

The Narragansett Electric Company

d/b/a National Grid

INVESTIGATION AS TO THE
PROPRIETY OF PROPOSED TARIFF
CHANGES

Testimony and Schedules of:

Timothy F. Horan
Maureen P. Heaphy

Book 1 of 17

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PRE-FILED DIRECT TESTIMONY

OF

TIMOTHY F. HORAN

Dated: November 27, 2017

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1 **I. Introduction**

2 **Q. Please state your name and business address.**

3 A. My name is Timothy F. Horan. My business address is 280 Melrose Street, Providence,
4 Rhode Island 02907.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am President and Chief Operating Officer, Rhode Island Jurisdiction, for National Grid
8 USA Service Company, Inc. (Service Company). In this position, I have responsibility
9 for overseeing the regulated electric and gas distribution operations of National Grid
10 USA (National Grid) in Rhode Island provided by The Narragansett Electric Company
11 d/b/a National Grid (the Company).

12

13 **Q. What are your principal responsibilities in that position?**

14 A. As President and Chief Operating Officer of the Rhode Island Jurisdiction of National
15 Grid, I have lead responsibility for the Rhode Island organization and for providing safe,
16 reliable, and cost-effective service to Rhode Island customers, while achieving its
17 operational and financial performance objectives. The Rhode Island organization is
18 supported by the wider National Grid organization with dedicated functional leads in all
19 key areas, such as network strategy, engineering, and finance.

20

1 **Q. Please describe your educational background and professional experience.**

2 A. In 1983, I earned a Bachelor of Science degree in Management Engineering from
3 Worcester Polytechnic Institute. In 2000, I earned a Master of Business Administration
4 from Regis University. From 1983 until June 1988, I was employed by the U.S. Army at
5 various locations in the United States and Europe. My career with New England Electric
6 System (NEES) began in 1988, when I accepted a position as a commercial and industrial
7 (C&I) services representative in Rhode Island for the Company. Over the next several
8 years, I was employed by various subsidiary companies of NEES, including New
9 England Power Service Company. Beginning in 1998, I worked for NEES
10 Communications, Inc., a subsidiary of NEES, where I was the Director of New Business
11 until 2000, when NEES was acquired by National Grid plc. Following National Grid
12 plc's acquisition of NEES, I held a series of senior positions, including Vice President of
13 Business Services, with responsibility for C&I business services, economic and
14 community development, the design and implementation of demand-side management
15 programs, and policy administration for National Grid's Rhode Island electric
16 distribution operations.

17
18 In 2003, I became the Director of Contractor Management with enterprise-wide
19 responsibility for the oversight and management of the external contractors utilized for
20 construction and maintenance of the electric distribution and transmission systems in
21 New England and Upstate New York. In 2005, I accepted the position of Senior Vice
22 President Business & Retail Services with responsibility for C&I business services,

1 economic and community development, the design and implementation of demand-side
2 management programs and policy administration in National Grid's New England
3 electric distribution companies in Massachusetts, New Hampshire, and Rhode Island. I
4 later served as Senior Vice President of New England Gas Integration, with responsibility
5 for overseeing the acquisition and integration of the Rhode Island natural gas distribution
6 operations purchased from Southern Union Company in 2006.

7 Following the closing of this acquisition, I moved into the National Grid/KeySpan
8 Corporation integration team and was named Senior Vice President of Safety, Health,
9 Environmental Services, and Security, with responsibility for providing support to the
10 National Grid organization to ensure that all significant safety, health, environmental, and
11 security risks were managed and that continuous improvements in safety, health,
12 environmental, and security performance were achieved each year. In 2010, the security
13 group was transferred to the U.K.-based Information Services (IS) department to allow
14 for coordination of asset and IS security, and at that time, my responsibilities were
15 focused solely on safety, health, and the environment. In 2011, I was named to the
16 position of Jurisdictional President with principal responsibility for the Rhode
17 Island/New Hampshire gas and electric distribution operations.

18
19 **Q. Do you have any other professional experience that assists in your current role in**
20 **overseeing the safety and reliability of the National Grid system in Rhode Island?**

21 A. Yes. I concluded a 24-year career with the U.S. Army, serving in both active duty and
22 the U.S. Army Reserves, retiring in 2006 after attaining the rank of Colonel. The

1 experience gained through my service has been directly beneficial to my role as
2 Jurisdictional President, particularly in the area of emergency preparedness and response.
3 For example, during my tenure in the U.S. Army Reserves, I served for over five years as
4 a military liaison with the Federal Emergency Management Agency, gaining extensive
5 knowledge of national emergency preparedness and response procedures, as well as the
6 Incident Command System, which is used by National Grid to manage its storm-response
7 efforts. My experience includes acting as an Emergency Preparedness Liaison Officer
8 following the September 11, 2001 terrorist attacks and deployment to Georgia to assist in
9 the federal government's response to Hurricane Katrina. During different times in the
10 U.S. Army Reserves, I was assigned to units in Providence, Bristol, and Cranston, where
11 I held various leadership and command positions.

12
13 **Q. Why is the Company requesting to increase electric and gas distribution rates at this**
14 **time?**

15 A. The Company takes its obligations to manage the stability of its bills to its customers
16 very seriously given the sensitivity that Rhode Island consumers (both residences and
17 businesses) have to changes in rates for their electric and gas needs. However, the
18 business environment in which the Company is currently operating is highly dynamic,
19 with radical changes occurring in virtually every facet of both the gas and electric
20 distribution business. Changes in the Company's operating environment have an
21 inevitable impact on the Company's cost structure and the Company cannot remain in a

1 position to address emerging challenges on its distribution system without alignment
2 between costs and revenues.

3
4 The impetus for change for the Company's electric business is revolving around the need
5 to: (1) maintain a highly reliable distribution system that supports the Rhode Island
6 economy and critical needs of individual customers; (2) adapt to changes in customer
7 behavior and preferences caused by the transition to a digital economy and a desire to
8 participate in climate-change response through the installation of distributed energy
9 resources; (3) meet the aggressive goals and objectives of Rhode Island's climate-change
10 policies, including emissions reductions; and (4) increase system resiliency to better
11 withstand extreme weather events. The confluence of these dynamics, along with an
12 increasing need for cyber-security, is fundamentally changing the Company's operating
13 environment and is doing so on an unprecedented scale. Many of these changes represent
14 important, public-interest outcomes, but are also cost drivers for the Company.

15
16 In the Company's natural gas business, the impetus for change is revolving around the
17 need to accomplish a material step-up in pipeline safety and compliance for the benefit of
18 public safety. State and federal pipeline safety regulatory authorities focused on aging
19 gas infrastructure and the implications for public safety. This focus is driving these
20 regulatory authorities to require more rigorous risk-assessment procedures, more robust,
21 detailed data collection, and a much greater focus on safety compliance. The Company
22 has increased its replacement of leak-prone gas infrastructure from approximately 46

1 miles per year to 64 miles per year (or by almost 50 percent) in just the past five years,
2 from Fiscal Year 2012 to Fiscal Year 2017. However, there remains a sizeable inventory
3 of older infrastructure on the Company's system that requires constant repair and
4 maintenance while the annual replacement programs progress. We also invest
5 considerable resources training and equipping our employees and preparing them for
6 emergency response. We are proud of our safety record, but there are costs associated
7 with maintaining the level of service our customers expect.

8
9 In addition, the Company must address all of these operating challenges at a time when a
10 substantial percentage of the Company's electric and gas utility workers are reaching
11 retirement age after long and productive working careers. The qualification process for
12 electric and gas utility workers is a multi-year process (*i.e.*, a minimum of one to four
13 years for rated utility workers), with no shortcuts. If the Company does not take steps to
14 hire, train, and qualify workers to replace employees as they retire, it will simply be
15 impossible to keep up with system maintenance and construction activities to serve
16 customers. Therefore, the Company must take steps to assure adequate workforce levels,
17 taking into consideration the competing dynamics of looming employee retirements and
18 multi-year training processes for electric and gas utility workers. This course of action is
19 necessary for operations, but comes at a cost.

20
21 Lastly, the Company must address the changing needs and expectations of customers,
22 regulators, and other stakeholders by transforming the way it conducts its gas and

1 electric businesses. On the gas side, National Grid’s multi-year, enterprise wide Gas
2 Business Enablement Program is a unique, transformative initiative that will result in a
3 step-change in safety, reliability, efficiency, and compliance providing direct and tangible
4 benefits to customers. The Gas Business Enablement Program will fundamentally
5 change the way the gas business works – from internal cross-functional department
6 coordination to external interactions – to improve the Company’s overall efficiency and
7 service for customers. On the electric side, National Grid has developed the Power
8 Sector Transformation “Vision and Implementation” Plan to create a more efficient
9 energy delivery system that meets the evolving needs of customers and nurtures a vibrant,
10 clean, and participatory energy landscape.

11
12 The Company cannot meet its operating challenges resolutely without distribution rates
13 that recover operating costs on a reasonable and timely basis. It is difficult for the
14 Company to meet its public service obligation to provide safe, reliable, and cost-effective
15 service to customers at the unwavering service level that customers seek (and deserve)
16 without adequate revenue to cover operating costs. It is indisputable that the availability
17 of safe and reliable electric and gas service forms the backbone of the Rhode Island
18 economy, and that a strong, safe, and reliable energy delivery infrastructure is essential
19 for the economy to grow. However, the Company needs to have sufficient cost recovery
20 and associated cash flow to support safe and reliable operations in furtherance of that
21 objective.

1 In this filing, the Company has set forth a series of proposals that, on a collective basis,
2 are designed to directly address the factors that are changing the Company's cost to
3 provide safe and reliable service to customers. If approved by the Rhode Island Public
4 Utilities Commission (PUC), these proposals would restore the Company's ability to fund
5 utility operations on a sustainable going-forward basis. In doing so, these proposals
6 would serve the interest of Rhode Island customers in having access to safe and reliable
7 energy delivery services, at the lowest reasonable cost over the long term, in an
8 environment with ever changing demands relating to energy consumption and use.
9

10 **Q. Have you previously testified before the PUC?**

11 A. Yes. I submitted pre-filed direct testimony to the PUC in RIPUC Docket No. 4323, The
12 Narragansett Electric Company d/b/a National Grid Application for Approval of Change
13 in Electric Base Distribution Rates and Gas Delivery Service Rates (the 2012 Rate Case).
14

15 **Q. What is the purpose of your testimony?**

16 A. My testimony is designed to: (1) describe the Company's perspective on furthering the
17 interests of its customers in Rhode Island; and (2) provide an overview of the Company's
18 proposals in this proceeding, along with background on the business environment and
19 operating factors motivating those proposals.
20

21 **Q. How is your testimony organized?**

22 A. My testimony is organized as follows: Section I is the introduction. Section II

1 discusses the steps that the Company takes to be a valuable asset to Rhode Island both in
2 terms of the way the Company does business and the way it responds to priorities set by
3 customers and a range of other external constituencies having a stake in the Company's
4 operations. Section III discusses the primary components of the Company's filing,
5 including a summary of the overall revenue-requirement calculations presented to support
6 a change in base distribution rates and other key elements of the Company's proposal.
7 Lastly, Section IV presents concluding statements regarding the Company's filing.

8
9 **Q. Please explain the naming conventions that you will be using in your testimony to**
10 **identify the various National Grid entities involved in this proceeding.**

11 A. This proceeding is a ratemaking proceeding for the electric and gas distribution
12 operations of The Narragansett Electric Company, which constitute the regulated
13 operations that National Grid conducts in Rhode Island. In this case, I will refer to the
14 regulated entity as the "Company," where the reference is to both gas and electric
15 distribution operations on a collective basis. Where there is a need to refer to the "stand-
16 alone" or individual electric or gas operations of The Narragansett Electric Company, I
17 will use the terms "Narragansett Electric" or "Narragansett Gas," respectively, as
18 appropriate. Where I refer to "National Grid USA," I will use the term "National Grid;"
19 where the Company is referring to "National Grid plc," I will use that precise term.
20

1 **II. Perspective on the Role of Rhode Island Service Provider**

2 **Q. What is your overall duty as Rhode Island Jurisdictional President and Chief**
3 **Operating Officer?**

4 A. From an overall perspective, I am responsible for implementing a focused business plan
5 for National Grid's electric and gas operations in Rhode Island, which responds to the
6 expectations and needs of our Rhode Island constituencies, while also maintaining
7 positive financial results. I am expected to work closely with other U.S. senior managers
8 across National Grid and the Service Company in the areas of network strategy, customer
9 service, regulatory affairs, finance, and other areas such as fleet, property, and materials,
10 with the goal of creating an efficient, locally focused organization operating within the
11 financial parameters allowed by our regulators.

12

13 In this role, I serve as the single point of responsibility in relation to three key business
14 objectives, which are:

- 15 ▪ *Accountability for providing safe and reliable service in the most cost-effective*
16 *manner.* The Company works hard every day to meet its obligation to provide
17 safe and reliable service in the most cost-effective manner using dedicated and
18 shared resources to perform utility service functions in Rhode Island. The
19 Company endeavors to be accessible, knowledgeable and committed to its service
20 obligations and values its position as the single provider of electric and gas
21 delivery service in Rhode Island.

- 1 ▪ *Focus on customers, communities and local engagement.* My Rhode Island-based
2 team is dedicated to improving local communication, understanding stakeholder
3 issues and priorities specific to Rhode Island, and working with the technical
4 functions to ensure that our obligations are met to all our state and local
5 stakeholders. National Grid’s Rhode Island organization is deeply committed to
6 its mission of staying attuned to customer needs and requirements, as well as
7 being responsive to corporate citizenship opportunities and participating in the
8 State’s policy initiatives for clean energy and other important public-interest
9 goals.
- 10 ▪ *Focus on responsible execution and compliance in relation to regulatory*
11 *priorities and requirements.* The Rhode Island team is unified and highly
12 motivated to deliver the Company’s commitment to regulatory compliance,
13 cooperation, and dependability. We recognize that Rhode Island regulators and
14 policymakers are fully engaged with the needs, requirements, and objectives of
15 the Company’s customer base, and our main goal on a daily basis is to deliver
16 safe and reliable service to customers, and maintain good cooperation and
17 compliance with the entities that are charged with serving the interests of those
18 customers.

19
20 **Q. Why is the focus on local engagement so important to you and the Company?**

21 A. The Company provides critical energy delivery services to approximately 492,000
22 electric customers across 39 cities and towns and 267,000 natural gas customers in 33

1 cities and towns. These customers are the residents and businesses that depend on the
2 delivery of safe and reliable power to sustain family life and economic activity. To
3 provide these critical services, the Company employs approximately 950 employees who
4 work in Rhode Island, 768 of which live in Rhode Island, as well as hundreds of other
5 employees who support the operations from other parts of the National Grid organization.
6 The Company's employees are trained, well-qualified individuals who care about
7 providing safe and reliable service to customers every single day. The Company is also a
8 Rhode Island taxpayer, contributing approximately \$43 million in gross receipts taxes in
9 the Test Year and investing in excess of \$242 million in delivery infrastructure for
10 electric and gas distribution operations in Fiscal Year 2017, producing local jobs and
11 property taxes contributions to local municipalities totaling approximately \$75 million for
12 2016.

13
14 Consequently, there is no question that the Company plays an integral role in maintaining
15 the integrity of the Rhode Island economy and no question that it is important for the
16 Company's management to be engaged with customers, communities, state policymakers,
17 and regulators in fulfilling the vital role that the Company plays in helping to maintain
18 economic stability.

19
20 **Q. How is local engagement furthered by the priorities you have for National Grid's**
21 **Rhode Island operations?**

1 A. In my view, the Company should never demand less of itself than the most demanding
2 customer. Our utility service workers, vehicles, and business facilities are part of daily
3 life in Rhode Island communities and represent the “face” of the Company. It is
4 important to us that we convey a professional, skilled, accessible, and responsive
5 presence in the communities we serve. We are interested in fostering mutually beneficial
6 interaction with customers and other interested stakeholders to gain insight into the ways
7 that we can serve customers better, and serve customers best. We are interested in
8 creating a productive, inspiring work environment for our employees who are so valuable
9 to us given their expertise and dedication. We have invested considerable time and
10 resources over the past five years to upgrade our work facilities, develop healthy working
11 relationships with our union and non-union labor units, and create a safe place to work.
12 A workforce that possesses a high morale and confidence in the Company will produce
13 better service to customers on a sustainable basis. Therefore, this is a goal that I have
14 prioritized as Jurisdictional President and Chief Operating Officer.

15

16 **Q. Are there other steps that the Company has taken over the past five years to further**
17 **the interests of its customers?**

18 A. Yes. As an initial matter, the Company’s efforts to further the interests of its customers
19 are greatly enhanced by the fact that my Rhode Island team has direct responsibility for
20 local operations as well as for community and customer management. As part of the
21 evolution of the jurisdictional organizational model since the 2012 Rate Case, my role as
22 Jurisdictional President has expanded to include the role of Chief Operating Officer. In

1 this role, I have direct responsibility for all Operations activities in the State of Rhode
2 Island, and the entire Operations workforce supporting Rhode Island now reports to me.
3 In addition, the Rhode Island team is supported through a matrix organization with
4 dedicated functional leads in all key areas, including representatives from Network
5 Strategy, Regulation and Pricing, Finance, Legal, and Corporate Affairs. My local team
6 has direct responsibility and accountability for overseeing activities in Rhode Island and,
7 as a unit, has made progress on several key initiatives over the past five years, furthering
8 the interests of customers and the broader interests of the State of Rhode Island. Recent
9 initiatives with the most profound impact for our customers include the following:

10
11 Support for Economic Development: National Grid has invested more than \$800 million
12 in its gas and electric infrastructure in Rhode Island in the past five years. For example,
13 the Providence South Street Substation replacement is one project that will not only
14 improve reliability and growth, but is also an economic driver helping to re-shape the
15 City of Providence. The \$70 million South Street Substation project involves the
16 relocation and re-build of the current substation on Eddy Street to an adjacent Company-
17 owned site. The new facility is located on National Grid property off Eddy Street near
18 the existing substation and adjacent to the South Street Landing Project, and is well
19 underway. When completed, the new South Street Substation will be one of the largest
20 substations on the East Coast. The facility will encompass 27 distribution circuits
21 comprised of 45 sets of cables, and will supply power to a complex distribution network
22 system serving the City of Providence. In addition to supporting the Company's current

1 Providence customers, the substation is an essential element to the growth of the I-195
2 Redevelopment Project. The new equipment and upgraded power lines feeding the
3 station will foster and enable growth in electric demand brought on by commercial and
4 residential development in the area. In addition, this project includes development of
5 three new underground 115kV transmission lines, which is being funded by the developer
6 of the South Street Landing Project. Overall, National Grid was innovative in its
7 approach to the South Street Substation replacement project to support economic growth
8 in this area by working with the developer, Brown University, Rhode Island College, the
9 University of Rhode Island, and others to allow for the revitalization of this strategically
10 important part of the Providence.

11
12 Energy Efficiency Investment: The Company's customers are currently eligible to take
13 advantage of a range of energy-efficiency programs, such as weatherization, heating,
14 lighting, and controls, to save energy at one-third the cost of purchasing electricity and
15 gas supply. Since 2009, Rhode Island consumers participating in the Company's energy
16 efficiency programs have saved \$499 million dollars in electricity and \$79 million dollars
17 in natural gas. Energy efficiency reduces the quantity of energy that has to be acquired
18 from wholesale markets, causing wholesale market prices to decline. Through calendar
19 year-end 2017, the Company's electric energy efficiency programs will have saved an
20 estimated 5.7 million MWh. Without the Company's highly successful energy efficiency
21 program, Rhode Island customers would have had to purchase 15 percent more electricity
22 at a higher cost. Because of the investments in energy efficiency in 2017, the average

1 residential electric bill will be 1.69 percent lower in the future; the average low-income
2 customer's bill will be three percent lower; the average large C&I customer's bill will be
3 3.4 percent lower. For gas customers, the average Rhode Islanders residential gas bill
4 will be 0.60 percent lower in the future; the average low-income customer's bill will be
5 1.49 percent lower, and the average large C&I customer's bill will be 0.85 percent lower.

6
7 In addition, each year, an analysis of the Company's energy efficiency programs finds
8 that the majority of vendors and suppliers involved in the Company's energy efficiency
9 programs are located in Rhode Island. The 2016 Jobs Report found that the Company's
10 2016 energy efficiency programs supported 702 full-time equivalent workers across 923
11 different firms, 82 percent of which were located in Rhode Island.

12
13 Capital Investment for a Safe and Reliable System: Under Rhode Island law, the
14 Company is empowered to make and manage system investment through the
15 Infrastructure, Safety, and Reliability (ISR) Plans for both the gas and electric
16 business. The annual ISR Plans arise from a collaborative process that allows
17 technical experts from the Company and the Division of Public Utilities and Carriers
18 (Division) to work together to develop plans that are the optimal balance for Rhode
19 Island customers. The work in both plans involves over \$225 million of capital
20 spending annually in 2017 in the State of Rhode Island, enhancing the safety and
21 reliability of the Rhode Island gas and electric delivery systems to the direct benefit of
22 customers. This investment generates jobs, economic activity, and property tax revenue

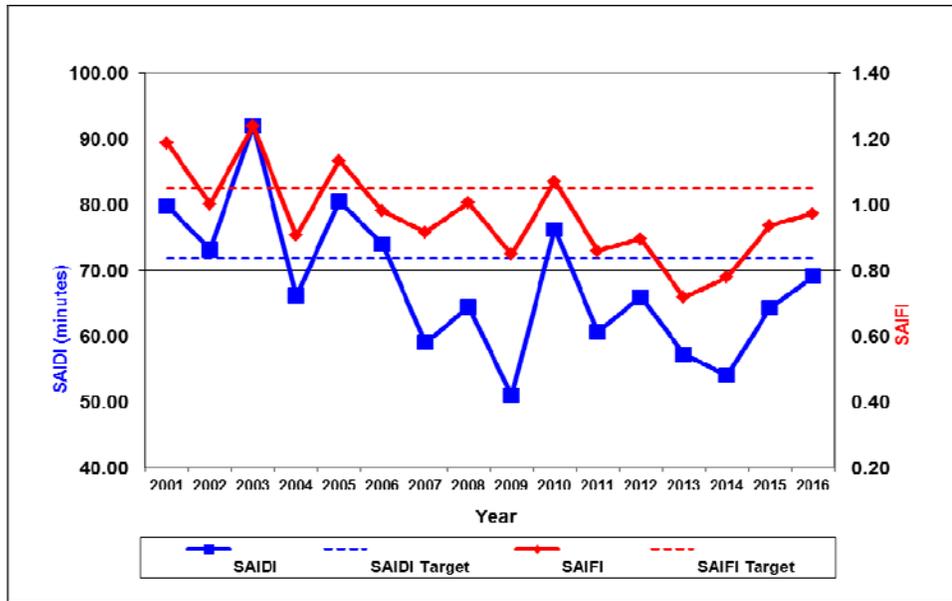
1 for Rhode Island and its municipalities. In 2017, the Company will invest a total of
2 \$100.6 million in electric distribution infrastructure and \$122 million in gas
3 infrastructure projects, as compared to \$50 million and \$40 million invested in Fiscal
4 Year 2013, respectively. On the gas side, this translates to leak-prone pipe
5 replacement on the order of 64 miles in Fiscal Year 2017, as compared to less than 10
6 miles in 2006, the last year of Southern Union Company's ownership of its Rhode
7 Island gas operations.

