

PUC 1-76

Request:

Please provide a complete and detailed description of the methodology that National Grid and its service companies use to allocate/assign to the Company plant that is common to more than one of its affiliates. Please also provide the workpapers, calculations, formulas, assumptions, and supporting documents used to determine each allocation or assignment.

Response:

Service Company property includes assets that are generally determined to benefit more than one company within the National Grid organization. The assets include capitalized computer information systems as well as shared facilities, leasehold improvements, communication towers, software, and hardware.

The Service Company's property is stated at original cost, which includes labor, material, applicable taxes, and allocations of overhead. Depreciation is provided on a straight-line basis in amounts equivalent to composite rates on average depreciable property. The cost of property retired, plus the cost of removal less salvage, is charged to accumulated depreciation.

The asset is held as Service Company plant and the plant amount is not allocated. Once the asset is placed in service, the annual depreciation/amortization is allocated to the operating companies that are determined to benefit from the asset. The allocated amortization is re-classified to rent expense at the operating companies. Based on the depreciation charged, a carrying charge is also calculated and charged to the operating companies.

The methods used to allocate depreciation and amortization are the same methods used to allocate all Service Company costs. These methods are detailed in National Grid's Cost Allocation Manual included as Attachment PUC 1-76-1. In addition, Attachment PUC 1-76-2 contains the list of all allocation codes for Fiscal Year 2015, including the metrics used to calculate them. These percentages were effective July 2014 - March 2015. Attachment PUC 1-76-3 contains the list of allocation codes for Fiscal Year 2016 effective April 2015 - July 2015. Attachment PUC 1-76-4 contains the list of allocation codes for Fiscal Year 2016 effective August 2015 - March 2016. Attachment PUC 1-76-5 contains the list of allocation codes for Fiscal Year 2017 effective April 2016 - March 2017. These codes are updated at the beginning of each fiscal year (or when there is a significant change in the business) based on the prior calendar year numbers.

When a Service Company asset is initiated, Plant Accounting verifies with the project managers and the related decision-support groups the SAP allocator that should be used, as well as what the work order description and notes may state. Plant Accounting then chooses the appropriate utility account that is related in the Powerplan system's tables to a depreciation group. The depreciation group has a WBS (Work Breakdown Structure, which is a vehicle used for settlements in SAP) element associated with it in the external depreciation code field. Each WBS element has the appropriate SAP allocator and allocation methodology built into it.

Plant Accounting also prepares an entry monthly to re-class the depreciation/amortization expense allocated to the operating companies to rent expense – to Account 931.

National Grid USA

Cost Allocation Manual

Revised, December 2014

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1. Introduction

National Grid, a publicly traded company based in the United Kingdom, is an international Electricity and Gas Company and one of the largest investor-owned energy companies in the world. National Grid USA (Company) is a wholly-owned subsidiary of National Grid which provides energy services in Massachusetts, New York and Rhode Island.

National Grid USA Service Company, Inc. (Service Company), a wholly-owned subsidiary of National Grid USA, is a company engaged primarily in the rendering of services to companies in the National Grid USA holding company system. The organization, conduct of business and method of cost allocation of the Service Company are designed to result in the performance of services and the provision of goods economically and efficiently for the benefit of affiliate companies at cost, fairly and equitably allocated among such companies.

The purpose of the Cost Allocation Manual (CAM) is to serve as a guide as to the manner in which costs should be charged to the National Grid USA client companies (Client Companies) by the Service Company or among affiliates in the event of storm restoration and other emergency services. The prevailing premise of these cost allocation guidelines is that allocation methods should not result in subsidization of non-regulated services or products by regulated entities or subsidization of services or products from one regulated entity to another.

The provision of administrative services to the Client Companies by the Service Company is specified in service agreements filed with the respective utility regulatory commissions (Commissions).

2. Responsibility for Maintaining the CAM

The Vice President, Service Company Accounting, has overall responsibility for the Company's cost allocation policies and procedures. The Principle Project Manager of the Cost Allocations Compliance Program, has day-to-day responsibility for maintaining the CAM and ensuring that accounting records reflect the policies and procedures described in the CAM. This includes responsibility for maintaining the list of approved cost allocation bases as described in Section 9 of this manual.

3. Definitions

- a. **Act** – Any State or Federal law or regulation providing guidance and requirements related to cost allocations or the pricing of services provided among affiliates.

National Grid is required to comply with the Federal Energy Regulatory Commission's (FERC) Regulations Under the Public Utility Holding Company Act of 2005 (PUHCA 2005) and cross-subsidization restrictions on affiliate transactions. Specifically, these include compliance with: (1) cross-subsidization restrictions on affiliate transactions under 18

C.F.R. Part 35; (2) accounting, recordkeeping, and reporting requirements under C.F.R. Part 366; (3) Uniform System of Accounts (USofA) for centralized service companies under 18 C.F.R. Part 367; and preservation of records requirements for holding companies and service companies under C.F.R. part 368.

In the State of New York, the following sources provide substantive guidance and requirements on cost allocations.

- Public Service Law, §110(3)
 - Case 06-M-0878, Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations, Merger & Gas Revenue Requirement Joint Proposal (dated July 6, 2007)
 - Cases 12-E-0201 and 12-G-0202, Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Electric Service and Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Niagara Mohawk Power Corporation d/b/a National Grid for Gas Service, Rate Plan Provisions (Appendix 7 to Joint Proposal adopted by the New York Public Service Commission in its Order dated March 15, 2013)
- b. **Affiliates** – Companies that are related to each other due to common ownership or control. For example, affiliates include National Grid USA Service Company, Niagara Mohawk Power Corporation, Massachusetts Electric, Boston Gas Company, Narragansett Electric Company, Narragansett Gas Company, KeySpan Energy Delivery of New York (KEDNY) and KeySpan Energy Delivery of Long Island (KEDLI). Public Utility Holding Company Act (PUHCA) 2005 defines the term “affiliate” of a company as any company, 5 percent or more of the outstanding voting securities of which are owned, controlled, or held with power to vote, directly or indirectly, by such company.
- c. **Associate Company** – According to PUHCA 2005, the term “associate company” refers to any company in the same holding company system with such company.
- d. **Attributable Cost** – Costs which are incurred for activities and services which benefit the client companies. Some costs are directly attributable to the client companies; other costs such as corporate governance costs are indirectly attributable to the client companies.
- e. **Client Companies** – Affiliates which receive services provided by the Service Companies.
- f. **Cost Causative Allocation Factor** – Methodology used to allocate directly attributable costs based upon measurable cost causing relationships; for example, payroll department costs are allocated on the number of employees for each entity to which the Service Company provides this service.
- g. **Commission** – The State utility regulatory commissions in the states in which National Grid operates. These include the New York Public Service Commission, the Massachusetts

Department of Public Utilities and the Rhode Island Public Utilities Commission. National Grid also provides services which are regulated by the Federal Energy Regulatory Commission.

