STATE OF NEW YORK

Public Service Commission

Garry A. Brown, Chairman

Three Empire State Plaza, Albany, NY 12223
Further Details: James Denn
james_denn@dps.state.ny.us | 518.474.7080
http://www.dps.state.ny.us

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NO RATE INCREASE FOR AVERAGE GRID CUSTOMERS' BILLS

—More Good News: Major Rate Decrease Anticipated in 2012 for Large Businesses—

Albany, NY—01/20/11—The New York State Public Service Commission (Commission) today voted to hold the average National Grid customers' electric delivery bills to a zero increase this year, while allowing the company an overall rate increase of approximately $112.7 million which is based on the company being allowed to earn a 9.1 percent return on equity. To accomplish a zero increase in average customers' electric delivery bills this year, the Commission postponed until next year the company's recovery in rates of certain expenses while at the same time allowing for a full recovery of all fixed competitive transition charges (CTCs).

"The Commission and its staff worked diligently to provide relief to National Grid ratepayers," said Commission Chairman Garry Brown. "In addition to freezing electric delivery for the average residential customer this year, we anticipate next year residential delivery rates will remain steady; meanwhile, commercial and industrial customers next year could see rate decreases of up to 50 percent, a move that will have a positive economic impact all across upstate New York."

Currently, a typical residential upstate National Grid customer using 500 kilowatts of electricity per month pays approximately $51.55 a month for delivery of electric service.

The fixed CTCs charge, which is set to expire at the end of the year, was established as part of Niagara Mohawk's 1998 rate plan and extended in 2002 as part of the merger of National Grid and Niagara Mohawk. The CTC was designed for the recovery of Niagara Mohawk's buy-out costs to end above-market priced federal and state mandated power supply contracts and the loss on the sale of Niagara Mohawk's generation assets.

In January 2010, National Grid filed a petition to increase its electric delivery revenues by $390.6 million for 2011. The Commission today determined that $112.7 million in revenues serves the reasonable needs of the company for this year. Included in the $112.7 million is $50 million of temporary rates that are subject to the results of the pending audit (Case 10-M-0451) of National Grid's service company expenses.

The increase in delivery rates is caused primarily by lower sales and revenues, higher operation and maintenance expense, and higher costs associated with increased plant investment, which were offset by lower capital costs as compared to the rates set when the Commission approved the National Grid merger in 2001.

The Commission was able to prevent an actual bill increase by postponing National Grid's recovery in rates of certain expenses such as post-employment benefits, major storm restoration costs, and site investigation and remediation costs, while at the same time allowing for a full recovery of all fixed CTCs for power supply contracts this year.

National Grid is the last of the electric distribution utilities required to implement a revenue decoupling mechanism (RDM) intended to address potential disincentives to utilities' promoting and implementing more efficient energy use. As with other utilities, National Grid will develop mechanisms that true-up annual forecast and actual delivery service revenues for all customer groups and classes.

The Commission decided to provide National Grid the opportunity to earn up to a 9.3 percent return on equity if the company commits to not filing a general rate increase before January 1, 2012. If the company does not make that commitment, the return on equity will be set at 9.1 percent. Both would be set on a 48 percent equity ratio. This return on equity is commensurate with the risks faced by the company, current interest rates and financial market conditions, and is required by investors to provide capital to National Grid.

Other Matters

The Commission also approved an increase of $3.7 million in funding for low-income assistance programs, to a total of $10.75 million. Low-income programs were strengthened by increasing monthly bill discounts for income-qualified electric heating customers and bill credits under the Affordability Program. National Grid will hire an additional Consumer Advocate to help assist eligible customers through the application process for low-income assistance.

The Commission continued and strengthened customer service performance and system reliability targets designed to ensure that customers receive high level of service and that outages are minimized to the greatest extent possible. If the reliability targets are not met, National Grid will be required to reduce the revenues from customers that it retains by up to approximately $12 million annually. There are up to an additional $6 million in operational performance revenue adjustments possible annually for a total of $18 million.

If the updated customer service performance measures are not met, National Grid will be required to reduce the revenues from customers that it retains by up to $15.4 million annually. Previously the revenue adjustment was set at $10.4 million annually.

The Commission provided National Grid $30 million annually in rates to perform environmental remediation in its service territory at locations polluted due to early activity in the energy industry in the late 1800s and early 1900s. The Commission also will require National Grid to be responsible for 20 percent of all costs above the $30 million annual allowance.

In addition, the Commission directed staff to propose the scope of a new proceeding to examine the experience of the company and of the other electric and gas utilities in the State with existing site remediation programs and identify opportunities and practices which could minimize the cost of these programs to ratepayers. In this examination, staff was also directed to reevaluate the distribution of such costs between electric and gas ratepayers and between ratepayers and the company.

The Commission approved National Grid's economic development grant program. The initiative is designed to attract, retain and expand eligible businesses in upstate New York. The underlying intent of the $9.1 million grant program is to maximize the efficient use of the utility's infrastructure and reduce the cost to serve all customers.

The Commission will issue a written order reflecting today's decision. That order, when available, can be obtained from the Commission's Web site at www.dps.state.ny.us by accessing the Search section of the homepage and referencing Case 10-E-0050. Many libraries offer free Internet access. Commission orders can also be obtained from its Files Office, 14th floor, Three Empire State Plaza, Albany, New York (518-474-2500).

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