals***	$1,825,484.88	1,692,422.87
27	21	Strategic (CNG Stations)		
28	22	Strategic (Other)		
29	23	Tools (blankets, NB, Field, Con Ops)	$935,857.26	936,796.38
30		**Total GRAM Direct Capital Spending, Overheads, & AFUDC**	**$114,507,245.83**	**114,188,117.50**

RESPONSE:

The variances are only a function of the detail and transparency available from the Enterprise Foundations ("EF") accounting system, and except for one $3 million duplicate entry, these variances do not reflect any substantive changes. Generally, as AGL continued to implement and refine its implementation of EF, a number of issues were identified and resolved throughout 2023, which resulted in minor Capital expenditure reporting adjustments that impacted multiple budget categories. Certain prior period adjustments were driven by changes to project attributes and classifications, which caused changes to specific budget category and/or budget sub-category

totals but had no net change to the total AGL (GRAM, SRR, and Cherokee LNG) capital expenditures reported for the period. As an example, some pressure improvement projects originated as New Business, but were subsequently recategorized as general Pressure Improvement projects based on updated information. Additional adjustments to prior reports were necessary because of a system overcapitalization of A&G costs that was corrected in Q2, resulting in an approximately $954,000 reduction. Also, a $3 million project accrual was determined to have been duplicated in the Q2 report as initially submitted, and this data entry error was corrected when that duplication was discovered. See Table-STF-16-1b line 16.

Respondent: Robert Hembree
Director, Engineering
Southern Company Gas

STF-16-2 In **Table-STF-16-2**, below, the Staff has provided AGL's 2023 GRAM capital budget activity filed in the 4th Q 2023 GRAM reporting in Docket No. 42315. The activity shows the 2023 budgeted and the actual capital spending with variances. Please answer the following:

a. The reporting shows that the AGL actual spending for DOT projects was **$19.6 million** over the budgeted dollar amount for 2023. Corrosion Work was **$3 million** less than budgeted. DIMP was **$13.6 million** less than budgeted. TIMP was **$6.5 million** less than budgeted. Did AGL purposefully reduce spending for Corrosion Work, DIMP, and TIMP to focus on DOT projects?

b. The report shows that the overall spending in GRAM Safety and Compliance was under budget by **$5.1 million** for 2023. Why didn't AGL use that funding to focus on the replacement of aging, or vintage, pipelines?

c. If DOT projects were becoming more robust in 2023, why didn't AGL file for an amendment to the 2023 GRAM capital budget to increase funding for DOT projects to ensure that other budget objectives in GRAM Safety and Compliance could be met for 2023, including the replacement of aging pipelines?

d. For Facilities, how did the 2023 actual spending cause a **($8.7 million)** credit?

e. The actual spending in the 2023 GRAM capital budget shows that Overheads ballooned from a budgeted of **$28.7 million** to an actual **$42.6 million**, or **$13.8 million** over budget. GRAM Safety and Compliance was under its 2023 capital budget estimates by **$5.1 million**. GRAM Other was under its 2023 capital budget estimates by **$723,148**.

   If Overheads had hit its 2023 estimate of **$28.7 million**, GRAM Other would have been **$14.5 million** under budget and the overall GRAM capital budget would have been **$19 million** under budget. Please answer the following.

   i. What were the direct influences that caused overheads to exceed its capital budget estimate by **$13.8 million** when the overall 2023 capital budget activity was under budget?

   ii. Was the increase in Overheads related to capital spending activity not listed in the 2023 capital budget? If so, what was the activity?

f. As part of the 2022 – 2031 i-CDP filing, AGL highlighted the urgency to replace regulator stations using the September 2018 Merrimack Valley explosion as the primary reason that this regulator station work was needed. In 2023, AGL had budgeted **$25.8 million** for regulator station work, but only

spent **$18.5 million**, or **$7.2 million** less than budgeted. Why did AGL slow down the capital spending on regulator stations in 2023?

g. In the 2023 GRAM capital budget, it has a budget category called "Renewals", and this category is found in both GRAM Safety and Compliance and GRAM Other. There were no budgeted dollars in GRAM Safety and Compliance, but it spent **$144,253.80** for 2023. In GRAM Other for 2023, AGL budgeted **$7.8 million** and actual spending was **$7.7 million**. Please answer the following:

   i. Why did AGL create a new GRAM capital budget category for Renewals in GRAM Safety and Compliance when it already existed in GRAM Other?

   ii. Does AGL believe it can create new capital budget categories in the GRAM capital budget not originally approved by the Commission?

   iii. On pages 60 and 61 of the 2022 – 2031 i-CDP filing in File-3 called "AGL's Integrated Capacity and Delivery Plan", AGL listed six (6) items that fall into the category of Renewals. Please see **Figure-1** below.

