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NIAGARA MOHAWK POWER CORPORATION

D/B/A NATIONAL GRID

CASE NO. 10-E-0050

COMPLIANCE FILING REGARDING THE IMPLEMENTATION PLAN OF MANDATORY HOURLY PRICING FOR CUSTOMERS BETWEEN 250 kW AND 500 kW DEMAND

MARCH 10, 2011

Received: 03/10/2011

I. PURPOSE OF FILING

Niagara Mohawk Power Corporation d/b/a National Grid (the "Company") respectfully submits this filing in compliance with the January 24, 2010 Order of the New York State Public Service Commission ("Commission") in Case 10-E-0050 ("2010 Rate Case"). In that Order, the Commission approved the Rate Design, Customer and Markets ("RDCM") Stipulation entered into between the Company, the Staff of the Department of Public Service, and the New York Power Authority. [1]

In Section F of the RDCM Stipulation, the Company agreed to extend Mandatory Hourly Pricing ("MHP") to customers receiving electric service under Service Classification No. 3 ("SC-3) of the Company's Tariff PSC No. 220 with billing demands of 250 kW to 500 kW for six (6) consecutive months in the twelve (12) month period ending December 2010 ("Qualifying Customers"). In addition, the Company also agreed to make a filing within 45 days of the date of the Commission's order in the 2010 Rate Case setting out the Company's proposal for the recovery of participant and non-participant costs associated with this extension of MHP in accordance with the provisions of the RDCM Stipulation. The Company's filing presents its proposals regarding the recovery of these costs, along with proposed revisions to Special Provision L of SC-3 to provide for the expansion of MHP to Qualifying Customers.

II. BACKGROUND

Over the past several years, the Company has implemented MHP for all of its Commercial & Industrial ("C&I") customers with maximum billing demands in excess of 500 kW. The initial roll-out of MHP occurred in 1999 and consisted of transitioning the Company's 290 largest

[1] The RDCM Stipulation was entered into the record in the Company's 2010 Rate Case as Exhibit No. 393.

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customers served on Service Classification No. 3-A ("SC-3A")[2] onto MHP. Customers receiving delivery service under SC-3[3] began transitioning onto MHP in 2006 in compliance with the Commission's April 24, 2006 Order approving the Company's proposal to develop a phased-in approach for implementing MHP to SC-3 customers in Case No. 03-E-0641. The first phase transferred SC-3 customers with billing demands at or above 500 kW onto MHP. Consequently, the Company has already implemented MHP for all SC-3 customers with billing demands over 500 kW, except for exempt customers with individual contracts under Service Classification Nos. 11 and 12 and customers participating in the Company's Economic Development programs who have not elected to opt into MHP. This filing represents the next phase of implementing MHP to SC-3 customers by extending it to non-exempt Qualifying Customers.

III. IMPLEMENTATION

A. Eligible Customers

Based on 2010 billing data, the Company has identified 991 Qualifying Customers. Of these 991 Qualifying Customers, 37 are currently exempt from MHP for the reasons discussed in Section E below.

B. Metering Technology and Installation

The Company has determined that the following interval meter types should be used to provide MHP service to Qualifying Customers: (1) Landis+Gyr AXRS4e with the Metrum cellular communication device ("Landis+Gyr"); and (2) General Electric ("GE") kv2c meter incorporating

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[2] SC-3A customers must generally have monthly billing demands in excess of 2,000 kW.

[3] The Company serves approximately 4,600 C&I customers under Service Classification No. 3. The billing demands of these customers range from 100 kW to 1,999 kW.

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Trilliant's CellReader module for revenue metering purposes. The Company is in the process of obtaining Department of Public Service ("DPS") approval for use of the GE meter and will coordinate the GE approval process, purchasing the Landis+Gyr meters, and preparing the order for the GE meter, in order to leverage the best price and availability between these two meter types. Based on information provided by the vendors, there is currently a ten to twelve week lead time from the date an order is submitted to delivery of both types of meters. The Company intends to complete installation of these interval meters on or before June 1, 2012.

B. Outreach and Education

Once meter installation is complete, by approximately June 2012, non-exempt Qualifying Customers will be subject to the incremental customer charge discussed in detail in Section IV. The Company will also contemporaneously begin its program of 20 Outreach and Education ("O&E") seminars spread proportionately across its service area. In addition, the Company will provide non-exempt Qualifying Customers with access to their hourly usage data through Energy Profiler Online ("EPO") service. This service will be provided to non-exempt Qualifying Customers at no charge for a period of up to 12 months, from approximately June 1, 2012 ending no later than May 31, 2013. This will provide non-exempt Qualifying Customers with access to their usage information such that they may learn how to efficiently manage their loads under MHP.

As described in the "For Your Business" portion of the Company's website, the EPO service is an optional service that allows customers access to their hourly energy usage history. It provides customers with the capability to:

- Review load shapes by day, week and month, and compare them with the hourly energy supply prices for that particular time interval.
- Improve budgeting and reporting capabilities.

