State of Rhode Island and Providence Plantations

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Peter F. Kilmartin, Attorney General

September 23, 2013

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02889

Re: Docket No. 4307

Dear Ms. Massaro:

Attached is the memorandum of Gregory Booth, P.E. filed on behalf of the Division of Public Utilities in docket 4307, in response to the Narragansett Electric Company's Annual Report and Reconciliation Filing made on August 1, 2013, and revised for a correction on September 9, 2013. The Memorandum is primarily responsive to the Company testimony of Jennifer Grimsley and raises an issue associated with the Company's FY 2013 costs associated with damage/failure, damage/failure major storms, and vegetation management spending.

The issue raised is whether any of the costs for which Narragansett Electric seeks recovery from its ratepayers might be the responsibility of Verizon, through the Joint Ownership Agreement (JOA) between Narragansett Electric and Verizon. The JOA pertains to the rights and responsibilities of the two companies as it pertains to joint ownership of utility poles, and is discussed in more detail in Mr. Booth's Memorandum. This issue was the subject of similar comments from Mr. Booth in last year's ISR Reconciliation filing, Docket 4218, and little new information has been provided from National Grid regarding its efforts to seek reimbursement from Verizon under the terms of the JOA.

The testimony of Mr. Richer and Ms. Ribot addresses the reconciliation of the projected FY 2013 revenue requirement calculation to the actual FY 2013 revenue requirement associated with FY 2013 capital and O&M expenses. Additionally, Ms. Ribot presents the calculation of the proposed CapEx and O&M Reconciling Factors. These portions of the ISR filing were reviewed by Mr. Scialabba, in conjunction with Mr. David Effron, and subject to adjustments to the actual FY 2013 capital and/or O&M revenue requirement associated with the joint pole issue discussed in Mr. Booth's Memorandum, the Division found no issues associated with those testimonies.

An Open Meeting is scheduled on this filing on September 24, 2013. The Division has outstanding discovery requests on the issue raised in Mr. Booth's testimony. As the ISR factors are proposed to be put into effect on October 1, 2013, and as proposed, are a reduction from the present ISR reconciliation factors, the Division recommends implementation of the proposed ISR reconciliation factors on October 1, 2013, pending further review by the Division upon receipt of discovery responses. If the Division has additional recommendations on the FY 2013 ISR Reconciliation or believes a hearing is warranted, it will notify the Commission as soon as possible. Any subsequent adjustments to the actual 2013 revenue requirement can be applied in any number of ways, such as crediting to the FY 2014 actual revenue requirement in the 2014 Reconciliation filing.

Very truly yours,

Leo J. Wold
Assistant Attorney General

cc: Service List

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

The Narragansett Electric Company d/b/a National Grid's Electric Infrastructure, Safety, and Reliability Plan FY 2013 Annual Report and Reconciliation Filing

Docket No. 4307

MEMORANDUM OF

Gregory L. Booth, PE, President
PowerServices, Inc. d/b/a PowerServices and Consulting, Inc.
On Behalf of Rhode Island Division of Public Utilities and Carriers

September 16, 2013

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INTRODUCTION

PowerServices was engaged by the Rhode Island Division of Public Utilities and Carriers ("Division") to assist in the evaluation of the National Grid Electric Infrastructure, Safety, and Reliability Plan FY 2013 Annual Report and Reconciliation Filing ("Filing") dated August 1, 2013. The evaluation followed the same process of analysis completed for the FY 2013 ISR Plan and the FY 2012 ISR Plan reconciliation. Our evaluation includes the review of the September 9, 2013 revised report. This memorandum will include an evaluation of the actual vs. the budgeted capital expenditures.

CAPITAL INVESTMENT PLAN

The Company, as set forth in the filing, spent $49.5 million for capital investment under the Electric ISR Plan against the FY 2013 annual approved budget of $56.5 million, yielding $7.0 million under budget for the 2013 fiscal year. The overall FY 2013 spending by the Company was below the budgeted levels due to reductions in the amount of new electric plant required and delaying of expenses for several projects. The $7.0 million variance was driven primarily by a reduction in the non-discretionary spending requirements due to a decreased amount of new residential and commercial business and public requirement projects. However, in this category the Company has included the non-discretionary investment under budget of $2.5 million was comprised of not only a significant under budget in statutory/regulatory spending of $9.6 million, but also a significant over budget of $7.1 million in damage/failure that the Company has attributed to major storms. I will address my concerns regarding the lack of support for these costs later in this memorandum. The FY 2013 Vegetation Management was under budget $7,000, and the I&M program was $790,695 under budget.

