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VIA E-FILING AND EMAIL

Hon. Kathleen H. Burgess, Secretary
Public Service Commission
Three Empire State Plaza
Albany, NY 12223-1350

Doris Stout, Director
Office of Accounting and Finance
Three Empire State Plaza
Albany, NY 12223-1350

Re: Case 06-M-0878 – Joint Petition of National Grid plc and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations

Case 12-E-0201 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service

Case 12-G-0202 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service

Case 16-G-0058 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corporation d/b/a National Grid for Gas Service

Case 16-G-0059 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company d/b/a National Grid NY for Gas Service

Revision to Cost Allocation Methodologies

Dear Secretary Burgess and Director Stout:

The Brooklyn Union Gas Company d/b/a National Grid NY (“KEDNY”), KeySpan Gas East Corporation d/b/a National Grid (“KEDLI”), and Niagara Mohawk Power Corporation d/b/a National Grid (“NMPC”) (collectively, “National Grid” or “Company”) hereby submit a revision to their cost allocation methodologies.

These revisions are being submitted pursuant to Appendix 4 of the Merger & Gas Revenue Requirement Joint Proposal (“JP-2”) adopted in Case 06-M-0878¹ and the Rate Plan Provisions in Appendix 7 of the Joint Proposal adopted by the Commission on March 15, 2013 in Cases 12-E-0201 and 12-G-0202 (“Rate Plan Provisions”).² Specifically, Appendix 4 of JP-2 states that “[a]ny future revisions to the cost allocation methodology will be filed with the Commission’s Director of Finance and Accounting and, assuming adequate support is provided for such revisions, will become effective after 60 days, unless an objection is raised.” Section 3.2.4.2 of the Rate Plan Provisions provides that “[a]ny future revisions to cost allocation methodologies of [National Grid’s service companies] will be filed with the Secretary of the Commission.”

I. BACKGROUND

National Grid implemented its current cost allocation methodologies in October 2012 to reflect the use, where a direct charge is not appropriate, of a set of cost causative allocation bases or a three factor general allocator comprised of Gross Margin, Net Plant, and O&M Expenses, equally weighted.³

II. REVISION TO COST ALLOCATION METHODOLOGY FOR ENERGY EFFICIENCY

Currently, National Grid uses the general allocator for energy efficiency administrative and general (“A&G”) costs that are not directly assignable to a specific program. To better reflect measurable cost causing relationships, National Grid is revising its cost allocation methodology for these energy efficiency A&G costs to utilize a cost causative basis of filed energy efficiency budgets for each company for the calendar year. Allocations will be updated annually based on changes made to the filed energy efficiency budgets that form the cost causative basis.

III. IMPACT ANALYSIS

Attached as **Exhibit 1** is a calculation, based on 2015 calendar year service company costs, of estimated impacts by operating company of the shift from the current general allocator to the proposed cost causative allocation basis of filed 2016 energy efficiency budgets for energy efficiency A&G costs. **Exhibit 2** provides the calculation of the proposed energy efficiency budget allocator.

¹ 06-M-0878, Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and Other Regulatory Authorizations, Merger & Gas Revenue Requirement Joint Proposal, dated July 6, 2007.

² 12-E-0201 and 12-G-0202, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric/Gas Service, Order Approving Electric and Gas Rate Plans In Accord With Joint Proposal (Issued and Effective March 15, 2013).

³ National Grid filed its current cost allocation methodologies with the Commission’s Secretary and Director of Finance and Accounting on March 30, 2012 in Cases 06-M-0878 and 10-E-0050.

As demonstrated in Exhibit 1, for 2016, the general allocator currently distributes approximately 52% of costs to the New York companies (NMPC, KEDLI, and KEDNY). For the same period, the proposed allocation basis will allocate approximately 15% of the costs to the New York companies. The impacts of the shift from use of the general allocator currently in use to the proposed cost causative basis of filed energy efficiency budgets are estimated to be a decrease of allocated costs by approximately \$0.22 million for NMPC, \$0.11 million for KEDLI, and \$0.13 million for KEDNY based on 2015 calendar year service company costs.

