

Niagara Mohawk Power Corporation Electric and Gas Rate Case Technical Conference Case No. 12-E-0201 and 12-G-0202



May 23, 2012

Bill Stability... Investment and Improved Reliability ... and Enhanced Customer and Community Presence

Agenda

Summary of Filing

Key Elements of the Filing

Rate Case Preparation

Base Rate Revenue Requirement Comparisons

Overall Rate & Bill Impacts

Witnesses

Timeline

Summary of Filing

- One Year Rate Plan that includes two subsequent years of data filed on April 27th
- Niagara Mohawk electric delivery rate increase of approximately \$130.7 million that will be offset by approximately \$190¹ million of deferral recoveries that will be removed from rates on March 31, 2013
 - This results in a **decrease** for all customer classes (except street lighting) and represents a total bill decrease of 2.1% for the typical residential customer
- Niagara Mohawk gas rate increase of approximately \$24.5 million. The Company proposes to mitigate bill impacts by amortizing \$14.1 million per year of regulatory liabilities for three years. The result is a net increase in gas revenues of \$10.4 million
 - This results in a modest **increase** for all customer classes and represents a total bill increase of 2.3% for the typical residential customer

1. The \$190 represents an estimated annualized amount of the total deferral recovery authorized of \$240m.

Summary of Filing (con't)

- The filing assumes a 10.55% ROE with a 51% equity structure
 - Proposes a 10.90% for multiyear rate plan

- Rate year capital investment of \$454m for Electric and \$82m for Gas
 - Multi year proposal;
 - Data Year 1 \$478 for Electric and \$81m for Gas
 - Data Year 2 \$499 for Electric and \$81m for Gas

- A number of new or modified Customer-Focused Programs being proposed

- Continuation of existing performance mechanisms
 - proposed modification to the estimating metric

Rate Proposal Key Elements

- The Niagara Mohawk revenue requirement reflects \$56.2 million in cost reductions from KeySpan merger and approximately \$55.8 million in estimated cost reductions associated with US Restructuring
 - The Revenue Requirement reflects an adjustment of \$14.3 million for non-labor savings not yet achieved in the test year
- National Grid exceeded its external commitment against fiscal year 2010 performance and reduced its US operating costs by approximately \$204 million
- Measuring from the more aggressive baseline of fiscal year 2011 performance, National Grid estimates it will further reduce its operating costs by implementing \$172 million of cost reduction initiatives as of March 31, 2013 – approximately \$32.7 million more than the target measured from fiscal year 2010 performance
 - Approximately \$130 million in costs to achieve the Us Restructuring savings will be borne by National Grid Shareholders
- Niagara Mohawk further reduced its Revenue Requirement by \$6.5 million to reflect 1% Productivity Adjustment

Rate Proposal Key Elements (Cont)

- Making progress on service company issues
 - Implementation of Liberty Audit recommendations to improve controls, governance, reporting, tracking and transparency of service company transactions underway
 - Adoption of a single set of cost allocation methodologies
 - Finalization of Service Level Agreements
- Company reports on progress in implementing Management Audit and reflects associated cost-benefits
- Recovery of a portion of variable pay to attract and retain a quality workforce motivated to achieve performance metrics tied to safety, reliability, customer satisfaction and other metrics that benefit customers; program was recently redesigned

Rate Proposal Key Elements (Cont)

- US Foundation (SAP Back office system)
 - Consolidation of financial, human resources and supply chain systems on a common SAP platform under the US Foundation Project is a critical path to address service company issues
 - Approximately \$80 million of costs will be borne by shareholders, including all implementation costs
 - Annual rent expense to Niagara Mohawk is \$11.9 million for the electric business and \$2.6 million for the gas business

Rate Proposal Key Elements (Cont)

- Low Income Program Enhancements for Gas Customers
 - The Company is proposing to increase the monthly credit for qualifying gas customers from \$7.50 to \$10.00

- Expansion of Economic Development Programs
 - Increase funding for our electric grant programs by \$2 million to \$11 million annually
 - Creation of 2 new gas programs totaling \$1 million to help offset customer costs for upgrades and promote sustainable gas and clean transportation technologies

- Collaboration with Staff, marketers, customers, communities and pipeline companies to expand the availability of natural gas

