

July 9, 2010

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Request to Modify Accelerated Replacement Program – FY 2011
Docket 4034 National Grid Gas**

Dear Ms. Massaro:

Enclosed for filing are ten (10) copies of National Grid's¹ request to modify the current Accelerated Replacement Plan ("ARP") for fiscal year ("FY") 2011. The Company is seeking to adjust the FY 2011 ARP program to shift some spending from service replacements to focus on main replacement work. The adjustment would continue to maintain the service replacement program on track for completion on schedule, while taking advantage of efficiency and productivity opportunities in main replacement work. Importantly, the budgeting adjustment will not in any way diminish the total projected spending for safety related replacements during FY 2011.

As background, on January 15, 2010, the Company submitted its proposed ARP program for FY 2011. Later, after a technical session and further consultation with the Division, on February 15, 2010 the Company submitted its final ARP plan, which the Commission approved on March 30, 2010. In general the ARP plan targets two categories of work: main replacement work and service replacement work. The main replacement plan ("MRP") is to replace small diameter cast-iron gas mains and bare-steel gas mains, while the service replacement plan ("SRP") is designed to replace over a four year period approximately 8,500 high-pressure bare-steel inside service lines. Under the approved ARP program for fiscal 2011, the Company projected a total spending of approximately \$26.8 million, with a total of about \$19.9 million on the 2011 MRP and about \$6.9 million on the SRP. The company is requesting approval of a modification to its plan which would shift a \$2.9 million portion of the SRP spending to MRP work during this fiscal year, while maintaining the total overall spending for safety work during the fiscal year.

In her testimony in the Docket No. 3943, Company witness Susan Fleck indicated that the proposed service replacement program was designed to replace the outstanding body of 8,261 bare steel high-pressure meter sets and services over a four year period at a rate of about 2,100 per year. As indicated in the Company's supplemental annual ARP report for FY 2010, the Company exceeded that target level of work and replaced 2,209 high-pressure bare steel inside services. Based on a number of factors described below, the Company is still proposing to meet a target level of service replacements during FY 2011 consistent with original targets established in Docket No. 3943 and approved by the

¹ Submitted on behalf of The Narragansett Electric Company d/b/a National Grid ("Company").

Commission (i.e., 2,100 SRPs), while increasing the number of miles of replaced leak-prone main. In its FY 2011 ARP plan filing the Company indicated that it would complete the target level of 2,125. The Company also noted that during FY 2010 it had experienced lower-than-expected unit costs for this work and that it would incorporate that into the projected service work, which was done with a revised plan that was filed on May 3, 2010. That revised plan, which both incorporated the new, lower service replacement unit costs and maintained the same total SRP funding level, resulted in increasing the target service replacements to a level far beyond that previously targeted on an annual basis for the program (e.g., 3,790 SRP units for FY 2011 vs. approximately 2,100 SRP units per year in Docket No. 3943). At the time of its FY 2010 FY Final Report, the Company was careful to indicate that the revised SRP replacement number was aggressive and that as the construction season unfolded the Company anticipated requesting Commission approval to shift some of the SRP spending to the at risk facilities covered by the MRP program. The Company is now requesting approval for it to adjust the level of high-pressure service replacements from 3,790 to the targeted level of 2,125. This would allow the Company to shift the remaining \$2.9 million from updated service replacement unit costs to the main replacement program to support the replacement of an additional five miles of risk-prone main during FY 2011, while continuing to meet the target level of service replacements necessary to complete the four-year service replacement program on schedule.

Proposed Amendments

There are several factors that cause the Company to make this program adjustment. The FY 2011 ARP that the Commission approved on March 30, 2010 assumed that the Company would complete replacement of 3,790 high-pressure inside services, a level significantly higher than the number of services incorporated into the original four-year replacement plan.

Meanwhile, the Company has recently renegotiated the collective bargaining agreement it has with the USW Local 12431 representing its Providence, Rhode Island gas construction and maintenance workers. Under the terms of the re-negotiated contract, the Company expects to realize significant work productivity gains while implementing its MRP. The Company has obtained key contract provisions that increase flexibility regarding tasks that contractors and Company crews can perform and reduce the number of unproductive “handoffs” between traditional union live gas work and contractor main work.

Attachment 1 provides a table comparing the following items: (1) the originally approved numbers in the rate case (Column B); (2) the FY 2011 approved spending and units (Column C); and (3) the proposed revised FY 2011 spending apportionment and units. As depicted in the table, the proposed revisions will have the following net impact on the FY 2011 ARP plan:

- reduce target SRP units from 3,790 to 2,125;
- shift the remaining \$2.9M to the MRP program;
- replace an additional 5 miles of leak-prone main under the MRP program; and
- maintain the same total spending level for FY2011 ARP and maintain approximately the same replacement rate of SRP units as achieved during FY 2010.

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In summary, these adjustments to the plan are responsible measures to capitalize on opportunities for increased efficiencies and redirect spending to much needed main replacement work without negatively impacting original SRP replacement rates. The Company has consulted with the Division and understands that the Division fully supports this adjustment to the FY 2011 ARP plan.

Thank you for your attention to this transmittal. If you have any questions, please call me at (401) 784-7667.

Very truly yours,



Thomas R. Teehan

Enclosures

cc: Leo Wold, Esq.
Steve Scialabba, RI Division

ATTACHMENT 1

Line No.	A	B	C	D
	Accelerated Replacement Program (ARP) Elements	Approved ARP Plan – Docket No. 3943	Approved FY 2011 ARP Plan - 4/30/10	Proposed FY 2011 ARP Plan Amendments
	Main Replacements Program (MRP)			
1	Bare Steel/Small Diameter & High Risk CI			
2	Service Replacements for Bare-Steel Main Replacement			
3	Total MRP Costs	\$19,784,112	\$19,890,873	\$22,809,600
4	# Miles	26	35	40
5	Cost / Foot	\$144	\$108	\$108
	Service Replacement Program (SRP)			
6	Bare Steel H.P. Inside Sets	\$6,906,250	\$6,906,250	\$3,878,125
7	# Units	2,100	3,790	2,125
8	Cost / Unit	\$3,250	\$1,825	\$1,825
9	Grand Total (Line 3 + 6)	\$26,690,362	\$26,797,123	\$26,687,725

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically submitted to the Commission and individuals listed below. One original and 9 copies were hand delivered to Luly Massaro, commission clerk.



Joanne M. Scanlon
National Grid

July 9, 2010
Date

**Docket 4034 – National Grid – Accelerated Replacement Plan
Service List as of 4/7/09**

Name/Address	E-Mail Distribution	Telephone/ Facsimile
Thomas R. Teehan, Esq. National Grid 280 Melrose St. Providence, RI 02907	Thomas.teehan@us.ngrid.com	401-784-7667 401-784-4321
	Joanne.scanlon@us.ngrid.com	
Leo Wold, Esq. Dept. of Attorney General 150 South Main Street Providence, RI 02903	Lwold@riag.ri.gov	401-222-2424 401-222-3016
	Jlanni@ripuc.state.ri.us	
	Dledversis@ripuc.state.ri.us	
	SScialabba@ripuc.state.ri.us	
	Mtobin@riag.ri.gov	
	dmacrae@riag.ri.gov	
Original & 9 copies with: Luly Massaro, Commission Clerk RI Public Utilities Commission 89 Jefferson Boulevard Warwick, RI 02888	lmassaro@puc.state.ri.us	401-780-2107 401-941-1691
	plucarelli@puc.state.ri.us	
	Sccamara@puc.state.ri.us	