

August 22, 2014

BY HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4474 - Gas Infrastructure, Safety, and Reliability Plan FY 2015
Quarterly Update – First Quarter Ending June 30, 2014**

Dear Ms. Massaro:

On behalf of National Grid¹, I have enclosed for filing, in the above-referenced docket, ten copies of the Company's fiscal year (FY) 2015 Gas Infrastructure, Safety, and Reliability (ISR) Plan quarterly update for the first quarter ending June 30, 2014. Pursuant to the provisions of the approved FY 2015 Gas ISR plan, the Company committed to providing quarterly updates on the progress of its Gas ISR programs to the PUC and the Division.

Thank you for your attention to this matter. If you have any questions, please contact me at (781) 907-2121.

Very truly yours,



Raquel J. Webster

Enclosure

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

¹ The Narragansett Electric Company d/b/a National Grid (Company).

Certificate of Service

I hereby certify that a copy of the cover letter and/or any materials accompanying this certificate were electronically transmitted to the individuals listed below.

Copies of this filing will be hand delivered to the RI Public Utilities Commission and to the RI Division of Public Utilities and Carriers.

Joanne M. Scanlon

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Docket No. 4474 National Grid's FY 2015 Gas Infrastructure, Safety and Reliability Plan - Service List 01/07/14

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Gas Infrastructure, Safety and Reliability Plan

The Narragansett Electric Company

FY 2015 Quarterly Update

First Quarter - Ending June 30, 2014

Executive Summary

Fiscal year 2015 (FY 2015) first quarter results (*Attachment A*) reflect that the Company¹ spent approximately \$16.07 million of an approved quarterly budget of \$14.53 million, resulting in a first quarter over spending variance of \$1.55 million. This includes actual spending of \$16.01 million for non-growth capital investment projects as compared to a quarterly budget of approximately \$14.43 million and an actual spending of \$70,000 for Operations and Maintenance (O&M) expenses against a quarterly budget of \$100,000. To date, the \$16.07 million represents approximately 22% of the total FY 2015 annual gas ISR plan budget of \$71.70 million. In the sections below, the Company explains in more detail the primary drivers for spending to-date for each category.

FY 2015 Capital Spending by Category

Proactive Main Replacement Program – \$1.80 million over-spending variance to budget year-to-date

For the first quarter of FY 2015, the Company spent approximately \$8.27 million of a projected first quarter budget of \$6.47 million, resulting in an over-spending variance of \$1.80 million.

¹ The Narragansett Electric Company d/b/a National Grid (National Grid or the Company).

The primary drivers of this overspending were increased costs associated with the installation of mains and services. To date, the Company has installed 16.8 miles of new main and has abandoned 4.1 miles of leak prone pipe. This is on target to meet the Company's proposed replacement of 53 miles of leak-prone gas main for the fiscal year. As the Company noted in its FY 2014 Annual Reconciliation Filing, the Company is replacing more cast-iron main segments in urban areas, such as in the City of Providence, which has resulted in higher unit costs for the program. The replacement of cast-iron mains in more population-dense areas has continued in the first quarter of this fiscal year. The remaining main replacement candidates are currently being assessed to gain a better understanding of their overall impact on the full Proactive Main Replacement Program budget. Further information and insights in regard to future budget forecasts and impacts will be provided with the second quarter report.

Service Replacement Program – \$0.14 million under-spending variance to budget year-to-date

For the first quarter of FY 2015, the Company spent \$159,000 of a projected first quarter budget of \$300,000, resulting in an under spending variance of \$141,000. To date, under the Service Replacement Program, the Company has replaced 25 services of the total 167 high-pressure services planned for the first quarter. The services replacements, which remain in the program, are typically the most difficult to schedule and the most complex to replace. As such, the cost to complete and level of replacements that were completed in the first quarter of FY 2015 is reflective of these factors. The Company remains committed to addressing the remaining replacements and addressing the future scheduling and cost challenges necessary to meet its goal of replacing all 500 services.

Public Works Program –\$0.18 million under-spending variance to budget year-to-date

For the first quarter of FY 2015, the Company spent \$0.83 million of a projected first quarter budget of \$1.01 million, resulting in an under spending variance of \$0.18 million. The Public Works spending requires the coordination of work with state and municipal entities. To date, the Company has installed 1.8 miles of new gas main and has abandoned 0.2 miles of leak prone pipe. As a result of this first quarter spending, the Company anticipates that the Public Works Program will be on budget at year-end.

