

August 5, 2013

VIA DMM

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

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

Case 06-G-1185 – Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York for Gas Service

Dear Acting Secretary Cohen:

In accordance with Section IX.E of the Merger and Gas Revenue Requirement Joint Proposal dated July 6, 2007 (hereinafter “JP-2”), as adopted by the Commission in its “Order Authorizing Acquisition Subject To Conditions And Making Some Revenue Requirement Determinations For KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island” issued and effective September 17, 2007 in Case 06-M-0078, The Brooklyn Union Gas Company d/b/a National Grid NY (hereinafter “KEDNY” or “Company”) hereby submits the computation of its gas rate of return on common equity for the rate year ended December 31, 2012.¹

As indicated in the attached report, which has been prepared in the manner required by JP-2, KEDNY’s earned return on equity for the rate year ended December 31, 2012 was 10.45%. This result is below the 10.5% threshold above which earnings are to be shared between KEDNY

¹ On June 5, 2013, KEDNY received an extension to August 5, 2013 to file this earnings report.

and its customers. Thus, in accordance with JP-2 and as detailed in the attached report, KEDNY did not generate any earnings that are subject to sharing with customers under JP-2.

The report, including supporting workpapers, is being provided to Department of Public Service Staff. The report, exclusive of supporting workpapers, is being provided electronically to the active parties to this proceeding. Any active party requiring a hard copy of this report or workpapers may contact the Company at the number provided below.

Please contact the undersigned at (781) 907-1855 if you have any questions or require further information.

Respectfully submitted,

/s/ Mahati Guttikonda

Mahati Guttikonda

CC: Active Parties via DMM

**NATIONAL GRID ENERGY DELIVERY NEW YORK
COST OF SERVICE SUMMARY - GAS
ACTUAL RESULTS FOR TWELVE MONTHS
ENDED DECEMBER 31, 2012
\$(000)**

	<u>Actuals</u>
<u>OPERATING REVENUES</u>	
Margins (1)	780,029
Cost of Gas	468,153
Revenue Taxes	46,139
Other Operating Revenue	66,497
Total Operating Revenue	<u>1,360,818</u>
<u>OPERATING EXPENSES</u>	
Operations & Maintenance Expenses (2)	850,862
Depreciation	82,783
Amortizations	9,401
Taxes other than Income Taxes	204,769
Total Operating Expenses	<u>1,147,814</u>
Operating Income before Income Taxes	<u>213,005</u>
State Income Tax	13,744
Federal Income Tax	50,931
Total Income Tax	<u>64,675</u>
Utility Operating Income	<u><u>\$148,330</u></u>
Rate Base	<u><u>2,021,033</u></u>
Return on Rate Base	<u><u>7.34%</u></u>

(1) Includes MFC margins

(2) The Company has excluded an estimate of expatriate costs and will make any necessary adjustments to earnings after an analysis of actuals is completed

**NATIONAL GRID DELIVERY NEW YORK
CALCULATION OF INCOME TAX
ACTUAL RESULTS FOR TWELVE MONTHS
ENDED DECEMBER 31, 2012
\$(000)**

Total Operating Income Before Income Taxes		<u>Actuals</u> \$213,005
Interest Charges		
Rate Base	\$2,021,033	
CWIP - Interest bearing	<u>25,088</u>	
	2,046,121	
Interest Component Of Return	2.64%	
Interest Deduction		<u>53,916</u>
		<u>159,089</u>
Permanent Diff./Flow Through Adj.		
Lobbying expenses		641
Meals and Entertainment		81
Penalties and fines		(643)
Medicare Income		0
Employee Stock Purchase Plan Discount		92
		<u>171</u>
Income Subject to State IncomeTax		<u>159,260</u>
State Income Tax @ 8.63%		13,744
Federal income tax:		
Income Subject to Federal IncomeTax		145,516
Federal Income Tax @ 35.00%		50,931
Total Income Tax Provision		<u><u>64,675</u></u>

**NATIONAL GRID ENERGY DELIVERY NEW YORK
TAXES OTHER THAN INCOME TAX - GAS
ACTUAL RESULTS FOR TWELVE MONTHS
ENDED DECEMBER 31, 2012
\$(000)**

	<u>Actuals</u>
FEDERAL:	
Federal Old Age Benefit (FICA) and	<u>2,171</u>
Unemployment Insurance (SFU)	<u>2,171</u>
STATE:	
Franchise - Gross Income	19,887
Unemployment insurance	161
MTA Surcharge - Gross Income	1,778
Other	<u>10,860</u>
	<u>32,685</u>
LOCAL:	
Property	145,507
Public Utility Excise (Municipal Gross Revenue)	<u>24,405</u>
	<u>169,912</u>
Total	<u><u>\$204,768</u></u>

NATIONAL GRID ENERGY DELIVERY NEW YORK
RATE BASE SUMMARY - GAS
ACTUAL RESULTS FOR TWELVE MONTHS
ENDED DECEMBER 31, 2012
\$(000)

	<u>Actuals</u>
Net Utility Plant	2,370,178
Accumulated Deferred FIT	(673,743)
Non-Interest Bearing CWIP	41,490
Cash Working Capital Allowance	84,951
Materials & Supplies	
Fuel	104,041
Other	11,526
Prepayments	
Cost of Gas	5,936
PSC Assessment	1,719
Property Tax	41,435
Other	2,238
Unamortized Costs - Balances	
Unamortized Senior Security Exp.	11,574
Unamortized Deferred Assets - Other	54,688
Earnings Base/Capitalization	(35,000)
Total Rate Base	<u><u>2,021,033</u></u>

**NATIONAL GRID ENERGY DELIVERY NEW YORK
CAPITALIZATION MATRIX - GAS**

	<u>Capitalization</u>	<u>Effective Cost</u>	<u>Weighted Average</u>
	<u>Ratio</u>	<u>Rate</u>	<u>Cost Rate</u>
Rate Year Ending December 31, 2012:			
Long Term Debt	53.60 %	4.87 %	2.61 %
Customer Deposits	1.40 %	1.65 %	0.02 %
Common Equity	45.00 %	10.50 %	4.73 %
Weighted Average Cost of Capital			7.36 %

**NATIONAL GRID ENERGY DELIVERY NEW YORK
CALCULATION OF GAS EQUITY EARNINGS CAP
REVENUE ADJUSTMENT
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2012
\$(000)**

Earned Return On Ratebase	=	Actual Operating Income Excl. Incent. Earn. / Actual Ratebase	
	=	\$148,330	/ \$2,021,033
	=	7.34%	
Earned Return On Common Equity	=	(Earned Return on Ratebase - Actual Weighted Cost of Debt -	
		Weighted Cost of Customer Deposits)/Common Equity Ratio	
	=	(7.34 - 2.61 - 0.02) / (.45)	
	=	10.45%	
Excess Return On Common Equity	=	Earned Return on Common Equity -	
		Allowed Return on Common Equity	
	=	10.45%	- 10.50%
	=	-0.05%	
Excess Earnings (Operating Income Level)	=	\$0	
Equity Earnings Cap Revenue Adjustment	=	\$0	

Sharing:	Ratepayer/ Company	
First 200 Basis Points	= 50/50	\$0
Next 100 Basis Points	= 65/35	\$0
Above 300 Basis Points	= 100/0	\$0
		\$0