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September 7, 2021

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

Subject: Docket No. 4995; National Grid FY 2021 ISR Reconciliation
Gregory L. Booth Memorandum

Dear John:

This letter is concerning the National Grid FY 2021 ISR Plan spending variances. While your accounting consultant addresses the accuracy and appropriateness of the adjustments, you have requested that I address the variance between the ISR Plan budget and actual spend. As shown below, the Company reports that capital spending for FY 2021 totaled $100.6 million, compared to a budget of $103.8 million.

	Budget	Actuals	Variance Over / (Under)
Customer Request/Public Requirement	$26,540,000	$21,989,900	($4,550,100)
Damage Failure	$12,365,000	$19,490,705	$7,125,705
Non-Discretionary Sub-total	*$38,905,000*	*$41,480,605*	*$2,575,605*
Asset Condition	$31,040,000	$28,865,121	($2,174,879)
Non-Infrastructure	$580,000	($57,278)	($637,278)
System Capacity & Performance	$23,145,000	$17,387,358	($5,757,642)
Discretionary Sub-total (without Southeast Substation)	*$54,765,000*	*$46,195,201*	*($8,569,799)*
Southeast Substation Project	$10,080,000	$12,951,379	$2,871,379
Discretionary Sub-total	*$64,845,000*	*$59,146,581*	*($5,698,419)*
Total Capital Investment in System	**$103,750,000**	**$100,627,186**	**($3,122,814)**

Non-Discretionary Spending

In FY 2021, the Company was $2.6 million overbudget for non-discretionary spending. The Customer Request/Public Requirements category was underbudget by $4.6 million, but was offset by increased costs in response to twelve major Storms. New Business blanket and project work was $1.8 million underbudget for Residential and $1.2 million underbudget for Commercial, with no specific rationale provided. Retroactive billing to Verizon under a joint-owned pole agreement resulted in additional credits to the New Business-Residential category. The Company has now achieved a one-month lag in billings to Verizon, which should mitigate similar impacts to future Plans.

Billings to RIDOT under the Public Requirements category resulted in a significant credit. The Company has limited control in the timing and scope of RIDOT work, and variances are not unexpected within any given year. However, a clearer explanation of the $5.3 million in RIDOT billings, and how those billings match to actual work performed in the fiscal year, would be beneficial. Metering Purchases and Installations were underbudget due to less purchases and reduced field work in response to COVID-19. The Company modulated spend for DER Strategic Investments, consistent with the Division's recommendation to avoid advancing infrastructure investment prior to GMP approval, and realized lower engineering costs in FY 2021. The remaining engineering is expected to occur in the FY 2022 ISR Plan. The DG category was significantly overbudget, but this will trend toward a more balanced annual budget once the Company fully implements a process to record CIAC when work is performed, as opposed to the time that CIAC is received. The Company has indicated continued progress for FY 2022, although it is unclear when the new process will be fully implemented.

The Company experienced numerous Storms in FY 2021, driving up related costs. This category is expected to be unpredictable and highly variable.

For Damage/Failure asset replacement work, although the Company adopted a new process of recording only work related to failed assets in this category, spend remained $1 million overbudget. This will require enhanced variance analysis as the process becomes fully implemented. Additionally, the increased lighting costs were not fully explained in regard to why they were unavoidable.

Asset Condition

Overall, asset condition spend was slightly overbudget in FY 2021. Southeast Substation Replacement was overbudget due to carryover work from FY 2020. This multi-year project is expected to be complete in FY 2022 with overall capital spend exceeding the sanctioned estimate by $1.8 million (5%). The Company met the Division's expectation that this major project would be separately tracked and reported. The process of separately tracking the larger projects, mainly substations, has been very helpful in understanding the variances and having the Company emphasize the need for continual project cost control and reassessment of processes to drive projects toward enhanced cost control opportunities.

Dyer Street and Providence Area projects were paused or delayed, resulting in $5.5 million reduced spend that will shift to future years. Offsetting this is an additional $2.2 million incurred overbudgeted amounts to complete projects that lagged in previous years (Apponaug, Kent County, and Distribution Secondary Network Arc projects). The Company does not report the full impacts of schedule and spending adjustments for projects that span multiple years. As I have previously stated, 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.

Spend for underground cable replacement projects was greater than budget due to unanticipated factors, including higher labor costs. The Company deferred some work to FY 2022. Upward pressure on materials and labor continues to impact construction costs and the Company will need to diligently monitor trends and prioritize discretionary projects to meet budget targets. The upward trend in labor and material costs is expected to continue for a variety of reasons, including more demand for labor and materials than the available resources to provide these services in the market. It is currently unclear when this trend will modulate.

System Capacity and Performance
This category had an underspend of $5.8 million, driven by Aquidneck and East Providence substation project delays. Work will ultimately shift to FY 2022 and future years. 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.

New Lafayette was overbudget as a result of the Company advancing civil work to coordinate with a DG project at the same site. The schedule shift is reasonable to optimize customer driven work. The Company has paused EMS Expansion work to align work with Area Studies, a strategy that I have consistently endorsed throughout ISR Plan proceedings. Expenditures for 3VO were underbudget, driven by lower costs for mobile units than estimated. Lastly, the Company expended $300,000 to solve small scale feeder issues due to system load shifts attributed to modified working patterns (reduced commercial and higher residential loads due to COIVD-19 restrictions). The Company identified areas of system weaknesses by advancing the completion of CYME model analysis for all its feeders, thus providing a clearer picture of capacity and voltage deficiencies. This work developed subsequent to the FY 2021 ISR Plan filing. The Company did not compare the spend to budget or discuss justification within the reconciliation report. Based on discussions with the Company, I consider this work, along with future planned related work, necessary to maintain reliability. The Division should expect the reconciliation report to include detailed justification when unexpected projects are executed.

Vegetation Management
Vegetation Management spend was less than one percent overbudget. The Company consistently manages the clearing, pruning and hazard tree removal budgets 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 infestations. The Company has managed to stay ahead of these issues and budget prudently to balance cost and reliability.

Other O&M
This category was significantly underbudget, driven by lower Opex Related to Capex and I&M repair costs. The Company did not discuss rationale.

Reliability
The Company continues to meet reliability goals. The Company should provide IEEE statistics and identify its specific position in these statistics so the Division and Commission can see if it remains in the first quartile of best performing utilities in the U.S.

In summary, there are no variances which raise any issue of prudency in the FY 2021 reconciliation. The FY 2021 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 for variances in spending categories as noted within this memorandum. In addition, the Division should discuss report enhancements with the Company, including submitting an ISR Plan spreadsheet indicating budget and actual spend for each project with more detail on variance drivers for each category, and expanding discussion when unplanned projects are executed. Furthermore, the Company should provide a clear tracking of total cost for major multi-year projects in order for the Division and Commission have a clear picture of whether the projects are going to ultimately be under or over budget upon completion, since a one-year snapshot provides no meaningful indication of how close to budget the project will be when incorporated into rates.

Please contact me if you have any questions or require additional clarification.

Sincerely,

Gregory L. Booth
President

glb/sk