

February 16, 2017

**VIA HAND DELIVERY & ELECTRONIC MAIL**

Luly E. Massaro, Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**RE: Docket 4686 - Request for Approval of Storm Contingency Fund Replenishment Responses to Division Data Requests – Set 1**

Dear Ms. Massaro:

On behalf of National Grid,<sup>1</sup> I enclose ten (10) copies of the Company's responses to the first set of data requests issued by the Rhode Island Division of Public Utilities and Carriers in the above-referenced docket.

Thank you for your attention to this filing. If you have any questions concerning this transmittal, please contact me at 781-907-2153.

Very truly yours,



Celia B. O'Brien

Enclosures

cc: Docket 4686 Service List  
Leo Wold, Esq.  
Steve Scialabba, RI Division  
John Bell, RI Division

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<sup>1</sup> The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

Certificate of Service

I hereby certify that a copy of the cover letter and any materials accompanying this certificate was electronically transmitted to the individuals listed below.

The paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



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Joanne M. Scanlon

February 16, 2017  
Date

**Docket No. 4686 – National Grid’s Storm Contingency Fund Replenishment  
Service List as of 1/26/17**

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<b>File an original &amp; 10 copies w/:</b> Luly E. Massaro, Commission Clerk Public Utilities Commission 89 Jefferson Blvd. Warwick, RI 02888	<a href="mailto:Luly.massaro@puc.ri.gov">Luly.massaro@puc.ri.gov</a> ;	401-780-2107
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Division 1-1

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), Schedule 5-F, please explain what the negative "Base Pay" represents.

Response:

The negative "Base Pay" associated with Hurricane Sandy, as reflected on Schedule 5-F in the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (Final Accounting), relates to the implementation of the Company's Enterprise Resource Planning (ERP) system in October 2012. The timing of Hurricane Sandy coincided with the Company's implementation of the ERP system. Upon implementation, monthly management pay was calculated using a fixed number of hours of 173, or the average monthly hours of normal work time ( $52 \times 40 / 12$ ), and an associated fixed hourly rate which was equal to the employee's actual salary divided by 173 hours. This fixed hourly rate was initially applied to actual hours worked and entered into the ERP time entry system by the employee and was approved by his or her supervisor. Because the actual number of hours worked and entered into the payroll system may have been different than 173 hours in any given month, the initially calculated payroll for that employee would be more or less than that employee's actual salary. Consequently, an adjustment was needed and performed by the ERP payroll system to adjust that initially calculated total payroll up or down to the correct monthly salary amount. The relative size of this adjustment was dependent on the number of hours actually worked and entered into the payroll system. For instance, the more hours of overtime a monthly paid employee works, the larger this adjustment needs to be. This adjustment was recorded to the first work order that an employee charged in a given month.

Furthermore, because the effective payroll cut-over date to the new ERP system for management employees was October 16, 2012 (salaried management employees record their hours and labor each month based on a period ending the 16th of the prior month through the 15th of the current month), the ERP system calculated November time entry for the month of November beginning on October 16th. This, in conjunction with the average hours calculation described above, resulted in some instances in a corresponding negative adjustment in the Company's payroll system to the Hurricane Sandy work orders in order to return to the average 173 monthly working hours.

Since Hurricane Sandy took place in late October/early November, the work orders associated with the storm were often the first work orders charged by an employee on November 1 and, therefore, received the negative adjustment, as described above and as illustrated on Attachment

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DIV 1-1. Although the negative adjustment should have been allocated to all work orders an employee charged in that month, on a pro-rata basis, which would have resulted in higher payroll costs related to Hurricane Sandy, the Company conservatively opted not to restate payroll upward for purposes of the Final Accounting filing. In addition, it should be noted that the issue of a single work order receiving the monthly payroll adjustment has been modified in a subsequent ERP release.

