

**NATIONAL GRID MONITORSHIP: FIFTH QUARTERLY REPORT**  
**(September 18, 2020)<sup>1</sup>**

**Pursuant to the Settlement Agreement of November 24, 2019 (the “Settlement”)**  
**between the New York State Department of Public Service (“DPS”) and National Grid**  
**USA, The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas**  
**East Corporation d/b/a National Grid (collectively, “National Grid”)**

As of August 21, 2020, the Monitor conducted approximately 80 interviews and issued approximately 130 requests for documents. The Monitor also continued to attend key executive meetings conducted by National Grid internally relating to its compliance with the Settlement. This report sets forth a summary to date of National Grid’s performance under the Settlement and of National Grid’s implementation of the Monitor’s recommendations made in Quarterly Reports. As of August 21, 2020:

- National Grid’s ability to deliver sufficient gas supply capacity to meet forecasted demand on peak days remains a work-in-progress for Winter 2020/2021 under its Revised Action Plan. In particular, additional permits still must be obtained by National Grid in order for it to construct on time the short-term projects required in the next few months.
  
- Likewise, National Grid’s ability to execute upon its plans for meeting long-term demand pursuant to its LT Reports remains uncertain. Permitting from New York City has yet to be obtained for the construction of Vaporizers 13 and 14; the ExC project remains contingent on obtaining federal and state permitting; and National Grid must successfully launch a new and substantial organizational framework and obtain the funding needed in order to achieve its EE/DR/electrification goals.
  
- Acknowledging the concerns above both internally and externally, National Grid has explicitly identified the risks involved in successfully completing these short-term and long-term projects and the potential that a moratorium may become necessary if the projects are not timely completed. For example, National Grid has stated in the PSC Proceeding (Case 20-G-0131) that the entire Service Territory (except for Staten Island) constitutes a “vulnerable location,” i.e., “where gas may not be able to be delivered safely and reliably within the next five years.” In addition, National Grid’s engagement of an independent forecasting study by Marquette has generated a more demanding Design Day analysis than National Grid’s own figures published in the LT Reports, raising questions about the most appropriate forecasting methodology and the possibility that projected demand may exceed supply capacity in the Service Territory sooner than contemplated in the LT Reports.

---

<sup>1</sup> A draft of this Fifth Quarterly Report was provided for comment to National Grid and to DPS on August 21, 2020. Insofar as the Monitor independently deemed appropriate, their comments have been incorporated herein. Unless a later time is indicated, this Fifth Quarterly Report contains the Monitor’s findings as of August 21, 2020. This Fifth Quarterly Report follows four Reports respectively dated March 13, 2020, April 17, 2020, May 26, 2020 and July 15, 2020, familiarity with which is assumed.

- As to the \$36 million which National Grid is required to pay under the Settlement, more than \$30 million of the funds have yet to be expended. That is, none of the \$20 million allocated for clean energy investments has been disbursed; and less than half has been paid for each of: (a) the \$7 million designated for the CAP, as to which some portion of the balance still may be reallocated due to low utilization of the CAP; and (b) the \$8 million allotted for the Efficiency Plan, which is intended to deliver a package of enhanced EE, DR and other gas conservation measures. As to the portion of the \$36 million paid by National Grid through March 31, 2020, the Monitor has observed these funds to be properly allocated to National Grid's shareholders, but National Grid has yet to comply with its sizable outstanding financial obligations under the Settlement.

- Finally, National Grid was found at the outset of the monitorship to have serious organizational deficits around its gas forecasting and planning process, and its risk and compliance functions. Pursuant to the Monitor's recommendations, National Grid has engaged consultants and has begun to overhaul these areas in material ways, but these efforts remain in nascent stages and their successful implementation remains uncertain.

A. Areas of Concern that Can Result in a Moratorium Due to a Lack of Gas Capacity

1. Revised Action Plan - Winter 2020/2021 Concerns

National Grid employs a robust team of professionals who manage the various elements required for National Grid to execute upon its Revised Action Plan. These professionals utilize an array of progress tracking and similar tools to monitor and report on the status of related projects. As a general matter, these efforts support transparency, collaboration and efficiency in the coordination and delivery of work pursued by National Grid under the Revised Action Plan. The Monitor has concern with the rigor and sufficiency of these efforts, however, insofar as National Grid has extended the target dates for multiple milestones of key projects under the Revised Action Plan, which raises questions as to the value, accuracy and reliability of the original target dates and as to the reporting around the progress achieved by National Grid.

