**NEW YORK STATE**
**PUBLIC SERVICE COMMISSION**

**CASE 06-M-0878 – Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations.**

# JOINT PROPOSAL
# FOR
# GAS SAFETY, RELIABILITY AND CUSTOMER SERVICE
# PERFORMANCE REQUIREMENTS

**By:**

**KeySpan Corporation**
**The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York**
**KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island**
**National Grid plc**
**Staff of the New York State Department of Public Service**
**And the Other Signatory Parties Executing Signature Pages**

**Dated: August 17, 2007**

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**JOINT PROPOSAL**
**FOR**
**GAS SAFETY, RELIABILITY AND CUSTOMER SERVICE**
**PERFORMANCE REQUIREMENTS**

This Joint Proposal for Gas Safety, Reliability and Customer Service Performance Requirements ("Joint Proposal") is made as of the 17th day of August, 2007 by and among KeySpan Corporation (KeySpan), The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York (KEDNY) and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (KEDLI), National Grid plc, the Staff of the New York State Department of Public Service (Staff), and the other signatory parties executing signature pages (collectively referred to herein as "the Signatory Parties").

## I. PROCEDURAL BACKGROUND

On July 20, 2006, National Grid and KeySpan filed with the New York State Public Service Commission (Commission) a joint petition for approval of a proposed acquisition of the stock of KeySpan by National Grid and other regulatory approvals (Merger Filing). Case 06-M-0878 was instituted to provide a process for the Commission to consider the petition. The Merger Filing was later updated.

On October 3, 2006, KEDNY filed with the Commission revised tariff leaves intended to increase revenues from gas operations by approximately $213 million for the 12 month period ending March 31, 2008 (KEDNY Rate Filing). The Commission instituted Case 06-G-1185 to consider the KEDNY Rate Filing. The KEDNY Rate Filing was later updated. The revised tariff leaves are currently suspended.

On October 3, 2006, KEDLI filed with the Commission revised tariff leaves intended to increase revenues from gas operations by approximately $159 million for the 12 month period ending March 31, 2008 (KEDLI Rate Filing). The Commission instituted Case 06-G-1186 to consider the KEDLI Rate Filing. The KEDLI Rate Filing was later updated. The revised tariff leaves are currently suspended.

All three of the above-mentioned cases are being considered on a common evidentiary record.

On November 9, 2006, the Commission issued an order regarding the Merger Filing adopting a negative declaration pursuant to the State Environmental Quality Review Act.

Accordingly, no environmental impact statement will be prepared regarding the proposed merger.

On May 31, 2007, a Joint Proposal for Interim Energy Efficiency Programs was executed by many of the parties to these proceedings and was filed with the Commission. On July 18, 2007, the Commission issued an order in Cases 06-G-1185 and 06-G-1186 adopting the terms of the Joint Proposal for Interim Energy Efficiency Programs with minor modifications.

On May 11, 2007, many of the parties to these proceedings announced that they had reached an agreement in principle on most terms of three-year "stand-alone" (absent a merger) rate plans for KEDNY and KEDLI (the "Stand-Alone Rate Plans"). As of yet, a joint proposal setting forth in detail the terms for which agreement in principle was reached has not been executed.

On July 6, 2007, a Merger & Gas Revenue Requirement Joint Proposal was executed by many of the parties to these proceedings and was filed with the Commission. The Merger & Gas Revenue Requirement Joint Proposal includes an agreement on most revenue requirement issues for a five-year post-merger (assumes the merger is consummated) rate plan, but did not include gas safety, reliability and customer service performance requirements. Those requirements were reserved for resolution in Cases 06-G-1185 and 06-G-1186.

On August 14, 2007, the Commission issued a notice in Case 06-M-0878 stating that as the Commission may want to consider safety and reliability performance requirements and incentives and customer service quality performance requirements and incentives in connection with its review of the Merger & Gas Revenue Requirement Joint Proposal, the Commission requests that the parties formalize and file with the Secretary by no later than August 17, 2007 at 10:00 A.M. an agreement on the issues of safety, reliability and customer service. This Joint Proposal is presented in fulfillment of the Commission's request for such expedited action.

