

Rhode Island: Narragansett Electric and Gas

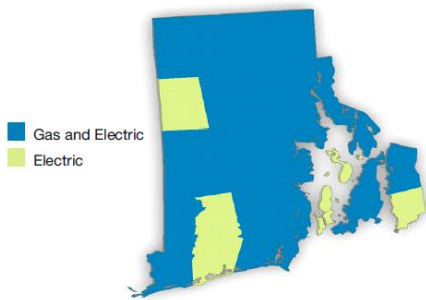
Investor Relations | June 2018

“The settlement agreement we have reached with the Division of Public Utilities and Carriers to reset electricity and gas delivery prices in Rhode Island is a major step forward. This three year plan reflects the shared energy goals we have with the state, demonstrating our commitment to promoting more renewable forms of energy, providing greater assistance to income-eligible customers, and modernizing the grid. It also ensures that we can continue to bring energy to life for our customers in a safe, reliable, and cost-effective manner.”

Tim Horan, National Grid President for Rhode Island

National Grid and Rhode Island Electric and Gas

- National Grid acquired Narragansett (electric) in 2000 and (gas) 2006
- Rhode Island electric and gas distribution utility



- Nearly 500,000 electric customers and almost 270,000 gas customers
- Over 950 employees working in Rhode Island
- 6,500 miles electric distribution lines
- 3,200 miles gas mains
- Regulated by the Rhode Island Public Utilities Commission

	Equity/Debt (%)	Allowed RoE	FY18 Achieved RoE
Electric	49/51	9.5%	5.6%
Gas	49/51	9.5%	8.4%

Rate Case / Regulatory History

2012-2013 Last rate case settlement was effective in February 2013 based on a historic test year of calendar year 2011. The rate case settlement increased base distribution revenues, extended the pensions reconciling mechanism to Electric, implemented funding for the Storm Fund, and modified the property tax calculation for inclusion in the Infrastructure, Safety and Reliability Mechanism.

2012-2017 Annually, both the Electric and Gas operating companies have filed Infrastructure, Safety and Reliability (ISR) plans to recover capital expenditures.

Meeting our commitments . . .

. . . since the last rate case was approved in 2013

- Capital investments of more than \$800m to modernise the gas and electric networks
- Replaced over 290 miles of leak prone pipe
- Invested in major improvements to more than 24 electric substations and 117 miles of distribution lines
- Continued to provide safe and reliable service to our customers through improved electric reliability, decreased gas leak rates and faster restoration times during major storm/emergency events

Key elements of the rate case settlement

- Three-year settlement with revenue increases in each year

	Request ¹	RY1 ²	RY2	RY3	Total
Electric Annual	\$25.3m	\$19m	\$8m	\$4m	
Electric Cumulative		\$19m	\$27m	\$31m	\$77m
Gas Annual	\$15.7m	\$7m	\$6m	\$4m	
Gas Cumulative		\$7m	\$13m	\$17m	\$37m

¹After adjusting for the lower US tax rate and including Power Sector Transformation initiatives of \$6m.

²RY is the Rate Year, commencing 1 September 2018

- Allowed Return on Equity (RoE) of 9.275% for Electric and Gas
- 51%/49% Equity/Debt
- \$240m capital programme fully funded annually via the Infrastructure, Safety, and Reliability plans
- Recovery of Gas Business Enablement (GBE) and IS costs
- A reopener in base rates in RY2 and RY3 for recovery of Advanced Metering and Grid Modernization costs approved by the Commission during the three year rate plan
- Introduces new upside only Performance Incentives Mechanisms of 30-50 bps, and new electric capex incentive (upside and downside)
- Funds 206 new full-time positions over the next three years

