

March 18, 2013

VIA HAND DELIVERY & ELECTRONIC MAIL

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

**RE: Docket 4380 - National Grid's Proposed Fiscal Year 2014
Gas Infrastructure, Safety, and Reliability ("ISR") Plan
Gas Expansion Plan Pilot Program - Update**

Dear Ms. Massaro:

On January 31, 2013, National Grid¹ submitted a more detailed version of the Gas Expansion Plan, which is a pilot project within the FY 2014 Gas ISR Plan. Since then, the Company and the Division of Public Utilities and Carriers have agreed upon revised language regarding Contribution in Aid of Construction payments due from late enrolling participants who seek to take gas service within two years after an expansion-plan main project has been completed. I have enclosed an update of the expansion plan that includes the revision to page 5 of the plan.

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: Docket 4380 Service List
Steve Scialabba, Division
Leo Wold, Esq.

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

Gas Expansion Pilot Program

Introduction

The Gas Expansion Pilot Program provides for the prudent expansion of the Company's gas infrastructure in order to remove the capital-cost barriers preventing customers from taking advantage of historically low gas commodity prices. The pilot program is designed to support projects that provide the opportunity to bring gas service to more customers where the costs would otherwise have acted as a barrier. Once projects have been identified for participation, the program would off-set up to 75 percent of the traditionally required customer contribution in aid of construction, as necessary for the target customer(s) to commit and proceed with the project.

I. Pilot Scope

- a. The Gas Expansion Pilot Program would specifically target expansion activity that would not otherwise occur in the normal course of business. As such, this activity would be incremental to the Company's existing gas growth plans for Rhode Island.
- b. The pilot would have three basic components:
 - i. Program Budget & Guidelines
 - ii. Pilot Project Selection Process
 - iii. Progress Reporting and Evaluation Protocols

II. Program Budget & Guidelines – The Gas Expansion Pilot Program would administer a \$3 million budget for pilot projects that meet specific “Expansion Pilot Criteria.” In order to advance projects that meet these criteria, the program would off-set up to 75 percent of the traditionally required customer contribution, as necessary for the target customer(s) to commit and proceed with the project. This off-set could be used for as few as five customers, or could be used to reduce the contribution from many more customers when the opportunity arises to serve a larger group. Given expected timing for project screening, engineering, customer engagement, permitting and construction, the pilot budget may be used in the fiscal year 2014 and, where necessary, may be carried over into fiscal year 2015.

a. Project Categories - Projects will be selected based on the type of customers served:

i. Residential Only. This category will be limited to only those projects that serve existing residential premises. Qualifying projects must have five committed customers before construction may begin. The Program will provide greater support (75 percent of project cost) for projects that score highest on prioritization. The Company, at its discretion, may offer a lower level of support (50 percent of project cost) for projects that score lower if such differentiation is deemed appropriate after initial project analysis

and screening. \$500,000 will be allocated for the Residential Only category with the intent of supporting in excess of 10 residential projects and more than 100 residential customers.

- ii. All Other.** All projects that do not qualify under the Residential Only category will be considered in the All Other category. Qualifying projects must have five committed customers and the potential to serve at least 20 residential customers. Additionally, the final scope for projects in the All Other category must provide access to gas service to potential customers which are a minimum of 80% residential by count. The Program will provide greater support (75 percent of project cost) for projects that score highest on prioritization. The Company, at its discretion, may offer a lower level of support (50 percent of project cost) for projects that score lower if such differentiation is deemed appropriate after initial project analysis and screening. \$2.5 million will be allocated to the All Other category.