## II. OVERVIEW

This Joint Proposal arises within the merger proceeding in Case 06-M-0878. A Notice of Impending Negotiations was sent to all persons reasonably known to have an interest in the outcome of negotiations and was duly filed with the Secretary by letter dated November 28, 2006. After notice to the parties, settlement conferences were held among the parties that desired to participate. Settlement is now feasible because, after thorough investigation and discussion, the Signatory Parties hereto more fully understand their respective positions and recognize that reasonable settlement of the discrete issues addressed herein is possible. The Signatory Parties hereto also believe that this Joint Proposal will further the objective of giving fair consideration to the interests of customers and utility investors alike in assuring the provision of safe and adequate service at just and reasonable rates. This Joint Proposal provides the framework under which KEDNY and KEDLI will implement gas safety, reliability and customer service performance requirements in their service territories as a component of a post-merger five-year rate plan, and is limited in scope to such issues.

## III. DEFINITIONS

"Rate Year One" means January 1, 2008 through December 31, 2008.

"Rate Year Two" means January 1, 2009 through December 31, 2009.

"Rate Year Three" means January 1, 2010 through December 31, 2010.

"Rate Year Four" means January 1, 2011 through December 31, 2011.

"Rate Year Five" means January 1, 2012 through December 31, 2012.

"Stayout" means that the level of rates established pursuant to this Joint Proposal and the other provisions of this Joint Proposal remain effective by default, without change or reaffirmation except as stated in this Joint Proposal, beyond the last day of Rate Year Five.

"Rate Period" means Rate Year One through Rate Year Five, plus any Stayout period.

## IV. GENERAL PROVISIONS

It is understood that each provision of this Joint Proposal is in consideration and support of all of the other provisions of this Joint Proposal and is expressly conditioned upon approval of the terms of this Joint Proposal in full by the Commission. If the Commission fails to adopt the terms of this Joint Proposal, the parties to the Joint Proposal shall be free to pursue their respective positions in these proceedings without prejudice.

This Joint Proposal contains the entire agreement of the Signatory Parties regarding the matters contained herein and supersedes and replaces any and all prior or contemporaneous written and verbal agreements or understandings.

The Signatory Parties believe that the record in this proceeding fully justifies the approval of the terms of this Joint Proposal. It is the intent of the Signatory Parties that the provisions of this Joint Proposal will be approved by the Commission as being in the public interest. The Signatory Parties submit this Joint Proposal to the Commission and request that the Commission adopt the terms and provisions of this Joint Proposal as set forth herein.The Signatory Parties agree that KEDNY and KEDLI will file tariffs in a manner consistent with the terms of this Joint Proposal.

Nothing in this Joint Proposal shall prohibit the Commission (upon its own motion or upon motion of an interested party) from exercising its ongoing statutory authority to act on the level of KEDNY's gas rates in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to KEDNY's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service. Nothing in this Joint Proposal shall prohibit the Commission (upon its own motion or upon motion of an interested party) from exercising its ongoing statutory authority to act on the level of KEDLI's gas rates in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to KEDLI's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service.

Nothing in this Joint Proposal shall prohibit KEDNY or KEDLI from implementing changes to rates or charges, in a manner to be determined by the Commission, as may be required by newly-enacted legislation or regulations.

The Signatory Parties recognize that certain provisions of this Joint Proposal contemplate actions to be taken in the future to effectuate fully this Joint Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

In the event of any disagreement over the interpretation of this Joint Proposal or implementation of any of the provisions of this Joint Proposal, which cannot be resolved informally among the Signatory Parties, such disagreement shall be resolved in the following manner: (a) the Signatory Parties shall promptly convene a conference and in good faith attempt to resolve any such disagreement; and (b) if any such disagreement cannot be resolved by the Signatory Parties, any Signatory Party may petition the Commission for resolution of the disputed matter.

This Joint Proposal is being executed in counterpart originals, and shall be binding on all of the Signatory Parties when the counterparts have been executed.

This Joint Proposal represents a negotiated agreement and the terms and provisions of this Joint Proposal apply solely to, and are binding on each Signatory Party only in, the context of these proceedings. None of the positions taken herein by any Signatory Party, including agreement to the terms and provisions of this Joint Proposal and any methodology or principle utilized herein, may be cited or relied upon in any fashion as precedent in any other proceeding before this Commission or before any other regulatory agency or any court of law for any purpose, except in furtherance of ensuring the effectuation of the purposes and results of this Joint Proposal.