This issue arises largely with permitting, a topic which National Grid executives acknowledge to be a significant risk for completion of the projects. When a delay arises in relation to obtaining a permit, however, National Grid executives treat it as a standard occurrence and push out their internal target date for receiving the permit. Even though the delay means that a stated deadline has been missed, such a shift appears not to alarm National Grid because, from its perspective, the change shortens a "float" period allotted to perform work on the project but should not result in National Grid's failing to meet the project's overall "need" date. Although such date-shifting seemingly may not result in a project's ultimate failure or missing the "need" date, such modifications occur with regularity and raise questions around how National Grid assigns deadlines, holds itself accountable for meeting deadlines, and measures risk related to missed deadlines and, most importantly, whether National Grid actually can complete these projects without imperiling the delivery of service to its customers in Winter 2020/2021.

Put another way, because National Grid routinely allows its deadlines to be readily shifted, they may not be viewed as actual deadlines and may not be acted upon by National Grid with sufficient urgency. Indeed, as observed in the First Quarterly Report (at 6), National Grid might have avoided the earlier moratorium “had it proactively taken more pronounced, aggressive steps earlier to address the risk of demand exceeding supply capacity.” National Grid should take care not to repeat its mistakes of the past. And while it may be the case, for now, that date changes under its Revised Action Plan do not jeopardize completing projects by the required in-service dates, one cannot readily tell which new or revised dates do constitute real deadlines having serious repercussions for completing the projects and doing so on time; the stakes are high, and these projects are critical to ensuring that National Grid’s customers receive gas service on the coldest days of the year for the upcoming Winter 2020/2021. In addition, senior management at National Grid may not receive adequate insight and internal reporting as to such timeline drifts in order to proactively manage the risks in these critical projects.

LNG - Greenpoint. As noted in the First Quarterly Report (at 17), National Grid has long planned to rely in part upon its LNG facility in Greenpoint in order to meet short-term gas demand. Given existing legal limitations restricting the operation of that facility, National Grid has pursued a memorandum of understanding with New York City (the “LNG MOU”) which would allow National Grid to truck LNG into the City and to unload it at a new trucking station to be built at Greenpoint. National Grid had assigned a target date of July 14, 2020 for the LNG MOU, which was not met. As of June 26, 2020, National Grid’s Steering Committee overseeing compliance with the Settlement received a report including a key performance indicator (“KPI”) stating that the LNG MOU was “late.” Additional weekly reports to the Steering Committee also identified the item as “late” and, when the original target date had actually passed, the KPI was downgraded in a July 17, 2020 report from “late” (with a red notation) to “at risk” (with an amber notation). According to a National Grid executive, the schedule had been “recalibrated” for the LNG MOU, and the original target date of December 4, 2020 to begin construction of the Greenpoint LNG truck station had been moved out to July 2021.

Put another way, as obtaining the LNG MOU by the target date became less attainable, National Grid “moved the goalposts” in a way that appeared to mollify and downgrade the risk to the project, even though the issue had not been resolved or mitigated. Neither the new deadline nor any explanation for the change was reported to the Steering Committee; subsequent reports only conveyed that “Greenpoint truck unloading station MOU in discussion with NY Mayor[’]s Office.” No deliberations or consequences ensued to address: (a) the importance of the original deadlines of July 14, 2020 for the LNG MOU and of December 4, 2020 for starting construction of the trucking station; nor (b) why missing those deadlines would not jeopardize National Grid’s plans for the project or the delivery of service to its customers in the Service Territory and should therefore be acceptable.

