Robert J. Humm
Senior Counsel

May 15, 2018

VIA HAND DELIVERY & ELECTRONIC MAIL

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

RE: Docket 4678 – FY 2018 Gas Infrastructure, Safety, and Reliability Plan
Quarterly Update – Fourth Quarter Ending March 31, 2018

Dear Ms. Massaro:

On behalf of National Grid,[1] I have enclosed 10 copies of National Grid's fiscal year (FY) 2018 Gas Infrastructure, Safety, and Reliability (ISR) Plan quarterly update for the fourth quarter ending March 31, 2018 in the above-referenced docket.

Pursuant to the provisions of the approved FY 2018 Gas ISR Plan, National Grid 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 4678 Service List
Leo Wold, Esq.
John Bell, Division
Al Mancini, Division

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

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Gas Infrastructure, Safety, and Reliability Plan

The Narragansett Electric Company

FY 2018 Quarterly Update

Fourth Quarter - Ending March 31, 2018

Executive Summary

In total, fiscal year (FY) 2018 actual spending was $106.55 million as compared to the annual plan budget of $101.76 million. This represents an over-spend of $4.80 million. FY 2018 results (*Attachment A*)[1] reflect that National Grid[2] spent approximately $39.06 million for Non-Discretionary work compared to a year-to-date budget of $34.73 million, resulting in a fiscal year over-spending variance of $4.33 million. In addition, National Grid spent $66.94 million for Discretionary work compared to a year-to-date budget of $66.46 million, resulting in a fiscal year over-spending variance of $0.48 million. Gas Infrastructure, Safety, and Reliability (ISR) operations and maintenance (O&M) expenses totaled $0.56 million compared to a budget of $0.57 million, resulting in an under-spending variance of $0.01 million. The $4.80 million total over-spend includes $1.35 million in spending for Damage/Failure, which is driven by the unplanned replacement of the Admiral Street at Charles Street Regulator Station in Providence. Excluding Damage/Failure, the remaining over-spend is $3.45 million. The primary drivers for the remaining over-spend include higher than plan spending for the Allens Avenue Regulator Station in Providence and for Pipeline Integrity projects. The over-spend is partially offset by under-spend related to the decommissioning of the Cumberland liquefied natural gas (LNG)

[1] For informational purposes, Attachment A has a line item for the $1.77 million estimated transfer from Administrative and General expense to capital. The Company has proposed an adjustment to the operations and maintenance revenue requirement in its pending rate case, Docket No. 4770.

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

tank and for the Proactive Service Replacement program. Leak-prone pipe abandonments came in on budget, with under-spend in the Proactive Main Replacement program that was offset by over-spend in the Public Works Program. This is a reflection of Company's strategy of managing the leak-prone pipe programs as a portfolio. In the sections below, the Company explains in more detail the primary drivers for fiscal year spending for each category.

In FY 2018, the Company completed a total of 61.6 miles on a plan of 61 miles for ISR abandonments of leak-prone pipe. This includes 12.1 miles in the Public Works program, 48.5 miles in the Proactive Leak-Prone Pipe program, and 1.0 miles from Reliability. In addition, the Company completed an additional 1.6 miles of non-ISR leak-prone pipe abandonments as a result of Gas System Reinforcement main replacement. This brought total FY 2018 abandonments to 63.2 miles.

As noted above, actual spending exceeded budget by $4.80 million. The Company will be increasing actual capital spending for FY 2018 as a result of an Administrative & General activity time study completed by a third party consulting firm. As a result of that review and supporting time study, the Company determined that an adjustment was necessary to capitalize work activity performed in direct or indirect support of construction consistent with commonly accepted industry practices and allowed for by the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts. The total adjustment to be credited to expense and debited to capital is $2.06 million. The ISR portion of this adjustment totals $1.77 million. This adjustment is reflected on the bottom of Attachment A. As a result, adjusted ISR spending will total $108.32 million, which is $6.57 million over the FY 2018 ISR budget. The Company plans to reflect the final assignment of these costs to the appropriate spending categories as part of the annual reconciliation filing to be submitted on August 1, 2018. This is consistent with the Company's related O&M expense adjustment reflected in Docket No. 4770.

