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Witness: David L. Gladey, John P. Dipaola-Tromba, Leanne M. Landry and Jeffrey D. Turano
Request from: Office of Consumer Counsel

Question:

(Capital Projects) Referring to Exhibit CLP-Additions-1, page 28. The Company states, "Larger projects with more than $500,000 in total cost will have more prospects for cost savings because they often involve multiple phases over longer periods of time, which affords the Company the opportunity to reevaluate and minimize expenses in the event of a change in scope or budget." It is understood that the phasing of a project breaks up a project scope into multiple components or sub projects. The overall scope of a project -- whether it is phrased or not -- does not change. It is not clear here from the panels' testimony how the phasing of a project results in greater "prospects" for cost savings. One possible interpretation of what the panel is saying here is that larger projects have "flexible budgets" because the phasing allows for scope and budget for the project to be shifted across different budgeting periods. In other words, phasing does not necessarily lower the project costs but the flexibility offered by phasing a project is that it allows for the company to only have to account for part of a project when developing the annual capital budgets.

a. Confirm whether this is a correct interpretation.
b. If the Company believes it is not a correct interpretation explain why not and elaborate on how exactly phasing allows for the potential for cost savings.

Response:

a. No, this is not a correct interpretation of the Company's statements or practices. This interpretation is conflating separate concepts.

b. First, the question addresses the opportunities for savings on smaller and larger projects with $500,000 as the dividing line. In that regard, the Company's experience is that there is a difference between the cost savings opportunities available on larger projects (over $500,000) and smaller projects (under $500,000). As discussed in the response to OCC-926[i], smaller projects are projects that are done frequently and would include, for example, the replacement of two poles in an area of the system with overhead circuits attached. The Company does a lot of these types of jobs and the opportunities for cost savings are not generally found on an individual job site, but rather would be found only on a more aggregate basis, such as in relation to the cost of materials (i.e., poles), applicable across many projects. The Company does not buy poles in pairs, so that particular savings could be achieved on that job in relation to the procurement of two poles. Similarly, the labor is

what it is and will not be different one job to another, unless there are specific circumstances that cause the cost to differ materially.

With larger, more complex projects, there are more opportunities to identify and achieve cost savings through all of the various "gates" that the project travels in planning, design and construction. Please refer to the Company's response to OCC-925[ii] for examples. On larger projects, materials may be procured specifically for the respective project, or there may be differences that engineering can identify for cost savings, or different types of labor that can be used, or other opportunities.

Second, the question asserts that "the phasing of a projects breaks up a project scope into multiple components or sub projects" and suggests that the Company is claiming that this is a "cost savings." However, this term "phasing" is not a term used by the Company. The term "flexible" was used by the Company to refer to the overall budgeting process described in response to OCC-924[iii], where the Company may set aside an ongoing project to accommodate an emergent project, in order to stay within the *overall* annual budget. This is not a cost-saving strategy, it is a budget maintenance strategy, as described in that response.

Prior Referenced Response:

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[i] OCC-926 Question:
(Capital Projects) Referring to Exhibit CLP-Additions-1, page 29. Projects that are "repetitive, numerous, and routine" are "authorized via annual program authorizations, rather than on an individual project basis. " Why is this the case?

OCC-926 Response:
Annual programs include many similar, small, and/or routine capital jobs performed over the course of a year for which one PAF is prepared each year. These individual workorders are less than $500,000. In many cases, these projects are emergent and have limited scope and as a result are not susceptible to pre-planning or pre-authorization given time imperatives. Given the size and routine nature of these projects, projects under annual programs do not need or warrant a more complex and resource-consuming project management process. The amounts are generally based on historical spending levels, although amounts can vary from year to year. If any individual work order exceeded $500,000, a specific project would be created.

[ii] OCC-925 Question:
(Capital Projects) Referring to Exhibit CLP-Additions-1, page 28. The Company states, "Projects less than $500,000 in total cost do not have as many opportunities for cost savings because these are smaller, short-term projects with more predictable budgets. These smaller capital projects are more likely to be routine and utilize equipment and materials previously competitively procured by the Company or ESC. This minimizes the potential for cost savings that could result from further review and analysis." Please describe the "further review and analysis" the company conducts to determine the potential for cost savings. Provide five examples of projects submitted in this proceeding where cost savings were achieved through this review and analysis step.

OCC-925 Response:
Projects with a total estimated cost of less than $500,000 are typically limited in scope and are generally associated with routine replacement of failed, damaged, or end-of-life equipment. These "break/fix" projects are usually undertaken to restore or maintain the reliability and safe operation of the electric system. Because the equipment being replaced is generally required to perform a specific function and must meet established engineering and operational standards, there are often limited alternative solutions available. As a result, there are generally fewer opportunities for additional cost savings through further review and analysis.