- h. **Cost Allocation Manual (CAM)** - An indexed compilation and documentation of the Company's cost allocation policies and related procedures.
- i. **Cost Allocations** - The methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as general allocators).
- j. **Common Costs** - Costs associated with services or products that jointly benefit all regulated and non-regulated business units.
- k. **Cost Driver** - A measurable event or quantity which influences the level of costs incurred and which can be directly traced to the origin of the costs themselves; for example, number of invoices processed is a cost driver for the Accounts Payable department. To the extent possible, the allocation basis should reflect the underlying cost driver if the cost cannot be direct charged.
- l. **Cross-subsidization** – The offering of a competitive product or service by an electric or gas public utility, or an affiliate, which relies in whole or in part on the use of utility employees, equipment or other assets, and for which full compensation (via cost allocation or direct payment), has not been provided resulting in the inappropriate transfer of benefits from the utility ratepayers to the competitive affiliate. See 18 C.F.R. Part 35 (2008) for FERC rules regarding cross-subsidization restrictions on affiliate transactions.
- m. **Direct Costs** - Costs which can be specifically identified with a particular service or product and the Client Company(s) to which that product or service is provided. These costs are charged directly to the Client Company(s).
- n. **Fully Allocated Costs** – The sum of the direct, indirect and other economic costs of all equipment, vehicles, labor, related fringe benefits and overheads, real estate, furniture, fixtures and other administrative resources utilized, and other assets utilized and costs incurred, directly or indirectly in the providing of services from the service company to an affiliate.
- o. **Functions** – Refers to the National Grid internal organizational structures under which National Grid USA conducts business.
- p. **General Allocator** – Methodology used to indirectly allocate attributable costs to entities. For National Grid USA, the general allocator is the ratio of net plant , net margins and net O&M expenses, equally weighted.
- q. **Holding Company** – PUHCA 2005 defines “holding company” as “any company that directly or indirectly owns, controls, or holds, with power to vote, 10 percent or more of the outstanding voting securities of a public-utility company or of a holding company of

any public-utility company” and any person who exercises “a controlling influence over the management or policies of any public-utility company or holding company as to make it necessary or appropriate for the rate protection of utility customers with respect to rates...”

- r. **Indirect Costs** - Costs that cannot be directly identified with the provision of a particular product or service. This includes but is not limited to governance costs, insurance, and taxes as well the cost of services supporting the Service Company such as Service Company accounting and recruiting for Service Company positions.
- s. **Jurisdictions** – Refers to the geographic areas in which National Grid USA operates. Jurisdictions are comprised of one or more utility companies.
- t. **Non-Regulated** – Those entities, products and services which are not subject to regulation by regulatory authorities.
- u. **Operating Companies** – Companies to whom the Service Companies provide products and services. Operating Companies include, but are not limited to, Niagara Mohawk Power Corporation, Massachusetts Electric, and KeySpan Energy Delivery of Long Island (KEDLI). Also referred to as Client Companies.
- v. **PUHCA 2005** – 18 C.F.R. Title 18: Conservation of Power and Water Resources, PART 366 – PUBLIC UTILITY HOLDING COMPANY ACT OF 2005
- w. **Regulated** - That which is subject to regulation by regulatory authorities such as the New York Public Service Commission.
- x. **Service** – Any managerial, financial, legal, engineering, purchasing, marketing, auditing, statistical, advertising, publicity, tax, research, or any other service (including supervision or negotiation of construction or of sales), information or data, which is sold or furnished for a charge. (PUHCA 2005)
- y. **Service Agreement** – Legal agreements between the Service Companies and the Client Companies which describe the services offered, services selected, compensation and billing, terms, and cost accumulation, assignment and allocation methodologies. Also referred to as Service Contracts. The documents are filed with the utility regulatory commissions and serve as the basis for the FERC Form 60 disclosures.
- z. **Service Company** – An affiliate which provides support services to its utility and other affiliates. This includes both the National Grid USA Service Company and the National Grid USA Engineering Services Company.
- aa. **Service Level Agreements (SLAs)** – Non-binding agreements between the functional service providers and jurisdictional presidents that define the services provided and the financial and non-financial attributes of those services.

- bb. **Support Services** – Administrative and support services that do not involve merchant functions; for example: payroll, taxes, shareholder services, insurance, financial reporting, financial planning and analysis, corporate accounting, corporate security, human resources (compensation, benefits, employment practices), employee records, regulatory affairs, lobbying, legal, and pension management. Support Services typically refers to those services offered by the Service Company.
- cc. **Utility Companies** – Legal entities providing regulated wholesale and retail utility services.

4. Cost Allocation Principles

The following principles guide the allocation of costs of products or services provided by the Service Companies to the Client or Operating Companies. These principles also pertain to transactions among Operating Companies such as storm restoration services.

- a. Direct charging or direct assignment is the preferred allocation methodology and should be used if the cost of providing a product or service can be identified with the specific affiliates receiving the benefit of that product or service. Direct charging should only be used if the cost of providing a product or service to an individual Client Company can be isolated and reported separately from costs to provide other products or services and from costs to provide the same product and service to other Client Companies.
- b. The costs of products and services that cannot be direct charged should be allocated based on cost causative allocation bases representative of the underlying cost drivers of that product or service.
- c. The cost allocation methodology should be comprehensive, transparent, stable and administratively manageable and cost effective.
- d. The calculation of the cost allocation bases should be supported by a clearly defined methodology, model and supporting policy and procedure documentation.
- e. The cost allocation methodology should accommodate changes in the size of the allocation bases from period to period based on changes in the underlying cost drivers; the allocation bases should not vary significantly from period to period for uncontrollable factors not related to the underlying cost drivers. For example, you would not choose an allocation basis that fluctuates significantly from period to period based on changes in weather if weather is not a cost driver for that activity.
- f. The calculation of the allocation bases should be updated at least annually and more frequently if needed to reflect significant events (e.g., the sale of a significant affiliate).

5. Cost Apportionment Methodology

Costs are defined into the following four categories for purposes of allocating the costs of Service Company products and services to the Operating Companies. This hierarchy represents the preferred order of methodologies to be used when allocating costs. These four cost categories are:

Directly Assignable – Expenses incurred for activities and services exclusively for the benefit of an affiliate.

Directly Attributable – Expenses incurred for activities and services that benefit more than one affiliate and which can be allocated based on direct measures of cost causation; for example number of employees or number of invoices processed.

Indirectly Attributable – Expenses incurred as a “cost of doing business” that do not relate to the provision of specific products and services. The costs typically benefit all entities within the corporate umbrella. Examples include governance costs, Corporate Secretary costs, and investor relations costs. These costs are typically allocated based on a general measure of cost causation, commonly referred to as the general allocator.

Unattributable – Expenses incurred for activities or services that have been determined as not appropriate for apportionment to the operating company affiliates. These costs relate primarily to activities such as corporate diversification, political or philanthropic endeavors and, as such, are charged directly to the parent company, National Grid USA.