8
9 The Company's capital investment through the electric and gas ISR Plans is producing
10 demonstrative benefits to customers. For example, the Company has achieved
11 substantial improvements in the duration and frequency of electric service outages
12 since the implementation of the ISR Plan in April 2011.

13 Figure 1, below, shows the progress resulting in a System Average Interruption
14 Duration Index (SAIDI) with the average duration of a customer outage declining from
15 a high of approximately 90 minutes in 2002 to a six-year range of 60 to 70 minutes in
16 the years 2011 through 2016. In fact, the Company has achieved performance above
17 target for SAIDI in 2011 and all years thereafter. Similarly the System Average
18 Interruption Frequency Index (SAIFI) shows that the average frequency of customer
19 outages has declined from a high of approximately 1.2 outages per customer in 2002,
20 to a six-year range of approximately 0.7 to 0.95 outages per customer in the years 2011
21 through 2016. For SAIFI, the Company has achieved performance above target in all
22 years beginning in 2011.

1

FIGURE 1



2

3

Community Investment: A key focus of the Rhode Island jurisdictional organization is the integration of the Company with the communities in which the Company serves its customers on a wide range of educational, environmental, and community projects. The Company and our employees are active participants in a number of community

6

7

organizations, such as the United Way of Rhode Island, the Rhode Island Good Neighbor

8

Energy Fund, McAuley House, Big Brothers Big Sisters of Rhode Island, and several

9

Chambers of Commerce. The Company actively promotes educational opportunities in

10

Rhode Island and provides meaningful support for local STEM (science, technology,

11

engineering, and math) curriculums. The Company has partnered with the Boston Celtics

12

Foundation to add STEM labs in local schools, including Calcutt Middle School in

13

Central Falls and Aquidneck School (K-3) in Middletown. We also work closely with

14

public schools, especially those near our facilities. These schools include: Gilbert Stuart

1 Middle School, Lillian Feinstein Elementary School at Sackett Street, Alfred J. Lima
2 Elementary School in Providence; Davisville Middle School in North Kingstown; and the
3 Claiborne Pell Elementary School in Newport. Employees volunteer for events at these
4 schools, participate in ongoing community activities and organize giving programs
5 throughout the year.

6 The Company also supports the annual Careers in Energy Week and this year introduced
7 that program to the Providence Technical Career Academy and William M. Davies, Jr.
8 Career and Technical High School in Lincoln. The Company partners with City Year
9 and sponsors its team at The Gilbert Middle School in Providence. In addition, the
10 Company partners with the Red Sox Foundation to improve local non-profits through
11 employee volunteerism.

12 Consequently, it is clear that the Rhode Island jurisdictional organization has provided a
13 great platform for my active participation on behalf of the Company and National Grid,
14 which is proving to be an effective avenue for learning and understanding between the
15 Company and its local constituencies.

16
17 **Q. Are there any other aspects of the Company's community involvement that are**
18 **important to your operations?**

19 A. The Company's community involvement extends to the ability to carry out effective and
20 expeditious restoration efforts after major weather events. These efforts include
21 assigning community liaisons to each Rhode Island municipality, opening "Municipal
22 Rooms" to provide direct contact to Company personnel for cities and towns, and

1 implementing “Strike Force Teams” in areas hardest impacted from a major weather
2 event.

3 Although there will always be differing perspectives on the Company’s response efforts
4 when customers are experiencing outages in the days following a major weather event,
5 the Company’s jurisdictional management is dedicated to constant improvement and
6 creating capabilities that will assist in storm restoration over time. For example, each
7 year, the Company hosts public safety meetings with first responders where we review
8 topics such as electric restoration, wires down, pipeline safety, emergency 911, and
9 public awareness. In addition, our public safety and community liaisons actively
10 participate in community forums along with presenting at the League of Cities and
11 Towns, fire and police conventions, and other school and public events. Our live line
12 demonstration is deployed throughout our service territory to heighten awareness of the
13 dangers and safeguards needed with electricity.

14 Power Sector Transformation Investment: Over the past year, the Company has been
15 working closely with Rhode Island officials and stakeholders regarding the State’s Power
16 Sector Transformation Initiative, which is an effort Governor Raimondo strongly
17 supports. This year, the Company has met with stakeholders for several months during
18 the development of the Rhode Island Power Sector Transformation Phase One Report,
19 which was submitted to Governor Raimondo on November 8, 2017. In this filing, the
20 Company is presenting a comprehensive plan for Power Sector Transformation to serve
21 the interests of our customers. As I discuss below, the Company’s Power Sector
22 Transformation plan includes a suite of investment proposals over a 3.5 year

1 implementation timeline. In this filing, the Company is seeking recovery of \$3.5 million
2 to fund the first year of costs.
3

4 **Q. How are the interests of customers served by this filing?**

5 A. Our proposals begin and end with our customers in mind. This filing will allow the
6 Company to continue to provide critical services, maintain our workforce, and ensure that
7 our gas and electric systems are safe and reliable. The ISR plans for the electric and gas
8 distribution capital programs have greatly assisted in aligning cost incurrence with cost
9 recovery and have helped allow the Company to operate under the same base distribution
10 rates since 2013; however, the Company continues to experience a shortfall in the
11 recovery of operating costs. A general rate case is needed at this time for both the
12 electric and gas businesses to allow for adequate recovery of our costs enabling the
13 Company to continue with its customer-focused mission. Financial integrity and stability
14 are achievable, but only through the PUC's approval of proposals that enable the
15 Company to recover its costs on a timely basis. For these reasons, the Company's filing
16 is necessitated to further the interests of Rhode Island customers.
17

18 **III. Overview of the Company's Filing**

19 **Q. What are the elements of the Company's filing in this proceeding?**

20 A. There are two parts to the Company's filing. First, the Company is requesting a base
21 distribution revenue increase for its electric and gas distribution operations. Consistent
22 with PUC precedent, the Company is presenting a separate revenue requirement for the

1 electric and gas operations to facilitate review by the PUC, the Division, and other parties
2 to this proceeding. In support of the proposed revenue requirement, the Company's filing
3 includes testimony and supporting documentation for the rate of return proposal and the
4 results of lead lag studies, allocated cost of service studies, and electric and natural gas
5 sales forecasts.

6
7 The second part of the Company's filing is the Power Sector Transformation proposal.
8 Over the past year, the Company has been working closely with Rhode Island regulators
9 and stakeholders regarding the Power Sector Transformation Initiative. Delivery of
10 Power Sector Transformation in Rhode Island will require a holistic, rigorous, and
11 structured approach over a number of years. The Company's Power Sector
12 Transformation "Vision and Implementation" Plan (PST Plan) is prioritized and sized to
13 ensure tangible progress toward this vision, recognizing the need to accelerate value
14 creation balanced against bill impacts for customers.

15
16 **Q. What is the Company requesting in terms of the calculated revenue deficiency for**
17 **the gas and electric operations?**

18 A. The Company is requesting base distribution revenue increases of approximately \$41.3
19 million for the electric business and \$30.3 million for the gas business. The testimony of
20 Company Witness Melissa A. Little presents the Company's revenue-requirement
21 analysis for each of Narragansett Electric and Narragansett Gas. As she describes in her
22 testimony, the proposed revenue requirement for Narragansett Electric is based on a test

1 year ending June 30, 2017 (the Test Year), adjusted for known and measurable changes
2 and other pro forma adjustments, a proposed return on common equity of 10.10 percent,
3 and a rate base totaling \$759 million. For Narragansett Gas, the proposed revenue
4 requirement is based on the same Test Year as for Narragansett Electric, adjusted for
5 known and measurable changes and other pro forma adjustments, a proposed return on
6 equity of 10.1 percent, and a rate base totaling \$773 million.

7 The Company is proposing a return on equity of 10.1 percent at the lower end of the
8 range of the market cost of equity determined by Mr. Hevert using his methodological
9 approach, as he discusses in detail in his testimony. The Company is proposing a return
10 on equity at the lower end of Mr. Hevert's range to represent a reasonable, but
11 conservative return in the context of evolving capital market conditions. This proposed
12 return on equity seeks to balance the interests of customers and the need for the Company
13 to maintain financial integrity sufficient to attract capital at reasonable terms, while
14 meeting its public-service obligation.

15 If approved by the PUC as filed, the Company is projecting that the proposed rate
16 changes effective September 1, 2018 would result in an increase of 6.3 percent on the
17 total monthly bill for the typical Narragansett Electric residential customer using 500
18 kilowatt-hours (kWh). For Narragansett Gas, the increase on the total annual bill for the
19 typical residential heating customer using 845 therms would be 5.4 percent.

20
21 **Q. What is the Company requesting in relation to the PST Plan, from an overall**
22 **perspective?**

1 A. The Company is requesting the PUC's approval of the PST Plan in this docket. Across
2 the U.S. and globally, the energy landscape is changing. Energy supply is becoming
3 more diverse and less carbon-intensive, and decentralization and digitization are
4 accelerating, driven by advances in technology and new business models. Against this
5 backdrop there is a real and immediate opportunity to transform the energy industry.
6 Rhode Island is striving to transform its power sector, control long term system costs,
7 enhance customer choice, and unleash third party innovation and integrate more clean
8 energy into the electric grid. For its part, National Grid can create a more efficient
9 energy delivery system that meets the evolving needs of customers and nurtures a vibrant,
10 clean, and participatory energy landscape. Therefore, the Company has developed the
11 PST Plan to further these objectives.

12
13 To support approval of the Company's PST Plan, the Company has developed a
14 comprehensive proposal sponsored by the PST Panel consisting of Kayte O'Neill, Robert
15 D. Sheridan, John O. Leana, Carlos A. Nouel, Timothy R. Roughan, Meghan
16 McGuinness, Mackay Miller, James R. Perkinson, and Melissa A. Little. The PST Panel
17 is supporting the following PST proposals: (1) grid modernization enabling investments;
18 (2) advanced metering functionality; (3) beneficial electrification proposals, including an
19 electric heat initiative and an electric transportation initiative; (4) utility-owned energy
20 storage and solar demonstration programs; and (5) a rewards program for income-eligible
21 customers. In support of these proposals, the PST Plan also includes a proposed
22 performance incentive mechanism, proposed cost recovery provisions for the recovery

1 of the Company's incremental costs associated with PST investments and expenses, and a
2 description of the illustrative revenue requirement associated with the PST Plan.

3
4 The Company's PST Plan includes detailed explanations for each component of the Plan
5 consistent with these objectives. This discussion also includes details regarding the costs
6 and benefits associated with each component pursuant to the framework adopted by the
7 PUC as Appendix A to the PUC's Docket 4600 Guidance Document.

8
9 **Q. What are the Company's objectives for the PST Plan?**

10 A. By ensuring the resiliency, efficiency, and openness of the electric distribution grid today
11 and for the future, we will create a powerful platform for empowering our customers and
12 supporting the transition to an affordable, sustainable clean energy system for Rhode
13 Island. The Company's vision for the PST Plan encompasses the following:

- 14 • All customers have knowledge, choice, and control enabled by easy access to
15 information, useful insights on energy options, and thriving markets for innovative
16 new services. Large scale and distributed clean energy resources are commonplace
17 and distributed energy resources are accessible to all, enabled by affordable
18 distributed solar and storage, effectively and efficiently integrated into a modern
19 electric grid.
- 20 • Efficiency and low-carbon fuels are the affordable, everyday choice, enabled by
21 robust markets, third party product and service offerings, resilient infrastructure, and
22 well-designed regulatory incentives.

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Q. What are the primary components of the Company’s proposed PST Plan?

A. The PST Plan encompasses five key components and the associated cost recovery proposal, including a calculation of associated revenue requirements and a performance incentive mechanism proposal. The PST Panel consists of the subject matter experts that will support each component during this proceeding. These components are as follows:

1. **Advanced Metering Functionality (AMF):** The AMF component of the PST Plan involves the deployment of electric advanced metering infrastructure (AMI) meters and AMI-compatible encoder receiver transmitters for the Company’s gas meters. Specifically, AMF witnesses on the PST Panel will explain why AMF has the potential to modernize the Company’s electric and gas systems and advance the goals and objectives as set forth in the PST initiative. The PST Panel presents a conceptual business case and benefits-cost analysis that demonstrates the viability of AMF and encoder receiver transmitter deployment in Rhode Island. The PST Panel’s AMF witnesses also describe the potential customer, societal, safety, and operational benefits of AMF, if deployed.

2. **Electric Heat Initiative:** The purpose of this proposal is to meaningfully accelerate efficient heat electrification in Rhode Island through multiple market development strategies. The Electric Heat Initiative is comprised of four

1 components: (a) equipment incentives to encourage income-eligible customers to
2 convert to efficient cold-climate Air Source Heat Pumps or Ground-Source Heat
3 Pump systems; (b) community-based marketing; (c) oil/propane dealer training
4 programs; and (d) a ground-source heat pump program.

- 5
- 6 **3. Electric Transportation Initiative:** The Electric Transportation Initiative is a
7 multi-year, multi-part proposal that will meaningfully accelerate electrification in
8 Rhode Island through near-term Company investment while also demonstrating
9 multiple market-development strategies. This initiative includes the following
10 components: (a) a Charging Station Demonstration Program offering a portfolio
11 of charging station services; (b) a Residential Off-Peak Charging Rebate that will
12 incentivize electric vehicle drivers to charge during lower-cost times of day while
13 also providing the Company with important data regarding driver charging
14 behavior; (c) a discount for Direct Charge (DC) Fast Charging Stations to
15 encourage third-party charging station development; (d) Transportation Education
16 and Outreach for residential and commercial customers; (e) investment in
17 electrification of the Company's own vehicle fleet; and (f) an evaluation plan in
18 order to evaluate each component and share the results of this Initiative with
19 stakeholders and industry participants.

- 20
- 21 **4. Utility Owned Energy Storage and Solar Demonstration Projects:** This
22 component of the PST Plan includes: (a) a demonstration program to deploy and

1 own up to 3.75 MW of solar generation, consisting of multiple projects, for the
2 benefit of income eligible customers; and (b) a demonstration program to deploy
3 and own approximately 2 MWh of energy storage in one or two locations for the
4 benefit of the community through educational outreach and partnering entities.
5

- 6 5. **Grid Modernization:** As part of the PST Plan, the Company is also proposing a
7 portfolio of investments and efforts that are designed to evolve the electric grid.
8 These foundational grid modernization investments will enhance reliability and
9 operational efficiency, and will effectively integrate and utilize distributed energy
10 resources. These investments include investments in foundational information
11 system and cybersecurity, a system data portal, distribution feeder monitoring,
12 data system control system enhancements, and geographic information system
13 enhancements. These investments are in addition to the investments in AMI
14 infrastructure.
15

16 With respect to PST Plan costs and cost recovery, there are three aspects of the
17 Company's proposal. These three aspects are as follows:
18

- 19 1. **Performance Incentive Mechanisms:** The Company has included a
20 performance incentive mechanism proposal in support of the PST Plan to support
21 advancement of the policy priorities identified by stakeholders through Docket
22 4600 and the PST initiative led by the Rhode Island Office of Energy Resources.

1 Carefully designed performance incentives can aid efficient delivery of state
2 policy goals and provide broad new benefits to customers. Therefore, the
3 Company is proposing to develop performance incentive mechanisms for the
4 following categories of implementation of the PST Plan: (a) system efficiency;
5 (b) distributed energy resources; and (c) network support services.

6
7 2. **Revenue Requirement:** The Company has calculated the illustrative revenue
8 requirements associated with each component of the PST Plan, including the
9 proposed performance incentive mechanism, using the Company's proposed
10 budget and cost estimates.

11
12 3. **PST Provision:** The Company is proposing a PST Provision for recovery of the
13 costs associated with the PST Plan. There are elements of the proposed PST Plan
14 that will also benefit the Company's gas operations; therefore, the Company is
15 also proposing a PST Provision that would become a part of its Distribution
16 Adjustment Clause. The PST Factors will allow for recovery of the cumulative
17 revenue requirement as approved by the PUC in the Company's annual PST
18 filings and will be applicable for the twelve month period commencing on April 1
19 of each year. To be eligible for recovery, PST costs must (a) be pre-authorized by
20 the PUC; (b) include PST investment; (c) be incremental; and (d) be prudently
21 incurred. The PST Provision also allows for recovery of associated operations

1 and maintenance (O&M) expense. The PST Factors will be reconciled through an
2 August reconciliation filing subject to the PUC's approval.
3

4 **Q. Are there any other specific proposals contained in the Company's filing that are**
5 **important for the delivery of safe and reliable service in Rhode Island?**

6 A. Yes. Within the revenue requirements part of the filing, there are two proposals that are
7 critical to the Company's operations. Each of these two proposals is supported by
8 another company witness in this proceeding. However, below is an overview of these
9 two proposals:
10

11 1. ***Gas Business Enablement Program:*** The Company is cognizant that customers,
12 stakeholders, and the PUC expect the Company to improve operational efficiency
13 and introduce new and better ways of delivering safe and reliable service to
14 customers. The Company is delivering on this expectation with National Grid's
15 Gas Business Enablement Program across National Grid's entire U.S. gas
16 distribution footprint. The Gas Business Enablement Program will fundamentally
17 change the way the gas business works – from internal cross-functional
18 department coordination to external interactions – to improve the Company's
19 overall efficiency and service for customers.
20

21 This fundamental change will result from the establishment of three core
22 operating capabilities – the Work Management, Asset Management, and

1 Customer Enablement capabilities across the three jurisdictions of Rhode Island,
2 Massachusetts, and New York. National Grid estimates that it currently relies on
3 approximately 117 sub-systems, applications, databases, or spreadsheet systems
4 across the U.S. gas business to perform the work processes that will support these
5 capabilities. With full implementation, this number will be reduced by over 75
6 percent to less than 30 systems, sub-systems, and/or applications across six gas
7 companies operating in three jurisdictions (Rhode Island, Massachusetts, and
8 New York). In Rhode Island specifically, National Grid estimates that
9 implementation of the Gas Business Enablement Program will reduce the number
10 of systems, applications, databases and spreadsheet systems from 37 to 19.

11
12 The Gas Business Enablement Program will result in a step-change in safety,
13 reliability, and efficiency for the benefit of customers. First, common capabilities
14 and platforms across the U.S. gas organization will improve the Company's
15 ability to meet federal and state safety requirements and the associated reporting
16 obligations, which in turn will directly impact safety for the benefit of customers.
17 For example, the Gas Business Enablement Program will provide consistent
18 applications through the business necessary for the Company to track, store, and
19 report on gas operations data, including data related to leak and corrosion repair
20 work, and distribution integrity management requirements.

21
22 The Company has established a dedicated project organization to support the

1 development and implementation of the Gas Business Enablement Program, led
2 by a Senior Vice President and governed with a well-defined structure of
3 leadership, roles, and accountability. The Gas Business Enablement Program
4 employs a phased-in approach to implementation, with clear milestones, critical
5 paths, and dependencies to the project's roadmap. National Grid conducted a
6 thorough procurement process to engage delivery partners with industry expertise
7 and experience to facilitate the project's rollout and ensure timely delivery. With
8 this governance and controls in place, the Company has ensured that the
9 implementation of the Gas Business Enablement Program will be accomplished in
10 an efficient and cost-effective manner.

11
12 In Rhode Island, the Gas Business Enablement implementation will begin in
13 calendar year 2017 and continue over five years, with an estimated cost of
14 approximately \$38.5 million for Narragansett Gas and \$5.0 million for
15 Narragansett Electric beginning in Fiscal Year 2017 and continuing through
16 Fiscal Year 2023.

- 17
18 2. ***Addition of 87 Workers to Support Electric and Gas Businesses:*** The Company
19 is also requesting recovery of the costs associated with adding 39 new electrical
20 workers and 48 new gas workers who will be Rhode Island employees serving
21 Rhode Island customers. We are proud to be adding these jobs to the state's job
22 rolls and these additional resources are sure to enhance the ability of the

1 Company to serve Rhode Island customers. The joint testimony of Company
2 Witnesses Raymond J. Rosario, Jr. and Ryan C. Constable for Narragansett
3 Electric and Company Witness Alfred Amaral III for Narragansett Gas discusses
4 the details of the Company's proposal. As discussed in their joint testimony, the
5 new positions will be critical to the Company's efforts to maintain a trained,
6 qualified, and sufficiently staffed workforce. Company Witness Little's
7 testimony addresses the labor and labor-related costs associated with the addition
8 of these employees.
9

10 **Q. Why is recovery of the Gas Business Enablement Program costs critical to the**
11 **Company?**

12 A. The total anticipated investment in Gas Business Enablement is approximately \$478.3
13 million across the U.S. gas distribution business, which involves three operating
14 jurisdictions – Rhode Island, Massachusetts, and New York – serving 3.5 million gas
15 customers. The Gas Business Enablement Program will be implemented in stages
16 starting with Rhode Island. For the Rhode Island component, the estimated investment of
17 \$38.5 million for Narragansett Gas and \$5.0 million for Narragansett Electric will take
18 place beginning in Fiscal Year 2017 and continue through Fiscal Year 2023, with a
19 sizeable portion of the capital costs and O&M expense occurring through the end of the
20 Rate Year. Due to the significant, multi-year investment required to deploy the Gas
21 Business Enablement Program across the U.S. gas footprint in three jurisdictions, the
22 Company needs some accommodation to allow for funding commensurate the

1 incurrence of the costs in Rhode Island. The Company recognizes that the PUC's
2 practice is to use a historical test year, adjusted for known and measurable changes.
3 Therefore, the Company has proposed a known and measurable adjustment to the Test
4 Year to account for the expenses that will be incurred with the Gas Business Enablement
5 implementation.

6
7 **Q. Why is recovery of workforce costs critical to the Company?**

8 A. As it stands, the Company is facing a very substantial challenge in maintaining an
9 adequate population of qualified workers in its electric and gas utility operations. For
10 one thing, the Company's workforce is aging and retiring. New, fully qualified
11 employees are not available to replace those workers. Gas and electric utility work
12 requires unique special technical expertise, and utility workers cannot typically be hired
13 and brought onto the system as fully qualified workers with that expertise. Although the
14 Company may be able to attract a limited number of fully qualified workers from other
15 utility companies, the Company must rely primarily on new, untrained workers hired by
16 the Company and provided those workers with the training and experience necessary over
17 time to enable them to become fully qualified for utility work. The qualification process
18 for electric and gas utility workers is a multi-year process (*i.e.*, a minimum of one to four
19 years for rated utility workers), with no shortcuts.

