

May 16, 2016

BY HAND DELIVERY AND ELECTRONIC MAIL

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

**RE: Docket 4540 - Gas Infrastructure, Safety, and Reliability Plan
Quarterly Update – Fourth Quarter Ending March 31, 2016**

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) 2016 Gas Infrastructure, Safety, and Reliability (ISR) Plan quarterly update for the fourth quarter ending March 31, 2016. Pursuant to the provisions of the approved FY 2016 Gas ISR Plan, the Company committed to providing quarterly updates on the progress of its Gas ISR program to the Rhode Island Public Utilities Commission and the Rhode Island Division of Public Utilities and Carriers.

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

Very truly yours,



Raquel J. Webster

Enclosures

cc: Docket 4540 Service List
Leo Wold, Esq.
Steve Scialabba
James Lanni
Don Ledversis

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

Certificate of Service

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

Paper copies of this filing are being hand delivered to the Rhode Island Public Utilities Commission and to the Rhode Island Division of Public Utilities and Carriers.



Joanne M. Scanlon

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Date

Docket No. 4540 - National Grid's FY 2016 Gas Infrastructure, Safety and Reliability (ISR) Plan - Service List 1/8/15

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Gas Infrastructure, Safety, and Reliability Plan

The Narragansett Electric Company

FY 2016 Quarterly Update

Fourth Quarter - Ending March 31, 2016

Executive Summary

In total, actual spending was \$94.36 million as compared to the annual plan budget of \$76.83 million. Fiscal year (FY) 2016 results (*Attachment A*) reflect that the Company¹ spent approximately \$26.38 million on a budget of \$19.59 million, resulting in a FY over-spending variance of \$6.79 million on non-discretionary work (i.e., work required by legal, regulatory code and/or agreement). Further, the Company has spent \$67.49 million on a budget of \$56.68 million, resulting in a fiscal year over-spending variance of \$10.81 million on discretionary work. Gas Infrastructure, Safety, and Reliability Operation and Maintenance (O&M) costs total \$0.49 million on a budget of \$0.56 million, resulting in an under-spend variance of \$0.07 million. Below, the Company explains in more detail the primary drivers for spending for the fiscal year for each category.

FY 2016 Capital Spending by Category

Non-Discretionary Work²

Service Replacement Program – \$1.29 million over-spending variance to fiscal year budget

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

² Non-Discretionary programs include those required by legal, regulatory code and/or agreement with limited exceptions.

For FY 2016, the Company committed to address the remaining services in this category. In the FY 2016 Gas ISR Plan, the Company anticipated that there would be 200 remaining services in FY 2016. However, because of the harsh winter conditions experienced in FY 2015, there were an additional 128 services to be completed above the anticipated 200 services for FY 2016. For FY 2016, the Company spent approximately \$1.79 million compared to a fiscal year budget of \$0.50 million, resulting in an over-spending variance of \$1.29 million. Under the Service Replacement Program, the Company has replaced 328 services in FY 2016. The services replacements completed in FY 2016 were typically the most difficult to schedule and the most complex to replace. The remaining population included challenging commercial and industrial customers with larger service lines and multi-meter connections. However, the Company committed to and has completed the replacement of all services targeted under this program.

Public Works Program – \$3.14 million over-spending variance to fiscal year budget

For FY 2016, the Company spent a net of \$7.73 million against a fiscal year budget of \$4.59 million, resulting in a total net variance of \$3.14 million. The total net spend includes project spending of \$8.72 million and reimbursements of \$0.99 million. The key drivers for this over-spending were mainly driven by higher replacement costs associated with a more challenging mix of projects performed in coordination with state and municipal entities, along with field construction contract renewal and expansion and implementation of enhanced safety practices. For FY 2016, the Company installed 7.6 miles of new gas main and abandoned 8.1 miles of leak prone pipe. Work completion aligns closely to the original plan of eight miles of gas main replacement. Significant projects completed during the year include: Kickemuit Road, Warren, Division Street, Providence, Orchard Ave, Providence, and Reservoir Ave, Cranston.

Reactive Main Replacement Program – \$0.05 million over-spending variance to fiscal year budget

For FY 2016, the Company spent approximately \$0.25 million for Reactive Main Replacements compared to a fiscal year budget of \$0.20 million, which resulted in a fiscal year over-spending

variance of \$0.05 million. As noted in the Company's FY 2016 Gas ISR Plan, 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 from prior year levels.

Mandated Programs – \$2.31 million over-spending variance to fiscal year budget

For FY 2016, the Company spent approximately \$16.61 million against a fiscal year budget of \$14.30 million, resulting in an over-spending variance of \$2.31 million. The primary driver of the over-spending variance was the higher costs for Leaks, Non-Leaks-Other (i.e., service valve installation) and corrosion work. This was due in part, to prior year carryover (e.g., paving) resulting from prior severe winter conditions and incremental work units within the Non-Leak Other and corrosion categories (i.e., cathodic protection). These increased work units are required to comply with regulatory codes and commitments.