It is expected that the majority of costs charged to an affiliate will be based on the direct assignment or direct attribution of costs and that costs indirectly attributable to an affiliate will represent the smallest category of costs.

6. Description and Use of Service Level Agreements

Service level agreements are non-binding agreements between the functional service providers and jurisdictional presidents that define the services provided and the financial and non-financial attributes of those services. The services governed by these agreements are described in Section 7 of this manual.

Jurisdictional objectives are used to determine service provider performance goals. SLAs are a key tool by which the regulated operating companies manage both the cost and performance of services provided by the Service Company.

SLAs are negotiated annually between the functional service providers and the jurisdictions. The SLA renewal process includes a critical review of the cost and performance attributes of the services provided.

The Jurisdictional Presidents will receive reports detailing performance against the attributes agreed to in the SLAs.

7. Services Provided by the Service Company - Description and Allocation Methodology

The following table lists those services provided by the Service Company and the Client Companies to whom these services are provided. These services are provided in accordance with the service agreements filed with the Commissions. In addition, the provision of these services is governed by the Service Level Agreements described above between the functions and the jurisdictions.

**Table 7-1
Services Provided By Service Company**

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|--|--|---|
| FINANCE | | |
| Jurisdictional Finance Business Partners | Provide financial services at the jurisdictional level which includes: <ul style="list-style-type: none"> • Provide variance reporting and variance forecasting on income statement • Perform regulatory strategy/rate of return analyses • Perform revenue/margin analysis • Manage PSEG TSA, i.e. financial statements, variance analysis, contract costs and updates to contract profitability when necessary • Provide support to rate filings and rate cases | LDCs in MA, NY, RI, FERC regulated companies and PSEG |
| Decision Support/Finance Business Partners | Provide decision support at the functional level which includes: <ul style="list-style-type: none"> • Provide operating and capital budgets decisions and management reporting activities • Perform economic and financial analysis, and short and long-term financial forecasting • Align financial support functions with strategic plans, policies, procedures and internal controls • Perform benchmarking and monitoring of operations metrics to help the business achieve targeted results • Identify savings and potential efficiencies | All companies |
| Accounting Services | Maintain the general ledger for regulated companies; Carry out specialized accounting; Produce external reports for regulated utilities as well as PSC and FERC reports; Maintain plant accounting, billing systems, revenue accounting and reconciliations. | All companies |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|----------------------------------|---|---|
| IS Finance | Provide decision support related to IS initiatives; Manage IS project planning, budgeting, forecasting and accounting; Maintain hardware and ongoing infrastructure services. | All companies |
| US Treasury | Provide services related to cash management, capital markets and compliance; pension and 401k investment management; and energy risk management and reporting (Regulated entities only). | All companies |
| US Tax | Provide income tax compliance; income tax audit defense and controversy resolution; income tax accounting and financial reporting; income tax budgeting and forecasting; and income tax research and planning | All companies |
| US Insurance | Manage the overall purchase and procurement of different types of insurance. | All companies |
| Corporate Planning and Reporting | Develop corporate Balance Sheets and Cash Flows used to develop forecasts, budget and variance reports; Report on financial statements; Manage business planning process including calendar and deliverables. | Mostly Regulated companies; consolidated US operations and internal customers |
| Regulatory Accounting | Prepare rate orders and compliance requirements that create regulatory deferrals; Ensure proper accounting of regulatory assets and liabilities; Perform secondary review of FERC Form 1. | Regulated companies |
| Global Corporate Audit | | |
| Internal Audit | Periodically conduct operating audits and audits of the accounting records and other records maintained by the operating companies. Issue audit reports and provide recommendations, as appropriate, on improving processes and the internal control framework. | All companies |
| SHE Audit | Periodically conduct Safety, Health and Environmental compliance audits at operating company facilities. | All companies |
| | | |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|-------------------------------------|---|-------------------------|
| Human Resources | | |
| Labor and Employee Relations | Advise and assist the all companies with: <ul style="list-style-type: none"> • Labor contract negotiations and administration • Investigations into specific instances of misconduct or malfeasance • Employee grievances, arbitration and external complaint administration and management • Litigation | All companies |
| HR Business Partners | Assist with the development of the annual and five-year human resources plan and workforce strategy; Facilitate the succession planning process and organizational design; Drive the performance management process. | All companies |
| Recruiting, inclusion and diversity | Identify recruitment needs and create regional recruiting strategies to source those needs, including external sourcing management, internal sourcing management and the testing and hiring and testing of union employees; Advise and assist operating companies in the administration of the design and implementation of diversity and EEO programs. | All companies |
| HR Operations | Provide overall direction and leadership for the HR function while managing internal HR metrics and performance management. | All companies |
| Compensation, Benefits and Pension | Provide central administration for payroll and employee benefit and pension plans including: <ul style="list-style-type: none"> • Design and implementation of Total Rewards packages • Compliance with requirements of regulatory bodies | All companies |
| Technical Training | Assist with the design and delivery of technical training programs for Gas, Electric, Safety, Process support and Professional development. | All companies |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|----------------------------------|---|-------------------------|
| US Regulation and Pricing | | |
| Regulatory Strategy | Assess revenue requirements, design pricing structures, and file and defend rate cases. Compile earnings reports, compliance filings, special filings and any other filings required by the PUC on a yearly basis. | Regulated companies |
| Pricing and Federal Affairs | Develop long-term regulatory goals and filing plans consistent with business plans, trends, pricing and policy; Manage regulatory relationships; and provide strategic and policy advice to the regulated entities. | Regulated companies |
| Shared Services | | |
| Employee Services (TDC) | Provide employee services including: <ul style="list-style-type: none"> • Manage employee data within the HRIS • Provide employees and retirees with information and services related to payroll and year-end tax reporting; medical, dental and life insurance; retirement and pensions • Maintain and administer payments to current and retired employees | All companies |
| Procure to pay (TDC) | Maintain and administer the non-inventory procurement process; Maintain vendor master files; and administer the P-Card process, processing of invoices and review of expenses. | All companies |
| Response Team (TDC) | Responsible for intake of incoming contact center calls for procurement, vendors. | All companies |
| Billing Operations (TDC) | Process, review and issue customer invoices for retail and wholesale electric and gas sales; Provide maintenance of customer systems; Process billing exceptions, shared metering and mixed metering; Process special billing related to line extensions, pole rentals, water heaters, DOT work (outside companies). | All companies |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|------------------------------|---|----------------------------|
| Credit and Collections (TDC) | Process employee services transactions, commercial and industrial credit and collections, and collections invoices; Devise strategy for field collections and residential collections. | All companies |
| Customer Care | Manage customer inquiries made either in-person, by telephone, by mail and by email; Manage emergency contact center; Manage outsourcing and move/connect inbound and outbound calls. | Regulated companies |
| Business Process Excellence | Develop and implement reporting/communications, quality and benchmarking strategies for Shared Services; Develop and provide Training programs for shared services; Lead all continuous improvement activities; Develop and coordinate the US Service Level Agreement governance process. | All companies |
| Property Strategy | Recommend strategies to optimize the use of the property portfolio. | All companies |
| Facilities Management | Provide building maintenance services; provide capital improvements to NG USA facilities. | All companies |
| Operations | | |
| Resource Planning | Prepare resource work plans; Assist on forecasting of capital spend five year plan; Manage scheduling and work coordination; Manage project control and regulatory reporting of operations projects. | Regulated companies |
| Emergency Planning PMO | Develop emergency response plans and support storm restoration activities. | Gas and electric companies |
| Maintenance and Construction | Provides electric and gas maintenance of facilities and infrastructure and non-complex construction services; Conduct emergency response activities when necessary. | Gas and electric companies |
| Operations Performance | Provides quality assurance and control services for fieldwork; Manage operations metrics; Provide project management and construction services for complex projects; Develop and report of KPIs. | Regulated companies |