CNG - Glenwood. Raising similar concerns as to the validity and accountability surrounding National Grid’s internal deadlines and project planning, National Grid learned in late June 2020 that the Town of Oyster Bay would require a use variance for the Glenwood CNG expansion project, which is vital to National Grid’s ability to supply sufficient gas to customers

during a cold weather event in Winter 2020/2021 pursuant to its Revised Action Plan. Previously, National Grid had set deadlines: to receive all permits by July 27, 2020, to start construction on August 17, 2020, and to place the Glenwood facility into service by October 29, 2020. After learning that a use variance would be required and that a public hearing regarding the variance would not be held until August 6, 2020, National Grid shifted its timeline: to receive all permits for the Glenwood project by September 8, 2020, to start construction on September 9, 2020, and to place the Glenwood facility into service by November 9, 2020. A National Grid executive stated in an internal meeting that the revised schedule would “still support” the project’s “need” date of January 1, 2021, and National Grid did receive the use variance on August 20, 2020. However, National Grid’s pattern of revising deadlines raises concern about the reliability of its planning and necessarily increases the risk that projects ultimately may not meet their “need” date if deadlines continue to be missed. In addition, National Grid has yet to receive a final determination on a storm water pollution prevention permit which is required before construction may begin on the Glenwood project.

CNG - Inwood and Barrett. Glenwood is not the only project at risk for Winter 2020/2021. As described in the Monitor’s Fourth Quarterly Report (at 8), the Revised Action Plan depends upon three CNG sites: Riverhead (which is already operational), Glenwood (which is to be expanded), and Inwood (which is to be built). National Grid also is pursuing a site at Barrett in parallel so that it might bring the Barrett project forward if either Glenwood or Inwood cannot be completed on time. Yet National Grid’s pattern of delays and revised deadlines has arisen with the Inwood and Barrett sites as well.

As of May 2020, internal National Grid documents called for obtaining all permits for the Inwood project by July 15, 2020. When a delay arose regarding a curb-cut permit from the Town of Hempstead, however, National Grid pushed back to July 28, 2020 its target date to receive all permits for the Inwood site. The construction start date and in-service date remained scheduled for August 10, 2020 and December 15, 2020, respectively, and National Grid ultimately received all required permits and started construction at the Inwood site on time on August 10, 2020. If the pattern of shifting deadlines continues into the construction phase, it will increase the risk of National Grid failing to meet the “need” date in time for Winter 2020/2021.

With respect to the Barrett facility, National Grid employees reported at an internal meeting in early July 2020 that the DEC had notified National Grid that there would be a 30-day comment period before a decision could be made on National Grid’s air-permit application. According to a National Grid executive, the comment period “was news to us.” National Grid had planned to receive all permits for the Barrett facility by July 31, 2020, but then pushed back that deadline to September 14, 2020. National Grid then received the DEC air permit for Barrett on August 11, 2020. Despite receiving the air permit 10 days after the original deadline, National Grid altered its schedule and thereby “met” its new deadline. National Grid currently anticipates the Barrett facility to be in service by February 2021 and, insofar as National Grid may accelerate the construction schedule so that the Barrett site can be available sooner should delays arise with the Glenwood or Inwood projects, any additional delays could jeopardize National Grid’s ability to expedite the Barrett site, and thereby also increase the risk surrounding

National Grid’s ability to provide adequate supply to customers during a cold weather event in Winter 2020/2021. In an internal meeting in early August 2020, a National Grid executive reported the status of the Barrett site as “no major concerns.”

## 2. LT Reports - Substantial Work Remains

As to long-term projects, National Grid continues to take efforts toward implementing its recommendation from the LT Reports regarding LNG Vaporization and the ExC project, combined with incremental EE, DR and electrification. As to each item, substantial work and progress remain outstanding in order to achieve execution of these items.

As to LNG Vaporization, a number of permits remain to be obtained and, as remarked above and in the Fourth Quarterly Report (at 7-8), certain of these depend upon approval by New York City. For the ExC project to proceed, certain federal and state approvals are required, and these are not anticipated until 2021. Finally, National Grid stands at an early stage of establishing a program management office for EE, DR and electrification efforts; as indicated repeatedly in the Monitor’s Reports to date, much of National Grid’s forecasting and planning depends upon its successful implementation of such efforts so that gas demand does not outpace supply capacity in the future.

## 3. National Grid Acknowledges a Possible Future Moratorium

### a. PSC Proceeding

In connection with the PSC Proceeding, National Grid made submissions on July 17, 2020 and July 31, 2020 identifying locations “known to be vulnerable to supply constraints” which, as stated above, include the entire Service Territory (except for Staten Island). Set forth below are several relevant excerpts.