FY 2018 Capital Spending by Category

Non-Discretionary Work[3]

Public Works Program – $2.12 million over-spending variance to fiscal year budget

For FY 2018, the Company spent a net of $14.33 million of a year-to-date budget of $12.22 million for the Public Works program, resulting in a net over-spending variance of $2.12 million. The total net spend includes project spending of $14.45 million and reimbursements of $0.11 million. The key drivers for this over-spend include actual miles of leak-prone pipe replaced exceeding plan and timing associated with reimbursements on billable jobs. The Company installed 12.4 miles of a planned 11.0 miles for new gas main and abandoned 12.1 miles of a planned 10.0 miles of leak-prone pipe through the Public Works program. Significant projects completed during the year include those on Musket Road in Lincoln (5,273 feet), Blackstone Boulevard in Providence (5,225 feet) and Cole Avenue in Providence (4,519 feet).

Mandated Programs – $2.60 million over-spending variance to fiscal year budget

For FY 2018, the Company spent approximately $21.27 million of a year-to-date budget of $18.67 million for Mandated programs, resulting in an over-spending variance of $2.60 million. The primary drivers for the over-spend include higher spending on Purchase Meter Replacements and Pipeline Integrity projects. Purchase Meter Replacement over-spending is due to increased customer meter changes. The primary drivers for higher spending within Pipeline Integrity projects is largely due to cost increases associated with the Laten Knight Road Take

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

Station in Cranston as a result of large diameter heavy wall pipe welding and hydrostatic testing not included in the original budget. Carryover of the Providence River Crossing signage project also contributed to the spending increase. In particular, weather issues, gas safety coordination, and the need to coordinate with the FY 2018 riser replacements contributed to the carryover of the signage project. In addition, project costs increased to address severe corrosion issues identified in the signage structural members along with modifications to the existing foundations to carry additional load from heavier structural members. These items were partially offset by under-spend in leak-related capital. This includes under-spend in Reactive Service Replacement Leaks, partially offset by over-spend in Reactive Cast Iron Joint Encapsulation. The number of leaks repaired was 1,732 compared to a total plan of 1,728 leaks.

Damage/Failure Reactive Program – $1.33 million over-spending variance to fiscal year budget

For FY 2018, the Company spent approximately $1.58 million of a year-to-date budget of $0.25 million for the Damage/Failure Reactive program, resulting in an over-spending variance of $1.33 million. The primary driver for the total spending is the replacement of the Admiral Street at Charles Street Regulator Station in Providence for a total of $1.35 million. This project relates to a cinder block regulator station vault that the Company found had been significantly damaged by a City contractor following a sewer main replacement job. Prior to the initiation of the sewer project, the Company worked closely with the City and the contractor to agree on a Damage Prevention plan. While the Damage Prevention plan was followed, settlement occurred around the vault, which unexpectedly affected the Company’s facilities. The replacement of the Admiral at Charles Regulator Station was required for the 2017-18 heating season. Construction was completed and the new station was operational in November of 2017. Abandonment of the existing station will be completed in FY 2019. This category also includes $0.23 million to fund two remote operated valves at the Manchester Street Take Station in Providence, providing the Gas Control center with remote shutdown capability. This capability will enable the Company to immediately take action in the event of abnormal operating conditions, which will significantly decrease response time. Additionally, in the event that abnormal operating conditions make the site unsafe for personnel access, the remote shutdown option can still be exercised safely.

Cumberland LNG Decommissioning Project – $1.71 million under-spending variance to fiscal year budget

For FY 2018, the Company spent $1.87 million of a year-to-date budget of $3.59 million for the Cumberland LNG decommissioning project, resulting in an under-spending variance of $1.71 million. The FY 2018 work on the Cumberland LNG facility included all demolition activity and installation of remaining vaporization piping. The primary driver of the under-spend is the contractor bid process resulting in lower pricing than the amounts assumed in the budget. At this time, the project has been completed. No additional capital work related to the decommissioning of the Cumberland LNG tank will be required, as the Company determined the site restoration work initially planned for FY 2019 is no longer needed. In addition, the Company met with the Division of Public Utilities and Carriers (Division) in May 2017 to review disposition plans associated with a listing of major Cumberland LNG plant components. Disposition methods typically include internal use, scrap, or third party sale. To date, proceeds have been limited to a $13,000 salvage credit from the demolition contractor, Costello Dismantling Company, Inc. This credit covered items that were not identified to be retained for internal use or for potential sale to a third party. Any proceeds from third party sales will be credited back to customers in future reconciliation flings. The Company will continue to update the Division as additional information becomes available.