If the merger is consummated, the gas safety, reliability and customer service performance requirements provided for in this Joint Proposal shall commence on the first day of January, 2008 (the first day of Rate Year One) and shall continue through the last day of Rate Year Five, plus any Stayout period. All of the provisions of this Joint Proposal regarding required services and programs will continue beyond Rate Year Five on a year-to-year basis until modified by the Commission. Unless otherwise specified herein, any targets, goals, deferral thresholds or other similar items set forth in this Joint Proposal will continue beyond Rate Year Five on a year-to-year basis at the level set forth herein for Rate Year Five until modified by the Commission.

## V. KEDNY

### A. Safety and Reliability Performance Requirements

#### 1. Gas Safety and Service Reliability

A gas safety and service reliability incentive mechanism will be in effect for KEDNY during and commencing with Rate Year One, and will continue on a year-to-year basis, unless discontinued by the Commission. In the event of a Stayout, KEDNY will make the incentive computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period, however any incentive assessed for such twelve-month period will be prorated based on the number of months during which the Stayout was in effect. If there is an incentive applicable in any period, it will be reflected in rates as a ratepayer credit to the KEDNY Balancing Account along with the corresponding pre-tax rate of return on the incentive amount, and the associated deferred Federal and State income taxes will be recognized in the balance sheet. If KEDNY believes in any year that its inability to meet any of the established incentive targets was attributable to *force majeure* circumstances (causes that are outside the control of KEDNY and could not be avoided by exercise of due care), it may petition the Commission for relief from the recognition of such ratepayer credits.

**(a) <u>Annual Main Replacement</u>**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to annually replace the required miles of bare steel or cast iron mains in its service territory established in the table set forth below:

**<u>Year 2008 and all subsequent years until changed by the Commission</u>**

| | | |
|---|---|---|
| 25 miles (including 3 miles of programmatic bare steel or cast iron mains whose replacement is not the result of interference projects and/or City/State Construction requirements) | - | $580,000 |

**(b) <u>Three-Year Cumulative Main Replacement</u>**

For the cumulative three-year period encompassing Rate Year One, Rate Year Two and Rate Year Three (using calendar years 2008 through 2010 as the measurement interval), KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to replace the required miles of bare steel or cast iron mains in its service territory within the measurement interval established in the table set forth below:

**<u>Years 2008 through 2010</u>**

| | | |
|---|---|---|
| 90 miles | - | $580,000 |

If KEDNY incurs an incentive assessment for Rate Year Three (2010) pursuant to paragraph "(a)" above, an incentive assessment pursuant to this paragraph "(b)" shall not be applied, so as to prevent a redundant assessment.

**(c) <u>Responses to Gas Leaks and Odors</u>**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to annually respond to the required number of leak and odor calls within the time targets established in the table set forth below:

**Year 2008 and all subsequent years until changed by the Commission**

| | | |
|---|---|---|
| 75% in 30 minutes | - | $1,015,000 |
| 90% in 45 minutes | - | $435,000 |
| 95% in 60 minutes | - | $290,000 |

**(d) Leak Management**

Commencing with Rate Year One (using December 31, 2008 as the measurement date for Rate Year One), and each subsequent rate year and corresponding December 31st measurement date thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to keep repairable leak backlog below the targets:

**Year 2008:**

| Number Of Leaks | Rate Adjustment |
|---|---|
| 125 or less | $0 |
| 126-135 | $5,000 per leak Nos. 126-135 |
| 136-145 | $50,000 + $10,000 per leak Nos. 136-145 |
| > 145 | $870,000 |

**Year 2009:**

| Number Of Leaks | Assessment |
|---|---|
| 105 or less | $0 |
| 106-115 | $5,000 per leak Nos.106-115 |
| 116-125 | $50,000 + $10,000 per leak Nos. 116-125 |
| > 125 | $870,000 |

**Year 2010:**

| **Number Of Leaks** | **Assessment** |
|---|---|
| 95 or less | $0 |
| 96-105 | $5,000 per leak Nos. 96-105 |
| 106-115 | $50,000 + $10,000 per leak Nos. 106-115 |
| > 115 | $870,000 |

**Year 2011 and all subsequent years until changed by the Commission:**

| **Number Of Leaks** | **Assessment** |
|---|---|
| 75 or less | $0 |
| 76-85 | $5,000 per leak Nos. 76-85 |
| 86-95 | $50,000 + $10,000 per leak Nos. 86-95 |
| > 95 | $870,000 |

**(e) Overall Damage Prevention**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet annual Overall Damages targets equal to or less than the level of excavation damages per 1,000 "One-Call Tickets" as set forth below:

**Year 2008:**

| **Target** | **Assessment** |
|---|---|
| 5.8 | $0 |
| 5.8-6.0 | $145,000 |
| > 6.0 | $290,000 |

**Year 2009:**

| Target | Assessment |
|---|---|
| 5.4 | $0 |
| 5.4-5.6 | $145,000 |
| > 5.6 | $290,000 |

**Year 2010:**

| Target | Assessment |
|---|---|
| 4.9 | $0 |
| 4.9-5.1 | $145,000 |
| > 5.1 | $290,000 |

**Year 2011 and all subsequent years until changed by the Commission:**

| Target | Assessment |
|---|---|
| 4.2 | $0 |
| 4.2-4.4 | $145,000 |
| > 4.4 | $290,000 |

**(f) Damages Due to Mismarks**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet annual Damages Due to Mismarks per 1,000 One-Call Tickets targets as set forth below:

**Year 2008:**

| Target | Assessment |
|---|---|
| 1.20 | $0 |
| 1.21-1.30 | $362,500 |
| > 1.30 | $725,000 |

**Year 2009:**

| Target | Assessment |
|---|---|
| 1.15 | $0 |
| 1.16-1.25 | $362,500 |
| > 1.25 | $725,000 |

**Year 2010:**

| Target | Assessment |
|---|---|
| 1.10 | $0 |
| 1.11-1.20 | $362,500 |
| > 1.20 | $725,000 |

**Year 2011 and all subsequent years until changed by the Commission:**

| Target | Assessment |
|---|---|
| 0.90 | $0 |
| 0.91-1.00 | $362,500 |
| > 1.00 | $725,000 |

**(g) Damages Due to Company/Company Contractor**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet an annual Damages Due to Company/Company Contractor per 1,000 One-Call Tickets target as set forth below:

**Year 2008 and all subsequent years until changed by the Commission:**

| Target | Assessment |
|---|---|
| 0.25 | $290,000 |

### 2. Global Positioning System (GPS) Infrastructure

KEDNY has included in its Information Technology budget for Rate Year One funds for the purchase of Global Positioning System (GPS) infrastructure. The GPS initiative will add greater functionality to KEDNY's existing automated response software. The implementation of GPS will enhance the response performance of KEDNY employees to leak and odor calls, and will aid KEDNY in reaching the 75% in 30 minutes response goal for Year 2008. The use of GPS technology is also expected to improve overall work efficiency and enhance emergency response activities. KEDNY shall fully implement system-wide GPS technology no later than December 31, 2009.

## B. Customer Service Quality Performance Requirements

### 1. Customer Outreach and Education Program

KEDNY will conduct customer outreach and education efforts designed to inform KEDNY gas customers in advance of how the changes to rates, charges and services arising out of Cases 06-M-0878, 06-G-1185 and 06-G-1186 will affect customers. An evaluation of the outreach and education efforts will be included each year in an Annual Report to be served on the parties within ninety (90) days after the end of each calendar year during the Rate Period.

### 2. Service Guarantee Policy

For the Rate Period, KEDNY will continue its current Service Guarantee Policy of compensating customers if KEDNY personnel miss an appointment with a customer. For each missed appointment, KEDNY will continue to provide a credit to the customer's gas bill of $30 for residential customers and $60 for non-residential customers.

### 3. Customer Service Quality Incentives

In order to assure no diminution in service quality, a customer service quality performance mechanism will be in effect for KEDNY during and commencing with Rate Year One, and will continue on a year-to-year basis, unless discontinued by the Commission. In the event of a Stayout, KEDNY will make the incentive computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period and will apply the incentive on a pro-rata basis to the portion of any subsequent twelve-month period during which the Stayout was in effect. If there is an incentive applicable in any period, it will be reflected in rates as a ratepayer credit to the KEDNY Balancing Account along with the corresponding pre-tax rate of return on the incentive amount, and the associated deferred Federal and State income taxes will be recognized in the balance sheet. There will be four service quality measures:

**(a) Customer Complaints**

This represents the total number of customers registering a complaint with the Commission. A complaint will be charged when a customer, after first having contacted KEDNY to express dissatisfaction with an action, practice or conduct of KEDNY, and having provided KEDNY a reasonable opportunity to address the matter, contacts the Commission to express dissatisfaction with such action, practice or conduct; providing such action, practice or conduct is within the power of KEDNY to control. A complaint will not be charged for a contact with the Commission that is an opinion or inquiry. For the purposes of this subsection, an "opinion" is an instance where a customer is contacting the Commission to voice a view on a particular issue or condition, such as a pending rate case, a change in rates or charges or the imposition of new rates or charges, or the level of executive compensation. Complaints will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed $2,340,000 if customer complaints in a year exceed an average of 1.7 complaints per 100,000 customers per month.

