

Massachusetts Gas: Boston Gas & Colonial Gas

Investor Relations | October 2018

"This rate case order – the first since 2010 – helps us continue to meet our public safety obligations, while also funding investments that modernize our gas business, improving our performance for the benefit of our customers and communities."

Marcy Reed, National Grid President for Massachusetts

National Grid and Massachusetts Gas

- National Grid's Massachusetts Gas business comprises Boston Gas and Colonial Gas



- Over 900,000 gas customers
- Over 1,300 employees
- Over 11,000 miles of gas mains
- Regulated by Massachusetts Department of Public Utilities

	Equity/Debt (%)	Allowed RoE	FY18 Achieved RoE
Mass Gas (previous agreement)	50/50	9.75	6.6%

Rate Case / Regulatory History

- 2010** Last rate case was effective on November 2, 2010 and based on a historic test year of calendar year 2009. The 2010 rate case increased base distribution rates, implemented revenue decoupling, included recovery for accelerated replacement of cast iron and steel mains and extended the Boston Gas pension and PBOP reconciliation mechanism to Colonial Gas.
- 2015** On April 30, 2015 the Massachusetts DPU issued an order implementing a new recovery mechanism for leak-prone natural gas pipeline outside of base rates.

Customer impact¹

- Boston Gas:** Average net increase in typical residential gas bill of 8% or \$88 annually
- Colonial Gas:** Average net increase in typical residential gas bill of 4% or \$38 annually

1. Customer bill impacts calculated by MA DPU. Final customer bill impacts will be approved in the Company's compliance filing and established on 1 November

Meeting our commitments since the last rate case in 2010

- Capital investments of more than \$2bn to modernize the networks
- Replaced 628 miles of leak prone pipe since 2014 with an additional 155 miles expected in 2018
- Progressed major projects including the \$120m modernization of the Commercial Point LNG site
- Investing at significantly increased levels in the area of gas growth to connect new customers and increase supply to existing customers

Key elements of rate case

	Request	Achieved (before tax reform)	Achieved (adjusted for tax reform)
Mass Gas revenue increase	\$87m	\$56m	\$12m

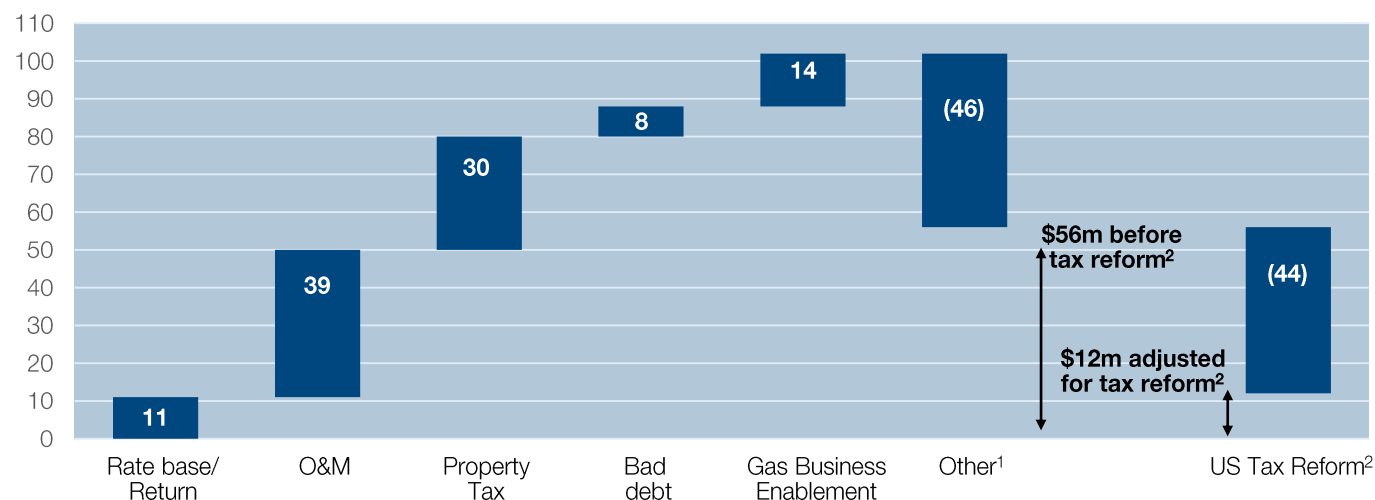
- ROE of 9.5%
- Debt:equity structure of 47%/53%
- Incremental O&M of \$91m, excluding pension funding
- Filing supports capital investment of over \$413m including \$257m which will be recovered under the existing Gas System Enhancement Plan
- Approval for an incremental 138 FTEs to meet our work plans over the next five years including enhanced gas main replacement, repair work, and overtime reduction
- Amortization and recovery of protected accounts receivable >360 days (\$20.3m to be collected over five years)
- Funding to modernize the IT infrastructure that supports our core gas distribution operating capabilities
- Fully reconciling cost recovery of MA Gas allocation of the \$458m Gas Business Enablement program
- Positive outcome on returning excess ADIT associated with US Tax Reform; Protected ADIT over 50 years and Unprotected ADIT over 20 years with the ability to true up to actuals
- Enhanced property tax recovery; new recovery methodology is more reflective of expected rate year expenses
- Rates effective from 1 October; however new rates will be billed starting 1 November to minimize customer impacts.

Financing assumptions

	Cost of equity	Cost of debt	Weighted average cost of capital	Assumed equity capitalization
Boston Gas	9.5%	4.20%	7.01%	53%*
Colonial Gas	9.5%	4.56%	7.18%	53%*

* Increased from 50%

Revenue increase (\$m)



1. Represents O&M and Property Taxes that were previously recovered through separate tracking mechanisms

2. Relates to \$36m tax reform, and \$8m accounting adjustment for Administrative & General expenses

Capex and opex

Capex

- Filing supports capital investment of over \$413m including \$257m which will be recovered under the Gas System Enhancement Plan tracker
- Rate base updated to include all investments since last rate case in 2010
 - Rate Base: Boston - \$1.73b / Colonial - \$410m

Opex

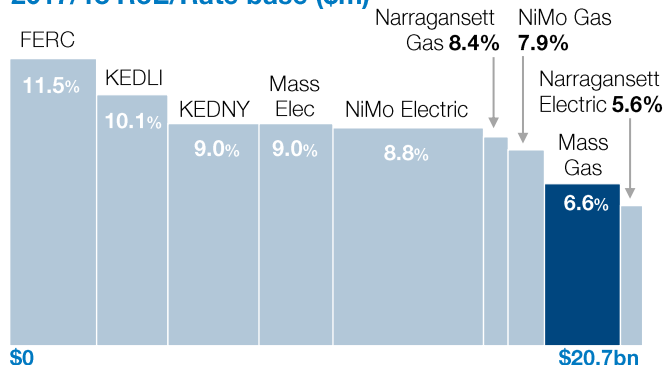
\$91m increase reflects:

- Updating our core operating costs
- Funding for an additional 138 FTEs
- Full reconciling funding for post test year Gas Business Enablement

Timetable

November 2017	Proposal filed
Spring / Early Summer	Evidentiary Hearings
Late September 2018	Commission order
October 2018	New rates effective
November 2018	New rates billed

2017/18 RoE/Rate base (\$m)



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