

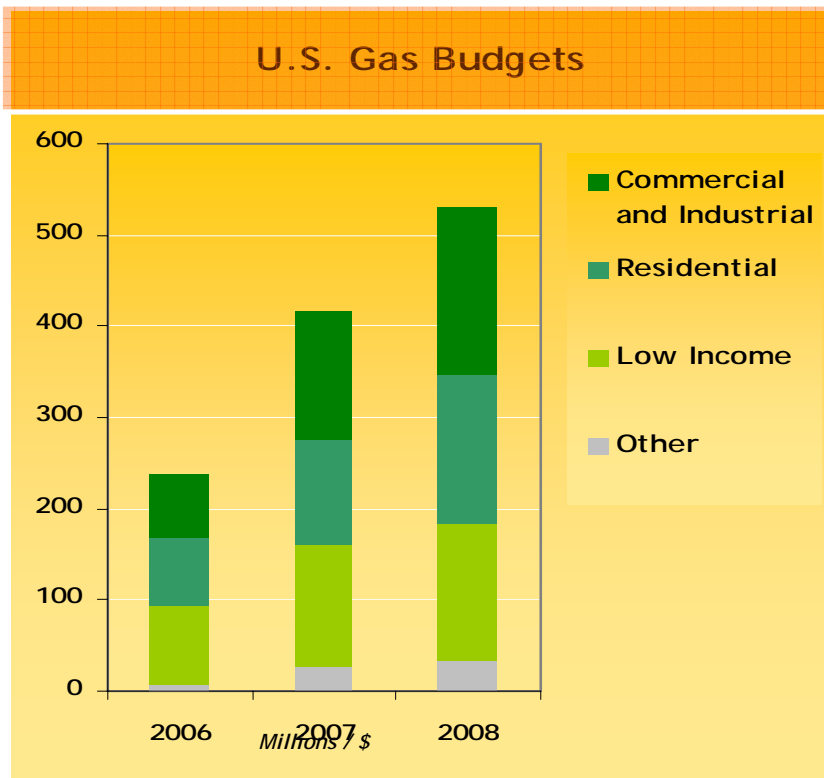
National Grid's *Growth in Gas Programs*

Bruce Johnson, *Director, Energy Efficiency Implementation*

nationalgrid

The power of action.™

U.S. Gas Efficiency Budgets by Sector (2006-2008)



- ◆ Gas efficiency budgets have seen explosive growth in the past 2 years (an increase of 123% from 2006) due to a commitment from utilities and regulators

- ◆ 27% increase in budgets from 2007

- ◆ The Commercial and Industrial budget increased (31%) and Residential (42%) from 2007
- ◆ The Low Income budget increased (10%) from 2007

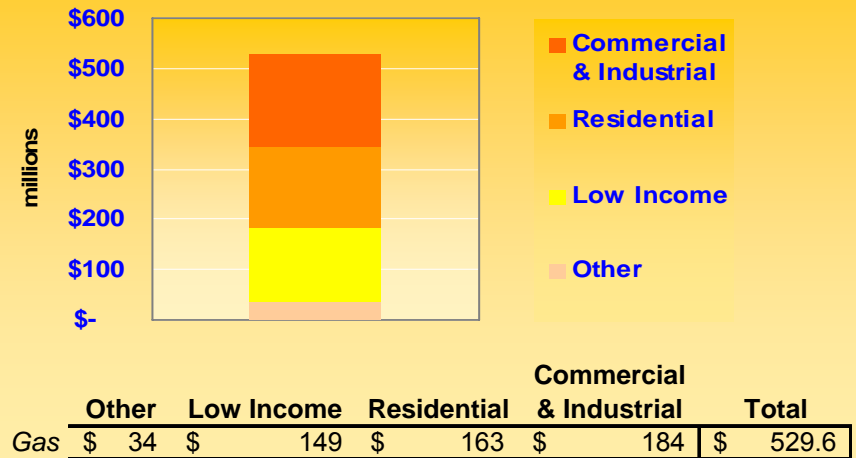
2008 U.S. Gas Energy Efficiency Program Spending