20
21 At the same time, across the utility industry, a disproportionately large percentage of
22 utility workforces are reaching retirement age. This is because, at the operating level,

1 large numbers of utility personnel were hired in the 1970s and 1980s as utility systems
2 were built out to address suburban population growth. These employees are now
3 reaching retirement age. The Company's experience is consistent with industry trends,
4 and the Company's operating workforce currently encompasses a disproportionate ratio
5 of employees over the age of 55. These employees will retire as they reach the age of 60-
6 65. There is no avoiding this consequence. If the Company does not take steps to hire,
7 train, and qualify workforces to replace employees as they retire, it will simply not be
8 possible to keep up with system maintenance and construction activities to serve
9 customers. This would be a disastrous situation for the Company and its customers. It is
10 not possible to shortcut the training and qualification process; yet, it is not possible to
11 scale back on the work necessary to build, maintain, and reinforce the system. Therefore,
12 the Company must take steps to assure adequate workforce levels, taking into
13 consideration the competing dynamics of looming employee retirements and multi-year
14 training processes for electric and gas utility workers. The solution to this challenge is a
15 ramp-up in the number of new employees brought onto the system to be trained and
16 qualified to replace retiring workers.

17
18 With respect to the electric business, the Company has also been experiencing significant
19 growth of distributed generation interconnection applications year over year. These
20 applications move through an interconnection process in accordance with the Company's
21 Standards for Connecting Distributed Generation, RIPUC No. 2163, which obligates the
22 Company to complete certain stages of the process within specified timeframes. There is

1 growing pressure to progress these applications and resulting projects through the
2 interconnection process as expeditiously as possible. The “front end” of the process
3 generally involves feasibility reviews, engineering studies, and service agreements, while
4 the “back end” of the process generally involves completing system modifications (both
5 at a distribution and often substation level) to enable these projects to interconnect to the
6 utility system without adversely affecting safety, reliability, and power quality. The
7 Company expects that many of the applications that have already completed the front end
8 of the process will now progress through the back end of the process. Thus, the
9 Company must not only augment customer-facing staff to support the front end of the
10 process, but also augment the field workers necessary to support the system
11 modifications that are required as a result of the engineering studies performed for the
12 distributed generation projects.

13
14 For gas operations, the Company is experiencing an increase in the workload related to
15 its O&M and capital work, as well as gas-safety and compliance programs. O&M work
16 is performed to provide customer support, respond to emergencies, perform safety
17 inspections and other compliance activities, restore service, and maintain the life of
18 distribution assets. The Company has a significant maintenance program to ensure that
19 system assets are utilized to their fullest potential life expectancy. As gas facilities age,
20 maintenance costs increase. These costs include more frequent inspections and testing,
21 increased volume of repairs, and more complex repair work. These expenditures are
22 required to prevent failure and maintain the life of the assets until replacement occurs.

1 The Company is also experiencing an increase in workload associated with its O&M
2 programs in the areas of corrosion control and instrumentation and regulation. Moreover,
3 the pressing need to hire and train new gas workers is exacerbated by the fact that gas
4 distribution companies throughout New England, and beyond, are experiencing the same
5 pressures in relation to increasing gas-safety and compliance requirements, causing
6 significant competition for available resources. Therefore, the Company must be in a
7 position to add employees and provide the training and experience necessary to maintain
8 an adequate, qualified workforce for gas operations.

9
10 **Q. Why is recovery of the costs associated with additional workforces critical to the**
11 **Company?**

12 A. Workforce staffing is the central concern of electric and gas utilities because there is no
13 way to build, construct, and maintain the system without capable and qualified human
14 resources. The Company must remain focused on the critical goal of assuring adequate,
15 trained workforces to meet its public service obligation. However, costs are inevitably
16 created as a result of this focus. Customers wholly and substantially benefit from the
17 delivery of safe and reliable electric and natural gas distribution service. Without
18 recovery of these costs, the addition of incremental workforces to achieve those benefits
19 is directly detrimental to the financial integrity of the Company's operations. As a result,
20 the Company is requesting that the PUC consider addressing the cost of these incremental
21 resources in this case.

22

1 **Q. Is the Company proposing any changes in relation to income-eligible customers?**

2 A. Yes. The Company is proposing to redesign its low income electric and gas rates to
3 provide all of its low income customers a fixed total bill discount of 15 percent and to
4 eliminate the current discount reflected by lower base distribution rates for these
5 customers. Specifically, the Company would set the low income rate class' distribution
6 rates equal to the corresponding non-discounted residential rates and provide the discount
7 based on the total bill by multiplying the total monthly bill by 15 percent. In addition, the
8 Company has made efforts to engage income-eligible customers and increase their
9 participation in the programs and services that are available to assist them in paying their
10 utility bills.

11 In particular, the Company is proposing the implementation of the Customer
12 Affordability Program, which includes the following components: (a) expanding the use
13 of Consumer Advocates by adding three additional Consumer Advocates to assist
14 income-eligible customers in learning about, and signing up for, programs and services
15 available to them; (b) expanded income-eligible customer outreach and education; (c) a
16 Home Energy Monitoring Demonstration Project; (d) an investment in income-eligible
17 customer personalization tools in National Grid's Customer Contact Center; and (e)
18 expanded options through which residential customers may pay bills via cash payments
19 without incurring payment fees. The Company has also implemented the Energy
20 Innovation Hub, which is a community engagement destination in the Dunkin' Donuts
21 Center in Providence focused on customer outreach and education on energy issues.
22 These initiatives are discussed in the testimony of Company Witness John F. Isberg.

1 **Q. Would you please identify the components of the Company’s general rate case filing,**
2 **exclusive of the Power Sector Transformation proposal?**

3 A. Yes. The Company’s request to the PUC in this case is presented in the testimony of the
4 following witnesses:

5
6 **Maureen P. Heaphy** – Ms. Heaphy is Vice President of U.S. Compensation, Benefits
7 and Pensions for the Service Company, which coordinates employee compensation and
8 benefits strategy for the U.S. electric and gas distribution subsidiaries of National Grid.
9 Ms. Heaphy’s testimony provides the supporting analysis and documentation required by
10 the PUC for the recovery of employee compensation and benefit costs.

11
12 **Robert B. Hevert** – Mr. Hevert is Partner and Rates, Regulation, and Planning Practice
13 Leader at ScottMadden, Inc. Mr. Hevert’s testimony presents his recommendation
14 regarding the appropriate rate of return and capital structure that should be used in
15 establishing base distribution rates in this proceeding for both Narragansett Electric and
16 Narragansett Gas.

17
18 **Joseph F. Gredder** – Mr. Gredder is Manager of Electric Regulatory Support in the
19 Advanced Data and Analytics Department of the Service Company. Mr. Gredder
20 presents the forecast of electric deliveries and customer counts used to support the
21 revenue requirement and rate design for Narragansett Electric presented in this filing.

22

1 **Theodore E. Poe, Jr.** – Mr. Poe is Principal Analyst of Gas Load Forecasting and
2 Analysis for the Service Company. Mr. Poe presents the historical and forecast of
3 customer count and customer demand data used to support the revenue requirement and
4 rate design for Narragansett Gas presented in this filing.

5
6 **Raymond J. Rosario, Jr., Alfred Amaral III, and Ryan C. Constable** – The joint
7 testimony of Mr. Rosario, Mr. Amaral, and Mr. Constable presents the Company’s
8 proposal to add new electrical and gas worker positions over and above the Company’s
9 current staffing complement in the rate year in this case, which is the twelve-month
10 period ending August 31, 2019 (the Rate Year) and the two subsequent twelve-month
11 periods ending August 31, 2020 and August 31, 2021, to address system workforce
12 requirements. Their testimony also discusses the Company’s proposal to increase Test
13 Year costs for additional crane operator licenses for 30 employees pursuant to
14 Occupational Safety and Health Administration (OSHA) regulations, and the lease of
15 three trouble trucks to improve truck availability and response times in Rhode Island.
16 Mr. Rosario is Director, Overhead and Underground Lines, Rhode Island for the
17 Company’s electric operations. Mr. Amaral is Vice President, Customer Meter Services,
18 New England in relation to the Company’s electric and gas distribution businesses. Mr.
19 Constable is Acting Director, Asset Management – Distribution for the Service Company
20 in relation to the Company’s electric operations.

21
22 **John F. Isberg** – Mr. Isberg is Vice President, Customer Solutions at the Service

1 Company. Mr. Isberg's testimony presents the Company's customer-focused proposals
2 that seek to engage and educate all customers about National Grid programs and services
3 available to them, with a particular focus on income eligible customers.
4

5 **Ned W. Allis** – Mr. Allis is Project Manager, Depreciation and Technical Development
6 with Gannett Fleming Valuation and Rate Consultants, LLC. Mr. Allis's testimony
7 presents the depreciation study and proposed depreciation rates for ratemaking purposes
8 for Narragansett Electric and Narragansett Gas.
9

10 **Anuraag Bhargava, Daniel J. DeMauro, and Mukund Ravipaty** – The joint testimony
11 of Mr. Bhargava, Mr. DeMauro, and Mr. Ravipaty presents the Company's IS function
12 and describes the major IS investments and initiatives, both during the Test Year and
13 post-Test Year, including investments in physical and cybersecurity. Mr. Bhargava is the
14 Senior Vice President and U.S. Chief Information Officer for the Service Company. Mr.
15 DeMauro is the Director of U.S. IS Regulatory Compliance at the Service Company. Mr.
16 Ravipaty is the Director and Global Head Security Services, Design and Architecture at
17 the Service Company.
18

19 **Anthony H. Johnston and Christopher J. Connolly** – The joint testimony of Mr.
20 Johnston and Mr. Connolly discusses the critical need for the Company's Gas Business
21 Enablement Program and its benefits. Mr. Johnston is the Senior Vice President of Gas
22 Business Enablement at the Service Company. Mr. Connolly is Vice President of

1 Process and Business Requirements for the Gas Business Enablement Program at the
2 Service Company.

3
4 **Melissa A. Little** – Ms. Little is Director, New England Revenue Requirements for the
5 Service Company. Ms. Little’s duties include revenue requirement responsibilities for
6 National Grid’s electric and gas distribution activities in New England, including the
7 electric and gas operations of the Company. Ms. Little’s testimony presents the revenue-
8 requirement analyses for Narragansett Electric and Narragansett Gas.

9
10 **Howard S. Gorman** – Mr. Gorman is President of HSG Group, Inc. Mr. Gorman’s
11 testimony presents and supports allocated cost of service study for Narragansett Electric,
12 along with the proposed class revenue allocation and rate design, and the typical bill
13 impacts resulting from the rates proposed in this proceeding.

14
15 **Paul M. Normand** – Mr. Normand is President of Management Applications Consulting,
16 Inc. Mr. Normand’s testimony presents the allocated cost of service study for
17 Narragansett Gas, along with the proposed class revenue allocation and rate design, and
18 the typical bill impacts resulting from the rates proposed in this proceeding.

19
20 **Scott M. McCabe and Ann E. Leary** – Mr. McCabe is the Manager of Electric Pricing,
21 New England in the Regulation and Pricing group of the Service Company. Ms. Leary is
22 the Manager of Gas Pricing for the Service Company. Mr. McCabe and Ms. Leary

1 jointly present the Company's proposal for changing the way in which the Company
2 provides customers on its electric and gas low income rate classes the bill discount they
3 currently receive through base distribution rates. In addition, Mr. McCabe's testimony
4 explains the development of Rate Year revenue used in the electric cost of service study
5 supported by Company Witness Little and in the allocated cost of service study supported
6 by Company Witness Gorman. Mr. McCabe's testimony also presents Narragansett
7 Electric's proposed electric distribution service tariffs. Ms. Leary's testimony explains
8 the development of Rate Year revenue used in the gas cost of service study supported by
9 Company Witness Little and in the allocated cost of service study supported by Company
10 Witness Normand. Ms. Leary's testimony also presents Narragansett Gas' proposed gas
11 distribution service tariffs.

12
13 **IV. Conclusion**

14 **Q. Do you have any summary comments on the Company's proposals in this**
15 **proceeding?**

16 A. Yes. In this case, the Company is putting forth a set of proposals that would provide
17 adequate revenue to the Company to support its operations and make capital available for
18 replacement activities, and equip the Company with the tools necessary to achieve
19 public-interest benefits identified by the PUC and other stakeholders. The Company's
20 experience over the past five years has demonstrated that it can play an active and
21 productive role in fostering the success of the Rhode Island economy and providing safe

1 and reliable electric and natural gas service to customers. Adequate financial support for
2 these endeavors will benefit Rhode Island customers over the long run.

3

4 **Q. Does this conclude your testimony?**

5 **A. Yes, it does.**

PRE-FILED DIRECT TESTIMONY
OF
MAUREEN P. HEAPHY

Dated: November 27, 2017

SUMMARY

Maureen P. Heaphy is the Vice President of U.S. Compensation, Benefits, and Pensions for National Grid USA Service Company, Inc. overseeing compensation, benefit, and pension strategies, policies, and programs for all of National Grid's U.S. operations and testifies on design, strategy, administration, and implementation of compensation, benefit, and pension programs for employees and retirees. Specifically, she testifies regarding (1) the reasonableness of the compensation and benefit package that National Grid offers to its employees and (2) the efforts that National Grid has undertaken proactively to control the costs of this package included in the revenue requirements for the electric and gas operations of The Narragansett Electric Company d/b/a National Grid.

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1 **I. Introduction and Qualifications**

2 **Q. Please state your name and business address.**

3 A. My name is Maureen P. Heaphy. My business address is One MetroTech Center,
4 Brooklyn, New York 11201.

5

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by National Grid USA Service Company, Inc., a subsidiary of National
8 Grid USA (National Grid), and currently hold the position of Vice President of U.S.
9 Compensation, Benefits, and Pensions. My responsibilities include overseeing
10 compensation, benefit, and pension strategies, policies, and programs for all of National
11 Grid's U.S. operations, including The Narragansett Electric Company d/b/a National Grid
12 (the Company).

13

14 **Q. Please describe your educational background and business experience.**

15 A. I received a Bachelor of Science degree in Accounting and Computer Applications &
16 Information Systems from New York University in 1983. In 1991, I received a Master of
17 Business Administration in Finance from St. John's University. I joined KeySpan
18 Corporation (which later became National Grid) in 1983 and held several professional
19 and managerial positions in Treasury and Accounting. In 1991, I joined the Human
20 Resources organization where my focus has been on design, strategy, administration, and
21 implementation of compensation, benefit, and pension programs for employees and
22 retirees.

23

1 **Q. Have you previously testified before the Rhode Island Public Utilities Commission**
2 **(the PUC) or any other regulatory commissions?**

3 A. Yes. I testified before the PUC on behalf of the Company's last base distribution rate
4 case for its electric and gas operations in Docket No. 4323 (the 2012 Rate Case). I also
5 submitted testimony concerning matters related to employee compensation and benefits
6 before the Federal Energy Regulatory Commission on behalf of National Grid
7 Generation, LLC and the Massachusetts Department of Public Utilities on behalf of
8 Massachusetts Electric Company and Nantucket Electric Company and most recently on
9 behalf of Boston Gas Company and Colonial Gas Company. I have also testified in
10 matters before the New York State Public Service Commission on behalf of Niagara
11 Mohawk Power Corporation, KeySpan Gas East Corporation, and The Brooklyn Union
12 Gas Company.

13
14 **Q. Would you please explain the naming conventions that you will be using in your**
15 **testimony and associated schedules to identify the various entities involved in this**
16 **proceeding?**

17 A. Certainly. This proceeding is a ratemaking proceeding for the electric and gas
18 distribution operations of The Narragansett Electric Company, which constitute the
19 regulated operations that National Grid conducts in Rhode Island. In this case, I will
20 refer to the regulated entity as the "Company," where the reference is to both electric and
21 gas distribution operations on a collective basis. Where there is a need to refer to the
22 "stand-alone" or individual electric or gas operations of The Narragansett Electric
23 Company, I will use the terms "Narragansett Electric" or "Narragansett Gas,"

1 respectively, as appropriate. Where I refer to “National Grid USA,” I will use the term
2 “National Grid;” where I refer to “National Grid plc,” I will use that specific term.

3
4 **Q. What is the purpose of your testimony?**

5 A. In support of the Company’s electric and gas base distribution rate filing, my testimony
6 addresses and supports the overall level of employee compensation, benefit, and pension
7 costs reflected in the revenue requirements for Narragansett Electric and Narragansett
8 Gas by demonstrating that National Grid’s overall compensation package is market
9 competitive and that National Grid has proactively managed and controlled the costs of
10 its compensation, benefit, and pension programs. Specifically, my testimony addresses
11 and supports the Company’s employee compensation, benefit, and pension costs,
12 including those associated with medical, dental, life insurance, and other post-
13 employment benefit plans for the twelve-month period ending June 30, 2017 (the Test
14 Year), as well as the rate year, which is the twelve-month period ending August 31, 2019
15 (the Rate Year), and the two subsequent twelve-month periods ending August 31, 2020
16 (Data Year 1) and August 31, 2021 (Data Year 2). Data Year 1 and Data Year 2 are
17 collectively referred to as the Data Years. I will also address changes in National Grid’s
18 workforce that affect the revenue requirements of Narragansett Electric and Narragansett
19 Gas as well as the overall cost of the Company’s compensation, benefit, and pension
20 programs. The information concerning projected cost changes has been provided to
21 Company Witness Melissa A. Little and was used to develop the Narragansett Electric
22 and Narragansett Gas revenue requirements proposed by the Company in these
23 proceedings.

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In my testimony, I demonstrate that the costs of the total compensation, benefit, and pension programs included in the revenue requirements for Narragansett Electric and Narragansett Gas, which include the costs of base salary, performance-based variable pay, and various benefits, are reasonable and necessary and must be incurred by the Company to meet its obligations to provide safe and reliable utility service to its customers. To that end, I will explain and support detailed studies of the Company's total compensation and benefit programs for the management workforce. The results of these studies demonstrate that the Company's total overall management compensation and benefit programs are reasonable and market competitive.

In addition, I will discuss National Grid's ongoing efforts to monitor and control the costs of various elements of the Company's benefit and pension package.

Q. Do you sponsor any schedules as part of your testimony?

A. Yes, I am sponsoring the following schedules, which were prepared or compiled under my direction and supervision:

- Schedule MPH-1 sets forth a list of incremental positions;
- Schedule MPH-2 sets forth the combined results of Willis Towers Watson's evaluation of National Grid's compensation and benefits for management (non-union) employees compared to 38 peer organizations;¹

¹ Note that the same peer organizations are used in Schedules MPH-3, MPH-4, and MPH-5.

- 1 • Schedule MPH-3 sets forth Willis Towers Watson’s comprehensive evaluation of
2 National Grid’s benefits program for management (non-union) employees;
- 3 • Schedule MPH-4 sets forth Willis Towers Watson’s study of total compensation
4 offered by National Grid;
- 5 • Schedule MPH-5 sets forth Willis Towers Watson’s study of variable pay offered
6 by National Grid;
- 7 • Schedule MPH-6 sets forth information provided by Willis Towers Watson
8 concerning increases in management base salary costs during the periods relevant
9 to this proceeding; and
- 10 • Schedule MPH-7 sets forth historical information concerning increases in cash
11 compensation provided by National Grid since 2008.

12

13 **II. Overview of National Grid Human Resources Function**

14 **Q. How is the oversight of the Human Resources function conducted at National Grid?**

15 A. The oversight of National Grid’s Human Resources function is performed on a
16 centralized basis and, with certain limited exceptions, uniform compensation, benefit, and
17 pension packages for management employees have been instituted for all of National
18 Grid’s U.S. based operations, including the Company.

19

1 **Q. Is a portion of the Company's workforce unionized?**

2 A. Yes. The majority of the Company's employees are members of collective bargaining
3 units. The Utility Workers Union of America (UWUA) Local 310 supports the
4 Company's electric and gas businesses. The United Steelworkers Union Local 12431
5 and UWUA Local 310B support our Rhode Island gas business. The total compensation
6 for all represented workers is determined by collective bargaining.

7

8 **III. Workforce Adjustments**

9 **Q. Do the revenue requirements for Narragansett Electric and Narragansett Gas**
10 **include any costs associated with incremental positions that are forecast to be filled**
11 **through the end of the Rate Year?**

12 A. Yes. National Grid expects to fill 178 incremental positions before the end of the Rate
13 Year and additional incremental positions in the Data Years. Schedule MPH-1 sets forth a
14 list of these positions. The need for these positions is discussed in the joint pre-filed
15 direct testimony of the following witnesses: Company Witnesses Raymond J. Rosario,
16 Jr. and Ryan M. Constable for Narragansett Electric; Company Witness Alfred Amaral
17 III for Narragansett Gas; Company Witness John F. Isberg for Customer and Company
18 Witnesses Daniel J. DeMauro, Jr., Anuraag Bhargava and Mukund Ravipaty for
19 Information Systems. The revenue requirement impacts associated with these additional
20 positions are discussed in the pre-filed direct testimony of Company Witness Melissa A.
21 Little.

22

1 **IV. Review of National Grid Wages and Benefits**

2 **Q. Please describe National Grid’s philosophy concerning employee wages and**
3 **benefits.**

4 A. National Grid’s overall approach to compensation is to ensure that (i) a significant
5 portion of employee compensation is tied to the attainment of performance goals that
6 create benefits for customers and are consistent with the policy goals established by
7 National Grid’s regulators; (ii) employees’ total compensation is comparable to median
8 compensation for comparable positions in both the utility industry and general industry
9 and is reasonable after considering base and variable pay and benefits on *an aggregate*
10 *basis*; and (iii) variable pay is based on both the overall performance of National Grid
11 and the performance of each individual in achieving goals that are tied to the attainment
12 of customer satisfaction, safety, and reliability objectives. To provide safe, reliable, and
13 efficient utility service to its customers, National Grid must attract, retain, and engage
14 high performing, qualified personnel. To accomplish this, National Grid provides a total
15 compensation package that recognizes and rewards excellence, maintains fair and
16 competitive market pay and benefits for employees, and encourages employees to
17 improve skills while providing a safe working environment. Doing so under the cost
18 containment pressures faced by all companies is a critical challenge. To meet this
19 challenge, National Grid has developed a “Total Rewards Program” to provide
20 employees with an overall compensation, benefit, and pension package that is market
21 competitive, offers flexibility and choice, and supports a high performance culture by
22 directly linking performance to rewards. By maintaining a comprehensive and
23 competitive approach to total rewards that establishes appropriate levels of pay and

1 benefits, National Grid can attract and retain a high quality workforce and motivate
2 employees to perform at high levels.

3
4 **Q. What are the elements of the total rewards package?**

5 A. The compensation elements of the total rewards package are cash compensation, which
6 includes both fixed and variable pay and a number of benefits, which include medical and
7 dental plans, life insurance, a 401(k) savings plan, retirement plans, other post-
8 employment benefits, vacations, and holidays. It is National Grid's philosophy to require
9 employees to share the costs of certain benefits, consistent with market practice.