Acknowledging the risks in meeting demand forecasts should supply capacity not be available as planned, National Grid states in its submission of July 17, 2020:

Based on the updated demand forecast, the Downstate New York supply portfolio is sufficient to meet forecast Design Day requirements in 2020/21. Beginning in 2021/22, there is a forecasted supply imbalance that requires the Company to complete certain Planned Projects and secure/renew sufficient quantities of Short Term Contracts (city gate delivered services), which we believe is achievable but not without risk (discussed below). In subsequent years, the supply shortfall widens beyond what can be covered with any Short Term Contracts due to forecast demand growth, thus requiring incremental supply capacity and/or demand reduction solutions.

The supply portfolio assumes 100 percent availability of the interstate pipeline system, supply contracts, on-system assets (e.g., LNG), and third-party ESCO deliveries. “Planned Projects” include increased LNG vaporization

capabilities, CNG injections from new/expanded on-system sites, and anticipated volumes from the Iroquois Enhancement by Compression (“ExC”) Project. The supply portfolio assumes that these Planned Projects will be constructed and in-service on schedule. If one or more of these assumptions are not met, any potential supply imbalance could be exacerbated.

(Emphasis added.)

In its submission of July 31, 2020, National Grid more directly identifies potential risks in meeting projected demand and states that adequate supply exists for the next five years according to its modelling -- “[a]ssuming”:

(i) all planned on- and off-system projects are completed on schedule, (ii) city-gate delivered supplies are able to be secured, (iii) enhanced EE/DR/Electrification efforts reduce demand as per the most recent demand forecast (more than historical reductions), and (iv) CNG can be delivered in sufficient quantities during peak demand periods at all specified sites . . . .

In other words, following National Grid’s analysis and positions set out in the Revised Action Plan and in the LT Reports, National Grid continues to contemplate potential supply shortfalls within the next five years should any element of its planned projects for closing the gap between demand and supply capacity fail to come to fruition. As stated by a National Grid executive discussing the submissions to the PSC during the Gas Planning and Forecasting Governance Board meeting on August 18, 2020: “looking at moratorium plans is a good idea.”

Further warning that necessary gas capacity would be lacking and a moratorium required should its planned projects not be successfully implemented, National Grid states in its submission of July 31, 2020 to the PSC:

By 2027-28, projected [Service Territory] supply needs appear to exceed assumed available market capacity. If one or more of the planned projects assumed in service during joint modeling do not materialize, [National Grid and Con Edison] will experience supply shortfalls as soon as 2023-24. In this worst-case scenario, it is highly unlikely that [National Grid] could avoid declaring moratoriums.

As stated by another executive at the Governance Board meeting of August 18, 2020, National Grid is “looking at infrastructure constraints by 23/24” in the Service Territory.

b. Marquette Analysis

The Monitor’s First Quarterly Report (at 2) recommended that “consideration be given as to whether the current Design Day standard . . . remains an appropriate standard for future planning by National Grid.” This recommendation arose in part from the fact that the last Design Day -- currently defined as a 24-hour period with an average temperature of zero degrees in Central Park -- had not occurred since 1934 and therefore may no longer be the most

appropriate gauge for forecasting and gas planning efforts. National Grid accepted the Monitor's recommendation and retained Marquette which performed an independent study of National Grid's data.

Analysis produced to date by Marquette indicates that, rather than potentially overestimating demand in the Service Territory using its Design Day standard, National Grid instead may have underestimated future demand. This outcome arises from several differences in methodology between Marquette and National Grid which currently are the subject of focused discussion at National Grid. Although National Grid anticipates obtaining helpful learning from the Marquette analysis that might be incorporated into National Grid's forecasting process in the future, the preliminary view at National Grid is that the differences in methodology with Marquette that create the most material divergence in outcomes will not be suitable (in whole or in part) for the Service Territory and that National Grid's methodology generally takes into better account the specific characteristics of the Service Territory, unlike Marquette's approach which generically applies its methodology similarly across any jurisdiction.