- Base rate allowance and full reconciliation for any under or over recovery for future refund to or recovery from customers for SIR costs

Rate Proposal Key Elements (Cont)

- Recovery of Property Tax and Uncollectible Expenses based on the methodologies from the 2010 Electric Rate Case

- Additional proposals relating to:
 - Creation of LED (energy only) Street Lighting Tariff
 - Installation of customer-owned electric and natural gas vehicle fueling and charging stations

 - Paperless Billing Option

Rate Case Preparation

Test Year Review

- National Grid engaged Ernst & Young LLP (“E&Y”) to review the accounting for costs charged from the service companies to Niagara Mohawk and its affiliates in the Historic Test Year.
 - Procedures included validation of data based on examination of underlying source documentation including the following:
 - **Vendor costs**
 - 75% of service company charges through a combination of selecting the largest items and random sampling from the remaining items
 - **Payroll expenses**
 - Judgmental sampling of payroll data
 - Comparison of payroll expense to employee expense charging
 - **Employee expenses**
 - Sample testing of direct charging and allocations utilized
 - Data mining for key words and judgmental sampling techniques of specific expense types (e.g., dues, lobbying)
 - **General ledger journal entries**
 - Judgmental sampling of specific transaction types (e.g., adjustments, corrections, manual uploads)
- Company review of NMPC direct expense used a similar approach to Ernst & Young

Rate Case Preparation

O&M Expense Service Company Allocation

- Liberty
- PA Consulting
- Conversion to a single general allocator
- Creation of new cost causal allocators
- Proposed reduction of \$13 million for the change in allocation rates with the implementation of the new accounting platform (SAP)

Current Rate Orders Compared to Rate Filing (E)

Changes For Rate Year Ending March 31, 2014 (in \$000)

■ Change in Net Revenues <small>Decrease/(Increase)</small>	(\$15,229)
■ Change in Operation & Maintenance Expenses	8,711
■ Amortization of Regulatory Deferrals	3,575
■ Change in Depreciation Expense	18,476
■ Change in Taxes Other Than Income Taxes	19,008
■ Change in Return on Rate Base*	<u>96,142</u>
■ Total Base Rate Revenue Increase	\$130,683
■ Other Amortization Changes	<u>(190,000)</u>
■ Total Delivery Revenues Decrease	(\$59,317)
■ Percent of Total Delivery Revenues	(3.13%)

*Change in Return on Rate Base

Return, Capital Structure & Income Tax Flow thru Items	71,953
Higher Rate Base	<u>24,189</u>
	\$96,142

Current Rate Orders Compared to Rate Filing (G)

Changes For Rate Year Ending March 31, 2014 (in \$000)

■ Change in Net Revenues <small>Decrease/(Increase)</small>	\$4,621
■ Change in Operation & Maintenance Expenses	9,316
■ Amortization of Regulatory Deferrals	(15,791)
■ Change in Depreciation Expense	9,425
■ Change in Taxes Other Than Income Taxes	5,781
■ Change in Return on Rate Base*	<u>11,164</u>
■ Total Base Rate Revenues Increase	\$24,516
■ Other Amortization Changes	<u>(14,104)</u>
■ Total Delivery Revenues Increase	\$10,412
■ Percent of Total Delivery Revenues	4.01%

*Change in Return on Rate Base

Return, Capital Structure & Income Tax Flow thru Items	6,209
Higher Rate Base	<u>4,955</u>
	\$11,164

Data Year Revenue Requirements

Assuming a three year plan and an ROE of 10.90%

- Gas

Rate Year	\$ 27.852 Million
Data Year 1	\$ 8.766 Million
Data Year 2	\$ 4.771 Million

- Electric

Rate Year	\$142.854 Million
Data Year 1	\$ 69.759 Million
Data Year 2	\$ 48.571 Million

Data Year Revenue Requirement increases primarily driven by increased capital investment (increases in rate base, depreciation and property taxes)

Current Rate Orders Compared to Rate Filing (E)

Data Year 1 and Data Year 2

Changes For Rate Year Ending March 31, 2015 and March 31, 2015 (in \$000)