10
11 **V. National Grid's Efforts to Ensure the Cost of Wages and Benefits is Reasonable**

12 **Q. Please describe National Grid's efforts to ensure the reasonableness of the cost of**
13 **the wages and benefits it offers to employees.**

14 A. As part of its effort to provide a market competitive package while controlling the cost of
15 compensation, benefit, and pension programs, National Grid monitors the marketplace to
16 ensure that its cash compensation and benefit programs are both cost-effective and
17 sufficient to enable it to attract, retain, and engage the highly skilled workforce needed to
18 deliver excellent customer service and achieve the financial success required by the
19 capital markets. Specifically, National Grid utilizes the services of Willis Towers
20 Watson to provide information concerning the overall competitiveness of its
21 compensation and benefits package.

1 **Q. Did Willis Towers Watson recently conduct a study of the competitiveness of the**
2 **overall compensation packages offered by National Grid to its management**
3 **employees?**

4 A. Yes. National Grid recently retained Willis Towers Watson to conduct a study of the
5 competitiveness of the overall compensation package offered by National Grid to its
6 management workforce. The Willis Towers Watson study involved analyses of the total
7 cash compensation (fixed and variable) and employee benefits package offered to
8 National Grid's management employees. On an overall basis, this study concluded that
9 the value of National Grid's overall compensation, benefit, and pension package is
10 slightly below the median value of the peer group's package, but generally within the ten
11 percent corridor that is considered the zone of reasonableness. The results of the
12 management study are attached hereto as Schedules MPH-2 through MPH-5.

13

14 **Q. Please explain how Willis Towers Watson performed its study of the**
15 **competitiveness of National Grid's management compensation.**

16 A. Willis Towers Watson compared the total management compensation and benefits
17 package provided by National Grid to the total management compensation and benefit
18 packages provided by 38 peer companies. These peer companies include utility
19 companies that are combination gas and electric companies (e.g., Consolidated Edison
20 Company of New York, Inc., Exelon Corporation, Eversource Energy Service Co.),
21 utility companies that operate outside the energy business (e.g., American Water), and
22 general businesses that have significant workforces in the United States (e.g., AIG,

1 Federal Express, IBM). Although many of these companies are comparable in size to
2 National Grid in terms of revenues, some are smaller and some are larger.

3
4 **Q. Does the peer group provide a representative sample of the types of entities that**
5 **National Grid competes with to attract management employees?**

6 A. Yes. On an overall basis, it is reasonable to compare National Grid's total management
7 compensation package to the companies set forth in the peer group used by Willis Towers
8 Watson. National Grid believes that if its total compensation package falls within a ten
9 percent corridor (90 percent-110 percent) of the median level of these companies, then
10 that overall package is reasonably designed to enable National Grid to attract and retain
11 highly qualified management employees. Because the results of the study show that
12 National Grid's total compensation package is slightly below median, National Grid is
13 proposing certain adjustments, discussed later in my testimony, that will ensure that
14 National Grid's compensation continues to track the median level.

15
16 **Q. Please explain how Willis Towers Watson performed its comparison of the total**
17 **compensation package provided by National Grid to that provided by the peer**
18 **group companies.**

19 A. This comparison was performed by analyzing (i) the total cash compensation, including
20 both fixed and variable pay, provided to employees in approximately 97 percent of the
21 management positions at National Grid to the total compensation, including both fixed
22 and variable pay, provided by the peer group companies; and (ii) the relative value of the
23 benefits provided to National Grid employees in comparison to the relative value of the

1 benefits provided by the peer group. These management positions represent
2 approximately 5,300 employees out of National Grid's total management workforce of
3 approximately 5,500 employees as of January 31, 2017. The results of these comparisons
4 were then added to arrive at the total compensation and benefits value. The result of the
5 total compensation study is that National Grid's total package of management
6 compensation is generally close to the median level of the peer group, as shown on
7 Schedule MPH-2.

8
9 **Q. Please explain why Willis Towers Watson's study compares the relative value of**
10 **National Grid's total compensation to the relative value of the total compensation**
11 **provided by the peer group.**

12 A. The purpose of performing an overall compensation study is to determine whether the
13 total level of cash compensation and benefits is sufficient to attract a highly qualified
14 workforce. In order to conduct an accurate study, cash compensation and benefit
15 package components of the overall compensation package are analyzed differently.

16
17 From this perspective, cash compensation – fixed and variable – is best analyzed by
18 comparing the cash compensation provided to various positions at National Grid to cash
19 compensation provided by other companies with comparable positions. In this case,
20 Willis Towers Watson analyzed the cash compensation provided by members of the peer
21 group to management positions that fall within various salary bands to the cash
22 compensation provided to the equivalent positions at National Grid. The comparison of
23 total compensation for various benchmarked positions produces an overall comparison of

1 cash compensation that permits National Grid to evaluate whether management positions
2 within various salary bands are receiving a reasonable (i.e., within the ten percent
3 corridor of the median) level of cash compensation that will ensure that National Grid
4 remains competitive in the labor market.

5
6 In contrast to the cash compensation component of an overall compensation plan,
7 acquiring information concerning peer companies' costs of various employee benefits
8 and comparing those costs is very difficult because the cost of benefits can vary
9 dramatically from year to year and from company to company. For example, the cost of
10 pension and other post-employment benefits can change as a result of changes in the
11 funded status of the plans established to provide those benefits, the investment
12 performance of the plans, and the mortality rate of those participating in the plan.
13 Similarly, the cost of health insurance can vary because of the claims experience of
14 individual companies and the age and health of individual employees in the workforce
15 and their dependents. Changes in costs associated with these factors do not determine
16 whether the benefits being provided by a particular company are competitive. Instead, it
17 is the relative value of the benefits that provides the proper measurement of whether a
18 benefits package is sufficient to attract, retain, and engage highly qualified personnel.
19 The analyses performed by Willis Towers Watson properly consider the relative value of
20 the benefits being provided by National Grid and the peer group.

21
22 **Q. How did Willis Towers Watson determine the relative value of the benefits package**
23 **provided by National Grid and the peer group?**

1 A. The relative value of the various benefits is established based on a common set of
2 actuarial assumptions and a single employee population. This establishes a controlled
3 environment in which differences in value are exclusively a function of the differences in
4 benefit plan provisions. The relative value of various benefits is determined by dividing
5 the value of particular benefits for individual companies by the average value of all the
6 companies in the peer group. Relative values are developed for each benefit and for the
7 entire benefit plan.

8

9 **Q. Are all of the elements of National Grid's compensation package – fixed**
10 **compensation, variable compensation, and benefits – necessary elements of its**
11 **overall compensation package?**

12 A. Yes. National Grid's overall management compensation package is designed to be
13 competitive with the marketplace. It is the total compensation package – the combination
14 of fixed cash compensation, variable pay, benefits, and pension – that permits National
15 Grid to be competitive with the marketplace. The fixed component of National Grid's
16 cash compensation package along with the benefits package is not sufficient to be
17 competitive with the marketplace. It is the combination of fixed and variable pay and all
18 other benefits that permits National Grid's compensation to approach competitive levels.

19

20 **Q. In addition to the analysis of total compensation, does National Grid also separately**
21 **analyze the individual elements of its compensation package to ensure that they**
22 **remain competitive with the marketplace?**

1 A. Yes. Although it is important that National Grid's total compensation package remains
2 competitive with the marketplace, it is also important that individual elements of the
3 compensation package remain competitive as well. Thus, National Grid also attempts to
4 ensure that its total cash compensation (fixed and variable pay) and the various benefits
5 that are included in the total compensation package, such as healthcare and retirement
6 benefits, individually track the market. National Grid needs to stay abreast of what
7 workers demand in today's labor market. To do this, National Grid utilizes the services
8 of Willis Towers Watson to ensure that its total cash compensation (fixed and variable) is
9 at or near median levels as compared to the peer group, and that its various key benefits
10 also remain at that level. Analyses of individual elements of National Grid's benefits
11 package are included in Schedule MPH-3. Analyses of National Grid's total
12 compensation and variable pay are included in Schedules MPH-4 and MPH-5,
13 respectively. As this data demonstrates, National Grid currently is in a competitive
14 position with respect to total cash compensation and total benefits.

15

16 **Q. Please describe how National Grid monitors the marketplace for benefits.**

17 A. In addition to the total compensation study provided by Willis Towers Watson, National
18 Grid participates in both industry groups and benefit councils to learn best practices and
19 stay abreast of market developments. National Grid also seeks new ideas and best
20 practices from its vendors. Finally, representatives of National Grid attend conferences
21 and participate in webinars with respect to these matters.

22

23

1 **VI. Management and Union Wages**

2 **Q. Previously in your testimony, you mentioned that the total compensation of**
3 **employees is intended, on average, to approximate median compensation levels. Do**
4 **individual employee salaries deviate from these levels?**

5 A. Yes. Individual salaries deviate above and below the median levels based on experience,
6 individual performance, and length of time in a position.

7

8 **Q. Is the officer compensation program similar in philosophy and operation to the**
9 **management cash compensation program?**

10 A. Yes. The approach taken with respect to officer compensation is basically the same as
11 described for the management employee program. Overall compensation for officers,
12 including National Grid's most senior officers, is benchmarked to median compensation
13 of an appropriate peer group and includes a variable pay component. For purposes of
14 preparing the revenue requirements for Narragansett Electric and Narragansett Gas, the
15 Company has included payroll expense for only the fixed compensation (base pay) and
16 the benefit component of the compensation package for the top officers, referred to as
17 Band A employees. The variable pay component for National Grid's officers in Band A
18 is not included in the Narragansett Electric or Narragansett Gas revenue requirements.

19

20 **Q. Please describe the "Banded" approach to overall compensation.**

21 A. National Grid's compensation structure comprises six bands. Band A consists of the top
22 officers, such as executive and senior vice presidents. Band B consists of less senior

1 officers (vice presidents).² Band C is primarily for directors who report directly to an
2 officer. Band D includes managers who have at least one direct report and may directly
3 report to an officer, while Band E includes supervisors who have at least one direct report
4 who themselves report to a director or manager. Band F is for general administrative
5 staff. Bands D, E, and F are also for individual employees with unique career paths.
6 Each band has a salary range that consists of a minimum and a maximum salary as well
7 as multiple market reference points within the band. The market reference points track
8 the varying level of compensation for positions within the bands. National Grid's
9 Human Resources organization reviews the band structure annually. The band structure
10 employed by National Grid generally corresponds to the market study prepared by Willis
11 Towers Watson in analyzing National Grid's total compensation.

12
13 **Q. Please describe National Grid's variable pay program.**

14 A. National Grid's variable pay program is known as the Annual Performance Plan (the
15 Plan). As discussed above, this Plan is an important element of National Grid's total
16 compensation package. The purpose of the Plan is to ensure that employees are working
17 toward common goals that incorporate the interests of customers and regulators and to
18 recognize and encourage high performance. The Plan is intended to motivate employees
19 to achieve the highest possible individual performance, while ensuring that, at all times,
20 all safety, health, and environmental requirements are met, and standards of customer

² As referenced more generally later in my testimony, the variable pay component for National Grid's officers in Band B associated with the achievement of financial goals is not included in the revenue requirements for Narragansett Electric or Narragansett Gas.

1 service are achieved. The Plan is designed to ensure that variable pay is based on both
2 the overall performance of National Grid and the performance of the individual. It is
3 imperative that individual performance goals reflect objectives that provide employees
4 with a greater line of sight as to how they support the overall corporate objectives and
5 create value for customers.

6
7 **Q. Please elaborate on the goals established under the Plan.**

8 A. The goals of the Plan include clear linkage to objectives that are consistent with the
9 interests of customers and PUC policies. Specifically, the corporate goals for U.S.
10 employees are built around three key areas of focus: customers, communities, and
11 people. Within these focal points, the key performance goals are concentrated on safety,
12 reliability, customer efforts and responsiveness, cost competitiveness, and people. These
13 goals are critical to how National Grid runs its business.

14
15 National Grid has structured the Plan with the following percentages for payouts: (i)
16 Bands C through F – 50 percent based on customers, communities, and people objectives
17 and 50 percent based on individual objectives; and (ii) Band B – 40 percent based on
18 individual objectives and 60 percent based on overall financial objectives. The above
19 payout percentages are in effect commencing with the 2017/2018 performance period.

20
21 The payout percentages for Bands C, D, E, and F comprise the majority of National
22 Grid's management employees with the greatest amount of contact with customers. With
23 50 percent of the payout for these employees tied to the achievement of safety, reliability,

1 and customer goals, the variable pay plan is specifically designed to focus this group on
2 objectives that benefit customers.

3
4 **Q. Please describe the goals that National Grid will evaluate to determine whether it**
5 **has met its customer, communities, and people objectives.**

6 A. For the customer objectives, National Grid has developed process delivery performance
7 metrics that measure directly how customers perceive the Company and experience
8 service. In addition, cost competitiveness will be evaluated using performance metrics
9 that measure cost containment in a manner that is intended to focus the workforce on
10 providing better, more efficient service to customers. To evaluate performance for the
11 communities' objectives, National Grid measures system reliability against a number of
12 reliability metrics applicable in the jurisdictions in which it operates, including those
13 adopted by the PUC. Finally, with regard to the people objectives, the key performance
14 metrics focus on safety. Similar to the reliability metrics, National Grid will measure its
15 performance against a number of safety metrics applicable in the jurisdictions in which it
16 operates, including those adopted by the PUC.

17
18 **Q. How are individual objectives established under the Plan?**

19 A. Individual objectives for management employees are established by the individual
20 employee in consultation with managers and supervisors. These objectives are designed
21 to ensure that employees are enhancing their expertise and performing their assigned
22 tasks at the highest possible levels. For example, the individual objectives for a manager
23 charged with completing regulatory reports might include (i) completing all required

1 reports in a timely fashion; (ii) taking continuing education classes to ensure that the
2 manager is aware of recent changes in reporting requirements and regulatory policies that
3 may affect these reports; and (iii) leading and developing their team. Individual
4 objectives are established at the start of the performance plan year.

5
6 **Q. Please explain why National Grid includes a variable pay component as part of total**
7 **cash compensation for its employees.**

8 A. Variable cash compensation provides direct and specific incentives to employees who
9 achieve or exceed certain operating performance goals of importance to National Grid, its
10 customers, and its regulators. Accordingly, the variable pay component of National
11 Grid's overall employee compensation package aligns the interests of National Grid and
12 the Company with the interests of its customers and regulators, and helps the Company
13 meet its public policy objectives. Moreover, as noted above, under National Grid's total
14 compensation structure, base pay, and benefits alone are not an adequate level of
15 compensation to allow National Grid to meet its goal of attracting and retaining highly
16 qualified employees to provide safe, reliable, and efficient service to customers. Today's
17 marketplace dictates that variable pay is a fundamental component of any private-sector
18 entity's efforts to attract qualified employees, as demonstrated by the fact that 93 percent
19 of the positions in the peer group have variable pay included in their compensation
20 packages. Top talent in the market demands compensation that is directly linked to
21 performance. For National Grid to compete in this marketplace and be viewed as an
22 employer of choice, variable pay must be a part of the overall compensation package.
23 Without a variable pay component, National Grid would be out of step with the market

1 and likely would not be able to attract the same level of talented and highly motivated
2 employees necessary for the Company to deliver outstanding customer service in a safe,
3 reliable, and efficient manner.

4
5 **Q Is it correct that the variable pay plan at National Grid is pay-at-risk?**

6 A. Yes, that is correct. National Grid's variable pay plan is designed to be part of a total
7 compensation program; it is a pay-at-risk plan, not extra or bonus pay. This conclusion is
8 borne out by the analysis of total compensation prepared by Willis Towers Watson. The
9 variable pay component is labeled "pay-at-risk" because, if performance measures are not
10 achieved, employees will not receive the variable pay. This "at-risk" compensation
11 allows National Grid to align pay with performance that is consistent with the goals of
12 customers and regulators. Thus, variable compensation is not "additional" or "optional"
13 compensation that National Grid provides to employees, but a required element in the
14 total compensation program and a necessary and prudent cost of doing business.

15
16 **Q. How has the Company determined the level of variable pay expense included in the**
17 **proposed revenue requirements for Narragansett Electric and Narragansett Gas?**

18 A. The level of variable pay expense included in the proposed revenue requirements does
19 not reflect any variable pay component for National Grid's employees in Band A or the
20 variable pay component for National Grid's employees in Band B that is tied to the
21 achievement of overall financial objectives. The Company has assumed that the target
22 levels of performance and payout will be attained. The level of variable pay expense is
23 discussed in greater detail in the testimony of Company Witness Little.

1

2 **Q. What do you mean by “target levels?”**

3 A. “Target levels” represent a level of performance that is judged to be 50 percent of stated
4 maximums. Target performance is best described as an above-average level of
5 performance that is consistent with overall expectations. Achieving target performance
6 requires employees to perform at a high, but nonetheless expected level. High
7 performers would exceed “target levels” while below average performers would fall
8 below “target levels.”

9

10 **Q. Are you aware of PUC precedent concerning variable pay?**

11 A. Yes, I am. In Docket No. 4065, the PUC disallowed 50 percent of the Company’s
12 request for variable pay because the variable pay was based partly on National Grid’s
13 attainment of certain financial goals. The PUC’s decision was affirmed by the Rhode
14 Island Supreme Court on January 23, 2012. Consistent with the PUC’s decision in
15 Docket No. 4065, the Company is not seeking recovery in these proceedings for any
16 variable pay relating to the achievement of financial goals.

17

18 **Q. Did National Grid increase management wages after the end of the Test Year?**

19 A. Yes. National Grid increased management wages by 3.64 percent, on average, effective
20 July 1, 2017. This included increases in base pay provided to National Grid’s entire
21 management workforce as well as increases targeted to positions where National Grid’s
22 market studies show that increases in compensation are necessary and progression is
23 needed to bring cash compensation levels closer to the market median.

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Q. Is National Grid projecting any additional management wage increases in the period covered by the Company’s rate filing in these proceedings?

A. Yes. National Grid is projecting the following increases:

<u>Effective Date</u>	<u>Percentage</u>
July 1, 2018	3.0 percent
July 1, 2019	3.0 percent
July 1, 2020	3.0 percent
July 1, 2021	3.0 percent

The forecasted increases in management wages are based on the market studies that are currently available to National Grid, including the information set forth in Schedule MPH-6. These increases are also in line with the average wage increases provided over the last ten years, as set forth on Schedule MPH-7. Nonetheless, National Grid will continue to monitor market information and may revise its projections if market conditions require such adjustments.

Q. Does National Grid follow the same compensation philosophy with regard to its union employees as it does for its management employees?

A. Yes. However, the compensation provided to union employees is the result of collective bargaining. Pursuant to the collective bargaining agreements, union workers were or will be provided with the following base wage increases during the period covered by these rate proceedings:

1 **Local 12431**
2 2.25 percent (as of June 24, 2017)
3 2.25 percent (as of June 23, 2018)

4 **Local 310**
5 2.5 percent (as of May 12, 2017)
6 2.5 percent (as of May 12, 2018)
7 2.75 percent (as of May 12, 2019)
8 3.0 percent (as of May 12, 2020)
9 3.0 percent (as of May 12, 2021)

10 **Local 310B**
11 2.5 percent (as of July 20, 2017)
12 2.5 percent (as of May 12, 2018)
13 2.75 percent (as of May 12, 2019)
14 3.0 percent (as of May 12, 2020)
15 3.0 percent (as of May 12, 2021)

16

17 **Q. Is National Grid projecting any other wage increases for union employees in the**
18 **period covered by the Company’s rate filing in these proceedings?**

19 A. Yes. The Local 12431 contract expires on June 1, 2019, which is a year after the last
20 contractual base pay increase. Therefore, the Company has included a placeholder for a
21 2019 base pay increase in its revenue requirements, assuming a new contract is
22 negotiated. Placeholders were also included in the Data Years. The placeholders are not
23 intended to guarantee that an increase will be included in the contract negotiations.

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Q. Does compensation for union employees also include a variable pay component?

A. Yes. Variable pay gives union employees a stake in the Company’s performance and provides direct incentives for employees to strive to meet or exceed metrics tied to safe, reliable, and efficient performance, which, in turn, results in better service for customers. As with the management program, the variable compensation component is part of the total compensation package designed to link rewards and results. Because this compensation philosophy is an important part of National Grid’s effort to deliver value to customers, including variable pay as a component of compensation for union employees has been one of National Grid’s priorities in labor negotiations. Under the current collective bargaining agreements, the Company’s union workers participate in the same variable pay plan as management employees. Union employees in Local 12431 have a target payment of 2.5 percent of total pay and union employees in Local 310, and Local 310B have a target payment of 3.5 percent of total pay.

Q. What are the performance objectives of the union variable pay plan?

A. The performance objectives and payout for union employees are tied to the same corporate performance goals that are applicable to management employees: customers, communities, and people. As previously discussed, these goals are focused on enhancing safety, reliability, the customer experience, cost competitiveness, and people. Union employees are motivated to assist the Company in providing safe and reliable utility service to customers.

1 **VII. National Grid's Efforts to Ensure the Costs of Health and Welfare Programs are**
2 **Reasonable**

3 **Q. What efforts has National Grid undertaken to control costs associated with its**
4 **health and welfare programs?**

5 A. National Grid has taken many steps to control the costs associated with health and
6 welfare benefit programs. These steps include:

7 (i) The majority of National Grid's health and welfare benefit plans are self-insured,
8 which affords National Grid a greater ability to control costs than it would have under
9 third-party insurance programs. Because these plans are self-insured, the program costs
10 are directly linked to the utilization of benefits. National Grid's medical plans also
11 provide extensive health and wellness programs designed to reduce health risks and
12 thereby help mitigate costs. These programs, combined with coverage for preventive
13 check-ups and screenings, provide a benefit structure that, over time, should help to keep
14 costs down and improve employee wellness.

15 (ii) National Grid aggressively negotiates with vendors and periodically conducts a
16 competitive bidding process to achieve the lowest administrative service fees and
17 premiums and to obtain maximum discounts when rolling out a new program or upon the
18 expiration of an existing contract. For example, National Grid recently negotiated the
19 renewal of the contract with its national Pharmacy Benefits Manager, CVS Caremark,
20 which resulted in savings to the Company over the term of the contract.

21 (iii) The prescription drug program is carved out of each medical plan and is
22 administered in its entirety with a CVS Caremark plan. Because CVS Caremark is
23 National Grid's Pharmacy Benefits Manager for its entire U.S. business, National Grid

1 has been able to gain economies of scale and incurs lower expenses by leveraging a
2 volume discount.

3 (iv) National Grid introduced generic step therapy, specialty preferred drug therapy, and
4 an exclusive specialty pharmacy program into the management and union prescription
5 drug programs to lower prescription drug costs.

6 (v) National Grid requires prior authorization for compounded drugs costing more than
7 \$300 in the management and union prescription drug programs. In addition, bulk
8 powders were excluded from coverage for compound drugs. Compounded drugs may
9 contain three to five drugs along with expensive bases and solvents in the preparation that
10 dramatically increase the cost.

11 (vi) A standard formulary was implemented in addition to an advanced control specialty
12 formulary to help ensure clinically appropriate utilization and cost effectiveness of
13 specialty therapies in both the management and union plans.

14 (vii) Consumerism has been introduced into the management and union medical plans to
15 drive greater consumer attention to costs and benefits, a culture of health and employee
16 education by improving cost control, quality, patient compliance, and healthy outcomes
17 through consumer-directed health plans, advanced health strategies, condition-specific
18 performance comparisons of providers and treatment options, and wellness programs to
19 support a healthy workforce.