For example, the Marquette study looks at wind as well as temperature when evaluating Design Day demand, and National Grid has measured temperature alone when forecasting in the Service Territory. Also in contrast, Marquette utilizes multiple weather stations, rather than National Grid's focus on Central Park. In addition, Marquette employs a variety of different statistical tools from National Grid, certain of which lean toward increasing demand forecasts, such as extrapolating trends over time without accounting for short-term events (like Covid-19). Marquette's study also builds in a standard deviation, or effectively a margin of error, that National Grid's forecasts do not include. Several additional aspects of the Marquette analysis require careful study at National Grid in reevaluating its methodology around Design Day.

In sum, National Grid's review of the Marquette analysis requires more time; it remains unclear whether any changes will develop in how National Grid approaches Design Day that would affect its forecast in material ways; and it seems doubtful as a preliminary matter that any adjustments that might be made in National Grid's methodology would result in an overall reduction in the demand forecast.

## B. Outstanding Items Required for National Grid's Compliance with the Settlement

### 1. \$8 Million Toward Efficiency Plan

As described in the Monitor's Third Quarterly Report (at 2-3), pursuant to Settlement ¶ VI.a, National Grid developed an Efficiency Plan to deliver a package of enhanced EE, DR and other gas conservation measures designed to reduce peak-day gas usage among current customers. National Grid agreed to spend an additional \$8 million to fund the Efficiency Plan for Winters 2019/2020 and 2020/2021, which is to be paid by National Grid's shareholders. National Grid historically has operated EE and DR programs, and the Settlement accordingly requires National Grid to spend the \$8 million to enhance the existing EE and DR programs with new efforts. Given the early stage of National Grid's efforts, the Monitor is able only at this time

to review National Grid's implementation of the Efficiency Plan for Winter 2019/2020 and certain efforts National Grid has underway for Winter 2020/2021.

a. Enhanced EE

C&I Customers. In order to incentivize C&I customers to participate in EE, National Grid increased the payments offered to C&I customers by \$1.00/therm<sup>2</sup> for installations to be completed by March 31, 2020, and for installations to be completed by September 30, 2020, all subject to a limit that the incentive be not more than 50% of the total project cost. Eighty-one customers participated in the C&I enhanced EE program. As of June 29, 2020, National Grid had invested \$106,624 in the C&I enhanced EE program and achieved an annual savings of 111,667 therms. A number of C&I customers invested the money to install EE equipment and qualify for rebates but had not yet submitted documentation to show the equipment has been installed. For C&I customers that have yet to submit post-installation documentation, National Grid is committed to spend an additional \$317,770 to achieve an additional annual savings of 340,185 therms.

Residential Customers. For residential customers, the enhanced EE programs included a high efficiency heating equipment ("HEHE") initiative which offers incentives for replacing natural gas heating equipment with high efficiency equipment such as hot water boilers, furnaces and water heaters. We reviewed the process used by National Grid to confirm installation of the HEHE. As of June 29, 2020, residential customers had installed over 2,000 pieces of HEHE, and National Grid had invested \$227,580 to achieve an annual savings of 233,837 therms. National Grid also offered a marketplace bundles program which aggregated a variety of products from the National Grid "Marketplace," an online store that facilitates the purchase of energy-saving products and services while offering instant rebates at the point of sale for certain products. As of June 29, 2020, residential customers had purchased over 9,660 Marketplace products and National Grid had spent \$238,950 on the Marketplace program to achieve an annual savings of 536,004 therms.

b. Enhanced DR

As previously reported by the Monitor, the enhanced DR program focuses on load (demand) shedding to reduce the amount of gas needed over a 24-hour period by eliminating gas load altogether for a period of time, in contrast to the existing DR program which only shifts load away from peak hours.

C&I Customers. The C&I enhanced DR program involves 6-hour events during which participating customers would switch to back-up fuel, change their process, or disable gas-fired equipment. For each event, participating customers receive an incentive based on the reduction in usage they produce during the peak hours of the gas system (4 AM to 10 AM) relative to their expected baseline over the course of a day. National Grid initially targeted a reduction of 1,500

---

<sup>2</sup> A therm is a unit of heat equal to the amount of heat required to raise one pound of water one degree Fahrenheit at one atmosphere pressure.

dekatherms (“Dth”) per event with an estimated \$1.75 million budget; that reduction target was increased to 3,000 Dth per event with a \$3.6 million budget. One hundred twenty-six customer facilities are participating in the C&I enhanced DR program representing a potential reduction in gas usage of 9,285.6 Dth per cold weather event. National Grid spent \$2,882,152 on the C&I enhanced DR program.