Finally, **Exhibit 3** provides the base rates impacts to KEDNY and KEDLI for the Rate Year and Data Years in the three year rate plan agreed to in the Joint Proposal memorializing the settlement agreement among the Companies and Signatory Parties in Cases 16-G-0058 and 16-G-0059. The decrease in forecast costs for KEDNY and KEDLI resulting from the change in allocators, as presented in Exhibit 3, will be deferred for future refund to customers. The decrease in costs for NMPC will be reflected through the System Benefits Charge in the Energy Efficiency Tracker Surcharge Rate.

IV. IMPLEMENTATION

National Grid plans to use the revised cost allocation methodology for energy efficiency A&G costs not directly assignable to an energy efficiency program beginning January 1, 2017. The Company has discussed this revision with Department of Public Service Staff.

If you have any questions or require further information concerning the enclosed materials, please contact me at (781) 907-1855 or mahati.guttikonda@nationalgrid.com.

Very truly yours,

/s/ Mahati Guttikonda
Mahati Guttikonda

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Comparison of Current General Corporate and Proposed Allocations
 CY2015 Allocated Expenses

	(A)	(B)	(C)=(A)*(B)	(D)	(E)=(A)*(D)	(E)-(C)
	Costs in CY2015 to be allocated	General Corporate Allocations - Current	Costs Allocated based on General Corporate Allocations - Current	Proposed Costs Allocated based on CY2016 Energy Efficiency budgets	Proposed Allocation based on CY2016 Energy Efficiency Budgets	Difference
	(in dollars)		(in dollars)		(in dollars)	(in dollars)
NIMO Electric		21.83%	279,825	7.53%	96,522	(183,303)
NIMO Gas		5.73%	73,449	2.67%	34,225	(39,224)
KEDLI		10.30%	132,029	1.52%	19,484	(112,545)
KEDNY		13.76%	176,380	3.44%	44,095	(132,285)
Massachusetts Electric		24.18%	309,948	40.22%	515,554	205,606
Massachusetts Gas		12.68%	162,537	24.35%	312,128	149,591
Narragansett Electric Co.		8.20%	105,110	15.05%	192,916	87,806
Narragansett Electric Co. - Gas		3.32%	42,557	5.22%	66,912	24,355
Total allocated expenses CY2015	1,281,835	100.00%	1,281,835	100.00%	1,281,836	-

**Calculation of Proposed Allocators
 CY2016 Energy Efficiency Budgets**

	(A) Total Energy Efficiency Budgets Excluding Participant Incentives by Company for CY2016 (in dollars)	(A)/Total CY2016 Budgets Proposed Allocations based on CY2016 Energy Efficiency Budgets
NIMO Electric ¹	11,150,590	7.53%
NIMO Gas ²	3,948,005	2.67%
KEDLI ³	2,257,779	1.52%
KEDNY ⁴	5,101,962	3.44%
Massachusetts Electric ⁵	59,570,241	40.22%
Massachusetts Gas ⁶	36,064,055	24.35%
Narragansett Electric Co. ⁷	22,286,654	15.05%
Narragansett Electric Co. - Gas ⁸	7,741,115	5.22%
Total CY2016 Energy Efficiency Budgets Excluding Participant Incentives	148,120,402	100.00%

¹ See Case 15-M-0252 - In the Matter of Utility Energy Efficiency Programs, Niagara Mohawk Power Corporation d/b/a National Grid - Revised 2016-2018 Electric and Gas Energy Efficiency Transition Implementation Plans (ETIPs), pages 7, 8, and 9, Total Electric Portfolio Budget minus Incentives & Services

² See Case 15-M-0252 - In the Matter of Utility Energy Efficiency Programs, Niagara Mohawk Power Corporation d/b/a National Grid - Revised 2016-2018 Electric and Gas Energy Efficiency Transition Implementation Plans (ETIPs), pages 49 and 50, Total Gas Portfolio Budget minus Incentives & Services

³ See Case 15-M-0252 - In the Matter of Utility Energy Efficiency Programs, KeySpan Gas East Corporation d/b/a National Grid - Revised 2016-2018 Electric and Gas Energy Efficiency Transition Implementation Plans (ETIPs), pages 6 and 7, Total Gas Portfolio Budget minus Incentives & Services