20 (viii) National Grid moved its health and welfare benefit administration to a new third
21 party administrator, Emphyrean as a result of a comprehensive competitive bidding
22 process, and it has been demonstrated that Emphyrean provides National Grid's employees

1 and retirees with better service and more accurate and timely responses to their questions
2 and concerns at a more competitive price.

3
4 **Q. Please describe any changes that have been made to the management health and**
5 **welfare plans since the Company's last base distribution rate filing.**

6 A. To maintain market competitiveness while controlling costs, National Grid made a
7 number of changes in benefit plan designs including:

- 8 • An increase in office visit co-pays for a primary care physician/specialist to
9 \$20/\$40;
- 10 • An increase in co-pays for prescription drug benefits to \$10/\$40/\$80 for retail and
11 \$20/\$80/\$160 for mail order;
- 12 • An increase in in-network annual deductibles in the Preferred Provider
13 Organization (PPO) plan to \$400/\$800 for individual/family coverage;
- 14 • Implementation of 90 percent coinsurance in the Exclusive Provider Organization
15 (EPO) plan (which eliminated first dollar coverage) as well as a \$300/\$600 annual
16 deductible for individual/family coverage;
- 17 • Implementation of 90 percent coinsurance for diagnostic lab, x-ray, and advanced
18 radiology;
- 19 • Introduction of a consumer-driven health plan with 90 percent coinsurance
20 coupled with a Health Savings Account with contributions from National Grid;
- 21 • Implementation of several prescription drug utilization management programs
22 previously discussed in my testimony; and

- 1 • Exclusion of bulk powders on compound drugs and the introduction of an
2 advanced control specialty formulary to help ensure clinically appropriate
3 utilization of specialty therapies previously discussed in my testimony.

4 The savings associated with these initiatives are reflected in the revenue requirements for
5 Narragansett Electric and Narragansett Gas.

6
7 **Q. Are there any healthcare changes to the management plans that will take effect on**
8 **January 1, 2018?**

9 A. Yes. The healthcare changes that will take effect on January 1, 2018 are as follows:

- 10 • Elimination of the PPO plans;
- 11 • An increase in office visit co-pays for a primary care physician/specialist to
12 \$25/\$50 and an increase in the deductible for in-network services to \$400/\$800 in
13 the EPO. The EPO will be named the “Select Provider Plan”;
- 14 • An increased deductible for in-network services in the consumer driven health
15 plan for individual/family coverage to \$1,800/\$3,600. The consumer driven
16 health plan will be named the “Health Savings Plan”;
- 17 • The introduction of a second consumer-driven health plan that will have lower
18 employee contributions in exchange for higher deductibles. The annual
19 deductible for individual/family coverage for in-network services will be
20 \$3,000/\$6,000 with 80 percent coinsurance and a Health Savings Account with
21 contributions from National Grid. This plan will be named the “Health
22 Investment Plan”;

- 1 • An additional coverage level option will be added for medical and dental plans.
2 The new four-tier structure will include employee only, employee plus spouse,
3 employee plus child(ren), and family;
- 4 • A spousal buy-up will be introduced for those employees who are covering a
5 spouse under the National Grid medical plan who has access to employer-
6 sponsored subsidized group coverage through their company;
- 7 • Implementation of a “dispense as written” penalty where employees pay more for
8 a brand name prescription drug when a generic alternative is available;
- 9 • Reduction in the amount National Grid contributes to the HSA from \$750/\$1,500
10 for individual/individual with dependents coverage to \$375/\$750;
- 11 • Implementation of a wellbeing program that will reduce employee medical plan
12 contributions and allow the employee to get an additional Health Savings Account
13 contribution from National Grid of \$375 for individual coverage and \$750 for
14 coverage with dependents if they complete three wellness incentive activities; and
- 15 • Introduction of an additional dental plan option that has no coverage for
16 orthodontia, a lower annual plan maximum, and lower employee contributions.

17

18 **Q. Please describe any changes that have been made to the union health and welfare**
19 **plans since the Company’s last base distribution rate filing.**

20 A. In an effort to control costs and still provide market competitive benefit plans, National
21 Grid negotiated a number of changes in benefit plan design with members of the unions
22 that affect the costs of the benefits for those union employees:

1 Local 12431 Benefit Changes:

- 2 • Increase in office visit co-pay for a specialist to \$20 in the PPO;
- 3 • Increase in co-pays for prescription drug benefits to \$10/\$25/\$40 in the PPO;
- 4 • Elimination of the credit for opting out of medical coverage;
- 5 • Increases in employee contributions to 20 percent for both medical coverage and
- 6 dental coverage with a full buy-up for those who participate in the Customer
- 7 Choice Plan, which has lower co-pays;
- 8 • Implementation of several prescription drug utilization management programs
- 9 previously discussed in my testimony, including mandatory mail order, generic
- 10 step therapy, specialty preferred drug therapy, and an exclusive specialty
- 11 pharmacy program; and
- 12 • Introduction of a consumer-driven health plan with 90 percent coinsurance for in-
- 13 network coverage coupled with a Health Saving Account and employee
- 14 contributions of ten percent.

15 Local 310 and Local 310B Benefit Changes:

- 16 • Increases in office visit co-pays for a primary care physician/specialist to \$25/\$30
- 17 in the PPO and \$20/\$25 in the Point of Service plan;
- 18 • Increases in co-pays for prescription drug benefits to \$20/\$30/\$50 in the PPO and
- 19 \$10/\$20/\$50 in the Point of Service plan;
- 20 • Introduction of a co-pay for emergency room visits of \$100 in the PPO and \$75 in
- 21 the Point of Service plan;

- 1 • Introduction of a co-pay for MRI/Cat Scan diagnostics and other nuclear imaging
2 of \$50 in the PPO and \$25 in the Point of Service plan;
- 3 • Implementation of a co-pay for in-patient hospitalization and outpatient surgery of
4 \$250 and \$150, respectively, in the Point of Service plan;
- 5 • Elimination of the credit for opting out of medical coverage;
- 6 • Implementation of several prescription drug utilization management programs
7 previously discussed in my testimony, including mandatory mail order, generic
8 step therapy, specialty preferred drug therapy, and an exclusive specialty
9 pharmacy program;
- 10 • Introduction of a standard formulary, exclusion of bulk powders on compound
11 drugs, prior authorization for any compound drug over \$300, and the introduction
12 of an advanced control specialty formulary previously discussed in my testimony
13 to help ensure clinically appropriate utilization of specialty therapies; and
- 14 • Introduction of a consumer-driven health plan with 90 percent coinsurance for in-
15 network coverage coupled with a Health Saving Account and employee
16 contributions of ten percent.

17

18 **Q. Are there any healthcare changes to the union plans that will take effect on January**
19 **1, 2018?**

20 A. Yes. The healthcare changes that will take effect on January 1, 2018 are as follows:

21 Local 12431 Benefit Changes:

- 1 • Increases in office visit co-pays for a primary care physician/specialist to \$20/\$25
2 in the PPO and \$10/\$15 in the Customer Choice Plan;
- 3 • Increases in co-pays for prescription drug benefits to \$10/\$30/\$50 in the PPO and
4 \$10/\$15/\$25 in the Customer Choice Plan;
- 5 • Increases in emergency room visit co-pays to \$100 in the PPO and \$30 in the
6 Customer Choice Plan;
- 7 • Introduction of a standard formulary, exclusion of bulk powders on compound
8 drugs, prior authorization for compound drugs over \$300 and the introduction of
9 an advanced control specialty formulary to help ensure clinically appropriate
10 utilization of specialty therapies; and
- 11 • Introduction of an employer contribution into the Health Savings Account for
12 participants in the consumer-driven health plan.

13 Local 310 and Local 310B Benefit Changes:

- 14 • Increases in office visit co-pays for a primary care physician/specialist to
15 \$30/\$40;
- 16 • Changes in co-pays for prescription drug benefits to \$10/\$35/\$60;
- 17 • Elimination of first dollar coverage with the implementation of 95 percent
18 coinsurance as well as a \$250/\$500 annual deductible for individual/family
19 coverage; and
- 20 • Introduction of an employer contribution into the Health Savings Account for
21 participants in the consumer-driven health plan.

22

1 **Q. Please describe any adjustments to the Test Year expense for employee medical and**
2 **dental benefit plans that the Company is including in its proposed revenue**
3 **requirements.**

4 A. The adjustments to the Test Year expense for employee medical and dental benefit plans
5 that the Company is including in its proposed revenue requirements are discussed in the
6 Revenue Requirements panel testimony sponsored by Company Witness Melissa A.
7 Little.

8
9 **Q. Does existing law impose any mandates on employers that may have an impact on**
10 **the Company's healthcare costs in the near future?**

11 A. Yes. The Patient Protection and Affordable Care Act will impose an excise tax on plans
12 that are termed "Cadillac" medical plans. The tax is scheduled to go into effect in 2020.

13

14 **Q. How will the excise tax be determined?**

15 A. The excise tax is a 40 percent tax on high cost "Cadillac" medical plans that will be
16 imposed on medical plans that exceed predetermined cost thresholds. The thresholds will
17 be based on the \$10,200 individual/\$27,500 family limits that were originally set for the
18 2018 implementation and indexed to 2020 and thereafter. Notably, the excise tax
19 thresholds are based on U.S. national averages so that companies in the Northeast region
20 are more likely to incur the tax because medical costs are historically higher.

21

22 **Q. Does National Grid expect to trigger the excise tax in 2020?**

1 A. National Grid expects that some of its plans would be above the thresholds and may
2 trigger the excise tax in 2020.

3
4 **Q. What steps are being taken by National Grid to reduce the probability of triggering**
5 **the excise tax?**

6 A. National Grid's benefit strategies are focused on attempting to avoid the excise tax in
7 2020 (and beyond) and controlling costs while maintaining market competitiveness for
8 plans provided to management employees. This is also a critical component and key
9 focus during all union negotiations. As discussed in my testimony above, National
10 Grid's comprehensive strategy will drive greater consumer attention to costs and benefits,
11 a culture of health and employee education by improving cost control, quality, patient
12 compliance, and healthy outcomes through consumer-directed health plans, advanced
13 health strategies, condition-specific performance comparisons of providers and treatment
14 options, and wellness programs to support a healthy workforce. Some of the key
15 elements of this strategy have already been implemented to manage plan costs in an effort
16 to come below the tax thresholds for both management and union employees, both active
17 and retired. However, at this time, it is not possible to say with certainty whether and to
18 what extent the Company will be successful in avoiding the excise tax. National Grid's
19 efforts to avoid the tax must be balanced against its need to continue to offer market-
20 competitive medical benefits to management and union workforces.

21
22 **Q. Has the Company considered any of the potential healthcare changes that may**
23 **occur as a result of the recent attempts to repeal and replace the existing legislation?**

1 A. The future state of the Patient Protection and Affordable Care Act remains uncertain.
2 Recent activity in the Senate to repeal and replace the Patient Protection and Affordable
3 Care Act failed to pass and the provisions of any potential future legislation is likely to go
4 through much iteration and is impossible to predict. National Grid will continue to
5 follow developments and changes in health care legislation and closely monitor, analyze,
6 and assess the implications of any future legislative and regulatory changes on our plans.
7 The Company will continually review its benefits strategy and make changes where
8 appropriate to ensure compliance with any new or additional requirements, and manage
9 costs appropriately. If there are legislative or regulatory changes that create major cost
10 implications for the Company in the Rate Year, the Company is requesting that the PUC
11 authorize exogenous cost treatment for these incremental costs.

12

13 **VIII. National Grid's Efforts to Ensure Pension and Other Post-employment Benefits**

14 **Costs are Reasonable**

15 **Q. Has National Grid made efforts to manage its pension and other post-employment**
16 **benefits costs?**

17 A. Yes, National Grid has taken significant steps to manage its pension and other post-
18 employment benefits costs, as discussed below.

19

20 **Q. Please describe National Grid's efforts to manage pension and other post-**
21 **employment benefits program costs.**

22 A. The process of ensuring fair, competitive, and efficient benefit programs for employees
23 and retirees is one of the core activities of National Grid's U.S. Compensation, Benefits,

1 and Pensions department. Compensation, Benefits, and Pensions personnel continually
2 endeavor to ensure proper vendor performance and compliance with federal and state
3 laws and regulations. Trends in compensation, benefit, and pension plan design are
4 continually monitored and compared to National Grid's plans to ensure that those plans
5 continue to be fair, reasonable, and competitive.

6
7 On an annual basis, National Grid analyzes the funding, recording, and administration of
8 other post-employment benefits. Less frequently, but on a consistent basis, National Grid
9 considers more significant changes designed to reduce the overall cost of the other post-
10 employment benefits plan.

11
12 In addition, National Grid continuously reviews the delivery and administration of the
13 benefits under the retiree medical plan with the ultimate objective to reduce
14 administration costs and improve the delivery of services.

15
16 **Q. What has National Grid done to control the cost of management retirement benefits**
17 **since the Company's last base distribution rate filing?**

18 A. Because the plan offerings for pre-65 retirees are the same as those offered to the active
19 management employees, all healthcare changes that were made to active management
20 plan benefits discussed previously in my testimony also are incorporated into the pre-65
21 retiree plans.

22

1 **Q. Were there any changes to the union post-employment benefit costs since the**
2 **Company's last base distribution rate filing?**

3 A. No. However, all changes made to active employee medical plan benefits under the
4 collective bargaining agreements are incorporated into the pre-65 retiree plans.

5

6 **Q. Is National Grid considering any other changes that would impact post-employment**
7 **benefit costs?**

8 A. Yes. National Grid is considering moving the post-65 retiree management and union
9 population to a private exchange. The Company is looking at the existing medical plan
10 offerings and structures, and evaluating the benefits and feasibility of providing medical
11 coverage for these groups through a private exchange.

12

13 **Q. What has National Grid done to control pension costs since the Company's last base**
14 **distribution rate filing?**

15 A. Consistent with the practice for other post-employment benefits, National Grid
16 continually reviews the pension plan benefits it offers to employees to control plan costs
17 and ensure that the benefit offerings are in line with market practices.

18

19 **Q. Has National Grid made changes to its pension plans that affect the cost of the**
20 **plans?**

21 Yes. Consistent with the trend in the marketplace, National Grid continues to move away
22 from defined benefit pension plans to defined contribution or 401(k) plans. The defined
23 contribution plans are less costly than both traditional pension plans and cash balance

1 pension plans because the investment risk is shifted from the National Grid to the
2 employee. Employees can manage their investments and are afforded both flexibility and
3 portability, which is more attractive to employees in today's mobile workforce.
4

5 In addition to closing the management defined benefit pension plans to new entrants as of
6 December 31, 2010, the Company successfully negotiated the closing of the defined
7 benefit pension plans to new entrants for members of Local 12431, Local 310, and Local
8 310B in 2013. For Local 310 and Local 310B, any member hired or rehired on or after
9 May 12, 2013 and July 20, 2013, respectively, participates in a defined contribution plan
10 only. National Grid will contribute a percentage of eligible pay ranging from three
11 percent to nine percent based on the employee's combined age and years of service into
12 the 401(k) plan. For Local 12431, any member hired or rehired on or after June 28, 2013
13 participates in a defined contribution plan only as well. National Grid will contribute a
14 percentage of eligible pay ranging from three percent to nine percent based on the
15 employee's combined age and years of service into the 401(k) plan. Once the employee
16 has 30 years of service, the contribution from National Grid will be reduced to four and
17 one-half percent.
18

19 **Q. What other steps has National Grid taken with respect to the management of its**
20 **retirement plans?**

21 A. National Grid continues to encourage greater participation and investment management
22 in its 401(k) plans so that employees will take greater ownership and responsibility for
23 funding their own retirement by saving more and investing wisely. Management

1 employees continue to receive a company match equal to 50 percent of the first eight
2 percent of compensation they contribute to the plan. The company match for members of
3 Local 12431 is 50 percent of the first 10 percent of compensation they contribute to the
4 plan. The company match for members of Locals 310 and 310B is 100 percent of the
5 first two percent of base pay plus 50 percent of the next four percent of base pay for a
6 total company match of four percent.

7

8 **Q. Are all of the cost savings previously discussed in your testimony reflected in the**
9 **revenue requirements?**

10 A. Yes, they are.

11

12 **IX. Conclusion**

13 **Q. Does this conclude your direct testimony?**

14 A. Yes, it does.

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Schedule MPH-1

List of Incremental Positions

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
1	CMS- Clerical Support	Narragansett Gas	1	0	0
2	CMS- Clerical Support	Narragansett Gas	1	0	0
3	Damage Prevention- Inspector Costs	Narragansett Gas	1	0	0
4	Damage Prevention- Inspector Costs	Narragansett Gas	1	0	0
5	Damage Prevention- Inspector Costs	Narragansett Gas	1	0	0
6	Damage Prevention- Inspector Costs	Narragansett Gas	1	0	0
7	CMS- Field Technician	Narragansett Gas	1	0	0
8	CMS- Field Technician	Narragansett Gas	1	0	0
9	CMS- Field Technician	Narragansett Gas	1	0	0
10	CMS- Field Technician	Narragansett Gas	1	0	0
11	CMS- Field Technician	Narragansett Gas	1	0	0
12	CMS- Field Technician	Narragansett Gas	1	0	0
13	CMS- Field Technician	Narragansett Gas	1	0	0
14	CMS- Field Technician	Narragansett Gas	1	0	0
15	CMS- Field Technician	Narragansett Gas	1	0	0
16	CMS- Field Technician	Narragansett Gas	1	0	0
17	CMS- Field Technician	Narragansett Gas	1	0	0
18	CMS- Field Technician	Narragansett Gas	1	0	0
19	CMS- Field Technician	Narragansett Gas	1	0	0
20	CMS- Field Technician	Narragansett Gas	0	1	0
21	CMS- Field Technician	Narragansett Gas	0	1	0
22	CMS- Field Technician	Narragansett Gas	0	1	0
23	CMS- Field Technician	Narragansett Gas	0	1	0
24	CMS- Field Technician	Narragansett Gas	0	1	0
25	CMS- Field Technician	Narragansett Gas	0	1	0
26	CMS- Field Technician	Narragansett Gas	0	1	0
27	CMS- Field Technician	Narragansett Gas	0	0	1
28	CMS- Field Technician	Narragansett Gas	0	0	1

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
29	CMS- Field Technician	Narragansett Gas	0	0	1
30	CMS- Field Technician	Narragansett Gas	0	0	1
31	CMS- Field Technician	Narragansett Gas	0	0	1
32	M&C Field Technician	Narragansett Gas	1	0	0
33	M&C Field Technician	Narragansett Gas	1	0	0
34	M&C Field Technician	Narragansett Gas	1	0	0
35	M&C Field Technician	Narragansett Gas	1	0	0
36	M&C Field Technician	Narragansett Gas	1	0	0
37	M&C Field Technician	Narragansett Gas	1	0	0
38	M&C Field Technician	Narragansett Gas	1	0	0
39	M&C Field Technician	Narragansett Gas	1	0	0
40	M&C Field Technician	Narragansett Gas	1	0	0
41	M&C Field Technician	Narragansett Gas	1	0	0
42	Corrosion Control & Main Replacement- Corrosion Testers	Service Company	1	0	0
43	Corrosion Control & Main Replacement- Corrosion Testers	Service Company	1	0	0
44	I&R- Instrumentation Specialist	Narragansett Gas	1	0	0
45	I&R- Manager	Narragansett Gas	1	0	0
46	I&R- Technicians	Narragansett Gas	1	0	0
47	Contract Administration- Contract Specialist Analyst	Service Company	1	0	0
48	Gas Project Estimating- Estimator	Service Company	2	0	0
49	Project Management- Project Manager	Service Company	5	0	0
50	Pressure Regulation Engineering- Engineer	Service Company	1	0	0
51	Operations Support- Mapping Techs	Service Company	2	0	0
52	Operations Support- Work / Permit Coordinators	Service Company	3	0	0
53	Operations Support- Mapping Coordinator	Service Company	2	0	0
54	Corrosion Control & Main Replacement- Engineer	Service Company	1	0	0
55	Resource Planning- CMS Program Manager	Service Company	1	0	0
56	Resource Planning- M&C Program Manager	Service Company	1	0	0

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
57	Resource Planning- Manager	Service Company	1	0	0
58	Gas Construction - Welding Supervisor	Narragansett Gas	1	0	0
59	Gas Pipeline & Safety Compliance- QA/QC Inspectors	Narragansett Gas	3	0	0
60	Gas Pipeline & Safety Compliance- Operator Qualification Testing- Senior Scheduler	Service Company	1	0	0
61	F&V Analyst (Perm)	Service Company	1	0	0
62	US Network Support	Service Company	1	0	0
63	US Network Support	Service Company	1	0	0
64	SD US Support-programmes	Service Company	1	0	0
65	CSOC Sr Analyst	Service Company	1	0	0
66	CSOC Analyst	Service Company	1	0	0
67	PEX Practitioner	Service Company	1	0	0
68	Business Information Security Officer	Service Company	1	0	0
69	Business Information Security Officer	Service Company	1	0	0
70	Business Information Security Officer	Service Company	1	0	0
71	US Cyber Security Engineer	Service Company	1	0	0
72	US Cyber Security Engineer	Service Company	1	0	0
73	NERC Vulnerability Analyst	Service Company	1	0	0
74	IT/OT Security Architect	Service Company	1	0	0
75	Incident Analyst	Service Company	1	0	0
76	Risk Analyst	Service Company	1	0	0
77	Risk Analyst	Service Company	1	0	0
78	Risk Analyst	Service Company	1	0	0
79	PMO	Service Company	1	0	0
80	Security Manager	Service Company	1	0	0
81	Test Analyst	Service Company	1	0	0
82	Test Analyst	Service Company	1	0	0
83	Security Policy Lead	Service Company	1	0	0

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
84	Forensic Analysts [CSO]	Service Company	1	0	0
85	Forensic Analysts [CSO]	Service Company	1	0	0
86	Director Governance & Compliance	Service Company	1	0	0
87	Manager, Enterprise Security Architect	Service Company	1	0	0
88	Risk Analyst	Service Company	1	0	0
89	Test Analyst	Service Company	1	0	0
90	Forensic Analysts [CSO]	Service Company	1	0	0
91	Test Analyst	Service Company	1	0	0
92	Test Analyst	Service Company	1	0	0
93	SCC Operator	Service Company	1	0	0
94	SCC Operator	Service Company	1	0	0
95	Security Officer 2	Service Company	1	0	0
96	CNI Analyst	Service Company	1	0	0
97	CNI Analyst	Service Company	1	0	0
98	Lead Consultant	Service Company	1	0	0
99	Lead Consultant	Service Company	1	0	0
100	Solution Architect	Service Company	1	0	0
101	Project Manager	Service Company	1	0	0
102	Project Manager	Service Company	1	0	0
103	Project Manager	Service Company	1	0	0
104	Project Manager	Service Company	1	0	0
105	Project Manager	Service Company	1	0	0
106	Project Manager	Service Company	1	0	0
107	Project Manager	Service Company	1	0	0
108	Project Manager	Service Company	1	0	0
109	Business Analyst	Service Company	1	0	0
110	Business Analyst	Service Company	1	0	0
111	Business Analyst	Service Company	1	0	0

