

February 28, 2014

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4380 - Gas Infrastructure, Safety, and Reliability Plan FY 2014
Quarterly Report – 3rd Quarter FY 2014**

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed ten (10) copies of the Company's quarterly report for the third quarter of FY 2014 regarding the Company's Gas Infrastructure, Safety and Reliability ("ISR") Plan for FY 2014. Pursuant to the provisions of the approved ISR plan, the Company committed to providing quarterly reports on the progress of its Gas ISR programs to both the Commission and the Division.

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

Very truly yours,



Thomas R. Teehan

Enclosure

cc: Leo Wold, Esq.
Steve Scialabba
James Lanni
Don Ledversis

¹ The Narragansett Electric Company d/b/a National Grid (hereinafter referred to as "National Grid" or the "Company").

Gas Infrastructure, Safety and Reliability Plan
FY 2014 Quarterly Update
Third Quarter - Ending December 31, 2013

Executive Summary

Fiscal year 2014 (FY 2014) third quarter results (*Attachment A*) show that the Company spent approximately \$62.3 million for non-growth capital investment projects for the nine months ended December 31, 2013, against a year-to-date budget of approximately \$51.2 million and an annual approved budget of \$65.3 million. This represents an overall over-spending of approximately \$11.1 million through the third quarter and approximately 95% of the total FY 2014 annual budget. The Company is currently forecasting to over-spend the annual approved budget by approximately \$2.3 million at fiscal year-end. In the sections below, the Company explains the primary drivers for spending to-date for each category.

FY 2014 Year-to-Date Capital Spending by Category

Proactive Main Replacement Program – \$10.4 million over-spending variance to budget year-to-date

Through the third quarter of FY 2014, the Company spent \$38.3 million of a projected year-to-date third quarter budget of approximately \$27.9 million, resulting in an over-spending variance of \$10.4 million. To date, the Company has installed 52 miles of new main and has abandoned 44 miles of leak prone pipe. At this time, the Company is on-target to meet its proposed abandonment target of 50 miles of leak prone gas main for the fiscal year. The Proactive Main Replacement Program is currently projected to be over-budget by approximately \$5.6 million for the fiscal year-end.

Service Replacement Program – \$0.2 million under-spending variance to budget year-to-date

Through the third quarter of FY 2014, the Company spent approximately \$2.4 million of a projected year-to-date third quarter budget of \$2.6 million, resulting in an under-spending variance of \$0.2 million. To date, under the Service Replacement Program the Company has replaced 562 services of the 1,100 high-pressure services planned. As noted in the second quarter report, back at the beginning of CY2013, the Company reported that there were 2,200 high pressure unprotected steel services with inside meter sets remaining in Rhode Island. These 2,200 services would be replaced over the next two fiscal years (1,100 each year). Due to a recent data scrubbing effort performed by the Company, the remaining inventory has been reduced significantly. As a result, the Company has reduced its forecast for FY2014 from 1,100 to 700 and has proposed in its FY2015 filing to replace the remaining 500 services. The Service Replacement Program is currently projected to be under-budget by approximately \$0.3 million for the fiscal year-end.

Public Works Program –\$2.2 million over-spending variance to budget year-to-date

Through the third quarter of FY 2014, the Company spent \$3.4 million of a projected year-to-date third quarter budget of \$1.2 million, resulting in an over-spending variance of \$2.2 million. Since Public Works spending requires the coordination of work with state and municipal entities, the major driver of this over-spending was the relocation of gas mains to accommodate sewer and drain construction to meet the project schedule for the Narragansett Bay Commission (“NBC”), which is 50% reimbursable. To date, the Company has installed 4.1 miles of new gas main and has abandoned 3.4 miles of leak-prone pipe, the majority of which is associated with the NBC work. As a result of this year-to-date spending and an anticipated level of reimbursements, at this time, the Company is projecting that the Public Works Program will be over-budget by \$1.9 million at fiscal year-end.

Reactive Main Replacement Program – On budget year-to-date

Through the third quarter of FY2014, the Company replaced approximately 150 feet of leak-prone gas main as part of the Reactive Main Replacement Program. As discussed in the second quarter report, it is anticipated that the need for spending in this category of work will be reduced as the Company's aggressive Proactive Main Replacement Program continues. As such, the Company has adjusted the budget accordingly for this category in FY 2015. At this time, the Company anticipates being on budget by fiscal year-end.

Mandated Programs – \$0.9 million over-spending variance to budget year-to-date

Through the third quarter of FY 2014, the Company spent \$11.1 million of a projected year-to-date third quarter budget of \$10.1 million, resulting in an over-spending variance of \$0.9 million. At this time, the Mandated Programs category is projected to be under-budget by \$0.8 million by the end of the fiscal year primarily due to less than anticipated Cast Iron joint encapsulation work.

Reliability Programs –\$1.2 million over-spending variance to budget year-to-date

Through the third quarter of FY 2014, the Company spent \$6.7 million of a projected year-to-date third quarter budget of \$5.5 million, resulting in an over-spending variance of \$1.2 million for this category. At this time, spending for this category is expected to be slightly under-budget by \$0.6 million for the fiscal year primarily due to less Gas Planning, Water Intrusion and Valve Work.

Special Projects (I-195, Exeter LNG Boil-off Compressor and Gas Expansion Pilot)
\$3.4 million under spending variance to budget year-to-date

Through the third quarter of FY2014, there has been no spending in this category of work.

The proposed work for the I-195 project for FY 2014 is continuing to be coordinated with the Rhode Island Department of Transportation.

The Company has limited spending in its Gas Expansion Pilot Program in the first year of this pilot program. As a result, the Company has proposed in its FY2015 Gas ISR Plan a number of modifications to the Gas Expansion Pilot Program, which will simplify and expand the program and address issues raised by customers. If approved by the Commission, spending on the Gas Expansion Pilot Program is expected to ramp-up, starting in the spring of CY 2015.

The Project team associated with the Exeter LNG Boil-off Compressor project has evaluated a vendor for engagement, based on proposals received for the design/build scope. Costs associated with engineering, design and the procurement of certain materials are also expected during the fourth quarter of FY 2014.

Consequently, at this time, these delays and extensions mentioned above are projected to result in an under-spending of approximately \$3.5 million for the Special Projects category of work for FY 2014.

Attachment A

**US Gas-Distribution
Narragansett Electric Company d/b/a National Grid - RI Gas
Capital Spending by Investment Categories
FY 2104 thru December 31, 2013
(\$000)**

INVESTMENT CATEGORIES	FYTD			FY14 - Total		
	Budget	Actual	Variance	Budget	Forecast	Variance
Proactive Main Replacement Program	\$27,931	\$38,299	\$10,368	\$33,362	\$39,000	\$5,638
Service Replacement Program	\$2,602	\$2,426	(\$176)	\$3,100	\$2,800	(\$300)
Public Works Program*	\$1,195	\$3,413	\$2,218	\$1,821	\$3,741	\$1,920
Reactive Main Replacement Program	\$406	\$390	(\$15)	\$500	\$500	\$0
Mandated Program	\$10,145	\$11,074	\$929	\$13,522	\$12,690	(\$832)
Reliability Programs	\$5,485	\$6,725	\$1,240	\$8,987	\$8,386	(\$601)
Special Projects (I-195, Exeter, LNG and Gas Pilot)	\$3,435	\$0	(\$3,435)	\$4,000	\$470	(\$3,530)
TOTAL CAPITAL INVESTMENTS	\$51,198	\$62,327	\$11,129	\$65,291	\$67,587	\$2,296

() denotes an under-spend

*Public Works Program includes reimbursements which will be credited as received throughout the year.