

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.ny.gov | 518.474.7080

<http://www.dps.ny.gov>

<http://twitter.com/NYSDPS>

13004/10-M-0451

NATIONAL GRID ORDERED TO IMPLEMENT AUDIT RESULTS

— PSC Commences Further Review of Upstate Utility's Affiliate Finances —

Albany, NY—01/17/13—The New York State Public Service Commission (Commission) today ordered National Grid's New York utilities to more actively manage and control service company costs, including periodic competitive benchmarking of the costs of services purchased from affiliates to the cost of obtaining the services from alternative sources. The Commission also commenced a new proceeding to determine exactly how much New York ratepayers overpaid in rates for services rendered by affiliated service companies.

In 2010, the Commission commenced an independent audit of affiliate cost allocations, policies and procedures of National Grid USA as applied to its New York companies: Niagara Mohawk Power Corporation, Brooklyn Union Gas Company, d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation, d/b/a KeySpan Energy Delivery Long Island; and the following National Grid service companies: National Grid USA Service Company, Inc.; National Grid Corporate Services, LLC; National Grid Utilities Services, LLC; and National Grid Engineering and Survey, Inc.

There were two primary reasons for the Commission's desire to conduct a management audit of National Grid's service company affiliates. First, a 2009 PSC-mandated audit of Niagara Mohawk's electric business determined that the company had no effective means of managing and controlling the level and costs of services provided by its service companies. Subsequently, in the 2010 Niagara Mohawk's electric rate case, Department of Public Service staff presented testimony detailing alleged internal control deficiencies, misallocation of costs and questionable

transactions included in service company charges to Niagara Mohawk. These inaccurate cost allocations were reflected in the rates that the company had proposed, and, if no other adjustment had been made, would have been reflected in the 2011 revenue requirement.

Instead of simply putting the costs into the rates customers would pay, the Commission wanted to determine if any service company transaction cost allocation procedures resulted in unreasonable costs for the provision of delivery service to New York ratepayers. Thus, in 2011, the Commission made \$50 million of Niagara Mohawk's electric rates temporary subject to the results of this audit of service company expenses.

The Commission also wanted to determine if the earnings reported for sharing with ratepayers under the current rate plans for the other National Grid NY utilities included misallocated and inappropriate service company charges.

The now-completed independent examination performed by Overland Consulting covered these issues and provided the Commission with a report. Overland presented 10 recommendations primarily related to the accounting systems and internal controls of the National Grid service companies, their allocation of costs and the New York utilities' control and monitoring of these costs.

Based on the results of its service company transaction testing during the investigation, the auditor estimated that National Grid's New York utilities were overcharged \$44 million, and that an additional \$11.2 million in non-recurring charges should have been excluded from National Grid's most recent electric rates.

National Grid is directed to file an implementation plan with regard to the audit report recommendations. The implementation plan will be due 45 days from the issuance of the order. After the implementation plan is filed, the Commission will solicit public comment on it and may, in its discretion, order National Grid to implement some or all elements of the audit report recommendations. Although there appears to be general agreement between National Grid and

Overland concerning the recommendations, the filing process will help ensure that these recommendations are properly implemented.

The order also initiates a new proceeding to examine the independent auditor's estimate of overcharges for those New York utilities, and the purported nonrecurring charges included in electric rates, where there is the potential for a rate adjustment. The proceeding will provide all parties, including the company, the opportunity to examine and question the auditor's transaction testing results and statistical extrapolation methodology. The proceeding will provide a record that the Commission can use to determine if any adjustments ultimately are required for Niagara Mohawk's electric rates and the earnings sharing calculations for KeySpan Energy Delivery New York and KeySpan Energy Delivery Long Island.

The Commission's decision today, when issued, may be obtained by going to the Commission Documents section of the Commission's Web site at www.dps.ny.gov and entering Case Number 10-M-0451 in the input box labeled "Search for Case/Matter Number". Many libraries offer free Internet access. Commission orders may also be obtained from the Commission's Files Office, 14th floor, Three Empire State Plaza, Albany, NY 12223 (518-474-2500). If you have difficulty understanding English, please call us at 1-800-342-3377 for free language assistance services regarding this press release.