| Function / Department | Description of Services Provided | Client Companies |
|------------------------------|---|-----------------------------------|
| Control Center Operations | Operate gas and electric transmission and distribution networks and provide meter data management services. | Electric and Gas companies |
| LNG Operations | Operate and maintain LNG and propane air plants; Ensure adequate regulation, compliance and training related to the LNG facilities. | Regulated gas companies |
| Operations Support | Provide fleet, aviation, materials and logistics, technical labs and testing services; Manage connections process for new gas and electric customers; Provide clerical support to all operations. | Regulated companies |
| Network Strategy | | |
| Asset Management | Develop and deliver asset strategies and policies, procedures and work plans to manage the lifecycle of company assets enabling system performance and the reliable energy supplies; Develop strategies and plans around smart grid technologies; Manage vegetation and maintenance programs. | Regulated companies |
| Gas Systems Engineering | Provides engineering and design services for gas distribution to deliver new customers connections and asset investment projects; Analyze data to ensure gas supplies are sufficient to support growth and maintain system reliability. | Regulated Gas companies |
| Electric Systems Engineering | Provides planning, engineering and design services for electric transmission and distribution; Work with NERC, FERC and other working committees. | T&D companies |
| Investment Planning | Develop capital plans for both electric and gas entities and monitor their long-term investment strategies and work plans; Manage sanctioning process. | Regulated companies |
| FERC | Develop strategy impact analyses on assets under FERC jurisdiction. | Companies under FERC jurisdiction |

| Function / Department | Description of Services Provided | Client Companies |
|---------------------------------------|--|----------------------------|
| Standards, Codes and Policies | Develop and communicate work and materials standards for gas and electric transmission and distribution engineering and operations; Provide training of new materials; Write procedures for gas and T&D organizations; Manage third party pole attachments. | Gas and electric companies |
| Regulatory Support and Reporting | Provide Regulatory Rate Case support e.g. technical support, expert witness support and input to discovery questions; Gather information and compile reports for required regulatory reporting. | Regulated companies |
| Safety, Health and Environment | | |
| Safety | Manage overall and specific safety programs; ensure field identification of hazards and safety performance; Develop and manage safety communications. | All companies |
| Health | Manage the wellness program and related health services; Support the delivery of health services relating to absences due to both occupational (workers comp) and non-occupational illnesses; Provide medical screening services; Administer the drug and alcohol program. | All companies |
| Environment | Ensure environmental compliance with all federal, state and local regulations including developing policies and procedures, training, and reporting; Manage licensing and permitting processes; Responsible for all site investigation and remediation activities. | All companies |
| Legal | | |
| Real Estate | Provide legal advice and counsel in connection with real property matters affecting National Grid's businesses. | All companies |
| Corporate Counsel | Provide advice and support related to financing activity such as debt issuances, mergers and acquisitions, and commercial activities such as contracting and procurement. | All companies |

| Function / Department | Description of Services Provided | Client Companies |
|--|---|-------------------------|
| Litigation, Environment and Employment | Provide legal advice and counsel regarding litigation, environment, labor and employment issues, including issues related to National Grid’s TSA with PSEG. | All companies |
| Federal and State Regulatory | Provide legal strategic guidance and support on all regulatory issues related to jurisdictional operations on matters before state utility commissions and related regulators, FERC and other federal agencies. | Regulated companies |
| Ethics and Business Conduct | Provide advice and counsel related to business ethics and compliance. | All companies |
| Records Management | Provides records management services to meet business needs and ensure regulatory compliance. | All companies |
| Strategy and Business Development | | |
| Mergers and Acquisitions | Coordinate purchases and divestitures (Direct charged to the US Holding Companies). | All companies |
| Business Development | Devise and implement business development efforts (Direct charged to the US Holding Companies). | All companies |
| Strategy | Coordinate development of US strategic plan. | All companies |
| Global Technology | Set the technology strategy and develop technology partnerships. | All companies |
| Corporate Affairs | | |
| Communications and Brand | Formulate and assist with communication programs and administer corporate philanthropic programs. | All companies |
| Federal Affairs | Manage relationships with the Federal government, agencies and legislative bodies. | Regulated entities |
| Government Relations | Manage relationships with State and local governments, agencies and legislative bodies. | Regulated companies |
| Media Relations | Manage the relationship with the media including crisis and risk communications. | All companies |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|--|--|-------------------------|
| Customer | | |
| Energy Solutions Delivery | Responsible for the increase in gas margin and energy efficiency products and solutions sales. | All companies |
| Energy Products | Provide product knowledge and technical expertise for all growth programs; Manage the planning and evaluation of electric and gas energy efficiency, demand reduction, and climate change policy initiatives; Design new and manage existing portfolio of customer-focused programs for business and residential markets. | All companies |
| Market Strategy and Implementation | Develop and implement market research and intelligence, market strategy, trade marketing, web marketing initiatives and overall communications. | Regulated companies |
| Customer and Business Strategy | Design emergency programs for each jurisdiction; Serve as energy efficiency regulatory leader, collecting expenses related to energy efficiency; Manage solar and electric vehicles programs; Conceptualize corporate image; Manage relationships with and supports through economic development activities the local communities in which NG operates. | All companies |
| Energy Procurement | Plan for and acquire energy (gas and electric) and related commodities; Manage jurisdictional and seasonal contracts as well as FERC compliance activities including training; Handle RFPs in MA and RI to contract with renewable energy suppliers (Solar, Wind, etc.); Manage long term gas planning processes including planning for peak loads, handling long-haul gas pipeline and market area storage. | Regulated companies |
| Lead Intake | Contact center for prospective gas conversion customers. | Regulated gas companies |
| Customer Analytics and risk management | Provides market analytics, electricity and gas forecasting; Customer Choice studies and administration of CC program, commercial and wholesale electric market policy services; Perform research trends on energy usage. | All companies |

| <i>Function / Department</i> | <i>Description of Services Provided</i> | <i>Client Companies</i> |
|------------------------------------|---|-------------------------|
| Global Information Services | | |
| Solution Delivery | Provides centralized IS project management, application development and application support services. | All companies |
| Service Delivery | Manages all IT infrastructure including data centers and voice and data networks. | All companies |
| Relationship Management | Manages the relationships between IS and its internal customers. | All companies |
| IS Security | Provides IS security services. | All companies |
| Global Procurement | | |
| Procurement Strategy | Provide strategic direction and oversight for the procurement function. | All companies |
| Sourcing | Responsible for procuring and contracting for goods and services. | All companies |

