

July 3, 2013

VIA ELECTRONIC FILING

Honorable Jeffrey C. Cohen
Acting Secretary
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

**Re: KeySpan Gas East Corporation d/b/a National Grid
Customer Service Transition Update and Notice of Intent to
Relocate Call Center**

Dear Acting Secretary Cohen:

KeySpan Gas East Corporation d/b/a National Grid (“KEDLI” or “Company”) hereby provides the Commission with an update regarding its plans to provide certain customer services to gas customers following the Long Island Power Authority’s (“LIPA”) transition to a new manager for its Long Island electric transmission and distribution (“T&D”) system in 2014. As discussed below, LIPA’s decision to select a new T&D manager necessitates the separation of National Grid’s customer function currently supporting both the gas and electric businesses on Long Island. In response, KEDLI has developed a comprehensive customer service plan to maintain service quality levels and mitigate the cost impacts to customers resulting from the transition.

With regard to the Long Island customer offices currently serving both LIPA and KEDLI, these facilities will transition to LIPA’s new T&D manager, Public Service Enterprise Group, Inc. (“PSEG”), on January 1, 2014. To address the needs of gas customers, KEDLI is in the process of securing the continued use of these customer offices

for two years following the transition pursuant to a transition agreement with PSEG. This arrangement will provide gas customers uninterrupted access to the Long Island customer offices.

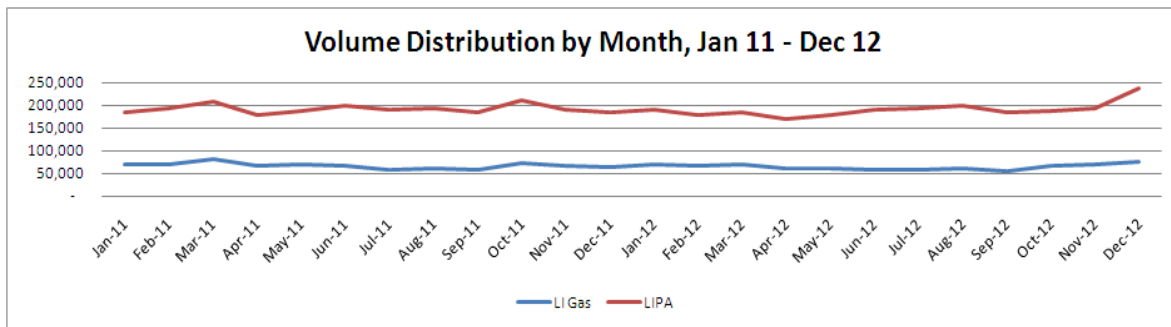
It should be noted upfront that the existing National Grid/LIPA Long Island call center will remain in Melville, New York where PSEG will continue to operate the facility for the benefit of LIPA's customers. To handle KEDLI's gas customer calls following the transition, KEDLI is planning, and hereby gives the Commission notice of its intent, to relocate its customer call center operation from Melville to an existing National Grid customer call center in Brooklyn, New York. The proposed relocation of KEDLI's call handling function to National Grid's existing call center in Brooklyn will allow KEDLI to cost-effectively replace the call center it will no longer have access to following the LIPA transition. By leveraging existing National Grid facilities, the call center move will help mitigate the cost increases resulting from the loss of electric/gas synergies on Long Island while maintaining high quality service to KEDLI's customers.

The transition to a new call center will occur over the next six to twelve months. KEDLI has developed a transition plan to facilitate an orderly and seamless transition that includes an interim move to a temporary call center facility on Long Island in December 2013. This temporary facility will be fully staffed in advance of the transfer to the new T&D manager with KEDLI-dedicated call agents who have been trained on the Company's new customer system. Beginning in the first quarter of 2014, the Company will initiate a staggered transition to MetroTech over the course of several months. This solution will ensure KEDLI's customers continue to receive the same high level of service they have come to expect both during and after the transition.

In executing its transition plans, KEDLI will work with Department of Public Service Staff (“Staff”) and other stakeholders to ensure customers’ needs are fully addressed. Moreover, in the months leading to the transition, KEDLI will roll out a comprehensive customer outreach program that will educate customers on the changes resulting from the transition.

