

EX 8

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N.H.P.U.C. Case No.	DG 10-044
Exhibit No.	# 8
Witness	Panel #2
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National Grid/Keyspan Corporation  
Merger

Docket No. DG 06-107

Merger Settlement Agreement

May 15, 2007

Submitted by:

**nationalgrid**



**STATE OF NEW HAMPSHIRE**  
**BEFORE THE**  
**PUBLIC UTILITIES COMMISSION**

Docket No. DG 06-107

Joint Petition of National Grid plc and KeySpan Corporation  
for Approval of Merger and Other Regulatory Approvals

**Settlement Agreement on the Merger Transaction  
Between National Grid and KeySpan**

This Settlement Agreement on the Merger Transaction Between National Grid and KeySpan (“Settlement”) is entered into this 1<sup>st</sup> day of May, 2007, by and among National Grid plc and its indirect subsidiary Granite State Electric Company, KeySpan Corporation and its subsidiary EnergyNorth Natural Gas, Inc., the Staff of the New Hampshire Public Utilities Commission (“Staff”), and the Office of Consumer Advocate (the “OCA”) (collectively, “the Settling Parties and Staff”).

**Summary**

This Settlement resolves all issues in the case, and constitutes recommendations by the Settling Parties and Staff for the Commission’s approval of:

- (1) The merger transaction along with other specified conditions;
- (2) A multi-year Rate Plan for Granite State Electric Company that includes a rate reduction of \$2.2 million dollars and limitations on rate adjustments for a period of up to five and a half years, commitments to improve reliability, and maintain quality customer service; and
- (3) A Rate Agreement for EnergyNorth Natural Gas, Inc. that, among other things, includes a stay out period of one year during which the Company will not change its

distribution rates; procedures for rate treatment and sharing of merger synergy savings in future ratemaking proceedings for the Company; a plan that allows for the acceleration of the Company's replacement of cast iron and bare steel pipe in the Company's system; and certain commitments relating to customer service and other operational matters.

## **I. Background**

1. National Grid plc ("National Grid") is incorporated in England and Wales and is the parent holding company in the National Grid holding company system. National Grid's United States business is conducted through National Grid USA, an indirect, wholly-owned subsidiary of National Grid. Through its subsidiaries, National Grid USA provides electric service to customers in New England, and electric and natural gas service to customers in New York and Rhode Island. The National Grid USA family of companies includes New England Power Company, which owns and operates electric transmission facilities in New Hampshire, Granite State Electric Company ("Granite State"), which provides electric service at retail in New Hampshire to approximately 41,000 customers, and New England Electric Transmission Corporation and New England Hydro-Transmission Corporation, which own interconnection facilities with Hydro Quebec.
2. KeySpan Corporation ("KeySpan") is a New York corporation with a principal place of business in Brooklyn, New York. KeySpan is engaged in utility and non-utility operations in New York and New England. KeySpan's subsidiaries sell and distribute

natural gas to retail customers in New York, Massachusetts and New Hampshire.

Other KeySpan subsidiaries engage in gas exploration and production and the ownership and operation of domestic pipelines, gas storage facilities, liquefied natural gas facilities, and generation facilities. KeySpan subsidiaries also provide power, electric transmission and distribution services, billing services and other customer services for electric customers of the Long Island Power Authority (“LIPA”) in New York pursuant to contractual arrangements with LIPA. KeySpan owns EnergyNorth Natural Gas, Inc. (“EnergyNorth”), which provides natural gas service in New Hampshire. EnergyNorth is a New Hampshire corporation with a principal place of business in Manchester, New Hampshire. EnergyNorth is the largest natural gas utility in New Hampshire serving approximately 84,000 customers in 30 communities in southern and central New Hampshire, and also the city of Berlin in Coos County.

3. On February 25, 2006 National Grid and KeySpan entered into an Agreement and Plan of Merger (“Merger Agreement”) under which KeySpan will merge with an indirect subsidiary of National Grid in an all cash transaction. Pursuant to the Merger Agreement, a newly-created subsidiary of National Grid will merge with and into KeySpan. KeySpan will be the surviving entity and will be a wholly-owned subsidiary of National Grid USA. As a result, National Grid will indirectly own EnergyNorth.
4. The shareholders of National Grid approved the proposed merger on July 31, 2006 and the shareholders of KeySpan approved the proposed merger on August 17, 2006.

