

Challenges Facing The Energy Industry... and National Grid's Response

nationalgrid
THE POWER OF ACTION

'New York State of Mind'



Kenneth Daly, CFA
October 6, 2011
Multiple Intervenors Annual Meeting

Hurricane Irene

Storm Preparation:

- Mobilized Crews
- Pre-storm planning
- Outreach to customers

Company-wide Performance:

- 1.4 million Customer outages
- 16 Hour shifts
- 90% Restored in 5 days
- \$1 million Corporate contribution to Disaster Relief (e.g., Red Cross)

Upstate New York Performance:

- 156,000 Customer outages
- 99% Restored in 4 days
- More than 3,000 personnel
- Emergency Economic Development Program

Customer Assistance:

- On-going customer outreach; follow-up with life support customers
- Mobile Emergency Operations Center
- Daily Municipal Calls
- Distributed dry ice, water, sandwiches

Challenges:

Several communities were devastated by flooding.



Agenda

- Who's National Grid?
- 'New York State of Mind'
- National Grid's Response to Industry Challenges
- Customer Bill Impacts
- Key Takeaways

Who's National Grid?

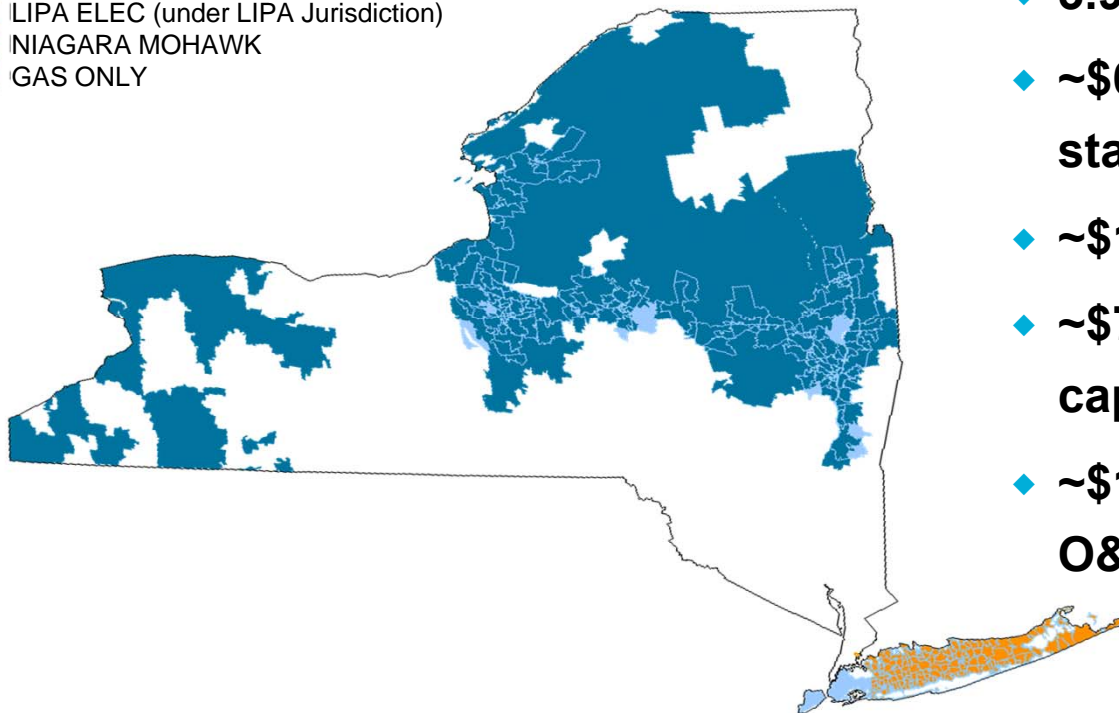
- An international electricity and gas company based in the UK and northeastern US
- One of the world's largest investor-owned utilities
- **19 million** industrial, commercial and domestic customers
- **28,000** employees
- **\$35 Billion** Market cap



“We play a vital role in delivering gas and electricity to millions of people safely, reliably and efficiently”

National Grid in New York

- STATE LINE
- GAS BOUNDARY
- LIPA ELEC (under LIPA Jurisdiction)
- NIAGARA MOHAWK
- GAS ONLY



- ◆ 11,500 employees
- ◆ 3.9 million customers
- ◆ ~\$670 million paid in state and local taxes
- ◆ ~\$10.5 billion of assets
- ◆ ~\$755 million of annual capital spending
- ◆ ~\$1.5 billion test year O&M

New York represents 60% of National Grid's US rate base

Status of New York rate agreements

Company	Rate Base	Length	Allowed ROE	Performance
Niagara Mohawk – Electric* Effective January 1, 2011	\$3,674M	Two years	9.3%	<u>Not</u> achieving Allowed Returns
Niagara Mohawk – Gas Effective May 20, 2009	\$890M	Two years	10.2%	<u>Not</u> achieving Allowed Returns
KEDNY** Effective January 1, 2008	\$2,297M	Five years	9.8%	Currently Exceeding Allowed Returns
KEDLI Effective January 1, 2008	\$1,943M	Five years	9.8%	Currently Achieving Allowed Returns

* \$50 million of temporary rates dependent on Service Company audit

** Accelerated Pipe Replacement Program (60 miles of main/5,000 services)

Our Top Priorities

- **Invest in infrastructure to provide safe and reliable service**
- **Help customers manage their energy usage**
- **Improve our regulatory relationships**
- **Be a part of the communities we serve**