Background

Today, National Grid’s Long Island call center handles service calls from KEDLI’s gas customers and, pursuant to a management services agreement, calls from LIPA’s electric customers. These calls are answered at National Grid’s Melville Call Center facility by 190 call center agents. Because LIPA serves more customers than KEDLI on Long Island,¹ call center agents spend approximately sixty-five percent of their time in support of LIPA’s electric business.



KEDLI and LIPA also jointly operate eleven walk-in customer offices on Long Island for electric and gas customers. These offices are staffed with interview tellers to assist customers with payments, service initiations/terminations, account inquiries and related services.

Effective January 1, 2014, National Grid will turn over management of LIPA's electric system to PSEG. As part of the transition, the Melville Call Center, as well as most of National Grid's call center employees, will be transferred to a subsidiary of PSEG so it can provide services to LIPA's customers.² While the Melville Call Center is not closing (KEDLI understands that PSEG will continue to operate the Melville Call Center for LIPA's benefit following the transition), it will no longer be available to handle KEDLI customer calls. The walk-in customer offices on Long Island will similarly transition to a subsidiary of PSEG as of January 1, 2014.

The loss of the LIPA management agreement will result in the loss of certain operational efficiencies and cost synergies currently realized by National Grid's combined Long Island electric and gas customer function. LIPA's decision to select a new T&D manager forced KEDLI to consider alternative solutions to cost-effectively meet the needs of its customers. Because KEDLI, by itself, is significantly smaller than the combined LIPA/KEDLI business in terms of the number of customers served, replicating a comparable customer organization for KEDLI on a stand-alone basis would not be prudent. The Company looked to leverage additional synergies through its affiliate, The Brooklyn Union Gas Company d/b/a National Grid NY ("KEDNY"), which operates a gas utility in a contiguous service territory covering Queens, Brooklyn and Staten Island, New York. Because of their geographical proximity, KEDLI and KEDNY are currently benefiting from synergies realized through certain combined support functions (*e.g.*, gas supply procurement

¹ KEDLI provides gas distribution service to approximately 560,000 customers in the Long Island counties of Nassau and Suffolk and the Rockaway Peninsula in Queens County. LIPA provides service to approximately 1.1 million customers in the same service territory.

² Pursuant to National Grid's legacy agreements with LIPA, National Grid is obligated to make available the facilities used to provide service to LIPA to a subsequent manager.

and engineering) and, therefore, it was a natural extension for National Grid to explore opportunities for further synergies between the companies in the customer service area.

In addition to the call center and customer office solutions described in this letter, National Grid is also undertaking to replace and update its customer billing system. National Grid currently maintains customer accounts on the legacy Long Island Lighting Company customer system that has been in service for more than forty years. As part of the transition, KEDLI will implement a new customer system (the Customer Service System or CSS) that will provide customers with enhanced functionality, including more self-service functions and improved bill presentation.

1. KEDLI Customer Offices and Payment Options

A. Customer Offices – Transition Arrangement

There are currently eleven walk-in customer offices on Long Island, four in Nassau County (Bellmore, Hicksville, Hewlett and Roslyn) and seven in Suffolk County (Bridgehampton, Riverhead, Patchogue, Coram, Brentwood, Babylon and Melville), serving KEDLI/LIPA customers.

As of January 1, 2014, LIPA will retain control of the existing shared customer offices. To provide KEDLI's customers with continued access to these customer offices, KEDLI is currently negotiating a transition agreement with PSEG for a period of twenty-four months for the eleven current offices. As part of the anticipated agreement, PSEG will accept payments from KEDLI customers at each of the customer offices and provide space for two to three National Grid interview tellers at the customer offices in Bellmore, Brentwood and Hewlett (KEDLI's three busiest customer offices). KEDLI anticipates hiring nine additional interview tellers to handle KEDLI transactions at these offices.