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- Restrict access to the information –it is password protected.
- Manage energy consumption—identify what's typical and atypical usage.
- View load profiles, usage history and information for multiple sites from previous months or years.
- See the results of energy efficiency and conservation efforts at each site.
- Use the load data information to inform selection of power suppliers.

The Company proposes to send three mailings to Qualifying Customers. The first mailing will provide background information on the MHP program and advise the customer that a new interval meter may be required at their facility. The second mailing, to take place after the installation of all required meters, will invite customers to attend one of the Company's O&E seminars. The third mailing will notify Qualifying Customers of the date on which MHP billing will commence and provide them with details on how to continue to receive the EPO service for a fee.

MHP billing will commence for all Qualifying Customers that do not qualify for one of the exemptions described in Section E below beginning with their June 2013 bill cycle. At this point, Qualifying Customers will have had access to their hourly data for up to 12 months and will have been afforded the opportunity to attend an O&E seminar. When actual MHP billing commences, as discussed below, these customers will be provided the opportunity to subscribe to the EPO service on a going forward basis as discussed above. Currently, the cost of a subscription to the EPO service is $600 per year. The initial EPO subscription will run for the balance of the calendar year and the annual subscription cost will be prorated for the remaining months of that year.

C. Voluntary Hourly Pricing

As set forth in the RDCM Stipulation, the Company commits to begin a Voluntary Hourly Pricing Program immediately upon completion of the O&E described in section B above. The

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Company will submit a proposal regarding implementation of the Voluntary Hourly Pricing Program for Commission approval.

D. Implementation Timeline

The Company's targeted implementation timeline is as follows:

Date	Activity
Spring 2011	DPS Staff approval of GE kv2c meter
Summer 2011 to June 1, 2012	Complete meter installation and first customer communications.
Shortly After Meter Installation Date to May 31, 2013	Provide EPO service to all non-exempt Qualifying Customers, second customer communications, conduct O&E seminars, develop Voluntary Hourly Pricing proposal, and third customer communications.
Billing Month of June 2013	Commencement of hourly commodity billing for all non-exempt Qualifying Customers.

E. MHP Electric Commodity Billing and Exemptions

All non-exempt Qualifying Customers will be billed for electric supply service based on their actual hourly usage beginning with the June 2013 billing cycle. As of December 2010, 37 customers are exempt from MHP consisting of customers participating in an economic development program — such as taking service under a SC-12 contract, receiving an allocation of NYPA power, or taking service under the Empire Zone Rider. These otherwise Qualifying Customers will become subject to hourly commodity billing when their existing economic development contracts, NYPA power allocation entitlements, or Empire Zone Riders expire, or if they affirmatively elect to participate in MHP prior to that expiration.[3]

[3] Qualifying Customers that enter into economic development contracts, receive NYPA power allocations or take service under the Empire Zone Rider between December 31, 2010 and May 31, 2013 may be exempt from MHP upon request by the customer upon 30 days written notice to the Company. MHP exemption will continue until their economic development contracts, NYPA power allocations or Empire Zone Riders expire or they affirmatively elect to participate in MHP prior to that expiration.

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MHP customers will continue to be billed for commodity based on their actual hourly usage even if their demand falls below 250 kW for six consecutive months. All customers not subject to mandatory or voluntary MHP will continue to be billed for commodity service based on the weighted average of hourly energy supply market prices as described in Rule 46.

IV. COST RECOVERY PROPOSAL

As provided in the RDCM Stipulation, the Company is authorized to recover participant costs associated with the expansion of MHP through an incremental customer charge. The RDCM Stipulation also authorizes the Company to recover its non-participant costs including but not limited to O&E costs. O&E costs shall be limited to the costs associated with 20 customer training sessions.

A. Participant Costs

Attachment 1 to this filing provides, in part, an analysis and estimate of participant costs and sets forth the assumptions used to develop that estimate. Consistent with the methodology utilized to estimate the metering costs and incremental customer charge established in response to the Commission’s April 24, 2006 Order, the Company proposes to establish an incremental monthly customer charge of $43.46 to recover metering-related participant costs. This charge will recover the $1,657 per unit[4] up-front cost to install new meters/communication links, including materials, labor, transportation and sales tax for each participating customer over a 20 year life as provided in the RDCM Stipulation. The monthly incremental customer charge also includes the Company’s cost of capital and the on-going cost of the communication link and data validation

[4] Attachment 1, Schedule 1, (Column B, Line 1 + Column B, Line 4) ÷ (Column B, Line 20) = ($1,426,907 + 154,155) ÷ 954 = $1,657 per meter.

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required to ensure accurate billing. Similar to the base customer charge, the incremental monthly customer charge is consistent with the principles of cost causation. Any costs used to develop this rate that are deemed to be a re-allocation of existing costs already embedded in rates (Attachment 1, Schedule 1, Column D), will be credited back to SC-3 customers through the Revenue Decoupling Mechanism ("RDM") as discussed below. Attachment 1, Schedule 1, Column B summarizes the metering-related costs associated with the participant customers. Schedules 2 and 3 show the assumptions used to derive the estimated costs. Schedules 4 and 5 show the assumptions and intermediate calculations that the Company used to establish the annual revenue requirement for the incremental customer charge and credit for both total and non-incremental participant costs (Columns B and D, Lines 19 and 21 of Schedule 1, respectively).