◆ 2008 Gas program budget is \$529.6 million

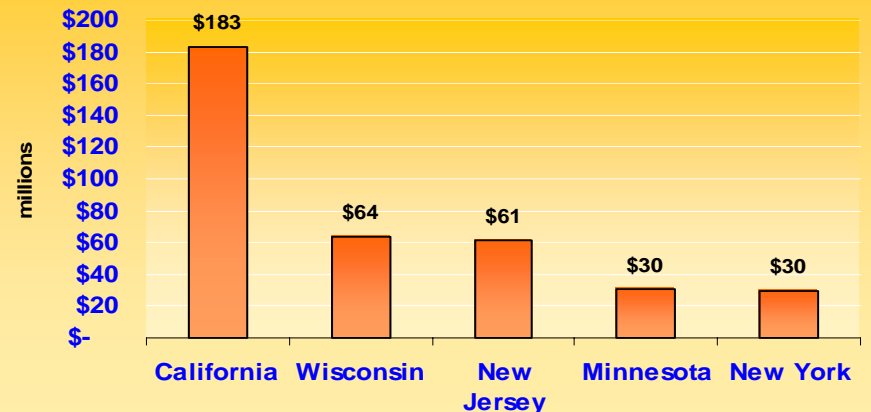
◆ The five states with the highest gas efficiency budgets represent 69% of the total spending on gas efficiency

- ◆ California (\$183 million)
 - Budgeting 3 times more than the next largest state budget
- ◆ Wisconsin (\$64 million)
- ◆ New Jersey (\$61 million)
- ◆ Minnesota (\$30 million)
- ◆ New York (\$30 million)

2008 Gas Energy Efficiency Budget by Program



2008 Gas Budgets from the Highest Spending States

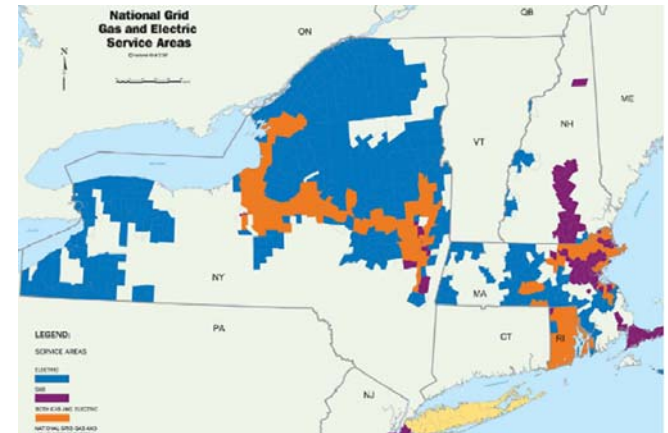


3 * Source: Consortium of Energy Efficiency, www.cee1.org

National Grid is the 2nd largest energy Company in the U.S. with a focused vision on energy efficiency and climate change

We, at National Grid, will be the foremost international electricity and gas company, delivering unparalleled efficiency, reliability, and safety, vital to the well-being of our customers and communities.

We are committed to being an innovative leader in energy management and to safeguarding our global environment for future generations



“Minimizing our impact on the environment while delivering safe, secure and economic supplies of energy to customers is not an option, it is a must.”

– Steve Holliday,
National Grid CEO

Objective: Ensure National Grid’s energy efficiency organization continues to be a nationally recognized leader in the efficiency industry and an increasingly profitable part of National Grid’s energy management activities

National Grid's Energy Efficiency Program History

Programs designed to serve all customer sectors (*residential, multifamily, business*)

- More than 4.7 million National Grid customer projects completed in New England, saving more than \$3.6 billion in energy costs
- Programs save customers over \$300 million annually
- Over \$1.5 billion invested in efficiency

Electric Programs:

- Electric efficiency programs introduced in 1987
- Programs first implemented in MA, RI, and NH (*upstate NY in mid 2009*)
- 2008 budget: \$116 million
- 2009 budget: \$195 million

