nationalgrid

Robert J. Humm
Senior Counsel

February 14, 2017

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket No. 4590 – FY 2017 Gas Infrastructure, Safety, and Reliability Plan
<u>Quarterly Update – Third Quarter Ending December 31, 2016</u>

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed 10 copies of National Grid's fiscal year (FY) 2017 Gas Infrastructure, Safety, and Reliability (ISR) Plan quarterly update for the third quarter ending December 31, 2016 in the above-referenced docket.

Pursuant to the provisions of the approved FY 2017 Gas ISR Plan, the Company committed to providing quarterly updates on the progress of its Gas ISR programs to the Public Utilities Commission and the 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 401-784-7415.

Very truly yours,

Robert J. Humm

Enclosures

cc: Docket 4590 Service List
Leo Wold, Esq.
Steve Scialabba
Don Ledversis

[1] The Narragansett Electric Company d/b/a National Grid.

280 Melrose Street, Providence, RI 02907
T: 401-784-7415 ■ robert.humm@nationalgrid.com ■ www.nationalgrid.com

Gas Infrastructure, Safety and Reliability Plan
The Narragansett Electric Company
FY 2017 Quarterly Update
Third Quarter - Ending December 31, 2016

Executive Summary

Fiscal year 2017 (FY 2017) through the third quarter results (*Attachment A*) reflect that National Grid[1] spent approximately $76.78 million of an estimated year-to-date (YTD) budget of $80.90 million, resulting in an under-spending variance of $4.12 million through three quarters. This includes actual spending of $24.32 million of an estimated YTD budget of $23.45 million for non-discretionary work (i.e., work required by legal, regulatory code, and/or agreement or a result of damage or failure), resulting in a YTD third quarter over-spending variance of $0.87 million. In addition, the YTD third quarter variance includes actual spending of $52.11 million compared to an estimated YTD budget of $57.02 million on discretionary work, resulting in a YTD third quarter under-spending variance of $4.91 million. Gas Infrastructure, Safety, and Reliability (ISR) Operations and Maintenance (O&M) expenses total $0.35 million on a budget of $0.43 million, resulting in a YTD under-spending variance of $0.08 million. To date, the $76.78 million spend represents approximately 89% of the total FY 2017 annual Gas ISR budget of $86.05 million. Total year-end spend is currently projected at $90.99 million. This reflects an over spending variance of $4.94 million, which is primarily the result of spending on Non-Discretionary remediation projects, including the Allens Avenue (Filter/Separator), Dey Street and Cumberland LNG projects. In the sections below, the Company explains in more detail the primary drivers for each category.

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

FY 2017 Capital Spending by Category

Non-Discretionary Work[2]

Public Works Program – $2.50 million under-spending variance to budget year-to-date

Through the third quarter of FY 2017, the Company spent $8.36 million of a projected YTD budget of $10.86 million, resulting in an under-spending variance of $2.50 million. The key driver for this under-spending is the lower than anticipated installation and abandonment of gas mains and services in the Public Works program that has resulted in a forecast reduction to the planned miles for the Public Works program. This is attributed to timing of the work that is performed in conjunction with state and municipal schedules. There are several projects located on the east side of Providence that started in the third quarter and will result in increased spending against the budget in the fourth quarter due to the amount and timing of the work associated with such projects. To date for FY 2017, the Company has installed 8.3 miles of new gas main and has abandoned 6.6 miles of leak-prone pipe under this program. With this level of spending, the current project mix in the plan and projected reimbursement funds for prior work, the Company anticipates that the Public Works program will be under-budget by approximately $1.41 million at fiscal year-end. The original FY 2017 plan for 11 miles has been adjusted to 8.5 miles in the current forecast.

Mandated Programs – $0.39 million over-spending variance to budget year-to-date

Through the third quarter of FY 2017, the Company spent approximately $12.98 million of a projected YTD budget of $12.59 million, resulting in an over-spending variance of $0.39

[2] Non-Discretionary programs include those required by legal, regulatory code and/or agreement or a result of damage or failure with limited exceptions.

million. To date, the primary drivers contributing to the over spending include Leaks and CI Joint Encapsulation. This was partially offset by lower spending in Purchase Meters and IMP pipeline integrity. Through the third quarter, the number of leaks repaired was 1,130 against a plan of 1,142, and the total plan for leaks this fiscal year is 1,446. At this time, the Mandated Programs category is projected to be over-budget by $1.73 million at fiscal year-end driven by higher than budget unit costs. Leaks and CI Joint Encapsulation are contributing $1.42 million of the projected over spend.

Remediation Projects – $2.98 million over-spending variance to budget year-to-date

Three projects have been identified to address adverse operating conditions on the gas distribution network for which the FY 2017 Gas ISR Plan did not contain a budget. The first project requires a filter separator vessel to be installed at the Allens Avenue gas interchange in Providence for the purposes of collecting condensates prior to entry into the gas distribution system to prevent customer disruptions. Scope changes, including increased overtime to maintain schedule, have contributed to an increase in the overall costs. The second project includes modification of pressure regulation equipment at the Dey Street, East Providence gate station to provide over-pressure protection on the system. The third project involves the initial two phases of the Cumberland LNG tank decommissioning and demolition. This includes plant modifications to allow for vaporization of LNG from tanker trucks and for the purging of the remaining tank liquids and purging of gaseous vapors. These issues were unforeseen at the time of the ISR development and, therefore, not identified for funding in the original plan. The projected fiscal year-end spend on these remediation projects is projected at $5.22 million. This includes $2.32 for Allens Avenue, $0.59 million for Dey Street and $2.31 million for Cumberland LNG.