Discretionary Work³

Proactive Main Replacement Program – \$12.25 million over-spending variance to fiscal year budget

For FY 2016, the Company spent approximately \$58.39 million of a fiscal year budget of \$46.14 million, resulting in an over-spending variance of \$12.25 million. The primary drivers of this overspending remain increased costs associated with the installation of mains and services, which was driven by a higher complexity of projects contained within the program, renewal of field construction contracts at the start of the year, and enhanced safety practices. As the Company noted in its FY 2015 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 costs for the program. In addition, the Company has renewed and expanded its field

³ Discretionary program are not required by legal, regulatory code or agreement with limited exceptions.

construction contracts with two primary vendors providing for expanded resource capabilities in execution of the ISR program and has instituted safety related facility verification practices to reduce the occurrence of facility damage. In FY2016, the Company installed 49.0 miles of new main and abandoned 49.4 miles of leak prone pipe within the pro-active main replacement program. This represents completion of 88% of main installation and abandonment against the total annual plan of 56 miles of gas main replacement.

With respect to higher unit costs, in general, the replacement of more cast-iron main segments in urban areas, such as in the City of Providence, require the replacement of more difficult main and a greater number of services than in more sparsely populated areas. These include more multi-unit dwellings that typically need to have the service line replaced up to the gas meter. In addition, the Company is required to take additional safety measures in highly populated urban areas to locate, verify, and protect other utility facilities. Moreover, restoration requirements for more urban areas are greater due to the need for both sidewalk and street repaving. Finally, because of the higher traffic and public presence in urban areas, the time and cost to obtain permits (which may have work time restrictions) and the need for increased traffic control for purposes of public and employee safety, are greater. All of these factors contributed to the higher units costs and spending variance for the Proactive Main Replacement Program for FY 2016. One set of projects which clearly demonstrate these cost drivers are the main replacement projects along Pawtucket Avenue in East Providence, which alone resulted in approximately \$4 million in program spending for 1.6 miles of main replacement.

Reliability Programs – \$1.30 million under-spending variance to fiscal year budget

For FY 2016, the Company spent \$7.91 million of a fiscal year budget of \$9.21 million, resulting in an under-spending variance of \$1.30 million for this category. The primary driver of this underspending variance is the lower than anticipated spending for Gas Reliability Planning (e.g., Manchester Street Station) and the Allen's Avenue regulator replacement project due to deferred work at these sites.

Special Projects (Gas Expansion Pilot & Exeter Compressor) – \$ 0.14 million under-spending variance to fiscal year budget

For FY 2016, the Company spent approximately \$1.19 million of a fiscal year budget of \$1.33 million. The Company spent \$1.08 million for the Gas Expansion Pilot and \$0.11 million for completion of the Exeter Boil-Off Compressor project. As part of the Gas Expansion pilot the company has completed seven projects which included the installation of approximately 8,800 feet of new gas main. In addition, 44 new customer connections have been completed associated with these projects and 101 additional potential customers reside along the route of the installed main.

FY 2016 O&M Spending

O&M spending for Main Replacement – \$0.07 million under-spending variance to fiscal year budget

In the FY 2016 Gas ISR Plan, the Company agreed to track the incremental O&M expenses associated with the hiring, training, and work of sixteen additional personnel required for the acceleration of replacement of leak-prone pipe relating to the Proactive Main and Public Works work in FY 2016. For FY 2016, the Company incurred chargeable O&M expenses totaling approximately \$0.49 million for these sixteen individuals against a fiscal year budget of \$0.56 million, resulting in an under-spending variance of \$0.07 million. The underspend variance is a result of lower overtime utilization than projected within the original plan and results from favorable weather and workload conditions.

Attachment A

**US Gas-Distribution
The Narragansett Electric Company
d/b/a National Grid - RI Gas
Capital Spending by Investment Categories
FY 2016 through March 31, 2016
(\$000)**

INVESTMENT CATEGORIES	Budget	Actual	Variance
NON-DISCRETIONARY			
Service Replacement Program	\$500	\$1,789	\$1,289
Public Works Program*	\$4,593	\$7,732	\$3,139
Reactive Main Replacement Program	\$200	\$252	\$52
Mandated Program	\$14,300	\$16,609	\$2,309
NON-DISCRETIONARY SUB-TOTAL	\$19,593	\$26,382	\$6,789
DISCRETIONARY			
Proactive Main Replacement Program	\$46,137	\$58,386	\$12,249
Reliability Programs	\$9,212	\$7,914	(\$1,298)
Special Projects (Gas Pilot & Exeter BO)	\$1,330	\$1,188	(\$142)
DISCRETIONARY SUB-TOTAL	\$56,679	\$67,488	\$10,809
TOTAL CAPITAL INVESTMENTS	\$76,272	\$93,869	\$17,597
O&M	\$560	\$492	(\$68)
TOTAL CAPITAL and O&M	\$76,832	\$94,361	\$17,529

() denotes an under-spend

*Public Works Program includes reimbursements that will be credited throughout the year.