National Grid Response to Industry Challenges

-
- Regulatory Landscape
 - Economic Development
 - Infrastructure Investment
 - Energy Efficiency
 - Gas Growth
 - Workforce Planning
 - Customer Bill Impacts

Regulatory Landscape in New York

- Provides fair returns and progressive rate mechanisms
- Incorporates Investor requirements
- Reflects current low interest rate environment
- Consists of financially strong and less risky utilities
- Awards many Deferral and True-up Mechanisms
- Uses a fully projected rate year
- Understands customer bill impacts

Economic Development

- Helping customers solve energy issues and improve their productivity and efficiency
- Promoting sustainable, “smart” growth by redeveloping buildings and brownfield sites
- Upstate grant programs have helped create or retain over **19,000 jobs** in National Grid communities since 2003
- 700 grant applications approved to date, representing **\$46 million** in funding
- “**Green Cinderella**” program funds “green” technology upgrades for abandoned buildings and affordable housing projects
- National Grid was recipient of the New York State Economic Development Council Chairman’s Award, May 2011



Buffalo Lakeside Commerce Park – Before & After



Infrastructure Investment

- Invested **\$1.5 billion** in upstate New York electric infrastructure from January 2007 – present.
- This represents more than double the rate allowance approved in 2001.
- Since 2007, the company has met or exceeded PSC reliability targets for number of outages and outage duration.
- In 2010, the average number of outages for National Grid customers was **12 percent** below the five-year NY State average.



Energy Efficiency

- Re-emerged as an energy efficiency provider in 2009.
- Providing electric and natural gas efficiency solutions
- **\$85 million** to fund energy efficiency
- Achievements to date
 - **275,000** annual MWhs electric savings
 - **9 million** annual therms gas savings
- PSC to consider reauthorization of programs for 2012 – 2015 at October Session



Refrigerator Recycling Program



Small Business Program



Energy Initiative Programs

Gas Growth

- **45,000** new sales completed annually
- **\$170m** capital infrastructure investment
- **\$50m** new delivery margin
- Significant Customer cost savings
- Every residential conversion is equivalent to taking six cars off road



- Key Highlights

- Partnering with NYC to accelerate phase out of heavy oils in large buildings; currently convert approx. 100 large buildings per year
- Largest oil to natural gas conversion on Long Island will save VA Hospital \$1m and displace 1.5 million gallons of oil annually

Workforce Planning

- “**Engineering Our Future**” is a signature program of National Grid
- This innovative program is designed to inspire youth, attract future engineers and develop the workforce of the future
- National Grid has invested more than **\$3 million** in this program
- Encourage students of all ages to study science, technology, engineering and math, collectively known as “**STEM.**”
- The centerpiece is a new six-year development and recruitment program called the “**Engineering Pipeline.**”



Customer Bill Impacts: US Cost Reduction Targets

2007-2011

- National Grid/KeySpan Merger savings achieved ahead of schedule

2011/12

- Reduction of more than 1,000 positions, completed 2011
- Remainder delivered through non-labor savings

Next steps on continued drive to efficiency

Customer Bill Impacts: Rate History

- Niagara Mohawk – National Grid merger in 2001
 - Established a 10 year rate plan
 - 2002 delivery rate reduction of \$160 million (9%)
 - Write-off of \$973 million in CTC, remaining balance to be recovered over 10-year life of rate plan
- Merger deferrals allowed for cost increases/decreases that, by their nature, could not be accurately predicted 10 years in advance (i.e. – pensions, storm restoration costs, etc.)
- Significant balance remained at end of 2011 (approx. \$236 million)

Customer Bill Impacts: Rates Today

- Most recent rate case (Jan. 2011 decision) increased delivery rates by \$119 million
- PSC postponed recovery of deferred expenses until 2012
- Anticipates completion of CTC recovery by end of 2011
- Result? First base rate increase since 1995, but no impact on customer bills

Customer Bill Impacts: Deferral Filing

Niagara Mohawk Electric

- Filed July 29, 2011 proposed rate changes to be effective **January 1, 2012**
- Removes approximately \$545 million of competitive transition charges from rates.
- Proposes a way to recover remaining \$236 million of deferred expense balances over a 15-month period.
- Result in a **\$300m+** reduction in Upstate New York Electric bills
- If approved, our plan would lower customer bills starting in January as follows:

Customer Type:	Delivery Bill	Total Bill
Residential	↓ 11 to 12 %	↓ 7 to 8 %
Small commercial/industrial	↓ 21 %	↓ 11 to 12 %
Large commercial/industrial	↓ 20 to 50 %	↓ 10 to 40 %

Customer Bill Impacts: What's to Come?

- Our regulatory goal – rate stability / predictability for customers over the long run
- Investment in the network must continue
 - To upgrade an aging network
 - To maintain & improve service quality
 - To meet changing 21st century customer needs
- Financial stability for the company allows us to attract necessary capital
- Key Opportunity/Challenge – balancing all the above
- Expect to file in 2012 for new rates in 2013
 - Rate-setting process in NY, by law, is a minimum 11 months

Key Takeaways

- National Grid is a Global Energy Company with a “Local” focus
- The Energy Industry is facing numerous challenges
- There are significant macroeconomic hurdles to overcome
- We need to engage key stakeholders to drive solutions



‘The future of the Energy Industry is full of opportunities’