 **68% increase**

Gas Programs:

- Gas efficiency programs first introduced in 1991 in MA then NH, and in downstate NY and RI in 2007 (*upstate NY in October 2008*)
- 2008 budget: \$55 million
- 2009 budget: \$70 million

 **27% increase**

Success of Gas Programs

National Grid's gas programs are not as established as the electric portfolio of programs, but provide important savings and have made a powerful impact on the northeast efficiency landscape

New England programs, gas efficiency programs have been very successful:

- Massachusetts programs have reached 500K customers since 2004 and have had approximately 27% of the MA market participate in the Company's efficiency programs
- New Hampshire's programs have reached 22K customers since 2004 and have had approximately 26% of the NH market participate in the Company's efficiency programs
- Rhode Island's programs have reached 8K customers since 2007 and have had approximately 3% of the RI market participate in the Company's efficiency programs

Metro New York programs, given short ramp up period, have been challenged in penetrating the market:

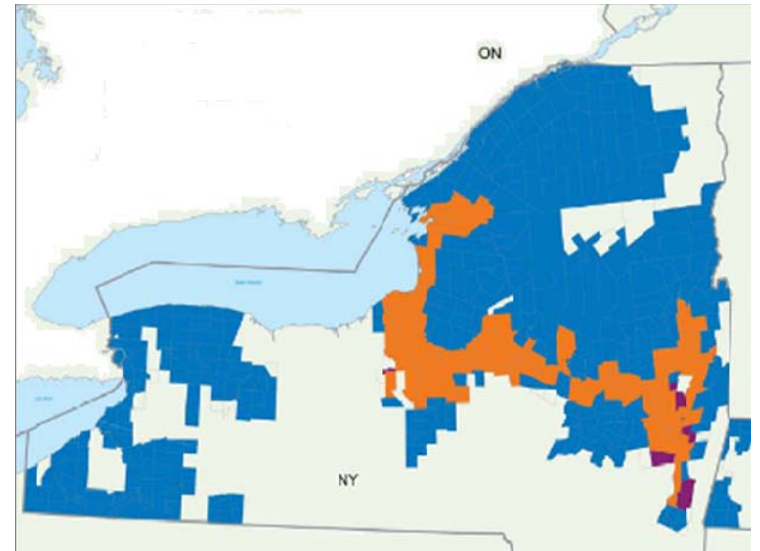
- Have reached 14K customers since 2007, have had approximately 1% of the Metro NY market participate in the Company's efficiency programs

Upstate NY programs have been extremely successful in their 5-month program life

Success of the *new programs* in Upstate NY

Upstate New York programs have been extremely successful in penetrating the market

- ◆ Residential programs were 7x more successful than anticipated
- ◆ Total expenditures in 5 months (Oct-Feb) is \$1.7M
 - ◆ Residential Participation & Savings: 3,862 / 468K therms
 - ◆ Commercial Participation & Savings: 48 / 26K therms
- ◆ Given the extreme success of the gas efficiency programs, there is a need to request more funding in order to meet the large demand
- ◆ The success of these programs were surprising given the challenges we faced in Metro New York



The savings are equivalent to 530 cars being taken off the road for one year!

National Grid's Residential Gas Efficiency Programs

Online Home Energy Analyzer – Learn about your home's energy use and find ways to save

Weatherization Services – Incentives for insulation and air sealing

High Efficiency Heating Equipment – Incentives for upgrading heating and water heating

Income eligible customers– Help to weatherize and upgrade to energy-efficient equipment

New Home Construction with ENERGY STAR – Assistance with design review and certification.

In-home Energy Audits – For customers ready to make investments for long-term savings



ENERGY STAR[®] homes use about 20-30% less energy than those built to code.