**(b) Monthly Contactor Survey**

Contact satisfaction will be measured monthly based on the satisfaction ratings resulting from a random survey of customers-who have contacted KEDNY. The satisfaction level will be measured based on the number of customers rating KEDNY between "6"and "10" on a ten point satisfaction scale. Satisfaction levels will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. KEDNY will receive a minimum of one hundred (100) completed surveys per month. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed $2,340,000 if less than 84.8% of customers completing the survey in a year rate KEDNY at or above "6" on the satisfaction scale.

**(c) <u>Telephone Answer Response within 30 Seconds</u>**

"Telephone Answer Response within 30 Seconds" is a measure of the proportion of customer service calls answered by a KEDNY representative within 30 seconds, expressed as a percentage of the total calls answered. Telephone Answer Response within 30 seconds will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed $585,000 if the Telephone Answer Response within 30 Seconds rate in a year is less than 52.9%.

**(d) <u>Adjusted Customer Bills</u>**

"Adjusted Customer Bills" is a measure of the proportion of customer bills that require later adjustment due to errors by KEDNY, expressed as a percentage of total customer bills. Adjusted Customer Bills will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDNY will be assessed the corresponding incentive amount shown in the table set forth below for rates of Adjusted Customer Bills that exceed the targets established in the table set forth below:

**<u>Year 2008 and all subsequent years until changed by the Commission</u>**

| | | |
|---|---|---|
| 1.69% or less | - | $0 |
| 1.70% to 1.79% | - | $292,500 |
| 1.80% to 1.89% | - | $438,750 |
| 1.90% and over | - | $585,000 |

## VI. KEDLI

### A. Safety and Reliability Performance Requirements

#### 1. <u>Gas Safety and Service Reliability</u>

A gas safety and service reliability incentive mechanism will be in effect for KEDLI during and commencing with Rate Year One, and will continue on a year-to-year basis, unless discontinued by the Commission. In the event of a

Stayout, KEDLI will make the incentive computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period, however any incentive assessed for such twelve-month period will be prorated based on the number of months during which the Stayout was in effect. If there is an incentive applicable in any period, it will be reflected in rates as a ratepayer credit to the KEDLI Balancing Account along with the corresponding pre-tax rate of return on the incentive amount, and the associated deferred Federal and State income taxes will be recognized in the balance sheet. If KEDLI believes in any year that its inability to meet any of the established incentive targets was attributable to *force majeure* circumstances (causes that are outside the control of KEDLI and could not be avoided by exercise of due care), it may petition the Commission for relief from the recognition of such ratepayer credits.

**(a) Annual Main Replacement**

At least 60 days prior to January 1 of each year, KEDLI will meet with Staff to review its bare-steel main replacement programs for the upcoming year. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to annually replace the required miles of bare steel or cast iron mains in its service territory established in the table set forth below:

**Year 2008 and all subsequent years until changed by the Commission**

| | | |
|---|---|---|
| 50 miles of bare steel or cast iron mains | - | $480,000 |

**(b) Three-Year Cumulative Main Replacements**

For the cumulative three-year period encompassing Rate Year One, Rate Year Two and Rate Year Three (using calendar years 2008 through 2010 as the measurement interval), KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to replace the required miles of bare steel or cast iron mains in its service territory within the measurement interval established in the table set forth below:

**Years 2008 through 2010**

| | | |
|---|---|---|
| 180 miles of bare steel or cast iron mains | - | $480,000 |

If KEDLI incurs an incentive assessment for Rate Year Three (2010) pursuant to paragraph "(a)" above, an incentive assessment pursuant to this paragraph "(b)" shall not be applied, so as to prevent a redundant assessment.