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
112	Business Analyst	Service Company	1	0	0
113	Business Analyst	Service Company	1	0	0
114	Business Analyst	Service Company	1	0	0
115	Business Analyst	Service Company	1	0	0
116	Solution Architect	Service Company	1	0	0
117	Solution Architect	Service Company	1	0	0
118	Solution Architect	Service Company	1	0	0
119	Communications Manager	Service Company	1	0	0
120	VP - Tower Lead	Service Company	1	0	0
121	VP - Tower Lead	Service Company	1	0	0
122	Director - Tower Lead	Service Company	1	0	0
123	Director - Tower Lead	Service Company	1	0	0
124	IS PEX Analyst	Service Company	1	0	0
125	CEI Consultant	Service Company	1	0	0
126	CEI Consultant	Service Company	1	0	0
127	CEI Analyst	Service Company	1	0	0
128	CEI Facilitator	Service Company	0	1	0
129	CEI Consultant	Service Company	0	1	0
130	CEI Analyst	Service Company	0	0	1
131	CEI Marketing	Service Company	1	0	0
132	Consumer Advocate	Service Company	1	0	0
133	Consumer Advocate	Service Company	1	0	0
134	Consumer Advocate	Service Company	1	0	0
135	Distribution Design	Narragansett Electric	1	0	0
136	Distribution Design	Narragansett Electric	1	0	0
137	Distribution Design	Narragansett Electric	1	0	0
138	Distribution Asset Management	Service Company	1	0	0
139	Distribution Asset Management	Service Company	1	0	0

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
140	Distribution Asset Management	Service Company	1	0	0
141	Distribution Asset Management	Service Company	1	0	0
142	Distribution Asset Management	Service Company	1	0	0
143	Substation Engineering	Service Company	1	1	1
144	Substation Engineering	Service Company	1	1	0
145	Protection & Telecom Engineering	Service Company	1	1	1
146	Protection & Telecom Engineering	Service Company	1	1	1
147	Protection & Telecom Engineering	Service Company	1	0	0
148	GIS Coordinator - Maps & Records	Service Company	1	0	0
149	Maps & Records Technicians	Service Company	1	0	0
150	Maps & Records Technicians	Service Company	1	0	0
151	Overhead Lines	Narragansett Electric	1	0	0
152	Overhead Lines	Narragansett Electric	1	0	0
153	Overhead Lines	Narragansett Electric	1	0	0
154	Overhead Lines	Narragansett Electric	1	0	0
155	Overhead Lines	Narragansett Electric	1	0	0
156	Overhead Lines	Narragansett Electric	1	0	0
157	Overhead Lines	Narragansett Electric	1	0	0
158	Overhead Lines	Narragansett Electric	1	0	0
159	Overhead Lines	Narragansett Electric	1	0	0
160	Overhead Lines	Narragansett Electric	1	0	0
161	Overhead Lines	Narragansett Electric	1	0	0
162	Overhead Lines	Narragansett Electric	1	0	0
163	Underground Lines	Narragansett Electric	1	0	0
164	Underground Lines	Narragansett Electric	1	0	0
165	Underground Lines	Narragansett Electric	1	0	0
166	Underground Lines	Narragansett Electric	1	0	0
167	Substation Maintenance	Narragansett Electric	1	0	0

National Grid Incremental FTE's
Rate Year Ending August 31, 2019
and Data Years 1 and 2

Line #	Position	Company	Rate Year 2019	Data Year 1	Data Year 2
168	Telecom	Narragansett Electric	1	0	0
169	Telecom	Narragansett Electric	1	0	0
170	Protection Technician	Narragansett Electric	1	0	0
171	Protection Technician	Narragansett Electric	1	0	0
172	Protection Technician	Narragansett Electric	1	0	0
173	Customer Meter Services	Narragansett Electric	1	1	1
174	Customer Meter Services	Narragansett Electric	1	1	1
175	Customer Meter Services	Narragansett Electric	1	0	1
176	Customer Meter Services	Narragansett Electric	1	0	1
177	Customer Meter Services	Narragansett Electric	1	0	1
178	Customer Meter Services	Narragansett Electric	1	0	0
179	Customer Meter Services	Narragansett Electric	1	0	0
180	Customer Meter Services	Narragansett Electric	1	0	0
181	Customer Meter Services	Narragansett Electric	1	0	0
182	Customer Meter Services	Narragansett Electric	1	0	0
Total			178	15	14

Schedule MPH-2

Competitive Assessment of National Grid's Total Compensation and Benefits Package

Competitive Assessment of National Grid’s Total Compensation and Benefit Package

	National Grid	Energy & General Industry (Peer Group)	National Grid as a Percent of Market
Total Cash Compensation	\$119.50	\$125.90	95%
Benefits	\$ 29.36	\$ 28.91	102%
Total	\$148.86	\$154.81	96%

- The above analysis combines average total cash compensation (salary and incentive) and benefit value results from the Management compensation study and the Management BENVAL
- Compensation results are average results across salary bands for National Grid and the peer group
- BENVAL results are average dollar values for National Grid and the peer group
- Compensation data is based on actual data as reported by each peer company
 - Due to antitrust regulations specific peer company information is unavailable
- Benefit data is based on the value of benefits for each peer company
 - The value is determined by applying a standard set of actuarial methods and assumptions to a common employee population. This establishes a controlled environment in which differences in value are exclusively a function of the differences in plan provisions
 - The relative values are not intended to represent actual costs incurred by the plan sponsors. Plan sponsors may experience differences in benefit costs due to factors not reflected in the BENVAL including but not limited to – varying participant demographics, regional cost differences or differences in funding or provider arrangements, etc.
- If National Grid did not provide variable pay, National Grid’s salary compensation would average 17% below median market levels of total cash compensation (salary and incentive) and National Grid total compensation (salary and benefits) would average 13% percent below median market levels of total compensation (salary, incentive and benefits)

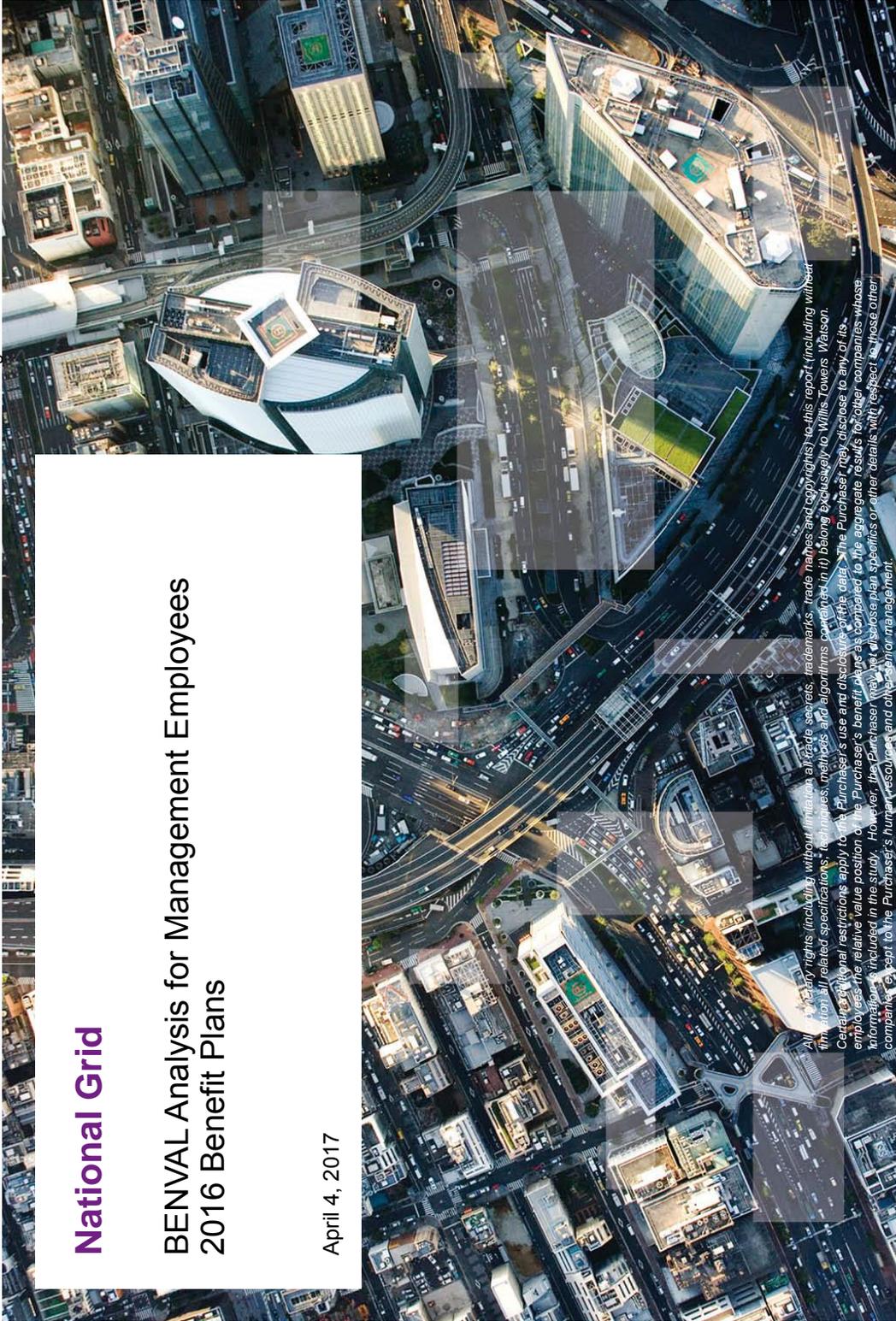
Schedule MPH-3

BENVAL Analysis for Management Employees

National Grid

BENVAL Analysis for Management Employees 2016 Benefit Plans

April 4, 2017



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Table of Contents

- Overview of Competitive Assessment
- Entire Benefit Program
- Retirement Benefits
- Active Benefits
- Appendix

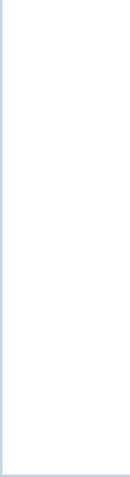
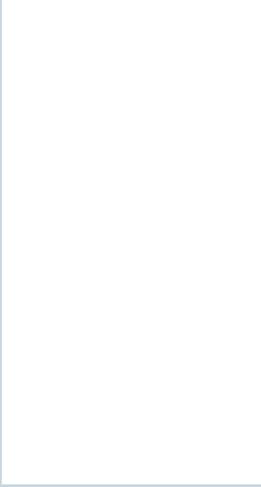
Overview of Competitive Assessment

- Willis Towers Watson maintains a U.S. database of benefit provisions for over 1,000 organizations
- BenVal determines a value for these benefits by applying a standard methodology to a standard employee population
- Benefit programs are:
 - Compared on a relative value basis between employers - a score of 100 represents the average value for the peer group
 - Scores are determined on a dollar value basis relative to the average value
- This report includes the following:
 - List of peer companies included in the study
 - Executive summary of study results
 - Overview of the benefits environment
 - Relative value comparison for the total program and individual benefit programs
 - Breakdown of benefit values by component programs
- Benefit plans are those that were in force as of 2016 and were applicable for new employees. Closed or grandfathered plans are not valued for the peer group
- Throughout this document, “total value” refers to the positioning of the benefit programs including the value of employee contributions; “employer value” refers to the value after employee contributions have been deducted
- The Entire Benefit Program total and employer values are primarily driven by the value of the retirement plans, active and post-retirement medical plans, and vacation and holiday programs, which comprise the vast majority of the program values

Overview of Competitive Assessment

- Willis Towers Watson has conducted a competitive assessment comparing benefit levels for National Grid (NCG) relative to 38 peer companies:
 - 3M
 - American International Group, Inc.
 - Alliant Energy Corporation
 - Ameren Corporation
 - American Electric Power System
 - American Water
 - Atmos Energy Corporation
 - CenterPoint Energy, Inc.
 - Conoco Phillips
 - Consolidated Edison Company of New York, Inc.
 - Dominion Resources, Inc.
 - DTE Energy
 - Duke Energy Corporation
 - Energy Future Holdings Corporation
 - Energy Transfer Partners GP, L.P.
 - Entergy Corporation
 - Eversource Energy Service Co. (fka Northeast Utilities)
 - Exelon Corporation
 - FedEx Ground
 - Fidelity Investments
 - Hess Corporation
 - International Business Machines Corporation
 - MasterCard
 - NextEra Energy, Inc.
 - ONEOK, Inc.
 - Pacific Gas and Electric Company
 - Pinnacle West Capital Corporation
 - PPL Corporation
 - Prudential
 - Public Service Enterprise Group
 - Sempra Energy
 - Southern Company Services, Inc.
 - Tennessee Valley Authority
 - Textron, Inc.
 - TransCanada USA Services, Inc.
 - United States Steel Corporation
 - United Technologies Corporation
 - Xcel Energy, Inc.
- Throughout this document, we have included plan summary charts for each benefit
 - In the Retirement section, we provide plan summaries for each benefit program for National Grid, and for the defined contribution benefit we also provide information on benefits offered by the peer group
 - In the Active section, we provide plan summaries for each benefit program for National Grid, as well as ranges (the lowest to highest value for the group of values), averages (the mean of a group of values), and modes (the most frequent value in a group of values), where possible for the peer group; where averages could not be calculated, we calculated a range and/or mode only

Entire Benefit Program



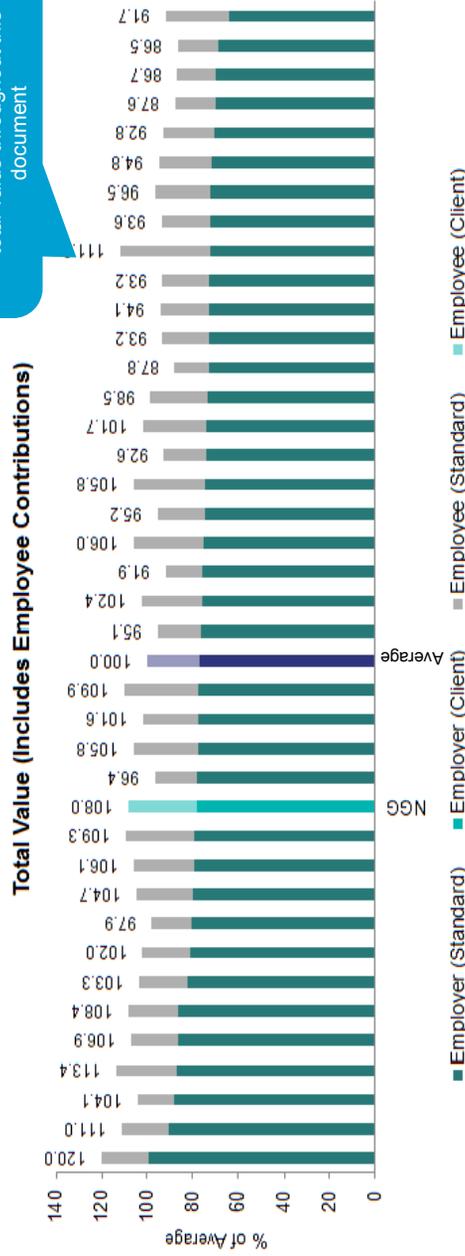
Entire Benefit Program Score and Rank

Entire Benefit Program Score and Rank		
	Score	Rank
Employer Value		
National Grid	101.6	13/39
Total Value		
National Grid	108.0	8/39

- Total value reflects the gross value of employee benefits, including the portion of benefits paid for by the employee; employer value represents the net value of benefits, including only the portion of benefits paid for by the employer. Lower employer values than total values indicate that employee contributions are greater than peers'
- From an employer value perspective National Grid is in line with the average
 - As a reminder, this value is primarily driven by the value of the retirement plans, active and post-retirement medical plans, and vacation and holiday programs, which comprise the vast majority of the program values

Entire Benefit Program

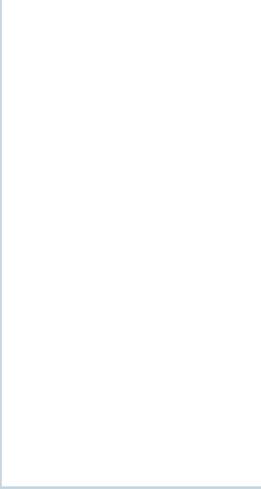
Within the bar chart, peers are listed in order of employer value ranking, however the numerical figures noted within represent the total value throughout this document



- The bar chart illustrates how National Grid compares to the peer group both in terms of gross benefit value of its entire benefit program, as well as employer-provided value (i.e., net of employee contributions)
- National Grid ranks thirteenth in the peer group in employer value and eighth in total value
 - Of the seven peers that rank higher than National Grid in total value, five are in the Energy/Utility industry
 - The employer value of five peers ranks below average while the total value ranks above average, which is driven by higher employee contributions compared to peers

Note: results for NGG are excluded from averages.

Retirement Benefits

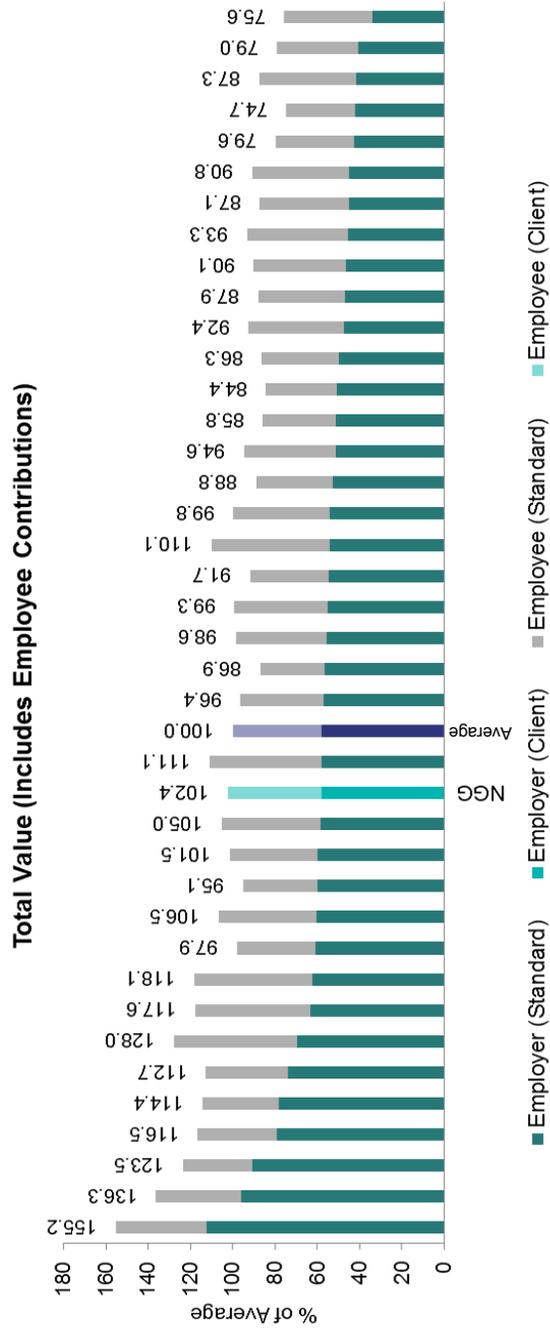


All Retirement Events Score and Rank Excluding Stock Purchase Plan

- Retirement events refer to the various benefits that become available upon an employee's retirement. This would encompass defined benefit/defined contribution benefits, post-retirement medical and/or dental benefits and post-retirement life insurance/AD&D coverage. Other long-term incentive programs such as employee stock purchase plans and profit-sharing plans would fall in this category as well
- National Grid's employer plan values are in line with the average. Lower employer values than total values indicate greater employee costs relative to peers

Retirement Event Score and Rank – excluding Stock Purchase Plan		
	Score	Rank
Employer Value		
National Grid	100.2	15/39
Total Value		
National Grid	102.4	14/39

All Retirement Events Excluding Stock Purchase Plan

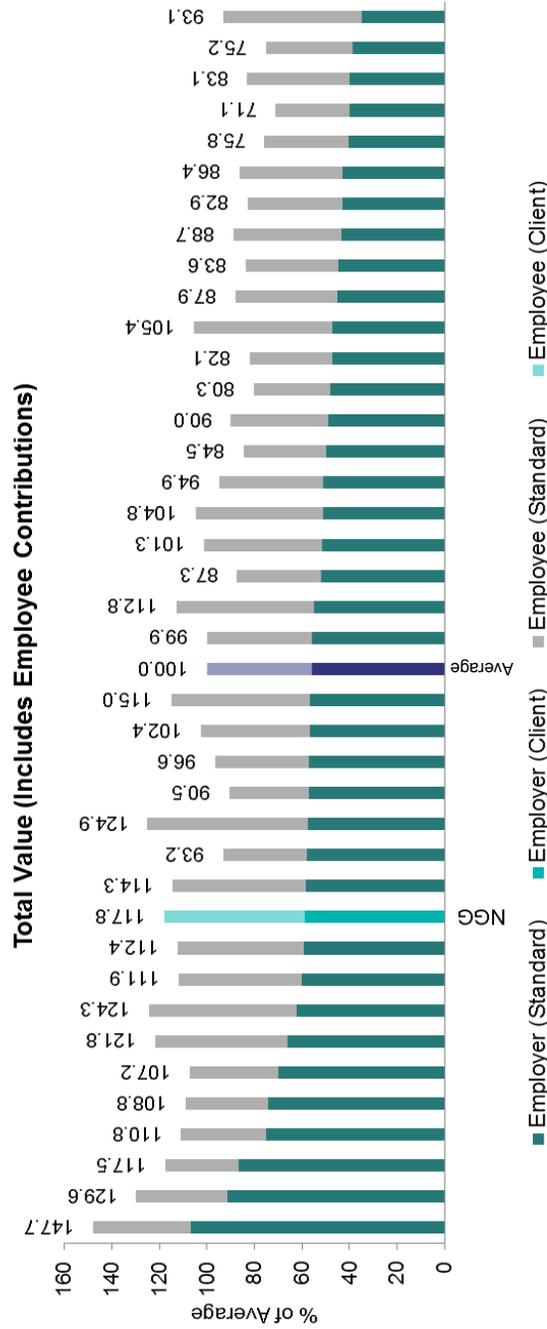


All Retirement Events Score and Rank Including Stock Purchase Plan

- When the stock purchase plan is added, National Grid's retirement event plan values increase
 - Both employer and total value are above average
 - Like National Grid, nine peers offer stock purchase plans with employer contributions, while the remaining peers have no employer value for stock purchase plans and therefore contribute zeros to the average
 - This means that the value of National Grid's stock purchase plan is closer than it appears to its peers that offer a stock purchase plan
 - National Grid's design, which includes a 15% employer contribution (employee discount) and a 1 month purchase period, is more generous than many of the peers that do offer stock purchase plans
 - National Grid's stock purchase plan alone ranks 5/10 in total value of those that offer a stock purchase plan
 - For example, one peer offers a stock purchase plan of 10% of price and a 3 month purchase period, so their value is lower than National Grid. Another peer offers a similar plan as National Grid, but includes incentives in the definition of pay for the plan, thus their value is higher than National Grid. Note that the BenVal assumes that employee contributions are capped at 10% if the peer allows contributions to exceed this, as it is not expected that most employees would contribute greater than 10%