Residential Customers. National Grid offered a behavioral (no-incentive) residential and small-medium business (“residential/SMB”) program whereby National Grid would send email messages to customers prior to days forecasted for cold weather, alert them that the system would be experiencing high levels of use and provide tips on how they could reduce their energy use. National Grid called one test event for the behavioral EE program but was unable to determine how many customers turned back their thermostats nor an amount of load reduction that may have been achieved. National Grid also offered a residential bring-your-own-thermostat (“BYOT”) program, whereby customers who had wi-fi thermostats connected to a gas heating system could allow National Grid to turn down the temperature set point by 4 degrees for a 4-hour period in the morning or afternoon. Due to Covid-19, National Grid did not call a test event for the BYOT program. National Grid spent \$6,619 on the behavioral DR program and \$73,437 on the BYOT program.

## 2. \$7 Million Toward the CAP

Since the Fourth Quarterly Report, the number of claims under the CAP has increased from approximately 156 to approximately 203 claims (as of August 10, 2020). Approximately 120 of these claims have been paid, totaling approximately \$1.76 million. As noted in previous reports, it therefore appears likely that National Grid will have significant funds remaining out of the \$7 million allocated to customer assistance under the Settlement.

In order to validate National Grid’s information, we spoke to approximately 10 customers who had applied for customer assistance and found that, based on this sample of conversations, customers reported generally positive interactions with National Grid regarding the claims process (although certain customers expressed frustration about the moratorium). Most of these customers noted that the initial application process was “simple” and “easy,” and that National Grid employees were “easy to deal with.”

While National Grid has effectively removed any “cap” on the value of CAP claims it will pay out, National Grid does scrutinize higher-value claims more closely, including by working with an outside accounting firm to obtain and review documentation relating to more complex claims such as lost profits by commercial customers. National Grid has made efforts to approve and pay claims insofar as the applicant can provide some manner of documentation to support the claimed loss, and National Grid has denied only four claims in their entirety to date. Each of the denied claims was plainly ineligible under the CAP because either: (1) the claimant did not complete an application for service during the moratorium; or (2) the premises were located outside the Service Territory.

As to CAP funds paid out before the end of National Grid's fiscal year on March 31, 2020, National Grid produced documents demonstrating that such funds were appropriately charged "below the line" to shareholders rather than being charged in a manner that would have allowed National Grid to recover the costs through rates paid by customers. Because only a fraction of the CAP funds was paid out before the end of the fiscal year, however, and because most of the CAP funds have yet to be disbursed, the Monitor is unable to assess compliance relating to any further expenditures.

In sum, National Grid has been approving and paying substantiated claims under the CAP. However, some 80 claims remain under review. In addition, National Grid must still decide how it will allocate leftover CAP funds consistent with the Settlement and pursuant to Recommendation 4 from the Second Quarterly Report.

### 3. \$20 Million Toward Clean Energy

At this time, National Grid has spent none of the \$20 million allocated under the Settlement toward clean energy projects.

### 4. Reconnecting Customers

As previously set out in the Monitor's Second Quarterly Report (at 7-9), the Monitor evaluated National Grid's efforts to connect customers who had been denied service under the moratorium and found that, as required by the Settlement, "National Grid undertook and achieved 'best efforts' to contact applicants who were denied service and is connecting new customers and large commercial or industrial customers 'as soon as practicable.'"

As a further measure to verify National Grid's efforts to comply with this Settlement obligation, we validated the information provided by National Grid regarding its outreach and provision of service to customers by selecting a random sample of both residential and commercial and industrial customers from both the KEDNY and KEDLI service areas. The sample included applicants at premises with inactive accounts who were denied service, applicants for new service who were denied service, and applicants for new service who applied after the moratorium was lifted. We contacted the customers in the sample by telephone and verified the status of their service as reported by National Grid. Based on this testing, we reaffirm our finding that National Grid has complied with its obligations under the Settlement to use "best efforts" to contact applicants and to connect new and large commercial and industrial customers "as soon as practicable."