- b. Expansion Pilot Criteria** - Within each category, individual projects will be prioritized based on the following criteria:

- i.** Project “Efficiency Ratio” will be measured as Potential Added Load / Project Cost (MMBtu/\$). This factor will be weighted at 70 percent.
 - ii.** Reliability Benefits will be determined qualitatively by Engineering based on the ability to materially improve system reliability (e.g. through the completion of a system loop). This factor will be weighted at 30 percent.
 - iii.** Beyond the two criteria above, the Program will take into consideration the timing of paving and other public works projects in order to sequence and prioritize projects. This will minimize costs and disruptions in the communities that are served.
 - iv.** Projects which are expected to encounter permitting or other construction related obstacles which could lead to unanticipated costs or protracted timelines may be removed from the Program at the Company’s discretion.
- c. Program Guidelines** – In addition to the above, the following program guidelines will apply:
- i.** Customer(s) remain responsible for the remaining CIAC amounts not supported under the program. In cases where multiple

customers will bear the remaining cost, that cost will be allocated among the customers proportionally based on projected load.

ii. Sufficient customer commitments to cover the balance of project costs must be obtained prior to construction. The form of commitment will be established by National Grid and made available to all customers in advance.

iii. Customers benefiting from the Gas Expansion Pilot Program would not be entitled to refunds as other subsequent customers take service on pilot segments. For up to two years beyond a project completion date, those subsequent customers would be required to pay the same CIAC amount as the original participants, and the amounts paid by those subsequent customers would be retained for assignment into future ISR budgets.

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iv. If within the initial term of the Gas Expansion Pilot Program, customer commitments have been obtained for a project that has met all other requirements, that project will be funded and constructed even if it cannot be completed within the same initial term. Recovery of funds for such projects will be the same as for those completed within the initial term.

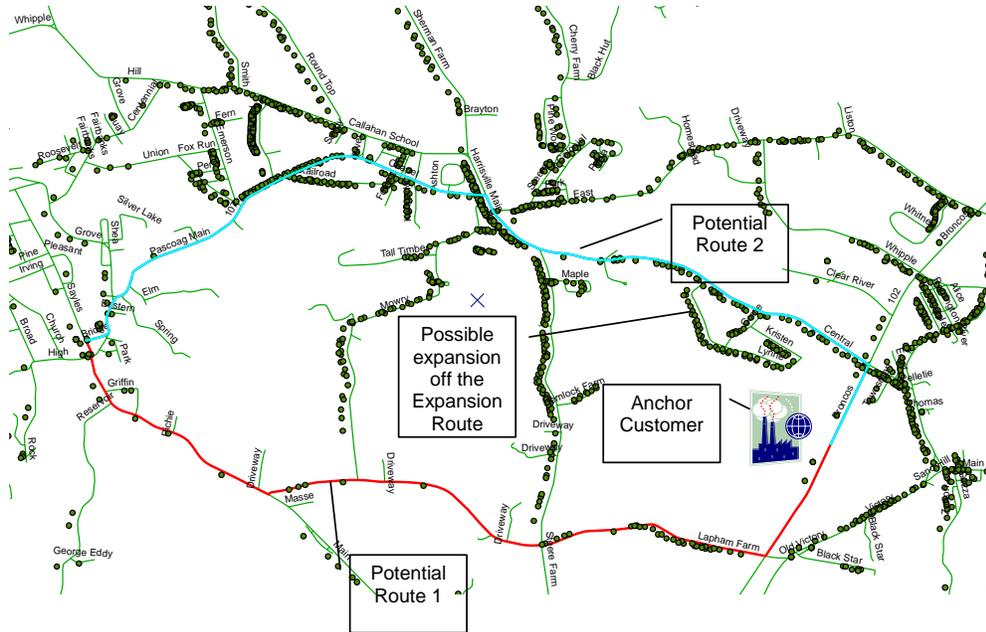
III. Pilot Project Selection Process – The Company proposes to conduct a number of joint customer/engineering analyses to cost effectively evaluate targeted capital investments to expand the gas system where aggregate demand for gas service would economically justify expansion. The two primary analytical methods will be Anchor Point Analysis and Wide Area Analysis.

a. Anchor Point Analysis. This strategy is based on identifying a large commercial/industrial prospect that is projected to have a high load potential and having it serve as an anchor to bring gas to an area along the proposed expansion route from existing distribution infrastructure to the anchor.

i. Anchor Point Analysis involves leveraging spatial analysis to size the expansion opportunity in terms of added load and cost to expand. Anchor point analysis allows for scenario planning across multiple potential routes, and the ultimate selection of the route that maximizes potential load served, while minimizing the high level estimated cost to expand.