Discretionary Work[4]

Proactive Main Replacement Program – $2.14 million under-spending variance to fiscal year budget

For FY 2018, the Company spent approximately $51.96 million of a year-to-date budget of $54.10 million for the Proactive Main Replacement program, resulting in an under-spending variance of $2.14 million. The primary driver of this under-spend is due to abandonment miles coming in under plan. In FY 2018, the Company installed 46.0 miles of new main and abandoned 48.5 miles of leak-prone pipe within the Proactive Main Replacement program. This represents completion of 97.0% of the planned total of 50 abandonment miles. This shortfall was offset by the Public Works program exceeding plan in regard to delivery of leak-prone pipe abandonment miles.

Proactive Service Replacement Program – $0.90 million under-spending variance to fiscal year budget

For FY 2018, the Company spent approximately $0.002 million of a year-to-date budget of $0.90 million for the Proactive Service Replacement program, resulting in an under-spending variance of $0.90 million. The Company and the Division have consulted regarding the risk mitigation benefits of the Proactive Service Replacement program, and have determined that the Proactive Service Replacement program overlaps with other programs in the Gas ISR Plan and should be discontinued.

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

Reliability Programs – $3.52 million over-spending variance to fiscal year budget

For FY 2018, the Company spent $14.97 million of a year-to-date budget of $11.45 million for Reliability programs, resulting in an over-spending variance of $3.52 million for this category. The primary drivers of this over-spending variance are related to the Allens Avenue Multi Station Rebuild project and the Dey Street Regulator Station. These projects were partially offset by the deferral of work associated with two regulator stations on Roger Williams Avenue in East Providence. Prior year carryover, design changes, and environmental mitigation factors have contributed to higher costs for the Allens Avenue Multi Station Rebuild project, which are partially offset by cost reductions associated with the deferral of elements of the FY 2018 work plan and the deferral of long lead materials purchased for future year construction. Scope changes on the Dey Street Regulation Station project are the primary reason for the over-spend on that project. The Company has completed 1.0 mile of leak-prone pipe abandonment through the Reliability program.

FY 2018 O&M Spending

O&M – $0.01 million under-spend variance to fiscal year budget

In the FY 2018 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 2018. For FY 2018, the Company has slightly under-spent the budget for this category, having incurred O&M expenses totaling approximately $0.56 million for the 16 individuals against a year-to-date budget of $0.57 million.

The Narragansett Electric Company
d/b/a National Grid - RI Gas
Capital Spending by Investment Categories
FY 2018 through March 31, 2018
($000)

INVESTMENT CATEGORIES	Budget	Actual	Variance
NON-DISCRETIONARY			
Public Works Program*	$12,218	$14,335	$2,117
Mandated Program	$18,672	$21,270	$2,598
Damage / Failure Reactive	$250	$1,578	$1,328
Cumberland LNG Decommissioning	$3,589	$1,875	($1,714)
NON-DISCRETIONARY SUB-TOTAL	**$34,729**	**$39,058**	**$4,329**
DISCRETIONARY			
Proactive Main Replacement	$54,106	$51,962	($2,144)
Proactive Service Replacement	$900	$2	($898)
Reliability Programs	$11,450	$14,974	$3,524
DISCRETIONARY SUB-TOTAL	**$66,456**	**$66,938**	**$482**
TOTAL CAPITAL INVESTMENTS	**$101,185**	**$105,996**	**$4,811**
O&M	**$571**	**$558**	**($13)**
TOTAL CAPITAL and O&M - Unadjusted	**$101,756**	**$106,554**	**$4,798**
**A&G ACCOUNTING ADJUSTMENT - Transfer to Capital ** **	**$0**	**$1,770**	**$1,770**
TOTAL CAPITAL and O&M - Adjusted	**$101,756**	**$108,324**	**$6,568**

( ) denotes an under-spend
* Public Works Program includes reimbursements that will be credited as received throughout the year.
** Estimated transfer from Administrative and General expense to capital. The Company has proposed an adjustment to the O&M revenue requirement in its pending rate case, Docket No. 4770.