

Division 3-63 (SUPPLEMENTAL)

Request:

To the extent regulators in New York or Massachusetts do not allow recovery of the one-time implementation expenses allocated to those jurisdictions for the Gas Business Enablement Program, will National Grid modify the program to reduce its scope and costs, or will National Grid move forward with the multi-jurisdictional project as planned?

Response:

As discussed in the Company's response to Division 3-62, the non-recurring implementation expenses are an unavoidable cost component in implementing the Gas Business Enablement Program for the benefit of customers. From a customer perspective, it is irrelevant whether project costs are capitalized or expensed. Customers benefit from the provision of safe, reliable, and efficient gas service. The total project cost will be necessarily incurred to deliver the benefits that will flow from each workstream. Therefore, for the benefits to flow to customers, the costs are appropriately incurred and should be accounted for in the ratemaking process regardless of how those costs must be recorded for accounting purposes.

National Grid is moving forward under the assumption that it will recover program costs that are shown to be reasonably and prudently incurred whether those costs are capitalized or non-capitalized, in all jurisdictions.

Supplemental Response:

The precise ratemaking practices and opportunities for cost recovery differ among Rhode Island, Massachusetts, and New York. However, in each jurisdiction, National Grid is proposing to recover the project cost to implement Gas Business Enablement in the following two steps:

1. Non-recurring operating expenses would be recovered through a jurisdiction-specific solution that follows the jurisdictional ratemaking approach.
2. Capitalized costs would be recovered through the respective capital-cost recovery mechanism, based on actual expenditures.

In all three jurisdictions involved, National Grid expects that the capitalized costs of the Gas Business Enablement Program will be recoverable through customer rates, once a proceeding has occurred determining the costs to be reasonable and prudently incurred.

With respect to non-recurring operating expenses necessarily incurred to implement the Gas Business Enablement Program, National Grid likely would not move forward with the program if

no jurisdiction were to allow recovery of any portion of the non-recurring operating expenses. These expenses are estimated at a total of \$164 million across the three operating jurisdictions, or 34 percent of the total program costs. Therefore, National Grid could not reasonably undertake the investment required to implement the Gas Business Enablement Program if 34 percent of project costs are denied before the project even gets started. This would be a statement from regulators that the system is not appropriate for customers.

National Grid expects that it will be authorized to recover 100 percent of its reasonably and prudently incurred project costs and is establishing management procedures to demonstrate conclusively that the costs incurred meet the standard for cost recovery in each jurisdiction. That said, National Grid is proposing recovery of the non-recurring expenses on a jurisdictional basis, which means that there may be slight differences in the timing and amounts of recovery allowed despite the best efforts of National Grid to minimize disallowances. A rejection of the proposal to recover the non-recurring expense portion of the project costs in one jurisdiction will not stop implementation in all jurisdictions. However, rejection of the proposal to recover the non-recurring expense portion of the project cost by a single jurisdiction will have the potential to change the scope of project implementation within that jurisdiction.

Without details as to the magnitude and reason for that rejection, National Grid cannot postulate as to its resulting action. The situation would have to be evaluated from a financial, operational, and customer-service perspective to make a reasoned decision before moving forward. There is no bright-line test for the go/no-go decision or a project modification under these circumstances. For this reason, National Grid is eminently focused on managing the project to rigorous standards so that cost recovery is supported in each jurisdiction.