The Narragansett Electric Company  
d/b/a National Grid  
Illustrative Management Payroll Example

Line #	Work Order	Actual Hours Worked (a)	Hourly Rate (b)	Amount Calculated (c)	Required Adjustment (d)	Amount Paid (e)
1	Hurricane Sandy Work Order	40.00	28.85	1,153.87	(2,211.68)	(1,057.81)
2	Work Order #2	80.00	28.85	2,307.74		2,307.74
3	Work Order #3	50.00	28.85	1,442.34		1,442.34
4	Work Order #4	30.00	28.85	865.40		865.40
5	Work Order #5	30.00	28.85	865.40		865.40
6	Work Order #6	20.00	28.85	576.93		576.93
7	Total	<u>250.00</u>		<u>7,211.68</u>	<u>(2,211.68)</u>	<u>5,000.00</u>
8	Actual Monthly Salary			<u>5,000.00</u>		
9	Required Adjustment			<u>(2,211.68)</u>		
10	Actual Monthly Salary		5,000.00			
11	Average Hours Per Month		173.33			
12	Monthly Rate Applied to Hours Worked		28.85			

Column Notes:

Column (b), Lines 1 through 6 = Column (b), Line 12  
Column (c), Lines 1 through 6 = Column (a) \* Column (b)  
Column (d) = Column (c), Line 9  
Column (e) = Column (c) + Column (d)

Line Notes:

Line 7 = Sum of Lines 1 through 6  
Line 8 = Illustrative actual monthly salary  
Line 9 = Line 8 - Line 7  
Line 11 = 52 weeks X 40 hours / 12 months  
Line 12 = Line 10 \* Line 11

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Division 1-2

Request:

In its Order 15360 (June 30, 1997) in Docket No. 2509, at pages 9-10, the Commission adopted the recommendation to add specific language limiting allowable charges to the Storm Fund Reserve to incremental, non-capital storm related costs, specifically stating that "capital costs, regular time pay and overheads should not be charged to storm contingency funds because they are recovered through other means." Given the Commission's adoption of this recommendation, why do Schedules 3-F through 9-F in the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016) include charges for "Base Pay" in the total storm costs?

Response:

Schedules 3-F through 9-F of the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" represent a summary of the payroll costs by source, or originating, company for each storm event that qualify for inclusion in the Company's Storm Contingency Fund (Storm Fund). The "Base Pay" shown on Schedules 3-F through 9-F reflects base pay of employees who supported the storm restoration effort and are employed by the Company's affiliates,<sup>1</sup> which directly benefits the Company. Base pay of affiliate company personnel who performed storm-related work is an incremental cost to the Company that it would not otherwise incur but for the occurrence of the storm events and is appropriately charged to the Storm Fund.

Schedules 3-F through 9-F also reflect "Base Pay" amounts originated by Company employees. However, these costs are non-incremental costs charged to capital or cost of removal and/or other non-operation and maintenance accounts (removal/other). These costs, along with similar affiliate-related capital and removal/other payroll costs, are subsequently removed from the total incremental storm costs requested for recovery as part of the capital and removal/other adjustments on Lines 16 and 17 of Schedules 3-A through 9-A, respectively.<sup>2</sup> Therefore, the "Base Pay" requested for recovery through the Company's Storm Fund reflects those payroll costs that would not have been charged to the Company by its affiliates if not for occurrence of the qualifying storm events.

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<sup>1</sup> The term "affiliates" also pertains to employees of the Company's gas business.

<sup>2</sup> These adjustments are also reflected on Schedule 2-A, Lines 16 and 17, respectively.

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Division 1-3

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), Schedules 3-G through 9-G, please explain how the Company calculates the "Overhead Allocations" charged to the storm costs.

Response:

All of the Overhead Allocations are calculated using overhead rates that are applied to labor with the exception of "Stores Handling" and "Capital Overheads". The Stores Handling allocation is applied to materials costs. The Capital Overhead allocation is applied to capital-related labor and contractor charges. In addition, Overhead Allocations included for recovery in the Company's Storm Contingency Fund reflect overhead costs from the Company's affiliates and exclude overhead costs of the Company as described in the Company's response to Division 1-5.