Reactive Main Replacement Program – \$0.83 million over-spending variance to budget year-to-date

Through the first quarter of FY 2015, the Company spent approximately \$0.85 million for Reactive Main Replacements compared to a quarterly budget of \$25,000, which resulted in a first quarter over spending variance of \$0.83 million. As noted in the Company's FY 2015 Gas ISR Plan, although the Company's aggressive spending in the Proactive Main Replacement Program has lessened the need for the level of projected spending and reactive main replacements, the Company did experience the need to respond to two projects in the first quarter of FY 2015. However, at this time, the Company is continuing to examine the classification of the work associated with these two projects, and once completed, may reclassify some or all of the \$0.85 million costs to other categories in a future report.

Mandated Programs – \$0.76 under-spending variance to budget year-to-date

For the first quarter of FY 2015, the Company spent approximately \$3.68 million of a projected first quarter budget of \$4.45 million, resulting in an under-spending variance of \$0.76 million.

To date, the primary driver was the under spending for meter replacements of \$0.60 million. At this time, the Mandated Programs category is projected to be on budget at fiscal year-end.

Reliability Programs – \$0.17 million over-spending variance to budget year-to-date

For the first quarter of FY 2015, the Company spent \$2.20 million of a projected first quarter budget of \$2.03 million, resulting in an over spending variance of \$0.17 million for this category. At this time, spending for this category is expected to be on budget at the end of the fiscal year.

Special Projects (I-195, Exeter LNG Boil-Off Compressor and Gas Expansion Pilot) – \$0.14 under-spending variance to budget year-to-date

Although the Company did not spend any of the \$140,000 budgeted for the first quarter of FY 2015, as discussed below, the Company expects that spending in this category will begin and accelerate in the second quarter of the fiscal year.

At this time, proposed work for the I-195 project for FY 2015 is being coordinated with the Rhode Island Department of Transportation, with construction scheduled for the second quarter of FY 2015.

In addition, as noted in the FY 2015 Gas ISR Plan, spending on the Company's Gas Expansion Pilot Program was suspended pending a decision from the Rhode Island Public Utilities Commission (PUC) for approval of the Company's proposed modifications to the program. Since the PUC's approval of those modifications in Docket No. 4474, throughout the first quarter of FY 2015, the Company has been aggressively marketing the Gas Expansion Program and has received sufficient customer commitments related to four projects, which are expected

to begin in the second quarter of FY 2015. At this time, those projects are expected to result in the installation of 22,000 feet of main with the potential to service approximately 360 customers.

Finally, during the first quarter of FY 2015, the Project team working on the Exeter LNG Boil-off Compressor project completed its review of the initial engineering and design related documents for the project provided by a third-party vendor. Construction on this project began at the end of the first quarter of FY 2015, with these costs to be reflected in the second quarter report.

FY 2015 O&M Spending

\$0.30 million under-spending variance to budget year-to-date

In the FY 2015 Gas ISR Plan, the Company agreed to track the incremental O&M expenses associated with the hiring, training, and work of eleven new hires required for the acceleration of replacement of leak-prone pipe relating to the Proactive Main and Public Works work in FY 2015. For the first quarter of FY 2015, the Company incurred O&M expenses totaling \$70,000 for these eleven new hires against a quarterly budget of \$100,000, resulting in an under spending variance of \$30,000 for the first quarter. At this time, the Company expects the O&M category to complete the fiscal year on budget.

Attachment A

**US Gas-Distribution
The Narragansett Electric Company d/b/a National Grid - RI G
Capital Spending by Investment Categories
FY 2105 thru June 30, 2014
(\$000)**

INVESTMENT CATEGORIES	FYTD			FY15 - Total		
	Budget	Actual	Variance	Budget	Forecast	Variance
Proactive Main Replacement Program	\$6,468	\$8,268	\$1,800	\$36,500	\$36,500	\$0
Service Replacement Program	\$300	\$159	(\$141)	\$1,500	\$1,500	\$0
Public Works Program*	\$1,011	\$832	(\$179)	\$3,857	\$3,857	\$0
Reactive Main Replacement Program**	\$25	\$854	\$829	\$200	\$200	\$0
Mandated Program	\$4,450	\$3,685	(\$765)	\$14,140	\$14,140	\$0
Reliability Programs	\$2,032	\$2,207	\$175	\$10,424	\$10,424	\$0
Special Projects (I-195, Exeter LNG and Gas Pilot)	\$140	\$0	(\$140)	\$4,675	\$4,675	\$0
TOTAL CAPITAL INVESTMENTS	\$14,426	\$16,005	\$1,580	\$71,296	\$71,296	\$0
O&M	\$100	\$70	(\$30)	\$400	\$400	\$0
TOTAL CAPITAL and O&M	\$14,526	\$16,075	\$1,550	\$71,696	\$71,696	\$0

() denotes an under-spend

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

** The Company is continuing to examine the work associated with this category and may reclassify costs in a future report.