

An update for our stakeholders.

**nationalgrid**

HERE WITH YOU. HERE FOR YOU.

# THE FUTURE OF ENERGY

in New York City and Long Island.

**National Grid files first rate case proposals in a decade for its New York City (KEDNY) and Long Island (KEDLI) gas companies.**



## **National Grid's businesses in New York City and Long Island/Rockaway Peninsula**

More than 1.8 million New York City and Long Island customers depend each day on National Grid for the delivery of natural gas that heats their homes, allows them to cook their food and enables them to operate their businesses.

Our business is focused on ensuring the safety and reliability of our gas delivery system, and investing in growth and modernization. Over the past decade, we have invested more than \$4.5 billion in our gas delivery infrastructure in New York City and Long Island.

The investments we are making – and need to make in the future – are essential to the safety, reliability and cost-effectiveness of our operations, while at the same time helping to protect the natural environment, reducing emissions that contribute to climate change.

In turn for providing these essential services, we are allowed to recover our costs, plus earn a regulated return on investment. We recover these costs from our customers in the form of a delivery charge on their monthly bill, which is set by the New York State Public Service Commission (NYSPSC).

## **Understanding gas delivery rates/our bill**

The gas delivery rates we currently charge our customers in New York City and Long Island to recover our cost of service have been stable for nearly a decade, and have been in place since our last full rate case agreement in 2008.

- Any change in delivery rates requires us to file a request with the NYSPSC.
- Gas delivery rates allow utilities like National Grid to recover the cost of its investments in the gas

system, achieve real-time cost recovery of future investments and to earn acceptable returns and credit ratings in order to fund these investments on behalf of our customers.

- Gas delivery rates represent approximately one-half of a typical residential heating customer's gas bill.
- The other components of our gas bill are: supply – the actual cost of the natural gas commodity, which we pass through to customers without any profit – and taxes and surcharges.

## **Meeting our commitments since our last full rate case agreement in 2008**

During that timeframe, while our customers have had a long period of rate stability, and have benefitted from lower gas commodity prices, we have also made significant investments to enhance the quality of our service to customers.

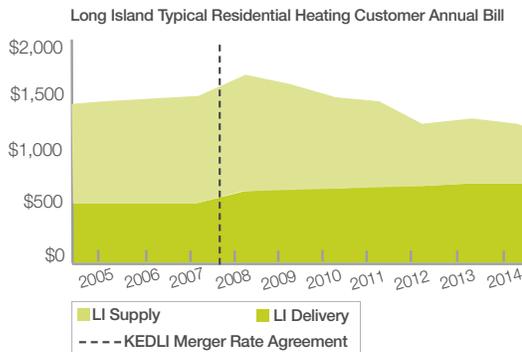
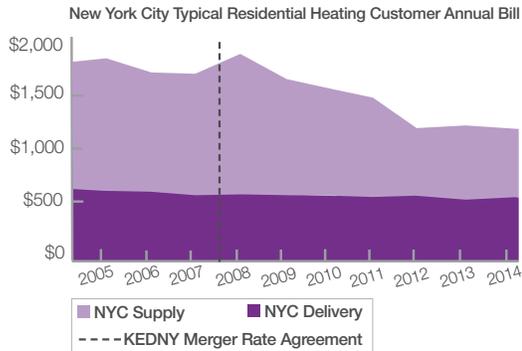
- Made significant capital investments of more than \$4.5 billion to modernize gas networks.
- Achieved strong gas operational performance through severe weather events (including Superstorm Sandy, and the 2014 and 2015 polar vortex winters).
- Consistently met regulatory reliability metrics.
- Accelerated aging pipe replacement.
- Completed major gas infrastructure projects (Brooklyn Queens Interconnect, Northern Queens Reliability).
- Added a record number of new gas heat customers – averaging 15,000 per year over the last several years.
- Employed state-of-the-art technology robotics to address leaks in a more cost effective and efficient fashion.



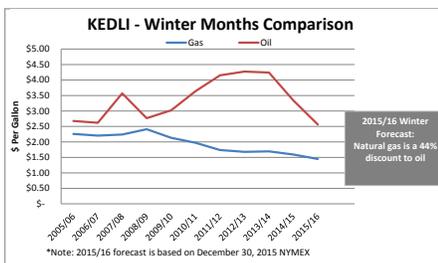
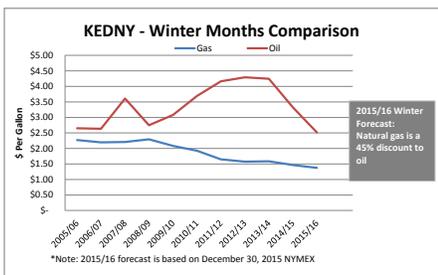


## Delivery bills stable since our last full rate case agreement in 2008

The charts below (inflation adjusted) show our gas delivery rates have been relatively stable for nearly a decade. The charts also show that with declining natural gas commodity prices, the total bill has gone down 25-35 percent for our Long Island and New York City customers.



