

September 11, 2020

Mr. John Bell
Rhode Island Division of Public Utilities and Carriers
Chief Public Utilities Accountant
89 Jefferson Boulevard
Warwick, RI 02888

Subject: Docket No. 4915; National Grid FY 2020 ISR Reconciliation

Dear John:

This letter is concerning the National Grid FY 2020 ISR Plan spending variances. While your accounting consultant addresses the accuracy and appropriateness of the adjustments, you have requested that I address the actual spending differences from the budget agreed upon by the Division with the Company.

Non-Discretionary Spending

In FY 2020, the Company far exceeded the budget for non-discretionary spending. Most, but not all, of the spending above the budget is apparent. The combination of New Business commercial and residential was up some \$1.1 million. This should eventually mean higher sales and greater distribution of costs across more kWh. The increased Storm cost and the unusual failure of two power transformers could not be predicted, and these costs were unavoidable. However, the Company has not explained the Public & Regulatory Requirement increase of some \$1.97 million. Additionally, the increased lighting and transformer (distribution) costs are not fully explained in regard to why they were unavoidable. At 447% and 47% increases, respectively, these increases seem high and are lacking sufficient clarification.

Asset Condition

Most of the asset condition projects were under budget for the FY 2020 spending, with only the Lee Cottage and Front Street substations over budget. The Company has been significantly enhancing its cost estimating and sanctioning processes for projects, and the cost overruns, as described for the Lee Cottage and Front Street substations, should be occurring much less often. All of the under budget substation projects are actually NOT under budget, since the work was deferred or delayed for numerous reasons. Thus, the cost will be incurred in future ISR Plan years. It is important to note for large projects, like a substation which has cost spread over multiple ISR Plan years, the total completed project cost compared to budget is the only meaningful measure of whether the project was over or under budget. It would be much more informative for the Division, and particularly the Commission, if the Company provided as part of the reconciliation process a projected total project cost versus budget, so the impact of these very large projects on the rates would be more transparent.

System Capacity and Performance

This category has an overspend of some \$3.9 million, driven by three substation projects. Aquidneck Island accounts for \$3.6 million and, again based on the new estimating and sanctioning processes of the Company, this level of budget overspend would likely not have

occurred and certainly not at this level. Quonset and Chase Hill were delayed from 2019 and, therefore, the increased budget is not really an overrun but rather a deferral from 2019 expenditures into 2020. This is exactly what will occur on the asset condition substation spending that was under budget in 2020. Those underspends will be spent in 2021 and 2022. Therefore, these are not truly underbudget, but rather are deferrals or movement of spending from one fiscal year to another. Again, large projects spanning multiple years can only be evaluated upon project completion by comparing total cost versus budget. Ultimately, ratepayers will realize the full cost in rates once the projects are complete. This is purely a timing issue, and not a result of budget over or underspend.

Vegetation Management

The Company consistently manages the Vegetation Management budget 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 budget prudently to balance cost and reliability.

Other O&M

This category has been managed with the cost to budget remaining relatively balanced.

Reliability

The Company continues to meet reliability goals and remain in the IEEE first quartile of best performing utilities in the US.

In summary, there are no variances which raise any issue of prudence in the FY 2020 reconciliation. The FY 2020 ISR Plan reconciliation for the project capital and O&M expenses is acceptable, with no troublesome variances. However, the Division should pursue obtaining additional detail associated with the Public & Regulatory Requirement category spending exceeding budget. Please contact me if you have any questions or require additional clarification.

Sincerely,



Gregory L. Booth
President

glb/sk