Through this transition arrangement, KEDLI will afford Long Island gas customers uninterrupted access to the same facilities utilized today for at least two years following the transfer of LIPA's T&D management to PSEG. In terms of a longer-term solution, the Company will develop a customer office plan that satisfies the needs of gas customers while maintaining a cost structure that is reasonable for the size of its business.

B. Payment Agents

In addition to the customer offices, KEDLI will maintain the current network of thirty-two pay agents (nineteen in Suffolk and thirteen in Nassau County) to handle customer payments on Long Island. As customer payment processing is the most common in-person transaction, the pay agents will help to serve the needs of customers interested in making payments throughout KEDLI's service territory.

2. Customer Call Center Transition

A. MetroTech Call Center

In anticipation of the transition of the Long Island electric customer function to PSEG, KEDLI undertook an extensive analysis of potential call center solutions to replicate the services currently provided through the shared electric/gas customer organization. The Company considered four possible alternatives to handle gas customer calls: (i) establish a new, stand-alone call center on Long Island dedicated to KEDLI; (ii) fully outsource KEDLI's call center function to a third-party service provider; (iii) relocate the customer call function to an existing National Grid call center; and (iv) relocate the customer call function to an existing National Grid call center and partner with a vendor for certain services ("hybrid approach"). A new stand-alone call center would require incremental resources, significant capital investment in facilities and equipment to replicate the current Melville operation and

ongoing expenses to maintain a separate facility. The Company does not consider the outsourcing solution a preferred option given the loss of downstate New York jobs. Relocating the customer call function in its entirety is a viable option; however, it would not enable the Company to mitigate the loss of synergies as significantly as the hybrid approach. Accordingly, the Company concluded that KEDLI's customers are best served by the hybrid approach that leverages the existing MetroTech Call Center.

To maximize the efficiencies, the Company will engage a call center vendor to handle certain types of calls consistent with the model utilized by Niagara Mohawk in upstate New York and other National Grid territories. This hybrid approach enables the Company to leverage and maximize the cost benefits of a shared call center facility while keeping call center jobs in the downstate New York region. KEDLI's call center partner (a well known call center provider and a current partner of National Grid) will deploy a team of trained call center agents located in downstate New York to handle KEDLI's connect/disconnect and collections calls.³ National Grid's MetroTech Call Center will handle all other calls (billing, emergency, outage, gas leaks, payments, etc.).

Not only is this hybrid approach the most cost effective solution, but it provides other benefits, including:

- Continued provision of high quality service as the MetroTech Call Center is a high performing customer facility as measured by its customer service statistics;

³ National Grid is not proposing to implement a similar model for KEDNY. The MetroTech call center is already fully staffed to handle KEDNY's connect/disconnect and collections calls.

- A seamless transition given that the MetroTech Call Center is already supporting gas customers in the downstate area;
- Operating a single, downstate gas call center enhances the Company's ability to gather and disseminate information quickly and consistently during storms and other emergencies; it also provides greater flexibility to manage staffing during these events;
- Cross training of representatives to enable the Company to maintain high service levels and more efficiently address peak workload requirements; and
- Preservation of jobs in the downstate New York region. The MetroTech call center is easily commutable for call agents living on Long Island, affording these agents the opportunity to remain with National Grid. To the extent KEDLI needs to hire additional call agents, National Grid will draw on the downstate New York labor market to fill these positions. The shared call center also provides additional career path opportunities for downstate call center agents.

The move from Melville to MetroTech is relatively short, just thirty-six miles west on Long Island. Moreover, the Company already has long history of operating within the City of New York, as KEDLI currently serves thousands of customers in Queens. These factors will contribute positively to a smooth transition.

B. Cost Analysis

The Company's cost analysis demonstrates substantial financial benefits associated with transitioning call handling to MetroTech as compared to the other call center options

considered by KEDLI.⁴ First, KEDLI will incur significantly lower capital startup costs (*e.g.*, build-out costs, computer systems and communications infrastructure investments) by utilizing an existing call center:

<u>Location</u>	<u>Startup Cost (\$)</u>
New Long Island Call Center Facility	5,500,000
New Call Center at Existing LI Building	2,000,000
MetroTech Call Center w/ Vendor	555,000

Therefore, transitioning to MetroTech will result in approximately \$2 million to \$5 million in avoided costs as compared to the startup costs of a new, standalone Long Island call center.