Table 7-2
Cost Allocation Methodology *Guide* for Services Provided

| <i>Function / Department</i> | <i>Cost Allocation Methodologies</i> |
|--|--|
| FINANCE | |
| Jurisdictional Finance Business Partners | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • General Allocator |
| Decision Support/Finance Business Partners | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • General Allocator |
| Accounting Services | <ul style="list-style-type: none"> • Direct Charge • # of GL Transactions • Capital Expenditures • Dollar Value of Property Owned • General Allocator |
| Regulatory Accounting | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| IS Finance | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| US Treasury | <ul style="list-style-type: none"> • Direct Charge • Average Level of Debt Outstanding • General Allocator |
| US Tax | <ul style="list-style-type: none"> • Direct Charge • # of Employees • Dollar Value of Property Owned • General Allocator |
| US Insurance | <ul style="list-style-type: none"> • Direct Charge • # of Claims Processed • Dollar Value of Property Owned • General Allocator |
| Corporate Planning and Reporting | <ul style="list-style-type: none"> • Direct Charge • General Allocator |

| <i>Function / Department</i> | <i>Cost Allocation Methodologies</i> |
|--|--|
| Global Corporate Audit | |
| Internal Audit | <ul style="list-style-type: none"> • Direct Charge • Other Allocation Bases Depending on Nature of Audit • General Allocator |
| SHE Audit | <ul style="list-style-type: none"> • Direct Charge • # of Employees • Dollar value of Property Owned • Total T&D Expenditures • General Allocator |
| Human Resources | |
| Labor Relations and Employee Relations | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| HR Business Partners | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Recruiting, Inclusion, and Diversity | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| HR Operations | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Compensation, Benefits and Pension | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Technical Training | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| US Regulation and Pricing | |
| Regulatory Strategy | <ul style="list-style-type: none"> • Direct Charge • General Allocator |

| Function / Department | Cost Allocation Methodologies |
|------------------------------|---|
| Pricing and Federal Affairs | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Shared Services | |
| Employee Services (TDC) | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Procure to Pay (TDC) | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • # of Invoice Lines Processed • # of PO Lines • General Allocator |
| Response Team (TDC) | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Billing Operations (TDC) | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • # of Bills • # of Joint Use Poles • General Allocator |
| Credit and Collections (TDC) | <ul style="list-style-type: none"> • Direct Charge • Call Minutes • # of Customers/Meters • # of Inbound and Outbound Collection Calls • General Allocator |
| Customer Care | <ul style="list-style-type: none"> • Direct Charge • Number of Inbound Call Minutes • # of Customers/Meters • General Allocator |
| Business Process Excellence | <ul style="list-style-type: none"> • Direct Charge • Follows TDC direct and cost causative charges • General Allocator |

| Function / Department | Cost Allocation Methodologies |
|------------------------------|--|
| Property Strategy | <ul style="list-style-type: none"> • Direct Charge • Dollar Value of Property Owned • General Allocator |
| Facilities Management | <ul style="list-style-type: none"> • Direct Charge • [Periodic Square Footage Study] • General Allocator |
| Operations | |
| Resource Planning | <ul style="list-style-type: none"> • Direct Charge • Dollar Value of Property Owned (Utilities) • Total T&D Expenditures • General Allocator |
| Emergency Planning PMO | <ul style="list-style-type: none"> • Direct Charge • Miles of Overhead Lines • General Allocator |
| Maintenance and Construction | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • Capital Expenditures • General Allocator |
| Operations Performance | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • Dollar Value of Property Owned • General Allocator |
| Control Center Operations | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |

| Function / Department | Cost Allocation Methodologies |
|--------------------------------|--|
| Power Plant Operations | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| LNG Operations | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Operations Support | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • # of Customers/Meters • General Allocator |
| Network Strategy | |
| Asset Management | <ul style="list-style-type: none"> • Direct Charge • Dollar Value of Property Owned • Miles of Overhead Lines • General Allocator |
| Gas Systems Engineering | <ul style="list-style-type: none"> • Direct Charge • Capital Expenditures • General Allocator |
| Electric Systems Engineering | <ul style="list-style-type: none"> • Direct Charge • Capital Expenditures • General Allocator |
| Investment Planning | <ul style="list-style-type: none"> • Direct Charge • Dollar Value of Property Owned • General Allocator |
| FERC | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • General Allocator |
| Standards, Codes, and Policies | <ul style="list-style-type: none"> • Direct Charge • Total T&D Expenditures • Capital Expenditures • Dollar value of Property Owned (Utilities) • # of Joint Use Poles • General Allocator |

| Function / Department | Cost Allocation Methodologies |
|--|--|
| Regulatory Support and Reporting | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Safety, Health and Environment | |
| Safety | <ul style="list-style-type: none"> • Direct Charge • # of Employees • Total T&D Expenditures • General Allocator |
| Health | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Environment | <ul style="list-style-type: none"> • Direct Charge • Dollar value of Property Owned • Total T&D Expenditures • General Allocator |
| Legal | |
| Real Estate | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Corporate Counsel | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Litigation, Environment and Employment | <ul style="list-style-type: none"> • Direct Charge • # of Employees • General Allocator |
| Federal and State Regulatory | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Ethics and Business Conduct | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Records Management | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Mergers & Acquisitions | <ul style="list-style-type: none"> • Direct Charge • General Allocator |

| <i>Function / Department</i> | <i>Cost Allocation Methodologies</i> |
|--|---|
| Strategy and Business Development | |
| Mergers and Acquisitions | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Business Development | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Strategy | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Global Technology | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Corporate Affairs | |
| Communications and Brand | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Federal Affairs | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Government Relations | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Media Relations | <ul style="list-style-type: none"> • Direct Charge • General Allocator |
| Customer | |
| Energy Solutions Delivery | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Energy Products | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Market Strategy and Implementation | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |

| <i>Function / Department</i> | <i>Cost Allocation Methodologies</i> |
|--|---|
| Customer and Business Strategy | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Energy Procurement | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Lead Intake | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Customer Analytics and Risk Management | <ul style="list-style-type: none"> • Direct Charge • # of Customers/Meters • General Allocator |
| Global Information Services | |
| Solution Delivery | <ul style="list-style-type: none"> • Direct Charge • Mainframe Profile • Server Profile • # of Employees • General Allocator |
| Service Delivery | <ul style="list-style-type: none"> • Direct Charge • Mainframe Profile • Server Profile • # of Employees • General Allocator |

| <i>Function / Department</i> | <i>Cost Allocation Methodologies</i> |
|------------------------------|---|
| Relationship Management | <ul style="list-style-type: none"> • Direct Charge • Mainframe Profile • Server Profile • General Allocator |
| IS Security | <ul style="list-style-type: none"> • Direct Charge • Mainframe Profile • Server Profile • # of Employees • General Allocator |
| Global Procurement | |
| Procurement Strategy | <ul style="list-style-type: none"> • Direct Charge • # of PO Lines • General Allocator |
| Sourcing | <ul style="list-style-type: none"> • Direct Charge • # of PO Lines • General Allocator |

8. Affiliate Services Provided by Operating Companies – Description and Allocation Bases

On occasion, employees of one operating company provide services to another operating company. This typically happens when providing storm restoration services. In this case, the cost of the provider-company employees is billed to the service-receiving company on a full cost basis.