A description of each Overhead Allocation follows:

<u>Expense Type Description</u>	<u>Definition</u>
Capital Overheads	Overhead applied to capital work orders for associated support costs
Supervision & Admin	Allocation results associated with back office support staff costs
Service Co. Operating Costs	Allocation results associated with Service Company
OPEB	Post retirement medical & life benefits
FAS 112	Post employment benefits
Health Care	Health and dental costs for employees
Group Life Insurance	Life insurance coverage costs for employees
Pension	Pension expense for employees
Thrift Plan	401k incentive thrift plan matching contributions
Workers Comp	Injuries and damages insurance
Payroll Taxes	Payroll taxes including FICA
Stores Handling Burdens	Overhead costs associated with the handling of inventory
Variable & Misc Pay	Employee's annual incentive compensation
Time Not Worked	Pay accrual for vacation, holiday, sickness, funeral leave, etc.

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Division 1-4

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), Schedule 8-G, please explain what the negative "Overhead Allocations" represent.

Response:

The negative "Overhead Allocations" associated with the February 2013 Coastal Storm, as reflected on Schedule 8-G in the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (Final Accounting), relates to the adjustment of overhead allocations rates at the fiscal year-end to clear balances. Overhead allocations are also known as burden expenses.

Burden expenses are cleared from the burden accounts (or burden pool) to productive work using a burden rate. The rate is applied to labor charged to orders through the labor distribution with an offset that is recorded in a burden account. This effectively reduces the burden pool and allocates the burden expenses to productive labor. Burden rates are calculated on a quarterly basis or sooner if facts or circumstances are identified that warrant an earlier calculation. In situations where significant variances are identified and have resulted in an under- or over-cleared balance, the rates are adjusted, especially in preparation for fiscal year-end.

March 2013 burden rates had been adjusted to clear the burden accounts to zero for fiscal year-end. In many cases this adjustment resulted in a negative burden rate as particular burden accounts had been over-cleared. Due to the timing of the February 2013 Coastal Storm (February 23 – February 24, 2013), labor was entered into the ERP system in March 2013 and the March 2013 burden rates were applied.



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Division 1-5

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), Schedules 3-G through 9-G, please explain why the Company believes that the indicated overheads are incremental, storm related costs. The response should specifically describe how the storms cause these overheads, which are directly related to employees' regular time pay, to increase.

Response:

Schedules 3-G through 9-G of the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" represent allocated overhead costs for each storm event that qualify for inclusion in the Company's Storm Contingency Fund (Storm Fund), as described in the Company's response to Division 1-3. These costs include the labor-related overheads associated with payroll of personnel who performed storm-related work and are employed by the Company's affiliates,<sup>1</sup> which directly benefits the Company. Such costs, with the exception of pension and post-retirement benefits other than pensions which are separately recovered through the Company's Pension and OPEB Adjustment Factor, are incremental costs to the Company that it would not otherwise incur and are appropriately charged to the Storm Fund.

Similar to payroll, as described in the Company's response to Division 1-2, capitalized overheads and overheads charged to cost of removal and/or other non-operation and maintenance accounts (removal/other) originated by the Company and its affiliates are removed from the total incremental storm costs requested for recovery as part of the capital and removal/other adjustments on Lines 16 and 17 of Schedules 3-A through 9-A, respectively.<sup>2</sup> Therefore, the overheads charged to the Company's Storm Fund reflect only those overhead allocation costs that would not have been charged to the Company by its affiliates if not for the occurrence of the qualifying storm events.

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<sup>1</sup> The term "affiliates" also pertains to employees of the Company's gas business.

<sup>2</sup> These adjustments are also reflected on Schedule 2-A, Lines 16 and 17, respectively.