The Company's Reconciliation Filing reflects, on Table 3 of Attachment-JLG-1-Revised, a budget of $650,000 and an Actual spending of $9,720,450 in Damage/Failure capital for FY 2013 associated with major storms. What is not reflected in the Company's testimony or in the Attachments is an adjustment for the cost recovery from any joint pole owner or an adequate documentation of the details associated with the major storms. The $9,720,450 as shown on Attachment-JLG-1-Revised, Table 3, is for the storms of 2012 reflected on Attachment-JLG-1-Revised, Table 13. The two (2) major storms (July 18, 2012 Thunderstorm and October 20-31, 2012 Hurricane Sandy) should include a reduction in cost for payments due from joint pole owners. Additionally, there is not an adequate detailed accounting to determine if the entire $9.7 million should be included. As part of the filing, the Company did not indicate whether or not it has initiated or was able to recover any costs from any joint pole owners for applicable FY 2013 costs associated with the two (2) storms. I have raised this cost recovery issue on previous occasions, including the RIPUC Docket No. 4128 FY2012 ISR Plan reconciliation. National Grid operates under a Joint Ownership Agreement ("JOA") with Verizon[1], including several Intercompany Operating Procedures ("IOP") that include areas such as pole replacements and vegetation management. How this JOA impacts the Company's net spending should be considered for both (1) Damage/Failure cost recovery for jointly owned poles, and (2)

[1] JOINT OWNERSHIP AGREEMENT BETWEEN NARRAGANSETT ELECTRIC COMPANY (PARENT COMPANY - NATIONAL GRID) AND VERIZON - NEW ENGLAND INC, OCTOBER 1. 1980, AMENDED SEPTEMBER 25, 2001.

Vegetation Management Program cost recovery for preventative maintenance, and hazardous tree removals.

JOINT OWNERSHIP RECOVERY

The joint ownership arrangement allows National Grid and Verizon to own pole facilities, complete intercompany attachments, and defines parameters for the division of maintenance and ownership costs consistent with the terms of the Joint Ownership Agreement (JOA). Under this arrangement, both National Grid and Verizon are considered owners of all joint facilities, with each company having an equable share of pole plant and territories where they assume the role of "maintaining" owner. The two parties have previously agreed to geographical areas of control that should realize an equal "50/50" sharing. The joint ownership agreement requires that the "maintaining" owner perform all pole setting work, normal replacements, and storm restoration of damaged poles relating to the joint-use poles that it has been assigned. The maintaining owner will complete the necessary work, and it is agreed that the two joint ownership parties, National Grid and Verizon, will reconcile the cost of the pole replacements, through a flat reciprocal rate of $500 per pole given in Intercompany Operating Procedures (IOP) L[2] , as part of their normal monthly reconciliation process. The monthly reconciliation[3] allows for the pole owner who incurred more pole replacements during the month to issue a net invoice to other owner.

[2] IOP L, pg. -L1-
[3] IOP M, pg. -M1-

In addition, the JOA also includes IOP J[4], which addresses cost sharing of vegetation management work. Given below is an excerpt of key areas of cost sharing that are addressed.

1. Preventive maintenance tree trimming shall be done a joint basis when both companies have a need. When it is agreed that both parties will benefit from such Joint Tree Trimming, the division of costs will be 75% Electric Company and 25% Telephone Company.
2. Topping of trees, if they present a hazard to both parties, shall be done jointly at a 50/50 division of cost.
3. Heavy storm work such as hurricanes, wet snow, tornadoes, and ice storms will be handled immediately without prior review. Agreement should be reached by field representatives of the two companies as soon as practicable, after each major storm, to determine which lines and to what extent each party will participate, notwithstanding any participation by another party. The parties agree to 50/50 basis for heavy storm work.
4. Miscellaneous costs associated with trimming such as police protection, tree wardens payment, obtaining permission, and state highway inspector will be shared by the joint owners on the same basis as the IOP provides for trimming costs.[5]

Therefore, since National Grid and Verizon are joint owners of poles, National Grid should seek relief from costs incurred for replacing poles and vegetation management trimming through the JOA with Verizon. PowerServices recommends, since National Grid and Verizon are joint owners of poles operating under the above described JOA that:

[4] IOP J, pg. -J1-
[5] IOP J, pg. -J2-

- The Company's damage/failure spending warrants further inquiry to determine

  1. What amount of the $9.7 million in damage/failure spending involves the replacement of jointly owed poles?
  2. What amount of the $9.7 million in damage/failure major storms spending involves the replacement of jointly owed poles?
  3. Has the Company sought from Verizon any cost recovery for FY 2013 pole replacements?
  4. How were any reimbursements received by the Company accounted for in the FY 2013 expenses, including vegetation management?
  5. Is all the $9.7 million correctly accounted for and no portion belongs in ordinary business expense?

- The Company's Vegetation Management Program spending warrants further inquiry to determine:

  1. What amount of the $8.3 million in vegetation management program spending involves preventative maintenance or hazard tree removal costs associated with clearing of vegetation in areas of joint ownership?
  2. What amount of $8.3 million in vegetation management spending was associated with areas where Verizon is the maintaining owner of the facilities?

3. Does any of the $8.3 million in vegetation management spending include work associated with major storms?, and

4. Has the Company sought from Verizon any cost recovery for FY 2013 vegetation management spending?

The documentation provided by the Company lacks any indication of any adjustments in the capital and expense categories for dollars either collected from, or that are the responsibility of, Verizon. Based on my observation of National Grid's practices in Massachusetts through my participation in a docket reviewing the prudency of National Grid's storm fund costs, I am concerned the Company has made no adjustments for funds which are due and collectible from Verizon for its Rhode Island operations, and funds that should not be allowed because they are components of normal business activity. Costs which should be collected from Verizon should not be the responsibility of the electric ratepayers.

This concludes my Memorandum on the National Grid Electric Infrastructure, Safety, and Reliability Plan FY 2013 Annual Report and Reconciliation Filing.