⁴ See Case 15-M-0252 - In the Matter of Utility Energy Efficiency Programs, The Brooklyn Union Gas Company d/b/a National Grid NY - Revised 2016-2018 Electric and Gas Energy Efficiency Transition Implementation Plans (ETIPs), pages 6 and 7, Total Gas Portfolio Budget minus Incentives & Services

⁵ See Massachusetts Electric Company and Nantucket Electric Company d/b/a National Grid; D.P.U. 15-168, 2016-2018 Three-Year Energy Efficiency Plan, Exhibit NG-Electric-4 (Rev. 12-21-15), page 31, Total Program Cost minus Participant Incentive

⁶ See Boston Gas Company and Colonial Gas Company d/b/a National Grid; D.P.U. 15-161, 2016-2018 Three-Year Energy Efficiency Plan, Exhibit NG-Gas-4 (Rev. 12-21-15), page 29, Total Program Cost minus Participant Incentive

⁷ See Docket No. 4580 - In Re: The Narragansett Electric Company d/b/a National Grid Energy Efficiency Program Plan for 2016, Attachment 5, page 2 table E-2, Grand Total minus Shareholder Incentive and Rebates and Other Customer Incentives

⁸ See Docket No. 4580 - In Re: The Narragansett Electric Company d/b/a National Grid Energy Efficiency Program Plan for 2016, Attachment 6, page 2 table G-2, Grand Total minus Shareholder Incentive and Rebates and Other Customer Incentives

**The Brooklyn Union Gas Company (KEDNY) and
 Keyspan Gas East Corporation (KEDLI)
 Allocation Change to Energy Efficiency Labor and Overhead Expense
 Impact to costs in Case 16-G-0058 & Case 16-G-0059**

	Costs Allocated by General Allocator		Costs Allocated by New Allocator		Difference	
	KEDNY	KEDLI	KEDNY	KEDLI	KEDNY	KEDLI
Historic Test Year ending Sept 2015 EE Costs						
Direct						
Labor	\$ 1,689,547	\$ 206,395	\$ 1,689,547	\$ 206,395	\$ -	\$ -
Benefits ¹	380,911	48,912	380,911	48,912	-	-
Total	2,070,457	255,307	2,070,457	255,307	-	-
Allocated						
	13.92%	10.11%	3.44%	1.52%	-10.48%	-8.59%
Labor	182,768	132,733	45,158	19,953	(137,610)	(112,780)
Benefits ¹	43,268	31,381	10,700	4,728	(32,567)	(26,653)
Total	226,036	164,114	55,858	24,681	(170,178)	(139,432)
Total Cost	2,296,493	419,421	2,126,315	279,988	(170,178)	(139,432)

Base Rates Impact from Allocation Change

	HTY Sept 2015	Inflation	RY 2017 ²	Inflation	DY 2018 ²	Inflation	DY 2019 ²
KEDNY							
Labor	(137,610)	\$ (6,998)	\$ (144,609)	\$ (4,338)	\$ (148,947)	\$ (4,468)	\$ (153,415)
Benefits ¹	(32,567)	(1,229)	(33,796)	(710)	(34,506)	(725)	(35,230)
Total	(170,178)		(178,405)		(183,453)		(188,646)
KEDLI							
Labor	(112,780)	\$ (5,735)	\$ (118,515)	\$ (3,555)	\$ (122,071)	\$ (3,662)	\$ (125,733)
Benefits ¹	(26,653)	(1,006)	(27,658)	(581)	(28,239)	(593)	(28,832)
Total	(139,432)		(146,174)		(150,310)		(154,565)

Notes

1) Benefits exclude Pension and OPEB costs (already reconciled to actuals). Total HTY Energy Efficiency costs with Pension & OPEB's are as follows:

	KEDNY	KEDLI
Pension & OPEB Costs	542,782	97,113
Total Labor/Benefits above	2,296,493	419,421
Total EE Cost	2,839,275	516,534 (also provided in response to DPS-471)

2) The total HTY Energy Efficiency cost allocated with the 3-point general allocation for all National Grid USA companies is as follows:

	HTY Sept 2015
Labor	1,312,722
Benefits ¹	311,057
Total	1,623,779

3) Rates of inflation from the HTY

Year	Labor	General
2017	5.09%	3.77%
2018	3.00%	2.10%
2019	3.00%	2.10%