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Division 1-6

Request:

In its Order 15360 (June 30, 1997) in Docket No. 2509, at pages 9-10, the Commission adopted the recommendation to add specific language limiting allowable charges to the Storm Fund Reserve to incremental, non-capital storm related costs, specifically stating that "capital costs, regular time pay and overheads should not be charged to storm contingency funds because they are recovered through other means." Given the Commission's adoption of this recommendation, why do Schedules 3-G through 9-G in the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016) include charges for "Overhead Allocations" in the total storm costs?

Response:

Please see the Company's response to Division 1-5.

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Division 1-7

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), Schedules 3-H through 9-H, please explain how the Company calculates the "Transportation Costs" charged to the storm costs.

Response:

Schedules 3-H through 9-H of the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" represent a summary of the transportation costs for each storm event that qualify for inclusion in the Company's Storm Contingency Fund (Storm Fund). For each storm event, the Company opens separate work orders for the Company and its affiliates to capture costs related to storm preparation, response, and restoration activities. These costs include transportation costs chargeable to operations and maintenance (O&M) expense, as well as to capital, cost of removal, and other non-O&M accounts. The "Transportation Costs" shown on Schedules 3-H through 9-H reflect transportation costs of employees who performed storm-related work and are employed by the Company's affiliates,<sup>1</sup> which directly benefits the Company. Transportation costs of affiliate company personnel who performed storm-related work are incremental costs to the Company that it would not otherwise incur but for the occurrence of the storm events and are appropriately charged to the Storm Fund.

Schedules 3-H through 9-H also reflect transportation amounts originated by Company employees. However, these costs are non-incremental costs charged to capital or cost of removal and/or other non-O&M accounts (removal/other). These costs, along with similar affiliate-related capital and removal/other transportation costs, are subsequently removed from the total incremental storm costs charged to the Storm Fund as part of the capital and removal/other adjustments on Lines 16 and 17 of Schedule 3-A through 9-A, respectively.<sup>2</sup> Therefore, the transportation costs charged to the Company's Storm Fund reflect those transportation costs that would not have been charged to the Company by its affiliates if not for occurrence of the qualifying storm events.

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<sup>1</sup> The term "affiliates" also pertains to employees of the Company's gas business.

<sup>2</sup> These adjustments are also reflected on Schedule 2-A, Lines 16 and 17, respectively.

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Division 1-8

Request:

Referring to the "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (June 30, 2016), panel testimony, pages 14-15, please explain how the Company distinguishes between capital and O&M storm related costs.

Response:

For each storm event, the Company establishes capital and operations and maintenance expense work orders to capture costs incurred for preparing for, and responding to, storm events and restoring service to customers. Costs associated with an individual storm event are charged to the appropriate work order. After each storm event, the Company performs a review of all costs and a calculation to determine the amount of total costs that should be charged to capital, as described below. Capital-related costs are subsequently removed from the total incremental storm costs charged to the Storm Contingency Fund through the capital adjustment on Line 16 of Schedules 3-A through 9-A<sup>1</sup> of the Company's "Final Storm Cost Accounting for 2012 Through March 2013 Storm Events" (Final Accounting) filed on June 30, 2016 in Docket No. 2509.

During the cost review process, the Company compares the actual installation of units of plant during a storm event to what was actually charged to capital and adjusts those dollars accordingly. For further explanation, please refer to Bates pages 16-17 of the Company's Joint Pre-Filed Testimony filed with the Final Accounting in Docket No. 2509.

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<sup>1</sup> This adjustment is also reflected on Schedule 2-A, Line 16.

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Division 1-9

Request:

Please explain why the Company did not present the Final Storm Cost Accounting for Storm Events that took place from January 2012 through March 2013 until June 30, 2016.

Response:

There were several factors that affected the timing of the Company's filing of its "Final Storm Cost Accounting: January 2012 Through March 2013 Storm Events" (Final Accounting) with the Rhode Island Public Utilities Commission.