In addition, the Company will realize significant labor and staffing synergies by utilizing MetroTech and leveraging the benefits of a call center partner. The following is an estimate of the start-up and annual labor costs for each of the call center options:

<u>Location</u>	<u>Start-Up Costs</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
LI Stand Alone	\$5,500,000 ⁵	\$3,099,588	\$3,131,000	\$3,162,310	\$3,193,933
MetroTech	\$525,000	\$3,001,340	\$2,894,995	\$2,886,866	\$2,867,585
MetroTech w/Partner	\$555,000	\$2,391,687	\$2,325,961	\$2,325,119	\$2,317,073

KEDLI estimates that the hybrid approach it selected will result in labor costs that are 23 to 29 percent lower than the other call center options (approximately \$3.2 million in avoided labor costs over the next four years).

⁴ Because the fully outsourced model was not the preferred option due to the impact on jobs in the region and other considerations, the Company did not include this option in its financial analysis.

C. Call Center Transition Timing

To allow for a staggered transition to the new call center, and address any potential delay in the transition, KEDLI will initially establish a temporary call center at National Grid's Hub Drive (Melville) facility⁶ to handle calls until such time as the Company is ready to fully transition to the MetroTech Call Center. In December 2013, KEDLI will move its call handling function to the temporary facility at Hub Drive. KEDLI expects to begin transitioning to the MetroTech Call Center as soon as that facility is ready to accept KEDLI's call agents, likely starting in the first quarter of 2013 and continuing over the next several months. KEDLI is targeting to complete the call center transition to MetroTech by June 2014.

Over the next several months, National Grid will hire and train a group of temporary call center agents to assist with KEDLI's call answering during the transition. Once fully trained, these temporary agents will be deployed to the Hub Drive facility where they will support call answering until the permanent Long Island agents that will remain with KEDLI (who are presently working out of the Melville Call Center) are released from their current assignments (anticipated January 1, 2014). The temporary agents will be retained until the Long Island agents are trained on KEDLI's new Customer Service System and fully supporting KEDLI.

⁵ Assumes start-up costs for the construction of a stand-alone call center at a new Long Island facility.

3. Customer Outreach and Education

KEDLI is launching a comprehensive customer outreach program to educate gas customers on the changes resulting from the LIPA transition. As part of this program, KEDLI will roll out a communications campaign in the third quarter of 2013 that will address:

Impact of LIPA Transition: KEDLI will keep customers informed about the changes to their natural gas service and billing resulting from the LIPA separation. Communications will include: press releases, website updates, email messages, bill inserts, bill/envelope messages and call center scripts/talking points. In addition, the Company anticipates sending a letter to all customers specifically addressing each aspect of KEDLI's customer service action plan.

KEDLI Customer Outreach and Education: In light of the potential for confusion around LIPA's transition to PSEG, the Company recognizes the importance of reinforcing for customers KEDLI's role on Long Island as the local gas distribution company. To that end, KEDLI will roll out a multi-media marketing/education campaign that may include radio, digital advertising and newspaper ads. In addition to educating customers on KEDLI's role, the campaign will address other customer issues, including but not limited to, service, safety, billing and new customer service programs (such as the benefits of automated meter reading). Customer messaging will focus on education, reliability and restoration investments in the region.

⁶ While the Hub Drive facility is capable of supporting a temporary call center, it does not have adequate space for a permanent call center.

Customer research and studies will gauge the effectiveness of these messages and the findings will be applied to future outreach/marketing efforts on Long Island. KEDLI expect to implement these efforts in the fourth quarter 2013 through the first quarter of 2014.

KEDLI will keep Staff fully informed with regard to the Company's communication plans throughout the transition. The intent of the communication plan, as well as the transition plans regarding the call center and customer offices, is to assure that KEDLI customers continue to receive high quality customer services in a cost effective manner. The Company will continue to keep Staff informed as to its progress on its transition plans.

Respectfully submitted,

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d/b/a NATIONAL GRID

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