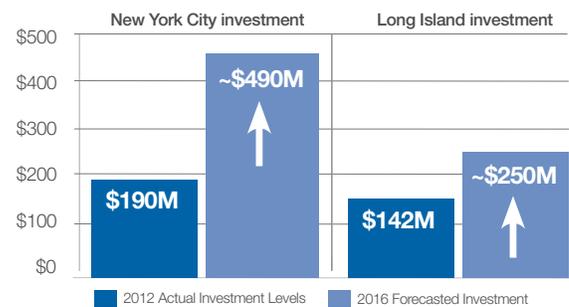
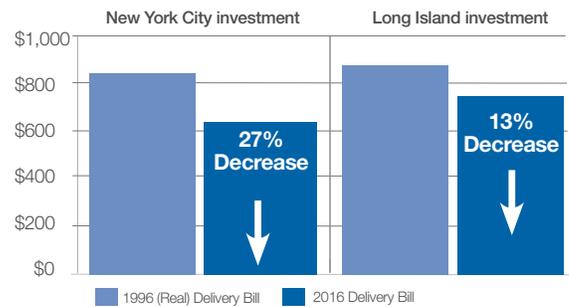
Natural gas is currently at a 14-year low in terms of commodity costs. As you can see below, the cost to heat a home with natural gas is currently at a 40-50 percent discount to competing fuels and is much cleaner from an environmental standpoint.



## Current delivery rates lower than 1996 levels, while investments continue to rise

Delivery charges (inflation adjusted) for New York City and Long Island customers have actually gone down since 1996 as indicated in the first chart below. The chart that follows shows that our investments in our gas system have increased substantially.

## Investments steadily increasing (in millions)



While financial return levels have been solid, they are now declining as a result of not adequately recovering the costs of our investments. This has weakened our financial position, demonstrated by the recent investment downgrades by Standard & Poor's and Fitch.

	S&P	MOODY's	FITCH
KEDNY	A- ↓	A2	BBB+ ↓
KEDLI	A- ↓	A2	BBB+ ↓

## In evaluating and downgrading our ratings, Standard & Poor's cited the following on October 15, 2015:

"...financial performance has consistently weakened in recent years, both relative to expectations and relative to historical trends, in part because of base rates that have remained largely unchanged since the last approved rate case in 2008. At the same time, capital spending has been increasing to address system integrity and reliability, storm hardening, and new customer conversions, with increasing costs challenging the company's ability to earn its authorized return."



If our returns remain below what investors expect from companies of comparable risk, it will further weaken our financial position, impact our ability to raise capital at reasonable rates and ability to upgrade our gas networks for our customers.

**To meet this challenge, National Grid filed rate case proposals on January 29, 2016, with the NYSPSC for its New York City (KEDNY) and Long Island (KEDLI) businesses requesting to re-set the rates required to provide safe and reliable customer service, and fund the costs and investments needed to modernize and grow the system to meet the needs of a 21st century economy.**

### **Snapshot of bill impacts required to fund the revenue needs of our rate case proposals**

To make up for the gap between required investment levels and our current rate to recover those costs, our proposals seek a revenue increase of \$245 million for our New York City business and \$142 million for our Long Island business. We believe these revenues are needed to continue to provide safe and reliable service, and to provide funding for the costs and investments we need to maintain and grow the gas infrastructure.

### **Proposed bill impacts:**

- The total bill impact for a New York City typical residential heating customer is 14 percent or \$13.98 per month and 12 percent or \$13.40 per month for Long Island/Rockaway Peninsula.
- These proposed bill impacts are below inflation rates over the past decade and are being mitigated to some extent by natural gas commodity costs, which are at a 14-year low. The effect on individual monthly bills will vary depending on natural gas usage and customer classification.
- To help mitigate bill impacts, we are offering to phase in the increases over the course of a multi-year rate plan.
- During 2016, the stable delivery rates in effect since 2008 will remain in place.

### **Long and short-term customer benefits of our proposals**

#### **Modernize and enhance the safety, reliability and resiliency of our gas networks**

- Stronger, modernized natural gas systems through accelerated replacement of aging pipes – 165 miles/year, more than double prior amounts.
- Install new transmission and distribution pipelines to serve growing demand for gas and to improve reliability.

- Increased gas safety public awareness programs and third-party damage prevention outreach and education.
- Storm hardening in flood prone areas; installing automated shut-off valves and replacing low-pressure pipes in areas susceptible to water intrusion.
- Upgrade liquefied natural gas (“LNG”) facilities in Greenpoint (Brooklyn) and Holtsville (Long Island) that play a critical role in meeting peak day supply.
- Reduce non-hazardous leaks to enhance system performance and reduce methane emissions.
- Meet ongoing responsibility of environmental stewardship.