Furthermore, following the efforts described in the Monitor's Second Quarterly Report, National Grid continued to attempt to contact applicants affected by the moratorium but whom National Grid had been unable to reach. In July 2020, National Grid sent a final "close-out" letter to such applicants informing them again that National Grid was able to process their application, and that once service begins, a \$200 bill credit would be applied to their account. The close-out letter also informed the applicants that they could be eligible for reimbursement of expenses incurred due to the delay in being provided natural gas service. As of the Second

Quarterly Report, National Grid had not been able to establish contact with approximately 484 applicants who had been denied service. In the months since the Second Quarterly Report, this figure has been reduced to fewer than 170 applicants. In addition, National Grid's records indicate that it continues to meet new customer need dates at a similar rate as obtained in the absence of a moratorium.

## 5. Data Systems Regarding Applications for Service

The Monitor's Fourth Quarterly Report (at 9) found that National Grid had taken a positive early step towards improving National Grid's customer data systems. Specifically, National Grid held a "Brainstorming Workshop" with multiple employees to develop ideas for system improvements that are needed to avoid the inefficiencies National Grid experienced around customer data during the moratorium. National Grid subsequently indicated to the Monitor that National Grid already had multiple long-term initiatives underway to overhaul data systems and processes. National Grid currently intends to use these pre-existing initiatives as vehicles to address the Monitor's recommendation. By doing so, however, it is not apparent what specific steps National Grid is undertaking -- whether through the pre-existing initiatives or anew -- to ameliorate the particular problems discussed in the Monitor's Second Quarterly Report (at 8). As National Grid proceeds with its projects around customer data, National Grid should ensure that it is designing its systems and processes to address the specific deficiencies that National Grid experienced in connection with the moratorium.

### C. National Grid's Organizational Weaknesses Remain to be Addressed

#### 1. U.S. Chief Risk Officer - KPMG

Since April 2020, National Grid has operated with an interim U.S. Chief Risk Officer who continues to perform that role. In addition, based on the Monitor's review of internal emails from National Grid, the recruiting and interview process moving toward a permanent appointment for the role appears to be well advanced.

Further to the Fourth Quarterly Report (at 4-5), the U.S. Risk Committee continues to meet and to generate an initial risk reporting register. At present, the effort seeks to accomplish basic goals such as populating the register with clearly articulated risks, attributing ownership across appropriate executive leadership, and identifying suitable controls to mitigate risks. As to many items, National Grid remains months away from implementing controls, and even longer before testing will proceed to evaluate their effectiveness.

For example, National Grid appropriately has listed as a strategic risk that it "cannot meet gas supply requirements and anticipate future needs or alternatives in our service territories." National Grid attributes this risk to factors including "opposition to infrastructure projects, permitting and licensing issues, operational disruptions, engineering project execution, supply procurement issues, forecasting and planning error, and lack of commitment and execution to projected demand reduction." Among key controls that National Grid perceives to mitigate the risk, the gas scenario planning operations model (being implemented pursuant to the Monitor's

recommendation and with advice from E&Y, as discussed further below) stands as a core effort highly relied upon by National Grid to mitigate the risk to what National Grid would view to be an acceptable level. National Grid targets completion of that effort to be December 2020 and, until that time, National Grid properly deems the status to be “unsatisfactory” due to a “significant” control weakness.

## 2. U.S. Chief Compliance Officer - BCG

National Grid selected Boston Consulting Group to assist it in assessing and establishing an appropriate U.S. Compliance model. To this end, National Grid conducted two internal workshops in late July 2020, during which its executives considered key principles, such as the need to distinguish between the risk and compliance functions, and how to establish a framework for the strong testing of controls such that testing will operate independently from the management personnel holding day-to-day responsibilities for the processes being tested. The Monitor observed the second workshop and found the discussion by National Grid executives to be constructive, particularly in considering how best to establish an effective and independent testing process.