	<u>Data Yr 1</u>	<u>Data Yr 2</u>
■ Change in Net Revenues Decrease/(Increase)	\$11,978	\$(9,159)
■ Change in Operation & Maintenance Expenses	(4,769)	(5,268)
■ Amortization of Regulatory Deferrals	2,821	(474)
■ Change in Depreciation Expense	7,942	8,522
■ Change in Taxes Other Than Income Taxes	9,222	10,831
■ Change in Return on Rate Base*	<u>42,565</u>	<u>44,119</u>
■ Total Base Rate Revenues Increase	\$69,759	\$48,571
*Change in Return on Rate Base		
Interest & Income Tax Flow thru Items	11,452	11,030
Higher Rate Base	<u>31,113</u>	<u>33,089</u>
	\$42,565	\$44,119

Current Rate Orders Compared to Rate Filing (G)

Data Year 1 and Data Year 2

Changes For Rate Year Ending March 31, 2015 and March 31, 2015 (in \$000)

	<u>Data Yr 1</u>	<u>Data Yr 2</u>
■ Change in Net Revenues Decrease/(Increase)	\$(853)	\$(290)
■ Change in Operation & Maintenance Expenses	(802)	(4,550)
■ Amortization of Regulatory Deferrals	(17)	(28)
■ Change in Depreciation Expense	1,716	1,772
■ Change in Taxes Other Than Income Taxes	1,651	1,730
■ Change in Return on Rate Base*	<u>7,071</u>	<u>6,137</u>
■ Total Base Rate Revenues Increase	\$8,766	\$4,771

*Change in Return on Rate Base

Interest & Income Tax Flow thru Items	3,657	2,935
Higher Rate Base	<u>3,414</u>	<u>3,202</u>
	\$7,071	\$6,137

Niagara Mohawk

Electric 5 Year Capital Investment Plan

- Company proposes deferral mechanisms for recovery of costs incurred resulting from regulatory or third party changes such as bulk electric system definition changes from NERC/FERC and generation retirements
- Transmission reinforcement projects in the Northeast Region, Southwest Region, Genesee Region, and Syracuse
- Proposal to simplify storm cost recovery by establishing a \$29 million storm fund (10-year average)
- Continued focus on reliability through asset condition work \$2.4B electric investment over next 5 years
- Fulfill our obligation to provide safe and adequate service at a reasonable cost to our electric customers.

System	FY13	FY14	FY15	FY16	FY17
Transmission	\$132.0	\$145.0	\$160.0	\$165.0	\$170.0
Sub-Transmission	\$ 46.0	\$ 50.0	\$ 54.0	\$ 58.0	\$ 63.0
Distribution	\$235.0	\$247.0	\$258.0	\$269.0	\$277.0
Smart Grid	\$ 7.0	\$ 2.0	-----	-----	-----
Shared Services Allocation	\$ 20.0	\$ 9.7	\$ 6.3	\$ 7.1	\$ 6.4
Total	\$440.0	\$453.7	\$478.3	\$499.1	\$516.4

Niagara Mohawk

Gas 5 Year Capital Investment Plan

- \$82 million planned investment in gas delivery infrastructure in Rate Year
 - Priorities include acceleration of leak prone facilities replacement to a rate of 35 miles per year, gas transmission, remote controlled valves, pressure regulating facilities, system automation, inside atmospheric inspections, corrosion/bridge inspections, system reinforcements and distribution valves

Spending Rationale	FY 13	FY 14	FY 15	FY 16	FY 17
Gas Growth	\$19.6	\$19.5	\$19.8	\$20.1	\$20.7
Gas Mandated	\$37.7	\$49.5	\$49.2	\$49.9	\$50.6
Gas Reliability	\$7.5	\$11.1	\$ 9.9	\$ 9.1	\$8.9
Non-Infrastructure	\$1.3	\$0.6	\$0.8	\$0.7	\$0.7
Shared Services Allocation	\$ 2.2	\$1.3	\$1.3	\$1.3	\$1.3
Total	\$68.3	\$82.0	\$81.0	\$81.1	\$82.2