**(c) Annual Services Replacement**

At least 60 days prior to January 1 of each year, KEDLI will meet with Staff to review its bare-steel services replacement programs for the upcoming year. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to annually replace the required number of services in its service territory established in the table set forth below:

**Year 2008 and all subsequent years until changed by the Commission**

| | | |
|---|---|---|
| 4,000 bare-steel services | - | $480,000 |

**(d) Three-Year Cumulative Services Replacements**

For the cumulative three-year period encompassing Rate Year One, Rate Year Two and Rate Year Three (using calendar years 2008 through 2010 as the measurement interval), KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to replace the required number of services in its service territory within the measurement interval established in the table set forth below:

**Years 2008 through 2010**

| | | |
|---|---|---|
| 15,000 bare steel services | - | $480,000 |

If KEDLI incurs an incentive assessment for Rate Year Three (2010) pursuant to paragraph "(c)" above, an incentive assessment pursuant to this paragraph "(d)" shall not be applied, so as to prevent a redundant assessment.

**(e) <u>Responses to Gas Leaks and Odors</u>**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to annually respond to the required number of leak and odor calls within the time targets established in the table set forth below:

**<u>Year 2008 and all subsequent years until changed by the Commission</u>**

| | | |
|---|---|---|
| 75% in 30 minutes | - | $600,000 |
| 90% in 45 minutes | - | $360,000 |
| 95% in 60 minutes | - | $240,000 |

**(f) <u>Leak Management</u>**

Commencing with Rate Year One (using December 31, 2008 as the measurement date for Rate Year One), and each subsequent rate year and corresponding December 31st measurement date thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to keep repairable leak backlog below the targets:

**<u>Year 2008</u>:**

| Number Of Leaks | Rate Adjustment |
|---|---|
| 125 or less | $0 |
| 126-135 | $5,000 per leak Nos. 126-135 |
| 136-145 | $50,000 + $10,000 per leak Nos. 136-145 |
| > 145 | $720,000 |

**Year 2009:**

| Number Of Leaks | Assessment |
|---|---|
| 100 or less | $0 |
| 101-110 | $5,000 per leak Nos.101-110 |
| 111-120 | $50,000 + $10,000 per leak Nos. 111-120 |
| > 120 | $720,000 |

**Year 2010 and all subsequent years until changed by the Commission:**

| Number Of Leaks | Assessment |
|---|---|
| 75 or less | $0 |
| 76-85 | $5,000 per leak Nos. 76-85 |
| 86-95 | $50,000 + $10,000 per leak Nos. 86-95 |
| > 95 | $720,000 |

**(g) Overall Damage Prevention**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet annual Overall Damages targets equal to or less than the level of excavation damages per 1,000 "One-Call Tickets" as set forth below:

**Year 2008:**

| Target | Assessment |
|---|---|
| 5.0 | $0 |
| 5.0-5.2 | $120,000 |
| > 5.2 | $240,000 |

**Year 2009:**

| **Target** | **Assessment** |
|---|---|
| 4.8 | $0 |
| 4.8-5.0 | $120,000 |
| > 5.0 | $240,000 |

**Year 2010:**

| **Target** | **Assessment** |
|---|---|
| 4.6 | $0 |
| 4.6-4.8 | $120,000 |
| > 4.8 | $240,000 |

**Year 2011 and all subsequent years until changed by the Commission:**

| **Target** | **Assessment** |
|---|---|
| 4.2 | $0 |
| 4.2-4.4 | $120,000 |
| > 4.4 | $240,000 |

**(h) Damages Due to Mismarks**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet annual Damages Due to Mismarks per 1,000 One-Call Tickets targets as set forth below:

**Year 2008:**

| **Target** | **Assessment** |
|---|---|
| 1.00 | $0 |
| 1.01-1.10 | $300,000 |
| > 1.10 | $600,000 |

**Year 2009 and all subsequent years until changed by the Commission:**

| Target | Assessment |
|---|---|
| 0.90 | $0 |
| 0.91-1.00 | $300,000 |
| > 1.00 | $600,000 |

**(i) Damages Due to Company/Company Contractor**

Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for failure to meet an annual Damages Due to Company/Company Contractor per 1,000 One-Call Tickets target as set forth below:

**Year 2008 and all subsequent years until changed by the Commission:**

| Target | Assessment |
|---|---|
| 0.25 | $240,000 |

**B. Customer Service Quality Performance Requirements**

**1. Customer Outreach and Education Program**

KEDLI will conduct customer outreach and education efforts designed to inform KEDLI gas customers in advance of how the changes to rates, charges and services arising out of Cases 06-M-0878, 06-G-1185 and 06-G-1186 will affect customers. An evaluation of the outreach and education efforts will be included each year in an Annual Report to be served on the parties within ninety (90) days after the end of each calendar year during the Rate Period.

