Overview of National Grid's Upstate New York Rate Case Settlement Agreement

Cases 20-E-0380 & 20-G-381

October 2021

Summary of Joint Proposal

The Joint Proposal ("JP") proposes a three-year rate plan for Niagara Mohawk Power Corporation d/b/a National Grid's ("Niagara Mohawk" or "Company") electric and gas businesses for a term beginning July 1, 2021 and ending June 30, 2024. Rate Year ("RY") One is July 1, 2021 through June 30, 2022; RY Two is July 1, 2022 through June 30, 2023 and RY Three is July 1, 2023 through June 30, 2024. In addition, the JP also proposes terms that would apply in a Stayout Period that would begin on July 1, 2024 and end on the earlier of March 31, 2025 or the effective date of the Company's base rates being revised by the Commission.

Revenue Requirements: Recommended overall annual revenue requirement increases, adjusted to reflect rate compression in RY One, and offset with deferral credits, are as follows:

	RY1		**RY2**		**RY3**	
	(Million $)	% Total Revenues	(Millions $)	% Total Revenues	(Millions $)	% Total Revenues
Electric	$22.546	1.4%	$62.323	1.9%	$63.262	1.9%
Gas	$8.954	1.8%	$15.656	1.9%	$16.337	1.9%

To achieve these outcomes, Niagara Mohawk will amortize $145.907 million of regulatory liabilities (deferred credits) attributable to its electric business and $40.574 million of regulatory liabilities attributable to its gas business over the three RYs.[1]

Return on Equity/Capital Structure: The JP proposes a 9.0% ROE and a ratemaking capital structure reflecting a common equity component of 48%. The JP includes earnings sharing mechanisms by which customers will share annual earnings in excess of 9.5%.

Make Whole Provision: As Commission action regarding the JP will occur after the start of RY One, the JP proposes a "make whole" provision to permit the Company to recover the revenue shortfall resulting from the extension of the suspension period compared to if rates had gone into effect on July 1, 2021.

Revenue Allocation/Rate Design:

*Electric***:** The revenue allocation and rate design results in total bill impacts for typical SC-1 residential customers using 600 kWhs per month between 2.02 percent and 2.20 percent in RY One, 1.98 percent and 2.12 percent in RY Two, and 2.24 percent and 2.40 percent in RY Three, depending on customers location in the Company's service territory. The JP does not endorse any particular embedded cost of service ("ECOS") methodology or establish precedent for revenue allocation for any future proceeding.

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[1] The JP further provides that Niagara Mohawk will amortize an additional $12.928 million of regulatory liabilities attributable to its gas business during the Stayout Period.

Gas: The revenue allocation and rate design results in total bill impacts for a typical SC-1 residential customer using 82 therms per month of 1.99 percent in RY One, 3.13 percent in RY Two and 3.29 percent in RY Three. The JP does not endorse any particular ECOS methodology or establish precedent for revenue allocation for any future proceeding. The rates established for non-firm SC-6 will have volumetric delivery rates set at a 40 percent discount to the applicable SC-8 firm tail block rate.

Climate Leadership and Community Protection Act ("CLCPA") Goals: The JP contains numerous provision that are intended to further New York State's ability to meet the goals of the CLCPA, including provisions that:

- Commit the Company to operating its gas network with the objective of reducing non-generator billed gas usage on a weather adjusted basis to effectively achieving a net-zero increase in billed gas usage as compared to the sales forecast underlying the JP;
- Will enhance existing energy efficiency programs
- Encourage the continued replacement of leak prone pipe
- Encourage Non-Pipe Alternatives, such as to enable removing leak prone pipe
- Require the termination of gas marketing programs and encourage the development of alternative heating options including ground- and air-sourced heat pumps
- Will permit the Company to develop and operate the Gilmantown Energy Storage project in the most economically beneficial manner available
- Encourage the development of Non-Wires Alternatives
- Requires the Company to withdraw its pending application to construct the Albany Loop gas facilities project (Case 19-T-0069)
- Establishes a High Emitter Methane Detection program to assist in reducing methane emissions
- Will foster the continued development of electric vehicles
- Will encourage efficiency improvements in street lighting
- Encourage a reduction in gas distribution system leaks
- Implement earnings adjustment mechanisms that incent the Company to attain a number of salutary energy usage and efficiency goals
- Enhance existing gas demand response programs
- Will permit development of a multi-use hydrogen/energy transfer station facility
- Support development of an on-line fuel switching calculator
- Require the Company to conduct studies as to how the Company should modify its business and depreciation rates to address issues raised by the CLCPA.