Customer impact

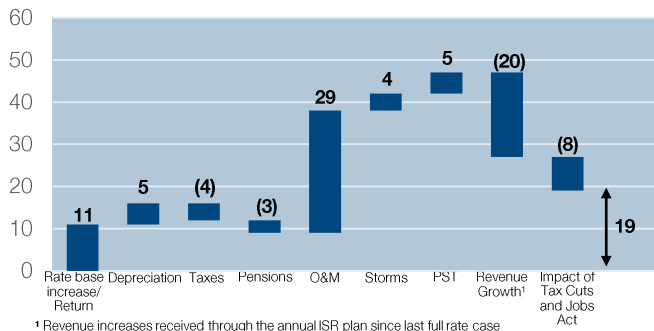
- **Narragansett Electric:** Typical residential electric customers will see an average net bill increase of **4%** or **\$4.27** monthly

- **Narragansett Gas:** Typical residential gas heating customers will see an average net bill decrease of **\$2.01** across the year (with bill increases for commercial customers)

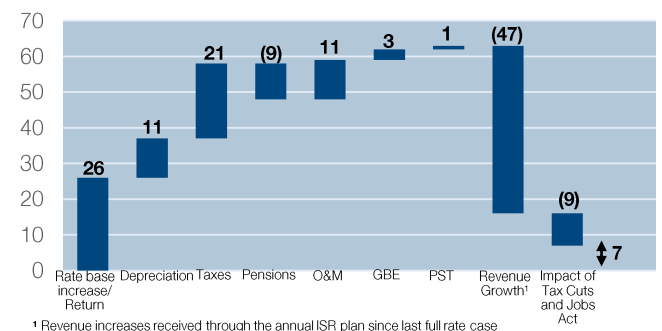
Narragansett Electric and Gas financing assumptions

	Cost of equity	Cost of debt	Rate of return	Assumed equity capitalization
Narragansett Electric	9.3%	4.69%	6.97%	51%
Narragansett Gas	9.3%	5.10%	7.19%	51%

Electric revenue increase RY1 (\$m)



Gas revenue increase RY1 (\$m)



Electric capex and opex

Capex¹

- Capital investment of approximately \$103m for FY19
- Includes asset condition, reliability and mandated projects and programs
- Investments of \$40m in System Capacity and Performance, and \$30m in Asset Condition replacement projects
- Capital costs associated with Power Sector Transformation

Opex

- Operating expense increase reflects:
- Updating our core operating costs
 - Funding for an additional 68 FTEs
 - Investment in IT infrastructure
 - Operating costs associated with Power Sector Transformation
 - Enhanced customer outreach

¹ Capital expenditures for both electric and gas are recovered outside of base distribution rates via the Infrastructure, Safety and Reliability plans.

Gas capex and opex

Capex¹

- Capital investment of approximately \$137m
- Includes growth, mandated and reliability programs
- Investments of \$28m in growth and \$64m for leak prone pipe

Opex

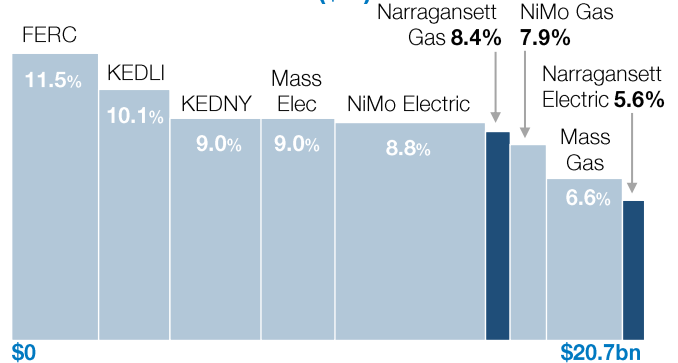
- Operating expense increase reflects:
- Updating our core operating costs
 - Funding for an additional 71 FTEs
 - Gas Business Enablement Program
 - Enhanced customer outreach
 - New compliance requirements

¹ Capital expenditures for both electric and gas are recovered outside of base distribution rates via the Infrastructure, Safety and Reliability plans.

Timetable

November 2017	Rate case filed
Spring 2018	DPUC initial response
May 2018	Evidentiary hearings
August 2018	Commission decision
September 2018	New rates effective

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



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