The estimates used for participant costs result in an incremental customer charge of $43.46, which the Company is proposing to begin charging non-exempt Qualifying Customers in the billing cycle of June 2012 to coincide with the completion of the installation of the MHP meters. Currently, SC-3 MHP customers incur an incremental customer charge of $43.77. However, in order to maintain equitable incremental customer charges for all SC-3 MHP customers, the Company proposes to implement a single incremental customer charge of $43.46 for all MHP customers. Under this proposal, MHP SC-3 customers with billing demands in excess of 500 kW would receive a reduction in their incremental customer charge of $0.31, also effective for the billing cycle of June 2012. As a result of this reduction, the Company would be recovering approximately $3,047 less revenue in support of its investment in MHP metering equipment associated with those customers on an annual basis. However, the operation of the RDM will capture that lower billed revenue, thereby ensuring the Company will continue to recover its MHP metering investment via the RDM.

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In addition, the Company proposes to adjust the RDM annual revenue target associated with the SC-3 reconciliation group to reflect the additional revenue requirement associated with the portion of the incremental customer charge for the new SC-3 MHP customers that represents incremental costs not currently recovered in base rates. As shown on Schedule 1 of Attachment 1, the Company has identified that $21.47 (Column D, Line 21) of the proposed $43.46 incremental customer charge is not an incremental cost to the Company.[5] The Company therefore proposes to increase the RDM annual revenue target for the SC-3 reconciliation group only by the incremental costs of $21.99 ($43.46 less $21.47) times the number of actual new SC-3 MHP customers measured immediately prior to the commencement of billing the incremental customer charge, which the Company intends to occur in the billing cycle of June 2012. The Company estimates that it will have 954 non-exempt Qualifying Customers, which equates to a monthly increase in the RDM target of $20,978. In addition, when Voluntary Hourly Pricing is implemented, a similar adjustment to the RDM target for the applicable reconciliation groups should be performed in the same manner.

B. Non-Participant Costs (Other Implementation Costs)

In addition to the approximately $1.6 million in up-front costs to install interval meters/communication links for Qualifying Customers (Attachment 1, Schedule 1, Column B, Line 10), the Company estimates another $0.6 million in one-time program implementation non-participant costs (Attachment 1, Schedule 1, Column C, Line 10). These costs include the costs:

- to install 50 new survey meters necessary to maintain an accurate load shape used to bill SC-3 customers who are not eligible for MHP (Column C, Line 2);

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[5] Because the Company will not employ outside contractors or purchase or lease additional vehicles to extend mandatory hourly pricing to SC-3 customers, but largely redeploy labor and transportation equipment from other activities, these costs are considered non-incremental.

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- to purchase additional meters and communication equipment to meet the implementation schedule (Column C, Line 4);
- to plan and conduct 20 O&E seminars, develop educational materials, and to manage the overall hourly pricing expansion effort (Column C, Line 5);
- to program and test new rates into the billing systems, revise load shapers, determine eligibility, and evaluate customer impacts (Column C, Line 6 and 8);
- to provide participants usage data through the EPO service at no charge (Column C, Line 9).

In addition to these up-front costs, the Company will also incur approximately $20,000 of on-going annual communication and data validation costs associated with meters installed for survey purposes (Column C, Line 15). The Company is proposing to recover from all customers only those implementation costs that: (1) are not collected from participant customers and (2) do not reflect a re-allocation of the Company's existing resources that are already being recovered from customers in rates.

Total non-participant costs are estimated on Attachment 1, Schedule 1, Column C. The associated non-incremental costs are estimated on Attachment 1, Schedule 1, Column E, with the net incremental non-participant costs being estimated in Attachment 1, Schedule 1, Column F. The Company proposes to account for the incremental non-participant costs through a deferral mechanism (trued up to actual costs thereafter), and will address its recovery in the next rate proceeding. The costs to be included in the deferral include the one-time capital costs of approximately $75,000 (Column F, Line 17a), the one-time operating costs of approximately $94,000 (Column F, Line 17b) and on-going operating costs of approximately $7,000 (Column F, Line 18). Schedule 6 estimates the assumptions and intermediated calculation that the Company used to establish the annual revenue requirement for the non-participant incremental costs.

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V. SUMMARY OF TARIFF AMENDMENTS

In compliance with the RDCM Stipulation, the Company is proposing revisions to Special Provision L of SC-3 to reflect the expansion of MHP to Qualifying Customers. All customers receiving MHP will be required to have a digital interval meter to permit the Company or an ESCo to bill the customer for commodity based on actual hourly usage. MHP customers, as described above, will also be subject to an incremental monthly charge of $43.46 per month to cover the expenses related to the implementation of the MHP program. The revised tariff leaves are provided in Attachment 2.

VI. CONCLUSION

For the reasons stated above, the Company respectfully requests that the Commission approve the Company's proposal and tariff amendments as set forth herein.

Respectfully submitted,

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