Figure-1: 2022 – 2023 i-CDP File-3 Page 60 & 61

The Renewals budget includes multiple different project types all associated with replacement and capital repairs of existing facilities. The primary project types included in the Renewal budget are:

- General Renewals
- Posi-Hold Installation Remediations
- Exposed Mains
- Emergency Districts
- RCVs
- Partition Valve Remediation

   iv. In the GRAM Other capital budget category, AGL listed Removals with a budgeted amount of **$1.9 million**, but only spent **$28,934.65** for 2023. Why did AGL spend much less than budgeted during 2023?

Table-STF-16-2: Year 2023 GRAM Capital Budget

Line #	GRAM Capital Budget Categories	Estimated 2023 Capital Budget Activity	YTD Actual 2023 Capital Budget Activity	Variance
	GRAM - Safety & Compliance (GRAM-S&C)	**154,579,398.79**	**149,431,957.96**	**(5,147,440.83)**
1	Corrosion Work	6,619,300.00	3,557,711.14	(3,061,588.86)
2	DIMP*	26,910,387.00	14,591,399.89	(12,318,987.11)
3	DOT	30,289,836.30	49,933,932.37	19,644,096.08
4	TIMP (IVP)	80,700,000.50	74,111,087.01	(6,588,913.49)
5	Renewals***	-	144,253.80	144,253.80
6	System Reinforcement	10,059,875.00	7,093,573.75	(2,966,301.25)
	GRAM - Other than Safety & Compliance (GRAM-Other)	**220,830,739.07**	**220,107,591.47**	**(723,147.60)**
7	Core New Business	97,572,020.70	101,731,791.07	4,159,770.36
8	Facilities	5,125,000.00	(8,735,898.14)	(13,860,898.14)
9	Fleet	12,303,384.50	11,961,629.55	(341,754.95)
10	IT (Base Business)	14,770,661.00	17,273,759.43	2,503,098.43
11	Measurement Ops (SCADA, Ctrls)	1,837,000.00	2,059,705.34	222,705.34
12	Operations - Blk svcs, bollards, ert repl, etc.	3,305,592.10	2,003,368.32	(1,302,223.78)
13	Other Large/Strat Efforts	-	3,690,860.68	3,690,860.68
14	Overheads	28,786,674.98	42,609,767.07	13,823,092.09
15	PT Meter	6,455,860.00	8,277,335.34	1,821,475.34
16	Rate Base Accruals**	-	(2,374,680.06)	(2,374,680.06)
17	Regulator Station	25,808,534.00	18,557,114.66	(7,251,419.34)
18	Removals	12,500,000.00	13,319,536.55	819,536.55
19	Removals (inactive services)	1,901,024.72	28,934.65	(1,872,090.07)
20	Renewals***	7,802,160.82	7,721,200.13	(80,960.69)
21	Strategic (CNG Stations)	-	457.90	457.90
22	Strategic (Other)	-	-	-
23	Tools (blankets, NB, Field, Con Ops)	2,662,826.25	1,982,708.98	(680,117.27)
	Total GRAM Direct Capital Spending, Overheads, & AFUDC	**375,410,137.86**	**369,539,549.43**	**(5,870,588.43)**

RESPONSE:

a. AGL intentionally slowed spending in certain GRAM-Safety & Compliance ("GRAM-S&C") sub-categories as a means of managing the uncontrollable spending for DOT work required by the right-of-way agreements for the purposes of staying within the approved budget parameters.

b. Table-STF-16-2 provided by Staff is based on AGL's 2023 GRAM reporting, which has maintained the structure of the two GRAM categories (GRAM-S&C and GRAM-

Other than Safety & Compliance or "GRAM-Other") from the original i-CDP Governance Document. Specifically, all the non-New Business Overheads and AFUDC for work under both GRAM categories is shown in Line # 14 titled "Overheads" within the GRAM-Other section of the report. While this reporting is aligned with the original Governance Document, it cannot be used to determine the actual variances to approved budgets for GRAM-S&C or GRAM-Other without first properly allocating these Overheads and AFUDC to the respective categories. Once these allocations are made, AGL is over budget in GRAM-S&C rather than under budget as stated in the question, leaving no additional dollars that could have been utilized to complete additional pipeline replacement work.