National Grid has some employees working on behalf of the service company who are on operating company payrolls. In these instances, the cost of these employees is allocated to the operating companies benefitting from their work as if these employees were service company employees. These employees are managed as service company employees; it is only a matter of convenience to the company that these individuals remain on the operating company payroll. The services provided by these employees are not considered to be “affiliate services provided by operating companies” for purposes of this manual.

9. Approved Cost Allocation Bases – SAP Internal Order Code (Allocation Basis Field), Description and Source

| SAP Allocation Code ¹ | Description | Definition / Source |
|----------------------------------|---|--|
| C-004 through C-434 | # of Customers | Number of retail and wholesale customers (via count of service meters) receiving utility services by company as a percent of the CYE total. The source for this allocation basis is the TDC (Billing operations Group). |
| D-004 through D-349 | # of Outbound and Inbound Collection Calls | Number of inbound and outbound collection telephone calls by utility as a percent of the total based on call center telephone statistics. The source for this allocation basis is the TDC (Planning and Analysis Group). |
| E-198 | # of Joint Use Poles | # of electric poles with 3rd party attachments (joint use poles) by Company as a percent of total joint use poles. The source for this allocation basis is the Network Strategy (Standards Codes and Procedures group). |
| F-113 through F-319 | # of Inbound Call Minutes | Number of minutes call center representatives are on the telephone with specific operating companies' customers based on contact center reporting systems as a percent of the total. The source for this allocation basis is the TDC (Planning and Analysis Group). |
| G-003 through G-750 | Net margin, net plant, & Net O&M expenses (General Allocator) | "Net Margins" are Total Operating Revenues less "Cost of Goods Sold" and revenues related to recovery of stranded costs. "Net Plant" is the sum of Net Utility Plant and Net Non-Utility Plant . "Net O&M Expenses" are all non "Cost of Goods Sold" expenses less costs allocated from the Service Company distributed to the Affiliate companies using the general allocator. A Special Report will be created to identify the amount to be excluded for Service Company Charges based on the General Allocator. |
| GT-04 through GT-71 | General Allocator- Plus PSEG TSA Billing entity | Net margin, net plant, & Net O&M expenses post LIPA Separation. |

¹ An Allocation Basis such as the General Allocator will have multiple SAP Allocation Codes. This is required because individual employees may provide services to one, a combination of, or all operating companies.

| SAP Allocation Code ¹ | Description | Definition / Source |
|----------------------------------|--------------------------------|---|
| H-004 through H-T71 | # of Bills | Number of bills issued to customers by utility as a percent of the total bills in a given year. The source for this allocation basis is the TDC (Billing operations Group). |
| I-064 through I-325 | Dollar Value of Property Owned | A ratio based on gross fixed assets, valued at original acquisition costs, and investments owned in other companies, including construction work in progress, at the end of the calendar year, the numerator of which is for a specific client company and the denominator being all recipient client companies. The source for the calculation of this ratio will be based on FERC Form 1 reports and State regulatory Gas Company reports. |
| J-063 through J-233 | Square Feet | Number of occupied square feet per facility for each department or company using the facility. Periodically done on a facility by facility basis. The source of the most recent data is provided by the Decision Support business partner serving the Facilities organization. |
| K-232 through K-409 | Level of Debt Outstanding | Average level of long-term debt and short-term borrowing levels for prior CY by Company as a percent of the average level of long-term debt for all companies and short-term borrowing levels for all companies. <ul style="list-style-type: none"> The source for the components of this allocation basis is the US Finance (Treasury group). |
| L-184 through L-284 | Miles of Overhead Lines | Number of miles of overhead transmission and distribution lines by utility as a percent of the total. The source for this allocation basis is the Network Strategy (Standards Policies and Codes) |
| N-012 through N-340 | # of Employees | Total number of employees by company excluding the service company as a percent of the total. Count part time employees the same as full time employees. The source for this allocation basis is the TDC (Employee Services Group). |
| O-012, O-114 | # of P.O. Lines | Number of purchase order lines for stock and non-stock materials and supplies and services by Company as a percent of the total. |

| SAP Allocation Code ¹ | Description | Definition / Source |
|----------------------------------|------------------------------|---|
| | | The source for this allocation basis is the TDC (Procure to pay/Payment Processing Group). [Available with SAP] |
| Q-146 through Q-310 | # of Claims Processed | Number of claims processed by company based on claims department claims tracking system as a percent of the total. The source for this allocator basis is the US Finance (Claims group). |
| R-012 through R-210 | # of Invoice Lines Processed | Number of individual invoice lines processed by company as a percent of the total. Invoices may contain items purchased; each line represents the purchase of a specific good or service on behalf of a specific company. The source for this allocation basis is the TDC (Procure to Pay/Payment Processing Group). |
| T-009 through T-391 | Total T&D Expenditures | Sum of T&D capital expenditures and O&M expenditures by Utility as a percent of total Utility T&D capital and O&M expenditures. The source of this allocation basis is the CAPEX based on "Cash Outflows for Plant" from FERC Form 1 Statement of Cash Flows and T&D O&M costs in the FERC reports. |
| U-181 through U-435 | # of RTUs | Allocation to distribute the on going implementation of a new EMS system between the various New England Electric Operations based on the # of RTUs |
| X-114 through X-325 | Capital Expenditures | Capital expenditures by company as a percent of the total. The source for this allocation basis is the CAPEX based on "Cash Outflows for Plant" from the FERC Form 1 Statement of Cash Flows. If this information is not available, use the Budgeted CAPEX from Financial Forecasts. |
| P - Deferred Implementation | Mainframe Profile | Based on Company / Function use of mainframe services. The source for this allocation basis is the US Finance (IS Finance Group). [IT allocation bases subject to change as part of IT Transformation initiative] |
| S - Deferred Implementation | Server Profile | Based on Company / Function use of server services. The source for this allocation basis is the US Finance (IS Finance Group). [IT allocation bases subject to change as part of IT Transformation initiative] |

| SAP Allocation Code ¹ | Description | Definition / Source |
|----------------------------------|----------------------------------|---|
| Y - Deferred Implementation | # of General Ledger Transactions | The number of general ledger transactions by Company as a percent of total GL transactions for all companies. The source of this allocation basis will be SAP (still to be developed). |

10. Manual Allocations

There will be instances in which employees will choose to assign costs in a manner that is different from the allocation bases described above in order to ensure that costs are properly allocated among companies. To accomplish this requires a Manual Allocation. When employees choose to use a non-standard cost driver to allocate costs, the basis for that decision and the method used to allocate costs among companies should be thoroughly documented, approved by department supervision and sent to the Service Company Integrity Department in a timely manner for review.