Retirement Event Score and Rank – including Stock Purchase Plan		
	Score	Rank
Employer Value		
National Grid	105.2	11/39
Total Value		
National Grid	117.8	6/39

All Retirement Events Including Stock Purchase Plan



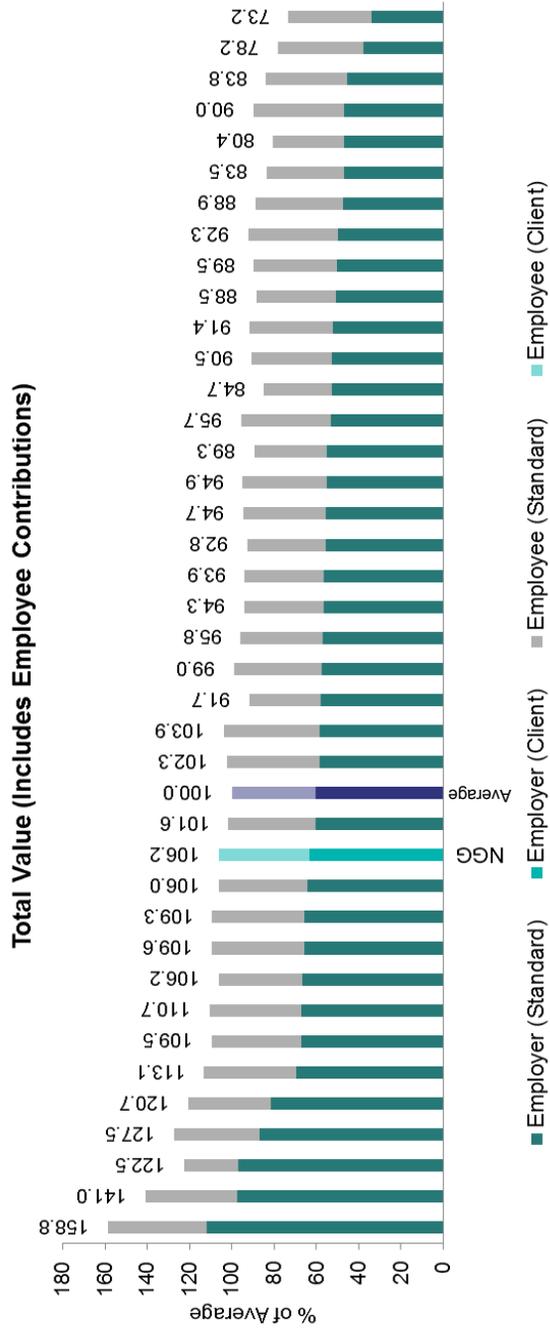
- The bar chart illustrates how National Grid compares to the peer group in terms of gross retirement event value including the stock purchase plan

Defined Benefit Plan and Defined Contribution Plan Score and Rank – Excluding Stock Purchase Plan

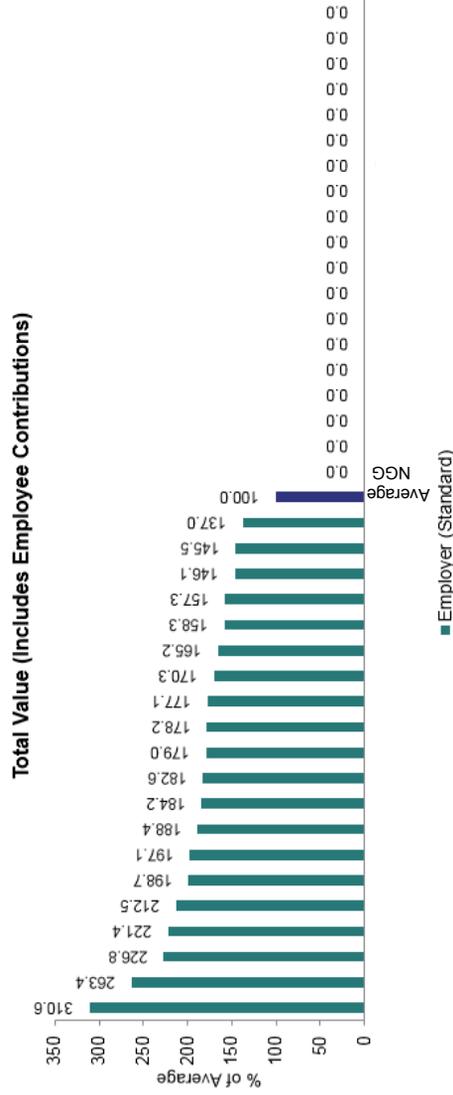
Defined Benefit & Contribution Plan Score and Rank – excluding Stock Purchase Plan		
	Score	Rank
Employer Value		
National Grid	105.2	13/39
Total Value		
National Grid	106.2	12/39

- National Grid only offers a defined contribution plan
- While National Grid’s defined contribution plan is more generous than most of the peer group, the value of National Grid’s overall offering is only slightly above average due to the prevalence of defined benefit plans in the peer group
 - National Grid’s employer value is slightly lower than its total value because National Grid offers a defined contribution plan that requires employee contributions to obtain the maximum benefit, while the defined benefit plans offered within the peer group do not require employee contributions (money that the employee must contribute to receive a match is counted as an employee contribution in this analysis)

Defined Benefit Plan and Defined Contribution Plan Excluding Stock Purchase Plan



Defined Benefit Plan



- Of the peer group, twenty provide a defined benefit plan in addition to a defined contribution plan
- Like National Grid, eighteen peers do not offer a defined benefit plan

Defined Contribution Plan Design

- National Grid provides a point-based defined core contribution plan
- National Grid's plan is more generous than many peers due to a richer than average benefit formula (driven by the core contribution) and the inclusion of variable pay

Defined Contribution Plan	National Grid Management	Peer Group		
		Range	Average ²	Mode
Maximum Employee Matched Contributions	8%	1% - 11%	6%	6%
Maximum Employer Matched Contributions	4%	0% - 8%	5%	6%
Employer Core Contribution ^{1,3}	6%	0% - 7.25%	4%	0%
Maximum Total Employer Contribution ⁴	10%	0% - 13.25%	7%	6%
100% Vesting (for Matched and Core Contribution) ⁵	3 years	Immediately - 6 Years	2 Years	Immediately
Autoenrollment	6%	0% - 8%	4%	3%

¹Numbers shown here based on Age+Service of 57 years, which is the average assumed by BenVal

²Averages for Employer Core Contribution and Autoenrollment only reflect those plans that offer these benefits

³Employee contributions not required

⁴The average Maximum Total Employer Contribution does not equal the sum of the average Maximum Employer Matched Contributions and average Employer Core Contribution, because the combined average includes organizations that did not offer a core contribution, while the Employer Core Contribution average excludes these organizations

⁵Four peers have different vesting periods for matched and core. For these peers, the larger number (generally core) is considered for the average

Defined Contribution Plan Score and Rank – Excluding Stock Purchase Plan

Defined Contribution Plan Score and Rank – excluding Stock Purchase Plan	
Employer Value	Score
National Grid	149.6
Total Value	
National Grid	129.3
	Rank
	5/39
	5/39

- In lieu of a defined benefit plan, National Grid offers a defined contribution plan with a core contribution. National Grid's defined contribution plan is above the average
 - All of the peers' retirement programs include a savings plan
 - Fourteen peer companies offer a core contribution, while the rest do not
 - National Grid includes short-term incentives in the pay definition, while many other peers do not
- Four of the peer group companies match contributions beyond 6%; eleven cap contribution matching at 6%; three cap contribution matching at 3% or less; and the others cap contributions matching between 3% to 6%
 - National Grid's maximum matching contribution is 8%, with 50% of contributions being matched
 - National Grid also offers a core contribution which ranges from 4% to 8% of pay depending on age and service; between the match and the core contribution, the average National Grid employee is estimated to receive a contribution of 10% of pay

Defined Contribution Plan Excluding Stock Purchase Plan



Post-Retirement Medical Plan Comparison

- The following table outlines National Grid's plan design
 - National Grid offers a Medicare Supplement to post-65 retirees
 - The EPO plan is the highest enrolled plan for National Grid's pre-65 retirees; this differs from the active population, where the PPO plan is the highest enrolled

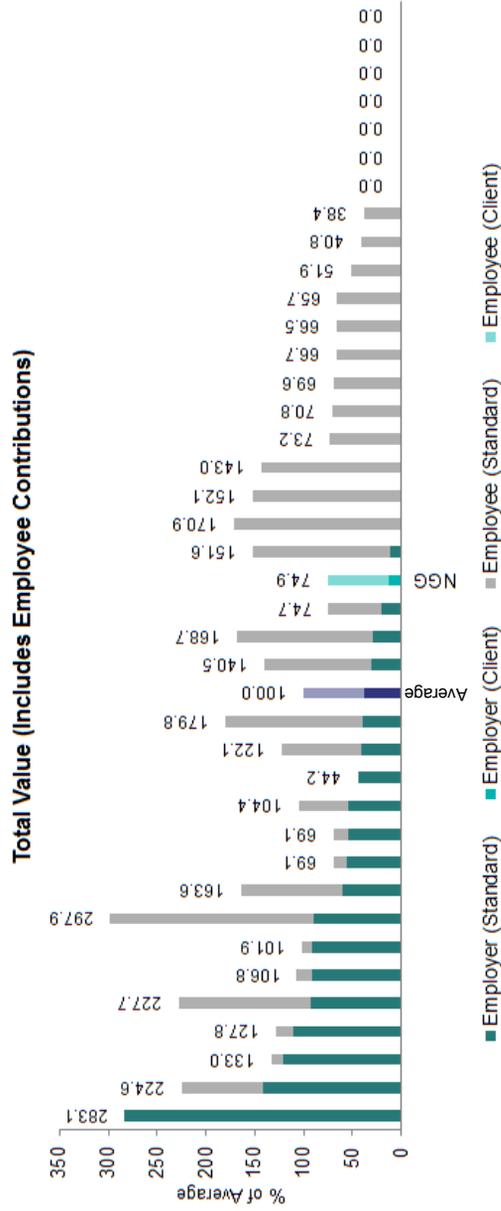
	National Grid Management
Pre-65	
Type of Plan	EPO
In-Network	
Annual Deductible - Per Person	\$200
Annual Deductible - Family Maximum	\$400
Annual OOP Max - Per Person (Includes Ded)	\$1,500
Annual OOP Max - Family (Includes Ded)	\$3,000
Hospital Room and Board - Coinsurance	90%
Emergency Room - Copay	\$100
Physician Expenses - Inpatient Services	90%
Office Visits - Primary - Copay	\$20
Office Visits - Specialist - Copay	\$30
Prescription Drugs - Retail - Generic/Formulary/Non-Formulary	\$10/\$30/\$45
Participation Requirements	Age 60 & 10 years of service
Defined Dollar Benefit	None
Retiree Contributions	50% of premium at retirement + 100% of cost increases thereafter
Post-65	
Type of Plan	Medicare Supplement
Participation Requirements	10 years of service
Plan Design	
Deductible	Person: none; Family Max: none
Out-of-pocket maximum (includes deductible)	Person: none; Family Max: none
Prescription Drugs (retail)	
Generic	100% after \$25 calendar quarter deductible
Brand	80% after \$25 calendar quarter deductible
Retiree Contributions	100% of premium

Post-Retirement Medical Plan Score and Rank

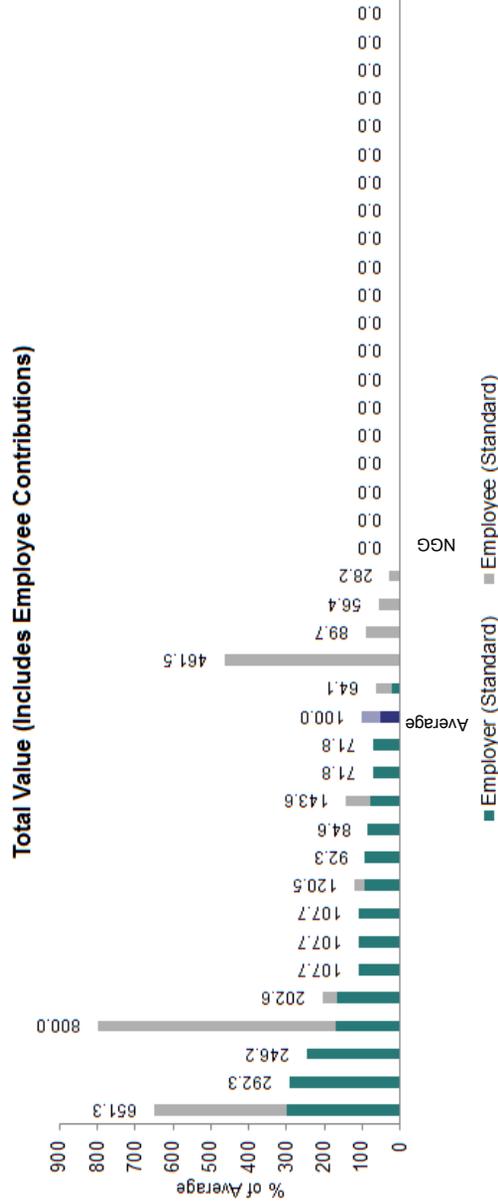
Post-retirement Medical Plan Score and Rank		
	Score	Rank
Employer Value		
National Grid	34.0	19/39
Total Value		
National Grid	74.9	19/39

- The table above summarizes National Grid's competitive positioning relative to its peer group in terms of the post-retirement medical plan
- The peer group includes:
 - Seven peers that do not offer post-retirement medical benefits
 - Twelve peers that offer retiree pay-all coverage
- Of peers that offer and subsidize coverage, National Grid ranks second to last in employer value
 - This is driven by the retiree pay all contribution for post-65 coverage and capped percentage for pre-65 retiree coverage

Post-Retirement Medical Plan

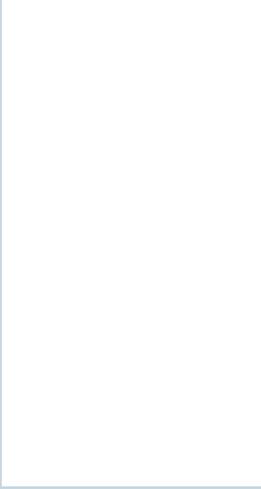


Post-Retirement Death Benefits



- National Grid does not offer post-retirement death benefits
- Nineteen peers offer post-retirement life insurance and AD&D benefits
 - Fifteen peers offer subsidized coverage

Active Benefits



Active Medical Plan Delivery Models

- For purposes of the BenVal, we evaluated only the option with highest enrollment
- The highest enrolled plan for National Grid is its PPO plan offering
- Of the highest-enrolled plans in the peer group:
 - Eighteen plans are account-based health plans, with fourteen representing qualified high-deductible health plans with a Health Savings Account
 - Five are HMO/EPO plans, which include in-network coverage only
 - The remaining plans are traditional PPO/POS plans with no account (e.g., Health Reimbursement Account)

Active Medical Plan Comparison

- The following table compares National Grid's plan design relative to its peer group

	National Grid Management		Peer Group		Mode
			Range	Average	
In-Network					
Annual Deductible - Per Person	\$400		\$0 - \$3,200	\$1,227	\$250
Annual Deductible - Family Maximum	\$800		\$0 - \$6,450	\$2,681	\$750
Annual OOP Max - Per Person (Includes Ded)	\$2,000		\$750 - \$6,550	\$3,153	\$2,500
Annual OOP Max - Family (Includes Ded)	\$4,000		\$1,500 - \$13,100	\$6,395	\$5,000
Hospital Room and Board - Coinsurance	90%		70% - 100%	85%	80%
Hospital Room and Board - Copay	N/A		\$150 - \$300	\$217	\$200
Emergency Room - Coinsurance	90% (before deductible)		70% - 90%	82%	80%
Emergency Room - Copay	N/A		\$50 - \$250	\$123	\$100
Office Visits - Primary - Copay	\$20		\$10 - \$30	\$19	\$20
Office Visits - Specialist - Copay	\$30		\$10 - \$50	\$31	\$35
Prescription Drugs - Retail - Generic - Coinsurance	N/A		75% - 100%	83%	80%
Prescription Drugs - Retail - Generic - Copay	\$10		\$5 - \$20	\$10	\$10
Prescription Drugs - Retail - Brand - Formulary - Coinsurance	N/A		60% - 90%	78%	80%
Prescription Drugs - Retail - Brand - Formulary - Copay	\$30		\$15 - \$40	\$30	\$30
Prescription Drugs - Retail - Brand - Non-Formulary - Coinsurance	N/A		50% - 90%	68%	80%
Prescription Drugs - Retail - Brand - Non-Formulary - Copay	\$45		\$25 - \$60	\$48	\$50
Monthly Employee Contributions - Employee Only	\$120		\$4 - \$252*	\$85	N/A
Monthly Employee Contributions - Family	\$340		\$50 - \$715*	\$298	N/A
Out-of-Network					
Annual Deductible - Per Person	\$400		\$300 - \$10,000	\$2,361	\$500
Annual Deductible - Family Maximum	\$800		\$600 - \$20,000	\$4,646	\$6,000
Annual OOP Max - Per Person (Includes Ded)	\$2,800		\$1,800 - \$20,000	\$6,891	\$6,000
Annual OOP Max - Family (Includes Ded)	\$5,600		\$4,800 - \$40,000	\$13,911	\$12,000

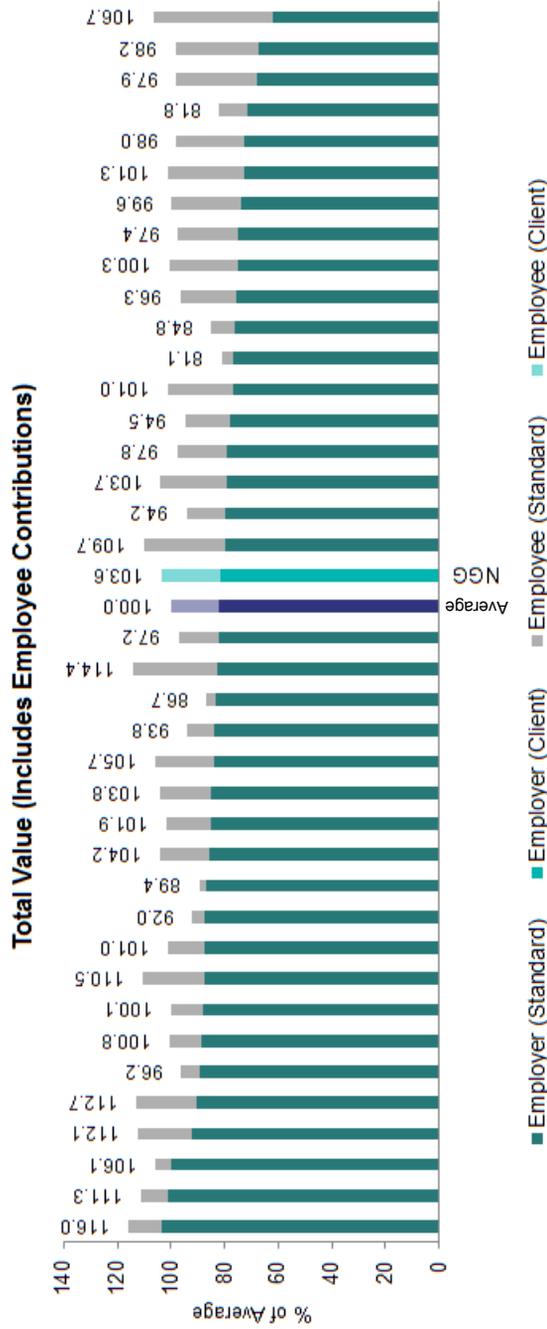
*Vision contributions included

Active Medical Plan Score and Rank

Active Medical Plan Score and Rank		
	Score	Rank
Employer Value National Grid	99.5	21/39
Total Value National Grid	103.6	14/39

- National Grid ranks twenty-first in active medical employer value and fourteenth in total plan value
 - National Grid's employer value is lower than total value because of the slightly higher-than-average employee contributions
 - Historically National Grid's EPO plan was the highest enrolled which has higher employee contributions; however the PPO plan is now the highest enrolled which aligns National Grid's employer value closer to average

Active Medical Plan



- With respect to employer values:
 - Of the top five plans, two are HMO/EPO plans that feature 100% in-network coverage with no deductible, two are PPO/POS plans, and one is a qualified high-deductible health plan with low employee contributions
 - The lowest ranked plan has copays for most services, but it's the significantly higher employee contributions driving this employer value ranking

Active Dental Plan Comparison

- The following table compares National Grid's plan design relative to its peer group

	National Grid Management		Peer Group	
	Range	Average	Range	Mode
In-Network				
Annual Deductible - Per Person	\$0 - \$100	\$52	\$0 - \$100	\$50
Annual Deductible - Family	\$0 - \$300	\$116	\$0 - \$300	\$150
Annual Maximum	\$1,200 - \$3,000 (excludes Orthodontia)	\$1,899	\$1,200 - \$3,000	\$2,000
Preventive/Type I (Cleanings)	100%	100%	85% - 100%	100%
Basic/Type II (Fillings)	80%	83%	80% - 100%	80%
Major/Type III (Crowns)	50%	58%	50% - 85%	50%
Orthodontia - Coverage	100% (Children up to age 19 only)	54%	50% - 100%	50%
Orthodontia - Maximum	\$2,000 per lifetime	\$1,860	\$1,300 - \$3,000	\$1,500
Monthly Employee Contributions - Employee Only	\$19	\$14	\$5 - \$53	N/A
Monthly Employee Contributions - Family	\$53	\$42	\$14 - \$92	N/A
Out-of-Network				
Annual Deductible - Out-Of-Network - Per Person	Same as in-network	\$63	\$0 - \$250	\$50
Annual Deductible - Out-Of-Network - Family	Same as in-network	\$112	\$0 - \$250	\$150
Annual Maximum - Out-Of-Network	Same as in-network	\$1,973	\$1,500 - \$3,000	\$1,500