National Grid's Commercial & Industrial Gas Efficiency Programs

Gas Programs
On site energy assessment
Custom Incentives
Multifamily Energy Efficiency
High-Efficiency Heating and Cooling
Economic Redevelopment
Building Practices and Demonstration
Green technologies
Weatherization
Online Business Analyzer

Aviator Sports Complex – Brooklyn, NY

- Award Amount: \$100,000
- Therms Saved: 150,000

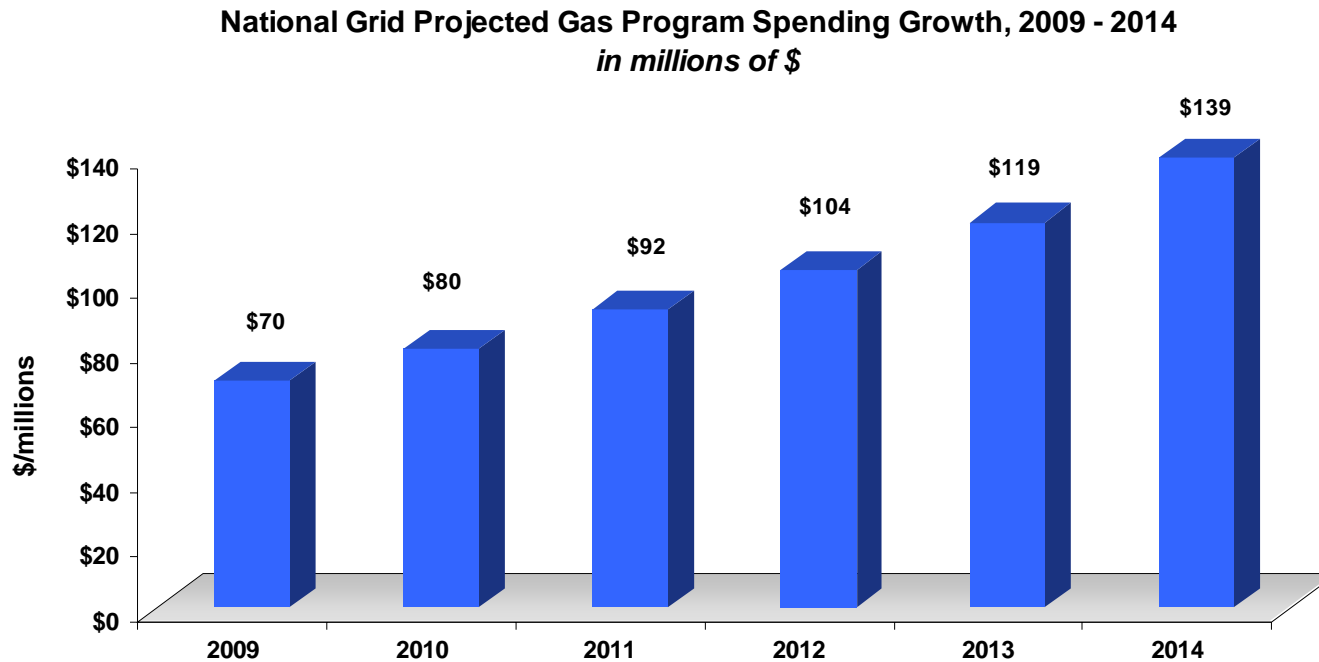
Efficiency Upgrades

- 75 KW Co-Gen
- Radiant Heating
- High Efficiency Water Heating
- High Efficiency Boiler

By participating in an audit, customers receive energy efficiency recommendations to help reduce overall operating cost.



National Grid's Projected Gas Program Spending Growth from 2009 - 2014



Gas program spending in all states will equal \$139 million by 2014

- ◆ Budget is growing at approximately 15% a year
- ◆ Gas program budgets are projected to increase 97% over 5 years to be \$139 million by 2014
- ◆ The majority of growth will be in MA and NH, but Downstate and Upstate NY will also see significant increases in their budget

Market forces and opportunities create the need for a *customer focused Energy Efficiency Model* to capitalize on growth opportunities

