



April 12, 2010

Honorable Jaclyn A. Brillling, Secretary
State of New York
Public Service Commission
Office of the Secretary, 19th Floor
Three Empire State Plaza
Albany, New York 12223-1350

Re: Case 08-G-0609 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of the Niagara Mohawk Power Corporation for Gas Services

Dear Secretary Brillling:

The enclosed tariff leaves, issued by Niagara Mohawk Power Corporation, d/b/a National Grid ("Niagara Mohawk" or "the Company"), are transmitted for filing in compliance with the requirements of the Public Service Commission and the Commission's "Order Adopting The Terms of a Joint Proposal and Implementing a State Assessment Surcharge" (the "Rate Order") issued May 15, 2009 in Case 08-G-0609:

Seventh Revised Leaf No. 124
Sixth Revised Leaf No. 129
Fifth Revised Leaf No. 133
Ninth Revised Leaf No. 141
Seventh Revised Leaf No. 150
Fifth Revised Leaf No. 154
Fourth Revised Leaf No. 215.1
Seventh Revised Leaf No. 216
Revenue Decoupling Mechanism Statement No. 2

To P.S.C. No. 219 Gas
Effective May 20, 2010

The rates set forth in the enclosed tariff leaves are designed to increase the Company's revenues from gas operations by \$13,883,000 or 1.7% during Rate Plan Year 2, which is the period May 20, 2010 through May 19, 2011. In addition to the enclosed tariff sheets, also attached to this filing are the following exhibits:

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1. Exhibit 1 consists of a summary and 4 schedules. The summary consists of two sheets. Sheet 1 contains a Statement of Gas Operating Income setting forth the Company's projected operating income in Rate Plan Year 2 after the proposed additional revenue increase. Sheet 2 sets forth a summary of the adjustments that support the filed revenue increase. Schedule 1, which consists of 3 sheets, sets forth the revised amount of pension expense for Rate Plan Year 2. Schedule 2, which consists of 3 sheets, sets forth the revised amount of other post-employment benefit ("P&OPEB") expenses for Rate Plan Year 2. Schedule 3, which consists of 1 sheet, sets forth the revised amount of site investigation and remediation ("SIR") expenses for Rate Plan Year 2. Finally, Schedule 4, which consists of 2 sheets, sets forth the revised amount of property taxes for Rate Plan Year 2;

2. Exhibit 2 contains the workpapers that support Exhibit 1.

3. Exhibit 3 contains 4 schedules for each step of the two-step rate design (described below) and one schedule for the recalculation of the targets for the revenue decoupling mechanism. For step one (revenue-neutral change in SC-1 customer charge), Schedule 1 is the summary of allocation of present and proposed revenues; Schedule 2 is the summary of present and proposed rates; Schedule 3 is the analysis of present and proposed rates; and Schedule 4 presents the bill impacts from step one. For step two (allocation of revenue increase), Schedule 5 summarizes the present and proposed revenues; Schedule 6 is a summary of present and proposed rates; Schedule 7 is an analysis of present and proposed rates; and Schedule 8 presents the bill impacts from step two. Schedule 9 presents the updated calculation of the targets for the revenue decoupling mechanism.

Under the Rate Order, the Company is required to make this filing to revise its rates in Rate Plan Year Two for revised property taxes, P&OPEB expenses and SIR costs. To determine the revised amount of property taxes, the Company began with total actual tax year 2009 city and school utility operating taxes and total actual 2010 State,¹ Town and County utility operating taxes. The Company escalated these tax amounts by applying the average actual percentage increase in these taxes over the five-year period 2005-2009. The escalation applies pro rata to the tax expense in those months of Rate Plan Year Two that are not reflected in the actual taxes. In accordance with the Rate Order, Rate Plan Year 2 gas property taxes are 21.49% of the Company's total forecast property taxes.

To determine the revised level of P&OPEB expenses, the Company relies upon the separate reports prepared by the Company's actuary for (i) Niagara Mohawk employees working

¹ State taxes include special franchise taxes.