ii. Once the Anchor customer has been identified, it is plotted on a map in relation to the existing distribution network and the overall view of the market. Several routes are then plotted from the existing distribution network to the Anchor customer. Analysis is

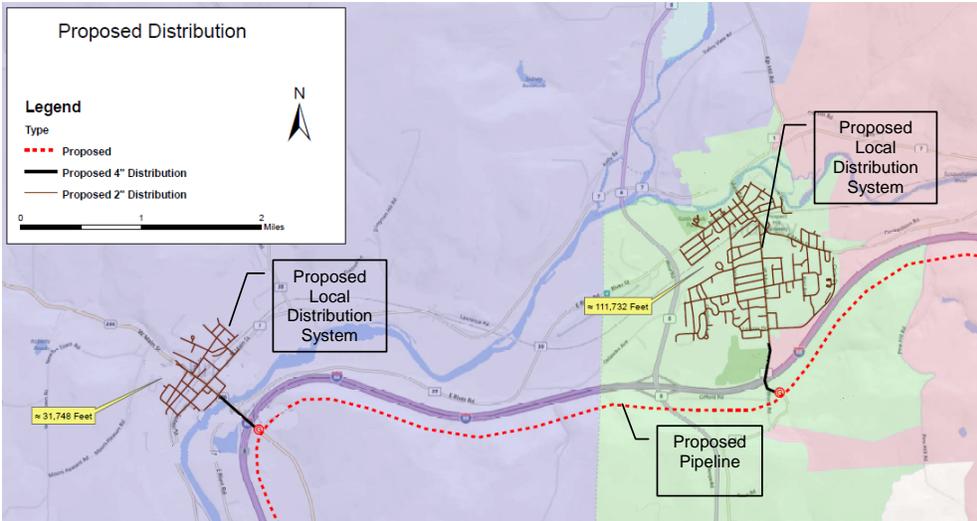
then performed to select the best route. The process is depicted in the following graphic:



b. Wide Area Analysis. This strategy is based on identifying and ranking potential expansion areas with sufficient market demand for gas service to support investment in gas distribution infrastructure. This would also

entail integrating engineering data and analyses into a market-based potential- growth opportunities analysis in an effort to support the exploration and evaluation of various project opportunities.

- i.** Evaluation of the territory as a whole involves leveraging spatial analysis to size the expansion opportunity in terms of new load and the cost to expand. Like Anchor Point Analysis, Wide Area Analysis allows for ranking potential areas of expansion based on maximizing load potential while minimizing the high level estimated cost to expand.
- ii.** Wide Area Analysis would produce information to enable the ranking of possible expansion opportunities by level of concentrated potential. High level engineering cost estimates would be determined for the possible expansion areas and integrated with market potential analyses leading to a determination of the potential economic savings to new customers and the cost effectiveness of providing service to the selected localities. The process is depicted in the following graphic;



- c. The primary requirements for performing Anchor Point and Wide Area Analysis include having as complete a view of the market place as possible, identifying constraints to expansion, understanding engineering costs and potential load at each premise. To accomplish this, National Grid has compiled a view of every parcel in its service territory, and has spatially aligned it with its existing distribution network. With a detailed understanding of every developed parcel in the territory and the potential load that exists at each parcel, specific geographical sub-regions can be evaluated and ranked consistently. Every parcel in the view is attributed with several pieces of information, including:

- Whether the parcel is developed or not
- Whether the parcel is heating or non-heating.
- Whether the parcel is an existing customer or not.
- Whether the parcel is residential, commercial, or multi-family.
- What the rate class for the parcel is or is projected to be if it is currently a non-customer, or a customer with growth potential.
- What the expected annual load of the customer currently is, or is projected to be, if it is a non-customer.

IV. Progress Reporting and Evaluation Protocols – In order to maximize transparency and provide for continuing review and assessment of the Gas Expansion Pilot Program, results and activity from the program will be reported regularly and specific analysis for program evaluation will be conducted.

- a.** Program activity will be reported quarterly and will include the following:
 - i.** Number of projects evaluated including for each project the estimated cost, estimated potential load served, and potential number of customers served (residential and commercial).