Challenges

- ◆ **Turbulent Economy** - Customers ability to participate challenged by economic down turn
- ◆ **Regulatory & Political Demands** - governmental and regulatory delivery expectations and demands for program deployment require a highly adaptive organization
- ◆ **Multiple Agendas** –multiple and differing regulatory constructs require more effective management
- ◆ **Revenue Recovery** - securing approval of decoupling mechanisms in all regions to ensure revenue recovery
- ◆ **Workforce Capabilities** - managing program growth effectively requires securing and developing a talented workforce
- ◆ **High Purchase & Installation Price Points** – are significant barrier to program participation
- ◆ **Staffing Plan Implementation**– responding to changes in HR policy and procedures

Benefits & Opportunities

- ◆ **Turbulent Economy** – increased customer demand for efficiency solutions to help manage energy costs
- ◆ **Regulatory Management** – further enhance strong ties to communities and key regulatory stakeholders to influence the regulatory agenda
- ◆ **Strong brand equity** - legacy companies, many with excellent reputation in the communities served, provide ease of access to targeted customer segments
- ◆ **Strong Marketing & Sales Capabilities** – Leverage the tradition of Marketing and Sales excellence in oil-to-gas conversions in driving customer participation in energy efficiency offerings (e.g. financing tools, strategic alliances, targeted marketing)
- ◆ **Market Intelligence** -- Leveraging market intelligence and customer insight to promote and deliver customized energy solutions
- ◆ **Innovation Leadership** - Continue the promotion of leading edge technology and further enhancement of new product portfolio
- ◆ **Best-Practice Programs** – Continued industry leadership developing the efficiency industry standards that others follow

Energy Efficiency's growth model is rapidly adapting to new ways of delivering efficiency solutions and achieving National Grid's vision

TRADITIONAL APPROACH

- ◆ Electric and gas programs are **separate** in legacy companies
- ◆ Communications are responsibility of individual program managers working with efficiency vendors
 - ◆ Gas efficiency marketing plan is informal with efforts as needed
 - ◆ Electric marketing is very limited, not necessary to reach goals, except for ENERGY STAR products
 - ◆ **Mass market approach to program marketing** and advertising
- ◆ **Small scale ad hoc** training, communications, and event management– *little oversight required*
- ◆ **Regulatory environment** – organization designed to address distant regulators with **hands-off approach** to program design and minimal interest in Measurement and Verification (M&V)

ADAPTIVE GROWTH MODEL

- ◆ **Complete integration** of all programs: Gas, electric, residential & business
- ◆ Strategy developed to plan and implement communications to drive participation and awareness
 - ◆ **Customer driven targeted marketing** focusing on messages that deliver results
 - ◆ **Integrated efforts** utilizing all appropriate communications
- ◆ Oversight improved through **organizational re-design** to include *Communications, Training & Events group*
- ◆ **Regulatory environment** – organization designed to address and influence **extremely engaged** regulators actively influencing program design and deployment – **M&V-driven**
 - ◆ Internal effort to support this changed environment includes tracking marketing metrics, ROI and budgets

National Grid has taken the following steps to address these challenges and opportunities by....

◆ Organization

- ◆ Will add 100+ positions in 2009; including engineers, managers, analysts, and project managers
- ◆ Staff is needed to handle the increased demand for efficiency work from both customers and regulators

◆ Training

- ◆ Develop and secure a talented workforce in order to ensure success for efficiency programs
- ◆ Many strategic contractor training efforts in order to meet the skill demand required by the market

◆ Database management / reporting

- ◆ Deploy a disciplined approach to monitoring, measuring, and reporting efficiency program performance
- ◆ Use database systems to manage and house efficiency metrics

◆ Renewable Energy

- ◆ As an organization, National Grid sees the value in renewable energy is working to bring the two together as to best serve its customers

◆ Innovation

- ◆ Support and encourage new technologies through our technology demonstration program, grants available up to 100K

◆ Addressing lost revenues (*interim basis before decoupling come into effect*)

- ◆ Decoupling will be effective in Upstate NY as of June 1, 2009, Metro New York retroactively to Jan 1, 2009, MA as of October 2010