Bill Impacts - Electric

	Excluding Impact of Deferral Elimination			Including Impact of Deferral Elimination		
	Delivery	Commodity	% Total Bill Impact	Delivery	Commodity	% Total Bill Impact
Typical Customer						
SC-1 600 kWh	10.5%	(0.1%)	6.1%	(3.2%)	(0.1%)	(2.1%)
SC-2ND 1,500 kWh	6.4%	(0.1%)	3.6%	(8.4%)	(0.1%)	(5.2%)
SC-2D 7,200 kWh, 25 KW	6.7%	(0.1%)	3.2%	(6.1%)	(0.1%)	(3.3%)
SC-3 Primary 216,000 kWh, 500 KW	5.1%	(0.1%)	1.8%	(5.0%)	(0.1%)	(2.0%)
SC-3A Transmission 2,304,000 kWh, 4,000 KW, 40% Peak Hrs. Use	5.2%	(0.1%)	1.2%	(1.5%)	(0.1%)	(0.5%)

Bill Impacts - Gas

Average Customer	Rate Year		
	Delivery	Commodity	Total Bill
SC 1 Small Residential - 1,000 therms per yr	2.7%	2.0%	2.3%
SC 2 Large Residential - 3,180 therms per yr	0.8%	1.1%	1.0%
SC 2 Small Commercial - 3,940 therms per yr	0.5%	1.1%	0.8%
SC 2 Small Industrial - 14,580 therms per yr	-1.1%	1.1%	0.2%
SC 3 Large Commercial & Industrial - 108,940 therms per yr	-2.4%	4.5%	2.7%
SC 7 Small Transportation - 83,900 therms per yr	0.8%	---	0.8%
SC 5 Medium Transportation - 437,140 therms per yr	2.5%	---	2.5%
SC 8 Large Transportation - 3,215,330 therms per yr	3.6%	---	3.6%

Rate Design and Tariff Issues - Electric

- Embedded Cost of Service Study and Rate Design Study methodology remains largely unchanged from prior case
 - Aspects of Replacement and Expansion (R&E) Power Phase-In Agreement reflected in revenue forecast
 - Delivery of NYPA products are included in ECOSS, Revenue Allocation and Rate Design Changes in the

Rate Design and Tariff Issues - Gas

- Embedded Cost of Service Study and Revenue Allocation methodologies remain largely unchanged from prior case
- Merchant Function Charge
 - Include Return Requirement on Gas Working Capital
 - Expand participation to include SC-3 Large Commercial and Industrial Sales
 - Modify Gas Storage Return Requirement to reflect actual storage inventory balances
- Modify Lost & Unaccounted for (LAUF) Gas Mechanism consistent with Staff's white paper
- Terminate SC 4 Interruptible Sales Service
- Eliminate Ratchet Usage Provision for SC 3 Large Commercial and Industrial Sales
- Net Revenue Sharing Mechanism
 - Expand participation to include all firm sales and firm transportation service classes
 - Update targets to exclude SC 4 Interruptible Sales Service

NMPC Gas & Electric Witnesses / Panels

- Electric Infrastructure and Operations – Ellen Smith, Keith McAfee, Allen Chieco
- Gas Infrastructure and Operations - Ellen Smith, William Ackley, Laurie Brown
- Cost of Equity Capital - Robert Hevert
- Capital Structure - Mustally Hussain
- Compensation and Benefits – Maureen Heaphy, John Goudelias and Janet Fuersich of Tower Watson
- Management Audit – Peter Zschokke, Margaret Janzen
- Information Systems – Matthew Guarini, Michael Kyle,
- Gas Depreciation – Dr. Ronald White of Foster Associates
- Site Investigation and Remediation – Charles Willard
- Shared Services and Customer - Rudolph Wynter, Evelyn Kaye, Edward White

NMPC Gas & Electric Witnesses / Panels (Cont)

- Electric Sales Forecast – Joseph Gredder
- Gas Sales Forecast – S. Leo Silvestrini
- Gas Procurement – Elizabeth Arangio
- Service Company – James Molloy, Dave Doxsee, Sharon Partridge
- Revenue requirements – James Molloy, Dave Doxsee
- Electric Rate Design – Pam Dise, Kellie Smith, Howard Gorman of HSG Group, Inc
- Gas Rate Design – Melissa Nairn, Dawn Herrity, Joseph Trainer of Black & Veatch