Form to Document Use of Manual Allocations can be found the U.S. Infonet site. See <http://us2infonet/sites/Finance/Pages/Allocations.aspx>

for reference to the form that has been developed to standardize the information gathered to support instances of “manual allocations”. Anyone using a “Manual” allocation method must complete this form and send it to the Service Company Integrity Department. A copy of the completed form should also be retained by the initiating department.

For example, a manual allocation may be required for costs to provide training in which case the Company’s benefitting from the training are not known prior to the completed enrollment. In this case, the manual allocation may be based on the relative proportion or number of employees by individual company attending the training.

11. Asset Recovery Charge

The Service Company owns assets which are used to provide services to the operating companies. These assets are primarily IT hardware and software and facilities.

The Service Company bills the operating companies a return on and of the assets it owns in a manner similar to that by which a regulated utility includes a return on and of the utility plant included in its rate base. The asset recovery charge is comprised of the following three elements:

- Depreciation
- Equity component of return
- Debt component of return

Depreciation is based on the expected useful life of the asset.

The cost of capital assumes a 50/50 equity/debt capital structure. This capital structure is used because it is representative of the capital structures of the individual operating companies and reflects National Grid's overall internal objectives for funding investments.

For rate regulated operating companies, the equity rate is that company's current, approved return on equity. For non-rate regulated operating companies, the return on equity rate is based on the allowed equity rates for the rate regulated operating companies weighted to reflect current rate bases.

The debt rate is based on the Service Company's actual overall cost of debt.

The calculation of the asset recovery charge is included in can be found on infonet site. See <http://us2infonet/sites/Finance/Pages/Allocations.aspx>

Service Company's Return on Capital - Charged to Affiliates

The service companies own or lease a number of assets that are either used by service company employees to provide services to affiliates or are used by affiliates on a shared basis. When assets are leased by the service companies, the leased assets are charged to the operating affiliates using National Grid's cost allocation methodologies. When the service companies finance and own shared assets, the service companies charge the affiliates a rental fee based on a pre-tax return on the asset (net of deferred taxes) and booked depreciation expense.

12. SAP Service Company Orders and Work Breakdown Structure

National Grid USA uses Service Company Order and Work Breakdown Structure (WBS) elements within SAP as the mechanisms by which the appropriate allocation bases are applied to resources consumed. Individual Orders/WBS have been established for each cost center based on the work performed, the nature of resources consumed (e.g., labor, materials, outside services) in performing that work, and the operating companies benefitting from the work performed. Embedded in the WBS is the allocation code associated with the "operating companies benefitting from the work performed." Master Data Listing of All Orders and WBS Elements can be found on the U.S. Infonet site directly under the posting of the CAM on the Allocations page. See <http://us2infonet/sites/Finance/Pages/Allocations.aspx>

Due to the complexity of the WBS coding structure and the large number of approved WBS codes, the Company has provided time entry tools to help employees choose the correct WBS when reporting time and expenses. See **Section 13. Time Reporting Procedures** for additional details.

The unique combinations used within SAP which facilitates the accurate direct charge or allocation of costs to the operating companies, include the following elements:

| Order Number | WBS Element |
|--|--|
| <ul style="list-style-type: none"> • Type • Date Created • Description • Service Company Number • Responsible Cost Center • Cost Sharing | <ul style="list-style-type: none"> • WBS Description • Object Number • Created By • Company Code • Profit Center • Level Number • Responsible Cost Center • UF 1 WBS • UF 4 WBS |

13. Time Reporting Procedures

All employees of the Service Company must positively report time; that is, time reports must be completed by each employee each reporting period that reflect the actual work activities performed during that period. The time report should clearly indicate the work performed during the time reporting period and the companies on whose behalf the work was performed. This is accomplished through the use of the appropriate SAP order number. If employees work on behalf of a specific operating company, an SAP order number should be used which accommodates the direct charging to that operating company.

At the time budgets are developed for the current fiscal year, the cost center manager should review the services provided and activities performed for the upcoming year, and the companies on whose behalf those services are performed, to ensure that Internal Orders have been defined that properly reflect those services and activities. If not, the cost center manager should work with their Decision Support Partner to establish or modify the internal orders expected to be used by that department. Once established, the cost center manager should meet with the employees in the department to communicate the list of approved, department-specific internal orders.

Throughout the year, it is the responsibility of the cost center manager to ensure the list of internal orders remains up-to-date as services provided or activities performed change or as employees leave or join the department.

However, each employee must understand the order numbers available to be charged and how they relate to the work being performed. If employees find that the existing order numbers do not reflect the work performed, for example, the employee is assigned to a cross-functional project

team, they should alert their supervisor. The integrity of the cost allocation process depends on employees correctly charging their time.

To ensure the correct reporting of time, the Company has developed a series of training courses that all employees are required to take. These include courses on making correct choices for cost allocations and inputting time into SAP. The following is from the “Cost Allocation Quick Reference Guide – Corporate Functions” provided to employees in connection with this training.

Follow the steps to enter your time, expenses, or purchase in SAP. Then use the **Internal Order Search Tool** to select the appropriate allocation basis and locate the correct Internal Order:

| <i>IF...</i> | <i>THEN...</i> |
|---|-----------------------|
| You are Direct Charging | Go to Step A |
| You are using a Cost Causative Allocator | Go to Step B |
| You are using a General Allocator | Go to Step C |

A. Direct Charge*

*This is the *preferred method* if practical and done consistently.

What does practical and consistent mean? The main goal is to use a regular approach for allocating your costs to prevent charging a company in different ways for the same work over time.

Note: *If direct charging more than one company, be sure to provide documentation that supports the split among companies. Please ask your immediate supervisor or contact your Decision Support person for guidance.*

A1. Use the **OPERATING COMPANY Employee Internal Order Search Tool** to locate the correct order for the work you performed.

a. Follow the steps in SAP to select:

- Your *Department (Cost Cent)*, which is typically provided by your immediate supervisor.
- Your *Company & Segment*.

- The appropriate *Project*.

Note: *For a onetime event such as a storm, a specific order will be set up for multiple groups to use. In this case, certain steps will be necessary to follow that are different than what is described below. For storm accounting, please contact your immediate supervisor or Decision Support person for guidance.*
- The *Activity* for the work/service you performed, which is typically provided by your immediate supervisor.

b. Once all selections are accepted, the Internal Order(s) matching your search criteria are displayed in a list at the bottom of the search window.