The proposed merger is subject to the approval of the New Hampshire Public Utilities Commission, the New York Public Service Commission, the New Jersey Board of Public Utilities, the Federal Energy Regulatory Commission, and the Federal Communications Commission. The merger is also subject to review by the Federal Trade Commission under the Hart-Scott-Rodino Antitrust Improvements Act, and the Committee on Foreign Investment in the United States under the Exon-Florio provision of the Defense Production Act of 1950. To date the proposed merger has been approved by the New Jersey Board of Public Utilities, the Federal Energy Regulatory Commission, the Federal Trade Commission, and the Committee on Foreign Investment in the United States.

## **II. Procedural History**

1. On August 10, 2006 National Grid and KeySpan (“Joint Petitioners”) filed with the New Hampshire Public Utilities Commission (“Commission”) a petition seeking approval pursuant to RSA 369:8 and RSA 374:33 of a merger transaction that would result in KeySpan becoming a wholly owned indirect subsidiary of National Grid. The petition included the pre-filed direct testimony of Mr. William T. Sherry, Executive Vice President New Hampshire Public Affairs for National Grid USA, Mr. Joseph F. Bodanza, Senior Vice President of KeySpan Corporation, and Mr. John G. Cochrane, Executive Vice President, Chief Financial Officer, Treasurer and a Director of National Grid USA. The petition also included the joint testimony of Mr. David J. Hoffman, Director of Mercer Management Consulting (“Mercer”), and Mr. Richard J. Levin, Management Consultant for Mercer.

2. On August 18, 2006, the Office of Consumer Advocate (“OCA”) filed a notice of intent to participate in the docket on behalf of residential utility consumers pursuant to RSA 363:28, II.
  
3. The Commission held a prehearing conference on October 3, 2006. On October 27, 2006 the Commission issued Order No. 24,690 in which the Commission: (1) noted the participation of the OCA on behalf of residential utility consumers, (2) approved the petitions to intervene of The United Steelworkers of America, Local 12012-3 (“Local 12012-3”) and the Utility Workers Union of America, AFL-CIO (“Utility Workers Union”) subject to the limitation that they coordinate their participation regarding the development and presentation of evidence and combine their presentations at hearing, (3) noted that the Joint Petitioners had reached an agreement with Commission Staff whereby the issue of adverse impact within the meaning of RSA 369:8, II(b) would be deferred pending the Commission’s ultimate resolution of all issues in the docket, notwithstanding any provisions entitling the Joint Petitioners to preliminary determinations under RSA 369:8, II(b), (4) noted that the Joint Petitioners had reached a further agreement with the Commission Staff whereby the Joint Petitioners agreed to a procedural schedule that waived certain deadlines established in RSA 369:8, II, (b), and (5) approved an initial procedural schedule as agreed upon by the Joint Petitioners and Commission Staff and assented to by the remaining parties.

4. On January 11, 2007 and February 22, 2007 the Commission approved proposed revisions to the procedural schedule designed to accommodate settlement negotiations.
5. Pursuant to the procedural schedule established by the Commission, the parties and Commission Staff conducted extensive discovery, held technical sessions on November 9, 2006, December 14, 2006, and January 25, 2007, and entered into settlement negotiations held on February 22, 2007, March 15, 2007, March 20, 2007, March 22, 2007, March 29, 2007, April 4, 2007, April 5, 2007, April 6, 2007, and April 11, 2007.

### **III. Parties and Scope of Agreement**

1. This Settlement constitutes the recommendation of the Settling Parties and Staff with respect to the Commission's approval of the proposed acquisition of KeySpan by National Grid. The Settling Parties and Staff agree to this joint submission to the Commission as their proposed resolution of all issues in this docket.
2. This Settlement shall not be deemed an admission by any of the Settling Parties and Staff that any allegation or contention in these proceedings by any other Party or by Commission Staff, other than those specifically agreed to herein, is true and valid. This Settlement shall not be construed to represent any concession by any party hereto regarding positions previously taken in this docket. Nor shall this Settlement be deemed to foreclose any Settling Party or Staff from in the future taking any position in any subsequent proceedings.

3. The Settling Parties and Staff agree that all pre-filed testimony should be admitted as full exhibits for purpose of consideration of this Settlement, and be given whatever weight the Commission deems appropriate. Agreement to admit all pre-filed testimony without challenge does not constitute agreement by any of the Settling Parties or Staff that the content of the pre-filed testimony of the other Parties or Staff is accurate or that the views of every witness of other Parties or Staff should be given weight by the Commission. In addition, the resolution of any specific issue in this Settlement does not indicate the Settling Party's or Staff's agreement to such resolution for purposes of any future proceedings.