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for the Company, (ii) Niagara Mohawk employees working for the service company,² and (iii) non-Niagara Mohawk employees working for the service company. For Niagara Mohawk employees working for the Company, revised P&OPEB expenses, exclusive of separation and early retirement costs, were determined as follows:

(i) the total P&OPEB expenses from the year ending March 31, 2011 were determined by the Company's actuary;

(ii) this total was reduced by P&OPEB expenses for four consumer advocates;

(iii) 17% of this difference was then allocated to the Company's gas operations; and

(iv) the resulting amount was reduced by 31.5402% to reflect the fringe benefit capitalization percentage.

For Niagara Mohawk employees working for the service company and non-Niagara Mohawk employees working for the service company, the updated P&OPEB expenses were calculated as follows:

(i) the total P&OPEB expenses, exclusive of separation and early retirement costs, were determined by the Company's actuary for the year ending March 31, 2011;

(ii) 25.76% of this amount was allocated to Niagara Mohawk; and

(iii) 17% of this total was allocated to Niagara Mohawk's gas operations.

The updated SIR costs equal 15% of the Company's total SIR costs, exclusive of internal labor costs, incurred in the year ended March 31, 2010.

The rates included in the enclosed tariff leaves are designed as required by the Rate Order. As stated in Section 2.3.2 of the Joint Proposal dated February 13, 2009 and adopted in the Rate Order, the revenue allocation and rate design for the change in revenue in Rate Plan Year 2 is a two-step process. The first step is a revenue neutral change that increases the customer charge for Service Classification No. 1 from \$17.45 to \$17.85, including the Low Income Program customer charge, with an offsetting decrease to the energy blocks to make the change revenue neutral. The second step reflects the allocation of the change in revenue to

² The service company P&OPEB expenses reflected in the proposed Rate Plan Year 2 revenue requirement include only those incurred from the National Grid USA Service Company. No P&OPEB expenses incurred by Niagara Mohawk from the KeySpan Service Companies are included. However, to the extent that P&OPEB costs are properly incurred by Niagara Mohawk from the KeySpan Service Companies, such costs will be accounted for in the same manner as other P&OPEB expenses incurred by the Company under the Commission's Statement of Policy on Pensions and Other Post-Employment Benefits.

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Service Classification Nos. 1, 2, 3, 5, 7, 8 and 12³ on the same basis as the change in revenue for Rate Plan Year One – May 20, 2009 – May 19, 2010. This change in revenue is applied to the energy blocks only.

Schedule 9 of Exhibit 3 includes updated revenue per customer factors for the service classifications that have a revenue decoupling mechanism. The updated factors are contained on Revenue Decoupling Mechanism Statement No. 2.

Newspaper publication will be made on April 28, May 5, 12, and 19, 2010 in accordance with the provisions of Section 66(12) of the Public Service Law and 16 NYCRR 720.8.

As the enclosed tariff leaves are being submitted in compliance with the Rate Order, Niagara Mohawk respectfully submits that notice of this filing under the State Administrative Procedure Act ("SAPA") is not required. Nonetheless, for your convenience in the event you determine otherwise, we attach an emergency SAPA notice to allow the Commission to act before the Rate Plan Year 2 rates go into effect May 20, 2010.⁴

Should you have any questions or concerns regarding this filing, please contact me at (718) 403-2975 or at Dawn.Herrity@us.ngrid.com.

Very truly yours,

Dawn Herrity
Lead Analyst
Gas Pricing

Cc: Active parties in Case 08-G-0609 (by electronic mail)

/DH

Attachments

³ Niagara Mohawk is also filing a revised leaf for Service Classification 13—Distributed Generation-Residential. This service classification was omitted from Section 2.3.2 of the Joint Proposal because, at the time it was executed, there were no customers taking service under SC-13. Presently, there are two SC-13 customers. Niagara Mohawk has updated the SC-13 rate by applying to the existing rate the same percentage increase that applied to the smallest customer in SC-12—Distributed Generation-Non-Residential pursuant to Section 2.3.2 of the Joint Proposal.

⁴ In the event that the Commission does not approve the revised rates to be effective May 20, 2010, Niagara Mohawk requests that it be afforded the ability to recoup any lost revenues that may arise from delayed approval of the Company's filing. *See e.g.* Case 94-G-0827, *Compliance filing of Long Island Lighting Company Pursuant to Order Issued December 23, 1993* in Case 93-G-0002 (Second Stage Gas Rate Increase) (December 2, 1994).