For larger capital projects with estimated costs greater than $500,000, the Company conducts a more comprehensive review in accordance with the Distribution Tri State Capital Project Approval Process (Distribution Lines) or Capital Project Approval Process (Distribution Substations). As part of this process, the Company evaluates multiple alternatives and project configurations to identify the solution that best addresses the identified system need while providing the most cost-effective outcome. This review may include evaluation of different engineering designs, equipment options, system configurations, project timing considerations, and operational impacts. The selected alternative is based on an assessment of factors such as reliability, safety, operational requirements, constructability, environmental considerations, and overall project cost.

Please refer to OCC-925, Attachment 1 – Distribution Tri-State Capital Project Approval Process
Please refer to OCC-925, Attachment 2 – Capital Project Approval Process

See the following projects as examples of projects greater than $500,000 that underwent the alternatives analysis review process and achieved cost savings through the evaluation of multiple project options. Please note that these projects are also included in Exhibit CLP-ADDITIONS-4, as identified in the references below. Additionally, each line reference corresponds directly to the associated supporting folder in Exhibit CLP-ADDITIONS-6.

- CD02190 - Middle River 28M3 Load Relief: Exhibit 4 tab “Project Specifics Post 2022”, line 286
- CD02164- Norwalk 9S27 Normal overload: Exhibit 4 tab “Project Specifics Post 2022”, line 281
- CD02577 - Amazon EV Chargers, Victoria Dr, Monroe: Exhibit 4 tab “Project Specifics Post 2022”, line 374
- CD02153 - Stone Bridge Commons New Service: Exhibit 4 tab “Project Specifics Post 2022”, line 278
- CS00577 - Rockville 14W-6X Transformer Voltage Change: Exhibit 4 tab “Project Specifics Post 2022”, line 416

[iii] OCC-924 Question:
(Capital Projects) Referring to Exhibit CLP-Additions-1, page 12. Please define the term "flexibility in the budget"; explain what determines whether a project has budget flexibility or not; and identify the components (i.e. project cost categories) of a project budget which are flexible and which are inflexible.

OCC-924 Response:
The term “flexibility in the budget” is a reference to the overall capital budget, not the budget for a specific project. The term refers to the ability to defer, accelerate, or reprioritize planned capital spending within a given budget period in response to changing system conditions, emerging operational needs, or unforeseen project requirements. Budget flexibility is an important component of managing a large capital portfolio and enables the Company to efficiently allocate capital to projects that provide the greatest near-term benefit to customers and system operations.

Whether a specific project has flexibility in relation to the *overall budget* depends primarily on the urgency of the underlying need, regulatory or compliance requirements, customer commitments, safety considerations, and the potential system impacts associated with delaying the work. Projects that address immediate safety concerns, mandated compliance requirements, emergent reliability issues, customer-driven obligations, or equipment failures

generally have limited or no budget flexibility because delays could result in unacceptable operational, safety, or customer impacts. In contrast, projects addressing aging infrastructure that remain in serviceable condition may have greater flexibility because the assets can continue to operate safely and reliably for a period beyond the originally planned replacement date.

For aging infrastructure replacement projects, budget flexibility typically exists when asset condition, engineering assessments, operational history and system performance indicate that the asset can remain in service without creating an immediate reliability, safety, or compliance concern. In these situations, The Company may defer a planned replacement project by one or more years with limited near-term impact on customer reliability while continuing to monitor the asset through its normal maintenance and inspection programs.

Budget categories that are generally considered more flexible include planned construction expenditures associated with asset replacement programs, such as labor, materials, equipment, and contractor costs for projects that have not yet commenced construction or where construction can be paused without creating risk to the distribution system and can be rescheduled based on emergent priorities.

The ability to defer certain aging infrastructure replacement projects provides an important mechanism for managing capital expenditures within the overall portfolio. When unforeseen conditions arise, such as unexpected equipment failures, storm-related damage, deteriorated assets identified through inspections, or other emergent reliability needs, funding associated with projects that can be safely deferred may be reallocated to address those higher-priority needs. This approach allows the Company to respond promptly to emergent system conditions while continuing to maintain safe and reliable service. Deferred replacement projects remain within the long-term capital plan and are reevaluated in subsequent planning cycles to ensure that asset condition and system risk remain acceptable before replacement is further postponed.

Accordingly, budget flexibility does not reflect the elimination of planned infrastructure investments, but rather the Company's ability to optimize the timing of certain replacement projects whose deferral is not expected to have an immediate impact on system reliability, while ensuring sufficient funding is available to address unforeseen conditions that require immediate corrective action.