Discretionary Work[3]

Proactive Main Replacement Program – $4.67 million under-spending variance to budget year-to-date

Through the third quarter of FY 2017, the Company has spent approximately $44.97 million of a projected YTD budget of $49.63 million, resulting in an under-spending variance of $4.67 million. The primary drivers of this under spend is due to phasing in the execution of the work plan. Under the original plan, budgetary funding ran through December under the assumption that the work plan would be largely complete at that time. The revised plan pushed more work into the fourth quarter providing the Company with the flexibility to continue to work contractor crews in the last three months of the year. To date, for FY 2017, the Company has installed 44.0 miles of new main and has abandoned 44.8 miles of leak-prone pipe against a planned abandonment of 46.8 miles. The Company anticipates that the Proactive Main Replacement category will be under-budget by approximately $0.09 million at fiscal year-end. The Company remains on target for forecasted abandonment miles at 55 miles by fiscal year end, of which 12 miles are carried over from FY16.

Reliability Programs – $0.25 million under-spending variance to budget year-to-date

Through the third quarter of FY 2017, the Company spent $7.14 million of a projected YTD budget of $7.39 million, resulting in an under-spending variance of $0.25 million for this category. To date, the primary driver of this under-spending variance is the lower than anticipated spending in Gas Planning/RCV programs and LNG. These items are partially offset by higher spending in the Pressure Regulating Facilities category (Bentley Street regulator station replacement) and Allens Avenue. At this time, spending for this category is expected to

[3] Discretionary program are not required by legal, regulatory code or agreement or a result of damage or failure with limited exceptions.

be under-budget by $0.51 million at the end of the fiscal year driven by lower spending on LNG projects, Gas Planning and System Automation that is partially offset by higher spending at Bentley Street Regulator Station and Allens Avenue Regulator Station Rebuild projects. LNG projects include Cumberland SCADA and back-up generator projects that have been cancelled as a result of the decision to retire the LNG tank (See Remediation section above). These cancellations mitigate the net impact of the overall FY 2017 spend on the Cumberland LNG demolition project. Gas Planning had a project walk out due to design delays. The Bentley Street project had additional spend due to the logistics of the location requiring additional safety items being used, ranging from additional police / flaggers, temporary fencing, pit relocation and a requirement for hydro testing. Allens Avenue Regulator Station Rebuild increases were the result of a scope of work change due to a location of the facility that now required larger diameter pipe than what was originally assumed in the plan. The Company is forecasting to abandon 1.5 miles of leak-prone pipe through the Gas Planning program.

<u>FY 2017 O&M Spending</u>

O&M – $0.08 million under-spend variance to budget year-to-date

In the FY 2017 Gas ISR Plan, the Company agreed to track the incremental O&M expenses associated with the hiring, training, and work of 16 additional personnel required for the acceleration of the replacement of leak-prone pipe relating to the Proactive Main and Public Works work in FY 2017. Through the third quarter of FY 2017, the Company has slightly under-spent the budget for this category, having incurred O&M expenses totaling approximately $0.35 million for the 16 individuals against a YTD budget of $0.43 million. At this time, the Company expects the O&M category to complete the year on-budget at fiscal year-end.

Attachment A

US Gas-Distribution
The Narragansett Electric Company
d/b/a National Grid - RI Gas
Capital Spending by Investment Categories
FY 2107 through December 31, 2016
($000)

	FYTD				FY17 - Total		
INVESTMENT CATEGORIES	Budget	Actual	Variance		Budget	Forecast	Variance
NON-DISCRETIONARY							
Public Works Program*	$10,863	$8,365	($2,498)		$11,230	$9,818	($1,412)
Mandated Program**	$12,586	$12,978	$392		$15,364	$17,094	$1,730
Remediation Projects	$0	$2,980	$2,980		$0	$5,223	$5,223
NON-DISCRETIONARY SUB-TOTAL	$23,449	$24,323	$874		$26,594	$32,135	$5,541
DISCRETIONARY							
Proactive Main Replacement Program	$49,632	$44,967	($4,665)		$49,632	$49,544	($88)
Reliability Programs	$7,388	$7,139	($249)		$9,250	$8,736	($514)
DISCRETIONARY SUB-TOTAL	$57,020	$52,106	($4,914)		$58,882	$58,280	($602)
TOTAL CAPITAL INVESTMENTS	$80,469	$76,429	($4,040)		$85,476	$90,415	$4,939
O&M	$429	$354	($75)		$571	$571	$0
TOTAL CAPITAL and O&M	$80,898	$76,783	($4,115)		$86,047	$90,986	$4,939

( ) denotes an under-spend
*Public Works Program includes reimbursements which will be credited as received throughout the year.
** Mandated Program includes proactive service replacement and reactive main replacement.