Previously on April 27, 2020, National Grid reported to the PSC that it had accepted the Monitor’s recommendation of the First Quarterly Report and would appoint a U.S. Chief Compliance Officer. As to establishing the new role over the subsequent months, however, National Grid did not meaningfully progress its effort. Almost four months later on August 17, 2020, National Grid informed the Monitor that it had determined not to recruit a U.S. Chief Compliance Officer but to have its U.S. General Counsel assume the additional role and responsibilities. Reporting to the U.S. General Counsel/U.S. Chief Compliance Officer, National Grid plans to create a Vice President of Compliance position overseeing four more junior positions. National Grid intends to fill all five new positions with current employees rather than hiring from outside the organization.

In a discussion with the Monitor on August 17, 2020, the U.S. General Counsel explained National Grid’s decision not to create a new role of U.S. Chief Compliance Officer, in part, because the National Grid organization is not sufficiently “mature” to support the new executive role. Rather than justify having the U.S. General Counsel absorb the additional role, this explanation instead punctuates why National Grid and its customers might be better served by National Grid’s creation of a standalone, senior and independent role of U.S. Chief Compliance Officer in its self-described “immature” organization. Additionally, National Grid’s decision to blend the roles raises concerns because:

(1) National Grid previously failed in a similar attempt to relegate compliance responsibilities to the U.S. General Counsel. As discussed in the First Quarterly Report (at 14), in 2014, National Grid appointed its then-U.S. General Counsel as the U.S. Chief Risk and Compliance Officer, and National Grid thereafter could not sustain this organizational structure.

(2) Because a standalone U.S. Chief Compliance Officer presumably would report to the U.S. President of National Grid with a dotted line to its board -- as compared to the U.S. General

Counsel, who is supervised by the U.K. General Counsel -- the creation of the new role and filling it with a new executive would permit greater independence and freedom for reporting concerns directly to National Grid's board and also bring greater focus on National Grid's operations in the United States.

(3) As observed in the First Quarterly Report (at 13-14), National Grid repeatedly turns to an overlapping team of senior executives to tackle significant issues -- across operations, forecasting, planning, risk and compliance -- by reshuffling their roles, adding to their responsibilities, and appointing them to new committees and "incident-response" teams. In these ways, National Grid already has stretched a core group of its senior executives to address demands arising out of the Settlement; making the U.S. General Counsel also perform the responsibilities of U.S. Chief Compliance Officer would be another example of such rearrangements; and this form of management is not sustainable over time given the ongoing challenges faced by National Grid.

Finally, institutional concerns arise with having the U.S. General Counsel take on the additional responsibilities of U.S. Chief Compliance Officer. Particularly in an organization that seeks to recover from a serious regulatory failure generating a lack of public confidence in its management, combining the two roles does not indicate -- in action or appearance -- the priority and importance to National Grid of ensuring its regulatory compliance and addressing any future violations in a manner that best protects the interests of its customers in the Service Territory. In contrast to a compliance role, the U.S. General Counsel bears responsibility for defending the National Grid franchise and the interests of its shareholders when issues arise; indeed, the U.S. General Counsel takes the lead on navigating all significant legal and regulatory issues for National Grid in the Service Territory and, in fact, negotiated the Settlement for National Grid when New York State challenged its wrongful conduct in declaring the moratorium. As Boston Consulting Group explicitly advised National Grid, concern arises with making the U.S. General Counsel also the U.S. Chief Compliance Officer because "[u]tilities that want to change compliance culture place CCO under CEO."

### 3. Gas Forecasting and Planning - E&Y

National Grid continues to take constructive steps to implement revisions to its forecasting and project planning processes consistent with recommendations by the Monitor and by E&Y, as described in the Fourth Quarterly Report (at 5-6). National Grid has appointed an executive as the "process owner" under the new framework, and it is conducting meetings to refine and socialize the new interrelationships required across its business units in order to improve its gas forecasting and planning process. For example, the Monitor attended a meeting led by the "process owner" on July 24, 2020, during which the new "future state" operating model was reviewed with relevant internal stakeholders, and a candid and thoughtful discussion took place regarding how the organization could best manage the enhanced communications and decisionmaking required under the new process. A similar meeting attended by the Monitor took place with the Gas Planning and Forecasting Governance Board on August 18, 2020.