Capital Investment: Electric and Gas - The JP reflects the following levels of capital investment (including cost of removal) during the term of the rate plan:

	FY22[2]	**FY23**	**FY24**	**FY25**
	(Millions $)	(Millions $)	(Millions $)	(Millions $)
Electric & Common	743.756	792.051	894.138	1,002.799
Gas	200.606	235.818	289.853	354.127

The capital investments reflected in the rates proposed in the JP will allow the Company to continue to reinforce and modernize its electric and gas energy delivery systems. The JP also encourages the Company to pursue Non-Wires Alternatives for its electric system and Non-Pipeline Alternatives for its gas system.

Information Technology: The JP also proposes rates that reflect incremental IT-related capital investments for an Advanced Distribution Management System, Advanced Metering Infrastructure, Core IT functions, and Vision of Leadership in Transmission, S4HANA and Grid Modernization programs. The capital investment levels for these programs, which are owned at the National Grid USA Service Company level and allocated to Niagara Mohawk, total $251.5 million in RY One, $265.3 million in RY Two and $297.1 million in RY Three.

Street Lighting: The JP proposes that Niagara Mohawk will continue to utilize the Net Book Value pricing methodology when selling streetlight assets, and proposes improvements to the sales process. The JP also proposes changes to the Company's Street Lighting tariff offerings to enhance, improve and modernize the Company's Street Lighting services.

Reconciliations/Deferrals: The JP proposes to continue various reconciliation mechanisms for specific cost elements, such as pension and other post-employment benefits expense, site investigation and remediation expenses, variable pay and externally imposed costs. The JP also proposes new reconciliations, such as certain incremental income tax expenses, a pension settlement loss for which deferral authority was sought by the Company in Case 17-M-0133, minor storm costs, certain pre-staging storm response resources costs, certain electric vehicles costs, and certain hydrogen energy transfer station costs.

Service Quality and Electric Reliability Performance Metrics: The JP proposes to continue Niagara Mohawk's electric and gas customer service and electric reliability performance metrics.

Gas Safety: The JP proposes to continue Niagara Mohawk's gas safety performance metrics. The JP also recommends new and enhanced gas safety programs including a revised inspection program, an enhanced inactive account process and an enhanced high emitter methane detection program.

Energy Affordability Program ("EAP") and COVID-19 Relief: The JP will enable the Company to enhance its EAP by expanding the existing manual enrollment process and exempting participants from paying reconnection fees. The Company will also implement new training for its consumer advocates targeted at increasing customer awareness of programs to aid in dealing with the effects of the COVID-19 pandemic and related economic impacts. Finally, the Company will also participate in the collaborative with its Downstate Affiliates, The Brooklyn Union Gas Company d/b/a National Grid NY and KeySpan Gas East Corporation d/b/a National Grid, to discuss arrears resolution-related issues arising from the COVID-19 pandemic and join in the report required by the collaborative.

[2] Niagara Mohawk's Fiscal Year is the twelve months ending March 31 of the identified year. Thus FY22 ends March 31, 2022.

Earnings Adjustment Mechanisms ("EAMs"): The JP proposes a number of EAMs that encourage the Company to deliver beneficial outcomes, including: (1) coincident electric system peak reductions; (2) improved load factor in constrained areas of the distribution system that are not current or likely Non-Wires Alternative areas; (3) increased efficiency during the Distributed Energy Resources ("DER") interconnection process and expanded use of DERs in the Company's service territory; (4) reductions in the unit costs of certain programs in the Company's energy efficiency portfolio; (5) energy efficiency savings for the Company's low-to-moderate income ("LMI") energy efficiency portfolio beyond the cumulative annual targets; (6) reductions in carbon emissions by facilitating penetration of heat pump water heating and space heating technologies; (7) increased adoption of light duty electric vehicles; (8) reducing the unit costs of the Company's electric vehicle make ready program; (9) reducing heating load gas demand; and (10) reductions in the unit costs of the Company's gas energy efficiency portfolio (excluding LMI programs).

Gas Supply Matters: The JP proposes that the Company will retain its existing, non-core daily balancing service for existing customers but will conduct an audit to determine what, if any, portion of those customers' loads is not served by upstream primary point capacity to the Company's city gates. Once the audit is complete the Company will convene a meeting with all interested parties to determine what, if any, actions should be taken with respect to the reliability of upstream deliveries to existing firm, non-core customers.