

Rhode Island gas rate plan

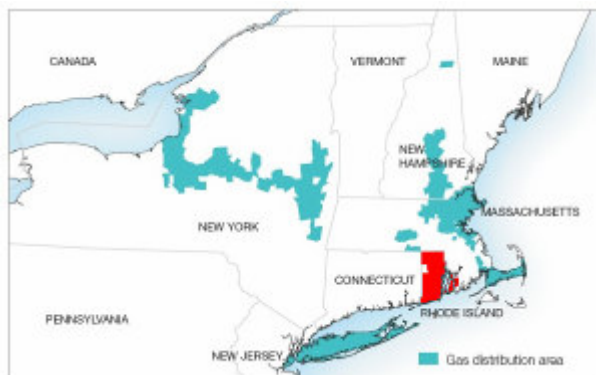
Investor update February 2009

nationalgrid

The power of action.™

The Rhode Island Public Utilities Commission has issued a decision on National Grid's Narragansett gas distribution rate case, filed 1 April 2008.

This fact sheet gives an overview of the order and highlights the key facts.



\$13.7m base delivery rate increase approved:

The decision increased base delivery rates by 10.9% over previous levels, effective 1st December 2008.

This equates to a total bill increase of ~3.4% on average assuming no change in gas costs.

- ◆ When combined with expected decreases in gas costs, total customer bills may actually decrease by a net ~4%.
- ◆ A 10% low income customer discount was also approved.

10.5% base allowed nominal return on equity:

This is based on an assumed equity ratio of 47.7% and a rate base of approximately \$286m. Together with specific cost of debt assumptions of:

- ◆ 7.99% cost of long-term debt.
- ◆ 3.91% cost of short-term debt.

this is equivalent to an overall rate of return of 9.27%.

Earnings sharing mechanism above 10.5% RoE:

- ◆ The first 100 basis points of earnings incremental above a 10.5% RoE are split 50/50 between customers and shareholders.
- ◆ Earnings above an 11.5% RoE are shared 75/25 between customers and shareholders.
- ◆ This calculation excludes the share of net synergy savings from the KeySpan merger.

Annual opex & capex allowance reconciliation:

The rate order provides for an annual operating expenditure allowance of approximately \$80m and accepted our capital expenditures forecast of approximately \$98 million for the two year period ended September 2009.

The order also provides for annual reconciliation mechanisms that true-up for variances and reduce risk in certain operating and capital expenditures. Variances in these costs from the levels allowed for in rates are recovered or passed back to customers:

- ◆ 100% recovery of all pension and other post retirement benefit expense.
- ◆ 100% recovery of environmental remediation expenses (net of insurance proceeds).
- ◆ 100% of revenue requirements on capital expenditures below the level allowed in the approved rate base to be credited to customers.
- ◆ Accelerated pipe replacement programme – recovery of the revenue requirements associated with incremental capex not included in rate base to replace bare and unprotected coated steel mains and high pressure inside services to the extent earnings are less than a 10.5% RoE.

Other items further reduce risk:

- ◆ The rate order provides a 2.46% 'bad debt' recovery allowance and true-up for changes in 'bad debt' related to changes in gas costs.
- ◆ Weather normalisation provides for rate adjustments if actual weather is more than 2% colder or warmer than normal. The commission decided not to proceed with volume-revenue decoupling at this time.