c. Please see responses to STF-11-2 vi-viii.

d. AGL and ASC were engaged in a multi-year, multi-facility replacement project on the Riverdale campus in Georgia. This included the AGL Clayton Service Center and facilities for the Southern Company Gas ("GAS") Measurement and SCADA teams. The project was initially set up as an AGL project, and all costs were charged to AGL through the duration of the project. Once the project was completed, it was determined that the GAS Measurement and SCADA facilities were to support multiple GAS utilities, and an adjustment was made to transfer the costs for the portion of the Measurement and SCADA facilities from AGL to ASC. This transfer of costs, combined with AGL's costs of its own facilities such as the Clayton Service Center and Gwinnett Service Center land purchase, resulted in a net credit to facilities for AGL in 2023, including credit for AFUDC.

e.

i. Please note the amounts provided above include both overheads and AFUDC and are specific to the two GRAM categories. The budgets for overheads and AFUDC are based on a number of factors including the items identified in the Company's response to STF 15-6, the amount and timing of budgeted direct capital spend in the four budget categories – GRAM Safety and Compliance, GRAM Other, SRR and Cherokee LNG Expansion – and when the project is placed in service. Actual overheads and AFUDC can vary by category when compared to budget based on these factors. In 2023, total budgeted and actual overheads and AFUDC were $65 million and 59.7 million, respectively. The table below provides the detail by capital category for total Overheads and AFUDC and separately for each one:

	Overheads+AFUDC		Overheads		AFUDC	
	Actual	Budget	Actual	Budget	Actual	Budget
GRAM	42.6	29.8	29.7	24.0	13.0	5.8
SRR	12.3	12.7	6.1	6.4	6.3	6.3
Cherokee LNG Exp	10.1	17.2	3.4	6.0	6.7	11.2
	65.0	59.7	39.1	36.4	25.9	23.4

Based on the table above, the budget to actual variances for overheads and AFUDC were approximately $3 million each and are driven by the variability of factors described above and those provided in the Company's response to STF 15-6. Specifically, the GRAM category was apportioned a higher amount of actual overheads than budget due to the lower than budget direct capital spend for the Cherokee LNG Expansion category. Additionally, the actual timing of spend and in service dates of GRAM projects differed from the assumptions used in the budget, and the capital spend for the Cherokee LNG expansion was lower than budget, both resulting in an AFUDC variance to budget for the project categories.

ii. No.

f. For the purposes of staying within the approved GRAM-Other budget parameters, work was intentionally slowed in multiple GRAM-Other budget lines, including Regulator Stations, as a means of managing the largely uncontrollable additional spending in the New Business lines (approximately $9 million in total including overheads and AFUDC) plus some required additional unplanned work in Renewals. As these New Business and Renewal overages became evident later in 2023, AGL reviewed all remaining budgeted work and made reductions where available and prudent to offset these increases.

g.

i. AGL did not create a new budget category for Renewals in GRAM-Safety & Compliance. The specific line within GRAM-Safety & Compliance for the Posi-Hold remediation program (which was a sub-program under Renewals) was set up within the original i-CDP Governance Document. Specifically, section A.2 on page 18 of the Governance Document outlining the various items within GRAM-Safety & Compliance calls for "*Compliance and safety initiatives ordered and required by the Georgia Public Service Commission unless the Commission orders that the revenue requirements not be recovered through the GRAM*." The Posi-Hold Remediation Program was a 5-year agreement with the GPSC Facilities Protection Unit and along with the Shorted

Casings program was the reason for section A.2. All other Renewal work was specified to be in GRAM-Other per section B.7 of the Governance Document. This breakout was also clearly identified within the TRADE SECRET - 2022 GRAM MFR 1&2 document.

ii. AGL did not create a new category as outlined in response "i."

iii. AGL respectfully requests that Staff review STF-16-2g.iii and restate the question, if there is one.

iv. The "Removals (inactive services)" budget line contained approximately $1.9 million for the retirement of higher risk inactive services. While the inactive services program is an identified safety initiative by AGL and a focus of the GPSC Facilities Protection Unit in its proposed safety Notice of Proposed Rulemaking ("NOPR"), there is no current mandated level of investment for this work. As outlined in response "f" above concerning Regulator Stations, reductions had to be made to multiple budget lines to offset required spending increases in New Business and Renewals to keep AGL within approved GRAM-Other spending levels.

Respondent: Robert Hembree
Director, Engineering
Southern Company Gas

Michael Morley
Director, Regulatory Reporting and Strategy
Southern Company Gas