A2. Follow the steps in SAP to add the correct Internal Order to your timesheet, expense report, or invoice.

Note: *If the correct accounting is not available after entering your search criteria, or if you are unsure which Internal Order to use, please contact your immediate supervisor or Decision Support person for guidance.*

A3. Go to step 4: *Follow the approved procedure to complete and submit your timesheet, expense report, or invoice.*

B. Cost Causative Allocator

If more than one cost causative allocator is listed for the activity or service provided, choose the allocator that *most closely reflects the underlying cost drivers* of the product or service, based on the activity/companies identified.

B1. Use the **SERVICE COMPANY Employee Internal Order Search Tool** to locate the correct order for the work you performed.

a. Follow the steps in SAP to select:

- Your *Department (Cost Cent)*, which is typically provided by your immediate supervisor.
- The *Activity* for the work/service you performed, which is typically provided by your immediate supervisor.
- The *Allocation Basis* that is the Cost Causative Allocator that **most closely reflects the underlying cost drivers** of the product or service based on the activity/companies identified (see the table of *Cost Causative Allocators* below).
- The *Benefitting Comp(s)* that is the combination of companies that benefitted from the work or service performed.

- b. Once all selections are accepted, the Internal Order(s) matching your search criteria are displayed in a list at the bottom of the search window.
- B2.** Follow the steps in SAP to add the correct Internal Order to your timesheet, expense report, or invoice.
- Note: If the correct accounting is not available after entering your search criteria, or if you are unsure which Internal Order to use, please contact your immediate supervisor or Decision Support person for guidance.*
- B3.** Go to step 4: *Follow the approved procedure to complete and submit your timesheet, expense report, or invoice.*

Cost Causative Allocators

| Type of Allocation | Typically Used By | Used When | Why? |
|---------------------------------------|--|---|--|
| Dollar Value of Property Owned | <ul style="list-style-type: none"> • Insurance • Property Group • Safety, Health & Environment | When not directly charged: Recommending strategies to optimize the use of the property portfolio, Property Tax calculations, Insurance needs related to the various facilities, and SHES Health and Environmental compliance audits at operating company facilities | <i>The resources required to provide these services, and the benefits derived by the individual Client Companies, are related to the dollar value of property owned.</i> |
| Number of Customers | <ul style="list-style-type: none"> • Accounting Services (Revenue Accounting) • Credit and Collections • Customer Meter Services • Operations Support • TDC (Customer Care) | Revenue accounting and reconciliations, Energy Products and Procurement, Energy Solution Delivery, Customer & Market Strategy, Lead Intake, Customer Analytics when not direct charged. Some TDC Customer Care, Credit and Collections, when not direct charged or call related | <i>The level of work is driven by, and the client companies benefit in proportion to, the number of customers or count of service meters by utility company.</i> |
| Number of Employees | <ul style="list-style-type: none"> • Corporate Affairs (Employee Communications) | When not directly charged: Employee communications, Payroll tax remittances, Safety and Health programs, | <i>The level of work is largely driven by, or the client companies benefit in proportion</i> |

| <i>Type of Allocation</i> | <i>Typically Used By</i> | <i>Used When</i> | <i>Why?</i> |
|-----------------------------------|---|---|---|
| | <ul style="list-style-type: none"> Employee Services/Payroll Human Resources Finance (Insurance) Finance (Tax) IT Desktop Support (of the Payroll systems) Safety, Health & Environment | communications and compliance audits at company facilities, payroll related activities, employee expense processing, and all HR activities | <i>to, the number of employees by Company.</i> |
| Total T&D Expenditures | <ul style="list-style-type: none"> COO Finance Business Partners (Finance Strategy) Network Strategy Safety, Health & Environment | <ul style="list-style-type: none"> Provide operating and capital budget decision support and management reporting activities including economic and financial analysis, and short and long-term financial forecasting Network Strategy activities other than vegetation management and 3rd party attachments | <i>The level of effort spent on behalf of, and the benefits received by, the Utilities these functional areas are substantially driven by and proportionate to the combined spend on T&D O&M and Capital.</i> |

C. General Allocator

This is typically used for products and services that directly benefit the National Grid USA enterprise, such as governance or business sustaining activities

C1. Use the **SERVICE COMPANY Employee Internal Order Search Tool** to locate the correct order for the work you performed.

a. Follow the steps in SAP to select:

- Your *Department (Cost Cent)*, which is typically provided by your immediate supervisor.

- The *Activity* for the work/service you performed, which is typically provided by your immediate supervisor.
 - The *Allocation Basis* that is the General Allocator described in the table below.
 - The *Benefitting Comp(s)* that is the combination of companies that benefitted from the work or service performed.
- b. Once all selections are accepted, the Internal Order(s) matching your search criteria are displayed in a list at the bottom of the search window.
- C2.** Follow the steps in SAP to add the correct Internal Order to your timesheet, expense report, or invoice.
- Note:** *If the correct accounting is not available after entering your search criteria, or if you are unsure which Internal Order to use, please contact your immediate supervisor or Decision Support person for guidance.*
- C3.** Go to step 4: *Follow the approved procedure to complete and submit your timesheet, expense report, or invoice.*

| <i>Type of Allocation</i> | <i>Typically Used By</i> | <i>Used When</i> | <i>Why?</i> |
|---------------------------|---|---|--|
| General (Indirect) | <ul style="list-style-type: none"> • ALL Service Company departments | Costs cannot be direct charged or allocated based on underlying cost drivers | <i>The new indirect general allocator is a Modified Massachusetts Formula consisting of Net Plant (1/3), Net Margin (1/3), and Net O&M Expenses (1/3).</i> |

14. Mid-Year Changes

If a significant organizational modification occurs in mid-year, allocation pools based on historical usage statistics would be reviewed and modified at that time. In this situation, allocations using predetermined rates would be modified and implemented as soon as the new rates can be revised and uploaded into SAP.

The Asset Recovery Charge is based on allowed returns on equity; consequently, at the time that rate case decisions are issued the new allowed return on equity will be used to update the calculation of the asset recovery charge. **Asset Recovery Charges** can be found on the U.S. Infonet site. See <http://us2infonet/sites/Finance/Pages/Allocations.aspx>

APPENDIX A

Additional Information & Policies and Procedures.

Additional information related & Policies and Procedures including (1) Sample Service Company Invoice, (2) Calculated Allocation Bases for current Fiscal Year, (3) Service Company Guidelines for Posting Journal Entries, and (4) Cost Allocation Compliance Program (CACP) and required training will be available on the infonet site. See <http://us2infonet/sites/Finance/Pages/Allocations.aspx>

Any related questions regarding the Cost Allocation Compliance Program (CACP) program can be directed to the CACP team at CostAllocationComplianceProgram@nationalgrid.com