### **Using technology and innovation to create a more resilient system**

- Pilot programs for new gas technologies in support of the New York State Reforming the Energy Vision (REV) initiative:
  - Smart, Resilient Homes
  - Combined Heat & Power and Distributed Generation
  - Commercial Gas Demand Response

### **Enhancing the customer experience**

- Through improved call center operations and implementing new and more stringent performance targets for customer call response.
- Complete the roll-out of a multi-year program to deploy 1 million Automated Meter Reading devices in NYC/LI.
- Create a Sustainability Hub in our MetroTech (Brooklyn) customer office. Here we can educate customers on gas safety and energy efficiency and other programs and resources.
- Create a stand-alone customer assistance and outreach center in Brentwood, Long Island.

### **Enhanced customer assistance programs for low-income customers**

- Increase the monthly discount credit for customers participating in the Residential Reduced Rate program. In addition, up to 100 customers participating in this program will be eligible for a rebate of \$7,500 if they convert their homes to natural gas and install efficient heating equipment. For Long Island customers, this includes a monthly discount for using a smart, programmable thermostat to help them manage their energy bills.
- Hold customer expos targeting low-income and vulnerable customers in coordination with our consumer advocates and community partners.
- Increase remote payment options.

## Gas expansion and growth

- Extend pilot expansion programs to support the growth of natural gas on Long Island and to help meet environmental goals, such as NYC's Clean Heat initiative.
- Add more than 15,000 new gas customers per year, including new construction and customers converting to natural gas from more expensive and less environmentally clean fuels.
- Mitigate up-front conversion costs, offering a rebate of \$1,000 to each new Long Island customer who agrees to take service along the route of planned main replacement.

## Promotion of economic development, workforce development and Science, Technology, Engineering and Mathematics (STEM) programs

- Allow for business expansion that will create jobs and promote clean energy and new technologies.
- Enhance our partnerships to hire and train the next generation of utility workers. To meet the challenge of an aging workforce, we will continue to partner with educational institutions at all levels, vocational schools and veterans' associations to create a job "pipeline" into the company and industry.
- Launch first-ever Gas Academy for field workers and Customer Service Academy for office workers in partnership with local community colleges.
- Partner with educators and students, from kindergarten to college, to promote STEM education.

## The rate case proceedings – an 11-month process

- The rate case proposals will undergo a thorough review process by the NYSPSC that typically lasts 11 months.
- During the course of 2016, many interested parties will comment on the proposals and National Grid will respond to many further information requests from the NYSPSC.
- In late 2016, the NYSPSC will make its decision.
- If approved, new gas delivery rates determined by NYSPSC will go into effect on January 1, 2017.
- During 2016, the stable delivery rates that have been in effect since 2008 will remain in place.

## National Grid's presence in Downstate New York

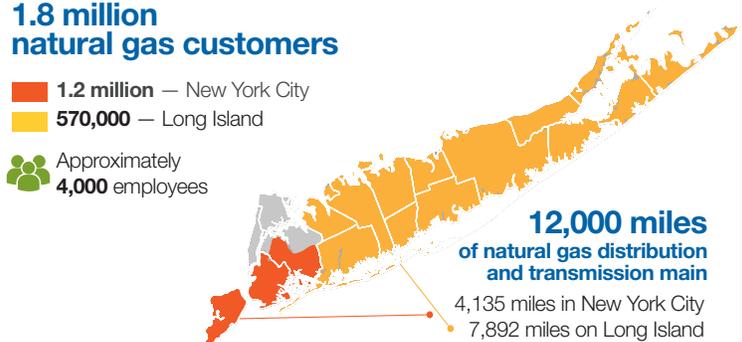
### At A Glance:

- 1.8 million natural gas customers
  - 1.2 million – New York City
  - 570,000 – Long Island
- Approximately 4,000 employees
- 12,000 miles of natural gas distribution and transmission main
  - 4,135 miles in NYC
  - 7,892 miles on Long Island
- About one-half of National Grid's underground distribution pipeline system in NYC and Long Island qualify as aging cast iron or unprotected steel pipe in need of modernization.
- Liquefied Natural Gas (LNG) facilities
  - Greenpoint, Brooklyn
  - Holtsville, Long Island

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570,000 — Long Island

Approximately  
4,000 employees



*"National Grid has invested more than \$4.5 billion over the past decade to modernize and build a safer and more reliable natural gas system for our customers. During this period of time, we have also maintained stable delivery rates for our customers. Now, as we respond to the need to invest even more into our aging gas networks and prepare for the future needs of our customers, the investments required to provide this service have increased. The proposals will allow us to accelerate our gas main replacement program, improve critical customer service, and ensure that we have a modernized and technologically advanced natural gas system for our customers and the communities we serve now and in the future."*

**- Ken Daly, President, National Grid, New York**