

Rate Case Proposal Filings for New York City (KEDNY) and Long Island (KEDLI)

FAQ

What is National Grid proposing?

We are filing rate case proposals with the New York State Public Service Commission (NYSPSC) to update and reset our natural gas delivery rates for 2017 in both our New York City and Long Island service areas. Our rate case proposals will allow us to continue investing in our natural gas networks and improve service to our 1.8 million customers in Brooklyn, Queens and Staten Island and Long Island/Rockaway Peninsula. The gas delivery rates we are proposing better reflect the rising cost of providing safe and reliable service to each of the communities we serve.

What is the delivery rate? And how much of my bill covers the delivery charge?

Your bill is comprised of three components: delivery, supply/or commodity and taxes/surcharges.

As a regulated utility, we provide essential natural gas services to our customers and are allowed to recover these costs, plus a return on investment associated with providing those vital services. We recover these costs every month from our customers in the form a delivery charge, which is set by the NYSPSC. The supply/commodity charge is passed through to the customer without any mark-up or addition for profit.

National Grid has invested more than \$4.5 billion over the past decade to modernize and build a safer and more reliable gas networks. During this same time, delivery rates have been stable since our last rate agreement in 2008.

Why file now?

We recognize that no time is a good time to raise rates. For years we were able to hold off filing rate case proposals because of operational efficiencies related to the National Grid/KeySpan merger, restructuring initiatives, revenue growth from oil-to-gas conversions and volatility-reducing hedging and budget billing strategies. In addition, the supply cost of natural gas has gone down, benefiting a customer's total bill.

We also recently went through three separate and successful negotiations with our downstate New York unions – Local 1049, 101 and 3. This gives us and our skilled workforce more certainty going forward. Other factors include high profile industry incidents,

which have put the gas industry and utilities in the spotlight, appropriately raising the expectations of both our regulators and customers. We have also experienced increasingly frequent and severe weather events, which stress our gas networks and underscore the need for fast-tracking further investments.

In short, we have reached the limits of our current rate structure as our investments have been outpacing our ability to recover these costs. Capital spending forecasts for both businesses are well above recent levels of spending. And we need to upgrade our investment ratings, which will allow us to pay lower interest rates on new debt financing to support increased investment.

Who determines the delivery rates?

The NYSPSC approves and sets our delivery rates after input from us and many other interested parties. Those delivery rates allow us to recover the cost of providing safe, reliable energy networks for customers, to achieve real-time cost recovery of future investments and to earn an acceptable return for our investors. This would provide investors with the returns required to attract funding, support our debt ratings, and help achieve lower, longer-term cost of capital to benefit our customers.

Rate case approvals typically take 11 months. If approved by the NYSPSC, the new delivery rates will be effective on January 1, 2017.

When was the last time National Grid's downstate businesses filed a rate case proposal?

In the 2005/2006 timeframe, when we were KeySpan, our KEDNY and KEDLI businesses filed revised tariffs to change our rates, charges and rules and regulations for natural gas service. We filed these proposals in case the merger between National Grid and KeySpan was not approved. Since the merger was approved, these rate case proposals did not go into effect.

What are the total increases to National Grid's delivery charges and what does that mean for my bill?

To make up for the gap between required investment levels and our current rates 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.

The total proposed 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 a Long Island/Rockaway Peninsula customer. These bill impacts are below inflation rates over the past decade. 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.

What steps has the company taken to manage its costs and improve the efficiency of its operations?

We are always mindful of the need to manage our costs and operate efficiently. We use a variety of comprehensive strategies to manage costs, including competitive solicitations for procuring goods and services, fleet and construction activities, among others. And new collective bargaining agreements with each of our three labor unions, as well as the renegotiation of agreements with our large paving and construction contractors, will allow us to continue to deliver high-quality work in a cost-effective manner. Technology applications like independent pipeline inspection robotic crawlers, pipeline lining, combustible gas indicators to pinpoint leaks and residential methane detection tools will also allow us to do work more efficiently.

We do not have control over increases in many categories of costs that impact the company's business, such as the cost of responding to severe weather events, property taxes and inflation.

What will the extra revenue be used for?

The majority of the revenue will be used to make our current gas networks safer, stronger and more reliable. Our gas networks total about 12,000 miles, with about one-half qualifying as aging pipe in need of replacement. This network has served the downstate area very well, but much of it was installed in the early to mid-20th century. We need to speed up the replacement of these pipes and modernize them to standards of the 21st century. Our target with the proposals is to replace at least 165 miles of aging pipe per year across New York City and Long Island.

What about customer service improvements?

There are a number of proposed customer service improvements, including using new technology, upping our performance targets for customer call response levels

and fully completing the roll-out of a multi-year program to deploy one million Automated Meter Reading devices in New York City and Long Island. We also want to create a Sustainability Hub in our MetroTech (Brooklyn) customer office, where we can further educate customers on gas safety, energy efficiency and other programs and resources. On Long Island, we plan to create a stand-alone customer assistance and outreach center in Brentwood.

How about low-income customers?

We propose to 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. We also want to hold customer expos targeting low-income and vulnerable customers in coordination with our consumer advocates and community partners.

I can't get gas in my neighborhood on Long Island. Do these proposals include plans to expand your networks?

Yes. With our East Hills, Long Island Neighborhood Expansion Program, we will install more than 11 miles of new main, convert 1,000 residents from oil to gas and bring \$1 million in energy savings, which equates to taking 15,000 cars off the road for one year. A similar expansion is targeted for Mastic Beach in Suffolk County. We also want to mitigate up front conversion costs. We propose rebates of \$1,000 to each new Long Island customer who agrees to take service along the route of planned main replacement. In New York City, part of our growth plan is to include an incentive to buy natural gas vehicles.

Do these proposals include plans to bolster economic development in New York City and Long Island?

We plan to allocate \$2 million in economic development funds for each of our businesses to support urban revitalization, infrastructure assistance, brownfield and industrial building redevelopment, sustainable gas, manufacturing productivity, and attracting new business to our service territories.