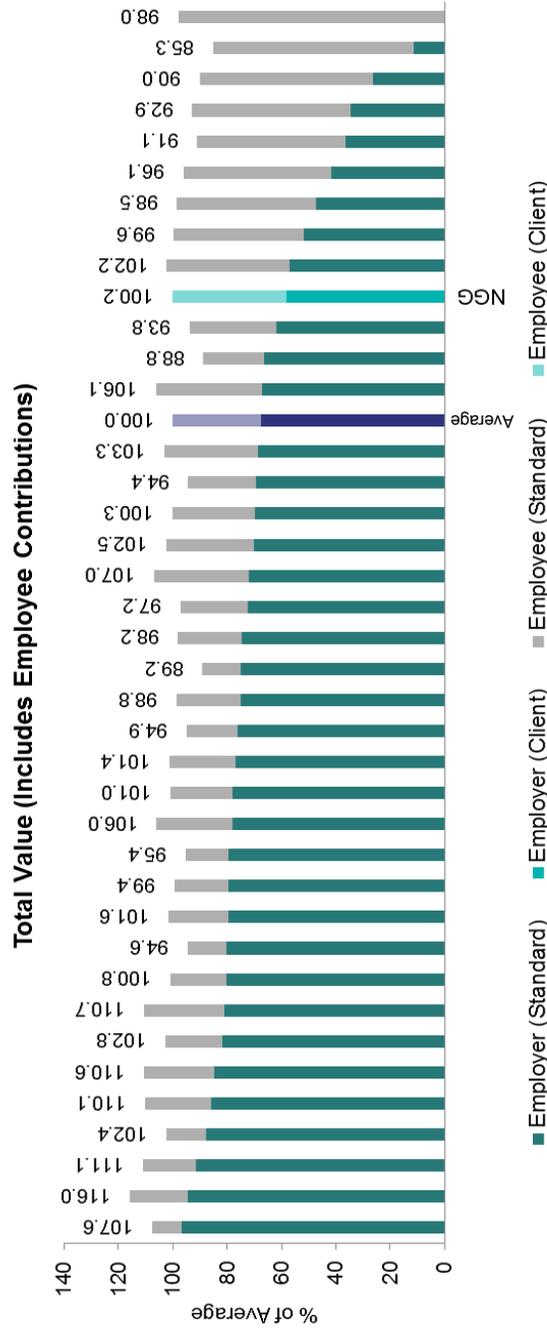
- National Grid's dental design is generally in line with the peer group average, but is more generous in areas such as:
 - Higher annual benefit maximum (\$2,500 at National Grid vs. \$1,899 average)
 - Orthodontia coinsurance (100% at National Grid versus 54% average)

Active Dental Plan Score and Rank

Active Dental Plan Score and Rank		
	Score	Rank
Employer Value National Grid	86.6	31/39
Total Value National Grid	100.2	20/39

- National Grid's employer value is lower than total value because of the higher-than-average employee contributions
- Eight companies within the peer group have no member deductible
- The top ranked (by employer value) plan covers Major services at 85% coinsurance in-network, which is significantly higher than the 50% coinsurance covered by most peers

Active Dental Plan



■ One peer offers dental coverage on an employee-pay all basis

Active Life Insurance/AD&D Plan Comparison

	National Grid Management	Range	Peer Group Average	Mode
Basic				
Basic Benefit Amount	1 x pay	\$10,000 - 3 x pay	N/A	1 x pay
Benefit Max - Basic	\$1,500,000	\$10,000 - Unlimited	\$924,083	\$1,000,000
Supplemental				
Highest Benefit Level	5 x pay	3 x pay - 15 x pay	N/A	8 x pay
Dependent				
Spouse	\$100,000	\$20,000 - \$500,000	\$160,333	\$100,000
Child	\$10,000	\$4,000 - \$30,000	\$14,197	\$10,000
AD&D				
Participation Requirements	None	None - 1 Month of Service	N/A	None
Monthly Employee Contributions	None	N/A	N/A	None
Benefit Amount	2 x pay	\$10,000 - 3 x pay	N/A	1 x pay
Benefit Maximum	\$600,000	\$10,000 - Unlimited	\$1,046,522	\$1,000,000

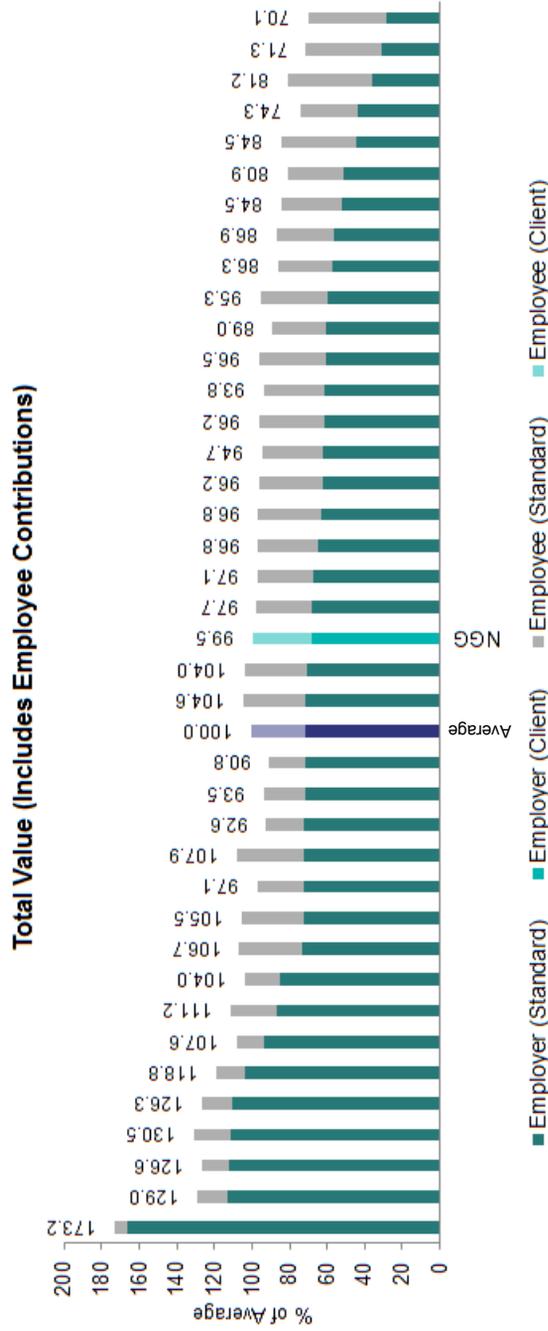
- National Grid's basic life amount is in line with the peer group norm; its basic life maximum is above the average of \$924k
- Seven peers do not offer supplemental life insurance. Ranges, averages and modes above reflect supplemental plans in place
- National Grid's supplemental life benefit of 1 to 5x pay in multiples of 1x pay with a maximum of \$1,000,000 is below the peer group mode of 1 to 8x pay in multiples of 1x pay
 - The highest supplemental maximum is \$10,000,000
- Spouse life and child life benefits are in line with the peer group
- National Grid's AD&D maximum is lower than the average of over \$1,000,000

Active Life/AD&D Insurance Plan Score and Rank

- The following table illustrates National Grid’s positioning relative to its peer group in terms of life insurance and AD&D benefits
 - Employer values are driven by the optional benefits (e.g., optional life, spouse and dependent life) and the associated employee contribution
 - National Grid’s supplemental life benefit is primarily driving the score to be below average

Active Life Insurance/AD&D Plan Score and Rank		
	Score	Rank
Employer Value		
National Grid	95.3	20/39
Total Value		
National Grid	99.5	15/39

Active Life Insurance and AD&D Plan



Short-Term Disability Plan Comparison

	National Grid Management	Range	Peer Group Average	Mode
Sick Leave Commencement	1st day of disability	N/A	N/A	1st day of disability
Sick Pay @ 100% (Number of Weeks)				
< 1 Year of Service	0	0 - 15	4	1
1 Year of Service	1	1 - 15	6	2
5 Years of Service	5	1 - 26.6	10	2
10 Years of Service	10	1 - 27	14	26
15 Years of Service	15	1 - 36	16	26
20 Years of Service	20	1 - 48	17	26
Salary Continuance				
% of Pay	60%	50% - 100%	67%	60%
Duration (Number of weeks):				
< 1 Year of Service	13	3 - 52	23	24
1 Year of Service	12	8.6 - 52	23	13
5 Years of Service	8	0 - 52	20	0
10 Years of Service	3	0 - 52	18	0
15 Years of Service	0	0 - 52	16	0
20 Years of Service	0	0 - 52	16	0
25 Years of Service	0	0 - 52	15	0

- The table above compares National Grid's short-term disability plan with those of its peer group
- Overall, there is little differentiation among the sick plans across the peer group other than a few peers at the bottom of the range
- Like National Grid, twenty-one peers offer formal sick leave programs
- Benefit levels and duration for primary salary continuance plans are provided. Benefits range from 50% to 100%

Long-Term Disability Plan Comparison

	National Grid Management	Peer Group		
		Range	Average	Mode
Definition of Disability	Own occ first 24 months; any occ after 24 months	N/A	N/A	Own occ first 24 months; any occ after 24 months
Covered Pay	Base Salary	N/A	N/A	Base Salary
Commencement	After exhaustion of STD benefits (90 day elimination period)	3 months – 12 months	6 months	6 months
Benefit - Amount	60%	30% - 70%	57%	60%
Benefit - Offsets	SS Family	N/A	N/A	SS Family
Maximum Benefit (After Offsets)	\$15,000 per month	\$2,500 - Unlimited	\$11,993	Unlimited

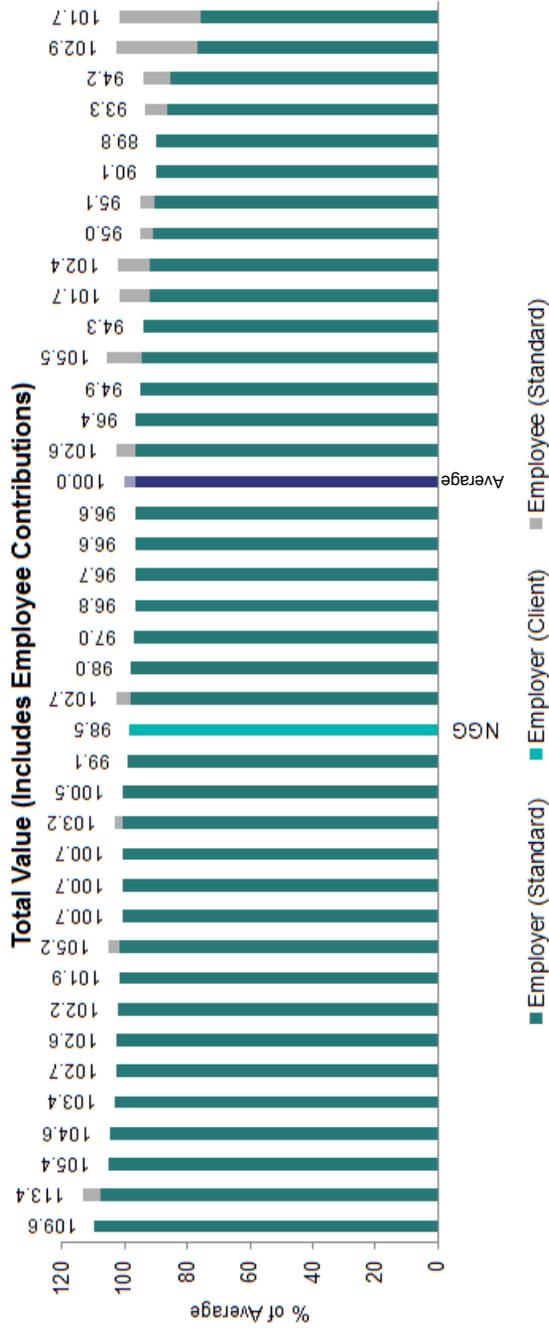
- National Grid has a 90-day elimination period that compares favorably to its peer group
 - The 90-day elimination period is fulfilled when sick leave benefits have been exhausted
 - Twenty-nine of the peers have a 180-day (or 6 month) elimination period

Short-Term Disability and Long-Term Disability Plans Score and Rank

- Since differing elimination periods can skew results when looking at STD and LTD benefits individually, it is important to look at the entire disability continuum
- When STD and LTD are assessed in combination, National Grid’s plans are closely aligned with its peer group
- National Grid’s employer value is higher than its total value because its disability plans are non-contributory; some peers require contributions to access the disability plans

Short-term and Long-term Disability Plans Score and Rank		
	Score	Rank
Employer Value		
National Grid	102.0	17/39
Total Value		
National Grid	98.5	24/39

Short-Term Disability and Long-Term Disability Plans



Vacation and Holiday Plan Comparison

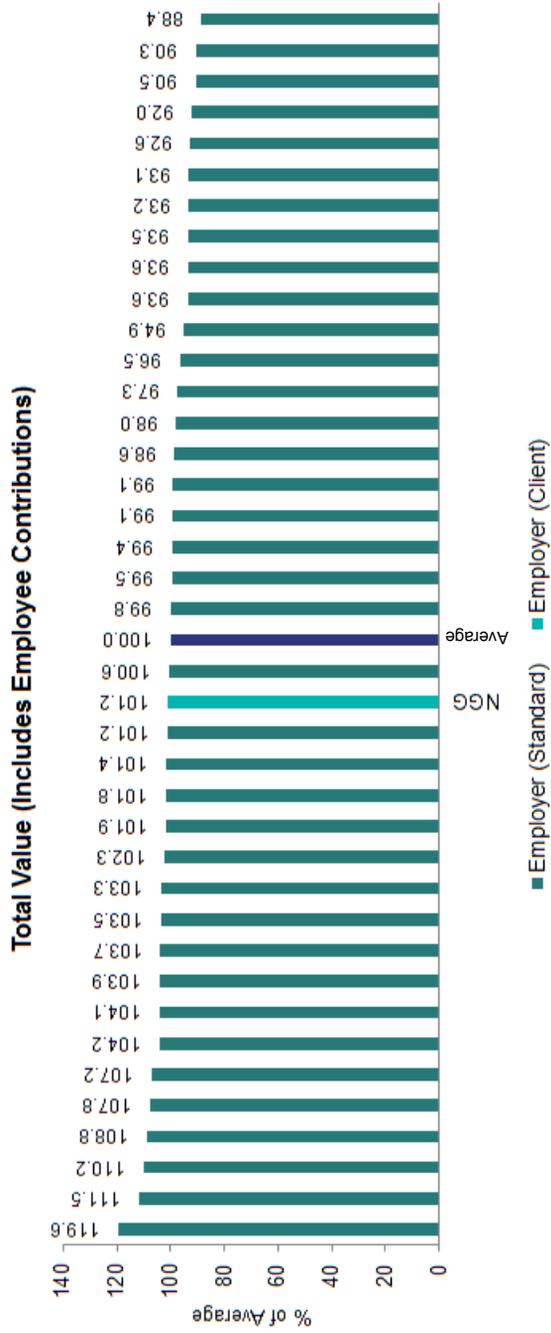
- The following table compares National Grid’s plan design relative to its peer group
- Overall vacation days per year of service are in line with the peer group average

Number of Days	National Grid Management		Peer Group	
	Range	Average	Range	Mode
Vacation At Hire		14	0 - 25	10
Vacation With 1 Year of Service		15	10 - 25	10
Vacation With 5 Years of Service		15	10 - 28	15
Vacation With 10 Years of Service		15	15 - 30	20
Vacation With 15 Years of Service		20	20 - 33	20
Vacation With 25 Years of Service		25	20 - 35	25
Vacation With 35 Years of Service		25	20 - 35	25
Employer Scheduled Holidays		10	6 - 12	9
Employee Scheduled Holidays		2	0 - 6	0

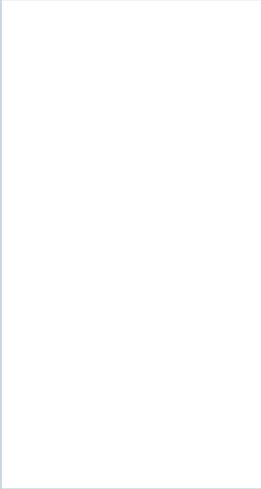
Vacation and Holiday Plan Score and Rank

Vacation and Holiday Plan Score and Rank		
	Score	Rank
Employer Value		
National Grid	101.2	18/39
Total Value		
National Grid	101.2	18/39

Vacation and Holiday Plan



Appendix



Score Summary

Provision	Employer Value	Total Value
Entire Benefit Program	101.6	108.0
Defined Benefit + Defined Contribution	105.2	106.2
Defined Benefit	0.0	0.0
Defined Contribution	149.6	129.3
Post-retirement Medical	34.0	74.9
Post-retirement Death	0.0	0.0
Retirement Events – including Stock Purchase plan	105.2	117.8
Active Medical	99.5	103.6
Active Dental	86.6	100.2
Active Life Insurance/AD&D	95.3	99.5
STD + LTD	102.0	98.5
Vacation + Holiday	101.2	101.2

- From an employer value perspective, National Grid is in-line with the market
- As noted throughout the document, there are some benefit provisions that are more generous than the peer group, and others that are less generous than the peer group, which ultimately contributes to the overall Entire Benefit Program score

BENVAL Valuation Methodology

Relative values are determined based on a representative employee group and a standardized set of valuation assumptions/methods; results are not intended to represent actual program costs

- Plan provisions valued are those applicable to newly hired salaried employees; benefits available only to grandfathered groups of employees are not reflected

- Standard population

Average age: 44 years

Average service: 13 years

Average base salary: \$77,500

Average total compensation: \$86,117

- Key economic assumptions

Investment return assumption/discount rate: 7%

Salary increase rate: 4%

Inflation: 2.5%

One-year Treasury bond yield: 4.4%

30-year Treasury bond yield: 5.5%

Health care cost trend: 7% graded to 5% over 4 years

Schedule MPH-4

Target Compensation as a Percent of Market Assessment

National Grid USA
Target Compensation as a Percent of Market Assessment
Energy & General Industry Peer Group

Salary Bands ¹	Number of Incumbents ²	Percent of Incumbents	National Grid Average Target Compensation by Market Salary Band		Market Average Target Compensation by Market Salary Band ³		National Grid Compensation as a Percent of Market ⁵	
			Salary	Target Total Cash Compensation ⁴	Salary	Target Total Cash Compensation ⁴	Salary	Salary Plus Target Incentive
\$40,000 - \$60,000	103	2%	\$55.6	\$58.4	\$59.2	\$64.0	94%	91%
\$60,000 - \$80,000	826	15%	\$70.7	\$76.7	\$74.6	\$80.8	95%	95%
\$80,000 - \$100,000	1,431	27%	\$90.3	\$100.1	\$96.3	\$106.7	94%	94%
\$100,000 - \$120,000	1,900	35%	\$108.9	\$124.0	\$114.8	\$130.2	95%	95%
\$120,000 - \$140,000	591	11%	\$128.0	\$147.7	\$131.6	\$151.8	97%	97%
\$140,000 - \$160,000	243	5%	\$149.1	\$176.4	\$153.2	\$183.7	97%	96%
\$160,000 - \$180,000	139	3%	\$169.3	\$203.6	\$178.5	\$218.8	95%	93%
> \$180,000	115	2%	\$220.6	\$282.3	\$228.2	\$308.3	97%	92%
Average⁶	5,348	100%	\$104.9	\$119.5	\$110.3	\$125.9	95%	95%

(1) This primary sort of salary bands is based on National Grid salaries.
(2) The total number of incumbents in this analysis is 5,348 within 297 titles, which reflects 97.52% of the total management employee population as of 1/31/2017.
(3) Market compensation data has been updated by 3.0% to April 1, 2017 based on the 2016-2017 Willis Towers Watson Salary Budget Survey.
(4) Target total cash compensation reflects 2016 base salaries plus target annual incentive awards.
(5) Reflects the National Grid Salary and Target Total Cash Compensation divided by the Market Salary and Target Total Cash Compensation for each salary band.
(6) Average reflects weighted average based on the number of incumbents in each salary band.

National Grid salary and target total compensation are below the competitive market but within the 10% corridor

Schedule MPH-5

Target Variable Pay as a Percent of Market Assessment

National Grid USA
Target Variable Pay as a Percent of Market Assessment
Energy & General Industry Peer Group

Salary Bands ¹	Number of Incumbents ²	Percent of Incumbents	National Grid Average Target Variable % by Market Salary Band	Market Average Target Variable % by Market Salary Band	National Grid Target Variable % as a Percent of Market ³
\$40,000 - \$60,000	103	2%	5%	7%	69%
\$60,000 - \$80,000	826	15%	8%	9%	100%
\$80,000 - \$100,000	1,431	27%	11%	10%	103%
\$100,000 - \$120,000	1,900	35%	14%	13%	106%
\$120,000 - \$140,000	591	11%	15%	16%	99%
\$140,000 - \$160,000	243	5%	18%	19%	94%
\$160,000 - \$180,000	139	3%	20%	24%	84%
> \$180,000	115	2%	27%	33%	82%
Average⁴	5,348	100%	13%	13%	100%

(1) This primary sort of salary bands is based on National Grid salaries.
(2) The total number of incumbents in this analysis is 5,348 within 297 titles, which reflects 97.52% of the total management employee population as of 1/31/2017.
(3) Reflects the average National Grid Target Variable % divided by the average Market Target Variable % for each salary band.
(4) Average reflects weighted average based on the number of incumbents in each salary band.

On average, National Grid target incentives are equal to the market average

Schedule MPH-6

Market Merit Increases

Market Merit Increases

General industry salary growth remains relatively flat for executive, management and exempt levels and is projected to be slightly lower for non-exempt levels

Year	U.S. Merit Budget Increases*				
	Executive	Management	Exempt	Non-exempt Salaried	Non-exempt Hourly
2012	2.9%	3.0%	2.9%	2.9%	2.9%
2013	3.0%	3.0%	3.0%	3.0%	3.0%
2014	3.0%	3.0%	3.0%	3.0%	3.0%
2015	3.0%	3.0%	3.0%	3.0%	3.0%
2016	3.0%	3.0%	3.0%	3.0%	3.0%
2017	3.0%	3.0%	3.0%	2.8%	2.9%
2018 ^P	3.0%	3.0%	3.0%	2.9%	2.9%

P = Projected

* Data represents median merit increases. Includes participants providing no merit increases.

Source: Willis Towers Watson Data Services - 2017 General Industry Salary Budget Survey Report (USA)

Schedule MPH-7

10 Year Wage Increase History

**NATIONAL GRID
UNION AND NON-UNION WAGE INCREASE HISTORY (2008 - 2017)**

<u>Year</u>	<u>Non-Union Merit</u>	<u>Non-Union Promo/Equity</u>	<u>Non-Union Total</u>	<u>Local 310* GWI</u>	<u>Local 310B* GWI</u>	<u>Local 12431* GWI</u>
2008	3.40%	0.50%	3.90%	3.00%	3.00%	3.00%
2009	0.00%	1.50%	1.50%	3.00%	3.00%	3.00%
2010	2.00%	0.35%	2.35%	3.00%	2.50%	2.50%
2011	3.00%	0.19%	3.19%	2.50%	2.50%	2.50%
2012	3.00%	0.64%	3.64%	2.50%	2.50%	2.50%
2013	2.70%	0.48%	3.18%	2.50%	2.50%	2.50%
2014	2.50%	0.73%	3.23%	2.50%	2.50%	2.50%
2015	0.00%	0.43%	0.43%	2.50%	2.50%	2.50%
2016	2.50%	0.70%	3.20%	2.50%	2.50%	2.50%
2017	2.50%	1.14%	3.64%	2.50%	2.50%	2.50%

* Excludes progression step increases which are similar to non-union job family positions