During the January 2012 through March 2013 timeframe, the Company incurred nearly \$79 million of incremental operations and maintenance (O&M) costs associated with seven storm events that qualified for recovery through its Storm Contingency Fund (Storm Fund). Of this amount, nearly \$72 million pertained to only two storm events that occurred just over three months apart: Hurricane Sandy, the devastating storm that occurred in late October 2012, and Winter Storm Nemo, the February 8, 2013 Nor'easter that crippled the Company's service territory. Moreover, all but approximately \$2 million of the \$79 million of incremental O&M costs pertained to five storm events experienced in the short timeframe between late October 2012 and March 2013.

When the Company experiences a storm event, it establishes work orders in its system in relation to the event in order to accumulate costs pertaining to storm preparation, response, and restoration attributable to that event. These costs are monitored on a monthly basis to determine whether an event reaches the threshold for inclusion in the Company's Storm Fund. For certain types of storm-related costs, such as those pertaining to overhead line contractors, it is not uncommon for there to be a sizeable lag between the date of the event and the date the Company receives the final invoice and processes it for payment, with the Company often incurring costs up to twelve months following the start of the event.

Once the Company receives the invoices and processes them for payment, the Company extracts the invoices from the system and organizes them for the final accounting pre-filing review process for the individual storm event. This extraction and review process is very labor intensive because of the volume (i.e., thousands) of individual transactions comprising the costs that the Company incurred with respect to an individual storm event. During the preparation of the Final Accounting, the Company thoroughly reviewed 100 percent of all available accounts payable invoices, including overhead lines, forestry, procurement card, and miscellaneous accounts payable charges, as well as employee expense charges, associated with an individual storm event

Division 1-9, page 2

that was recorded in the Company's system. In conducting that review, the Company reviewed the cost entries to confirm they were appropriate for inclusion in the Storm Fund in accordance with the PUC's order in Docket No. 2509<sup>1</sup> and constituted actual costs directly attributable to the qualifying storm events. During this review, the Company made determinations regarding the appropriate recoverability of costs based upon such factors as the date of the work, the jurisdiction in which the work was performed, and so on. For internal costs, such as payroll, the Company employs approval processes to confirm that entered time is reviewed and approved by an employee's manager or supervisor. In the case of these qualifying storm events, payroll costs are identifiable to a manager/supervisor as storm related based upon the work order charged. In preparing its Final Accounting, the Company conducted a further independent verification of internal costs to ensure that the costs included in the Final Accounting pertaining to a particular storm event fell within the applicable timeframe of that particular storm.

Given the frequency of storm events experienced, the large number of charges incurred, and the significant volume of underlying transactions reviewed by the Company, a tremendous amount of time and effort was required to conduct the extraction and pre-filing review process, which commenced after all invoices were received and processed. In addition, the timing of the majority of the events included in the Company's June 2016 filing coincided with the implementation of the Company's Enterprise Resource Planning (ERP) system in October 2012, which created added challenges regarding the processing of the underlying transactions/invoices and the timeliness of the extraction of the data in order for the review to commence.

The Company's review of the storm costs incurred related to qualifying storm events experienced between January 2012 and March 2013 encompassed not only those costs related to Rhode Island, but also costs pertaining to Massachusetts relative to storm events experienced during that same timeframe. Reviewing costs collectively creates efficiencies from the standpoint that an invoice incurred for the benefit of both jurisdictions is reviewed only once, rather than twice, in connection with conducting separate reviews for Rhode Island and Massachusetts of costs incurred in connection with a single storm event. Over the January 2012 through March 2013 period, the Massachusetts electric companies incurred over \$93 million of incremental O&M costs associated with eight storm events that have been approved for recovery through its storm fund. Across the two states, the Company reviewed nearly 27,000 transactions related to accounts payable, procurement card, and employee expense charges for storms experienced post-SAP implementation alone, requiring a significant amount of time and effort.

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<sup>1</sup> Report and Order No. 15360 (August 19, 1997) in Docket No. 2509.