**2. Service Guarantee Policy**

Commencing at the beginning of Rate Year One, and continuing for the Rate Period, KEDLI will institute for its customers the current KEDNY Service Guarantee Policy of compensating customers if KEDNY personnel miss an appointment with a customer. For each appointment missed by KEDLI personnel, KEDLI will provide a credit to the customer's gas bill of $30 for residential customers and $60 for non-residential customers.

**3. Customer Service Quality Incentives**

In order to assure no diminution in service quality, a customer service quality performance mechanism will be in effect for KEDLI during and commencing with Rate Year One, and will continue on a year-to-year basis, unless discontinued by the Commission. In the event of a Stayout, KEDLI will make the incentive computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period and will apply the incentive on a pro-rata basis to the portion of any subsequent twelve-month period during which the Stayout was in effect. If there is an incentive applicable in any period, it will be reflected in rates as a ratepayer credit to the KEDLI Balancing Account along with the corresponding pre-tax rate of return on the incentive amount, and the associated deferred Federal and State income taxes will be recognized in the balance sheet. There will be four service quality measures:

**(a) Customer Complaints**

This represents the total number of customers registering a complaint with the Commission. A complaint will be charged when a customer, after first having contacted KEDLI to express dissatisfaction with an action, practice or conduct of KEDLI, and having provided KEDLI a reasonable opportunity to address the matter, contacts the Commission to express dissatisfaction with such action, practice or conduct; providing such action, practice or conduct is within the power of KEDLI to control. A complaint will not be charged for a contact with the Commission that is an opinion or inquiry. For the purposes of this subsection, an "opinion" is an instance where a customer is contacting the Commission to voice a view on a particular issue or condition, such as a pending rate case, a change in rates or charges or the imposition of new rates or charges, or the level of executive compensation. Complaints will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed $2,227,500 if customer complaints in a year exceed an average of 1.1 complaints per 100,000 customers per month.

**(b) Monthly Contactor Survey**

Contact satisfaction will be measured monthly based on the satisfaction ratings resulting from a random survey of customers-who have contacted KEDLI. The satisfaction level will be measured based on the number of customers rating KEDLI between "6"and "10" on a ten point satisfaction scale. Satisfaction levels will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. KEDLI will receive a minimum of one hundred (100) completed surveys per month. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed $2,227,500 if less than 83.4% of customers completing the survey in a year rate KEDLI at or above "6" on the satisfaction scale.

**(c) Telephone Answer Response within 30 Seconds**

"Telephone Answer Response within 30 Seconds" is a measure of the proportion of customer service calls answered by a KEDLI representative within 30 seconds, expressed as a percentage of the total calls answered. Telephone Answer Response within 30 seconds will be measured monthly and annually, but there will be no target threshold or monetary incentive for KEDLI for this measure at this time. However, KEDLI will closely monitor its performance and strive to improve performance over the prior year's level.

**(d) Adjusted Customer Bills**

"Adjusted Customer Bills" is a measure of the proportion of customer bills that require later adjustment due to errors by KEDLI, expressed as a percentage of total customer bills. Adjusted Customer Bills will be measured monthly and the performance incentive mechanism will be based on the average of the twelve monthly scores. Commencing with Rate Year One (using calendar year 2008 as the measurement interval for Rate Year One), and each subsequent rate year and calendar year measurement interval thereafter, KEDLI will be assessed the corresponding incentive amount shown in the table set forth below for rates of Adjusted Customer Bills that exceed the targets established in the table set forth below:

**Year 2008 and all subsequent years until changed by the Commission**

| | | |
|---|---|---|
| 1.69% or less | - | $0 |
| 1.70% to 1.79% | - | $247,500 |
| 1.80% to 1.89% | - | $371,250 |
| 1.90% and over | - | $495,000 |

*Gas Safety, Reliability and Customer Service*
*Performance Requirements Joint Proposal*

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

National Grid plc

Date: August 17, 2007

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

KeySpan Corporation, The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York and KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island

Date: 8/17/07

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

Paul Agresta
Staff of the New York State Department of Public Service

Date: August 17, 2007

*Gas Safety, Reliability and Customer Service Performance Requirements Joint Proposal*

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

Party: NYS Consumer Protection Board

Date: August 17, 2007