#### **IV. General Provisions of Settlement**

##### **1. Merger Approval**

- i. The Settling Parties and Staff agree that National Grid and KeySpan are authorized to consummate the merger described in the Merger Agreement, which appears as Appendix 2 to the joint petition, subject to the additional terms and conditions set forth in this Settlement.
- ii. The Settling Parties and Staff agree that the acquisition of KeySpan by National Grid, subject to the additional terms and conditions set forth in this Settlement, is "lawful, proper and in the public interest" in accordance with RSA 374:33, and will have "no adverse effect on the rates, terms, service or operation" of Energy North and Granite State Electric Company in accordance with RSA 369:8(11), without regard to the standard of review the Commission

may deem to be applicable. The Settling Parties and Staff agree that this Settlement sets no precedent as to the standard of review (e.g., “no net harm” or “net benefit”) the Commission should apply to future mergers over which it has jurisdiction.

2. Other Approvals Necessary for Implementing the Merger

- i. Money Pool. The Settling Parties and Staff agree that National Grid may include EnergyNorth with National Grid’s other regulated subsidiaries in a regulated company money pool, which shall be separate from the money pool used for unregulated affiliates, to become effective upon receipt of all required regulatory approvals and when systems are in place to implement the billing and accounting for service company charges efficiently. It is understood that the regulated money pool agreement will be an affiliate agreement subject to RSA 366. The Joint Petitioners shall file the form of regulated money pool agreement with the Commission not less than thirty (30) days prior to its effective date.
  
- ii. Service Company Allocation. The Settling Parties and Staff agree that National Grid may consolidate the service companies of National Grid and KeySpan, and National Grid and affiliates may adopt KeySpan’s formula for allocating service company costs that are not otherwise directly charged from the service company, to become effective upon receipt of all required regulatory approvals and when systems are in place to implement the billing

and accounting for service company charges efficiently. It is understood that the service company agreement will be an affiliate agreement subject to RSA 366. The Joint Petitioners shall file the form of service company agreement with the Commission not less than thirty (30) days prior to its effective date.

- iii. Fiscal Year. The Settling Parties and Staff agree that National Grid may change EnergyNorth's fiscal year to the year-ended March 31 in order to match the fiscal year for the other National Grid affiliate companies.
- iv. KeySpan Dividends. The Settling Parties and Staff agree that EnergyNorth may pay dividends from its unappropriated retained earnings, unappropriated undistributed earnings, and accumulated comprehensive income, to the extent of retained earnings, just prior to the close of the merger plus net income earned subsequent to the merger.

### 3. Reporting Requirements and Access to Data

- i. The Joint Petitioners shall provide the Commission a copy of all journal entries that National Grid makes on its books to record the merger. The journal entries shall be made in accordance with the Commission's Uniform System of Accounts Prescribed for Public Utilities and Licensees Subject to Provisions of the Federal Power Act set forth in N.H. Code Admin. Rules Puc 307.04, and with the Commission's Uniform Classification of Accounts for

Gas Utilities set forth in Puc 507.07, and generally accepted accounting principles.

- ii. Within five business days of consummating the merger, the Joint Petitioners shall provide the Commission with a copy of a corporate organization chart showing the new National Grid, its affiliates (including KeySpan affiliates) and their relationship to each other.
- iii. The Joint Petitioners shall provide the Commission with a copy of the final presentation report of the merger integration team to management, including a cover letter explaining the context of the presentation and management's acceptance of the report.
- iv. The Joint Petitioners shall continue to provide Commission Staff and OCA with all monthly, quarterly, annual or other reports currently required under existing statutes, Commission rules or applicable Commission orders.
- v. The Joint Petitioners shall provide Commission Staff with access to the books and records of National Grid and its affiliates, including service companies and unregulated companies as these books and records relate to EnergyNorth and Granite State.

- vi. The Joint Petitioners shall provide the Commission with a copy of the proposed cost allocation methodology related to any service company or service companies owned by National Grid 30 days in advance of any change to service company allocations that affect service company billings to EnergyNorth or Granite State.
- vii. The Joint Petitioners shall comply with the Commission's rules for Affiliate Transactions set forth in N.H. Code of Administrative Rules Puc 2100 and to comply with the provisions of RSA 366:3 governing the filing of affiliate contracts with the Commission.
- viii. At the time of the filing of the new service company cost allocation methodology with the Commission, the Joint Petitioners shall provide the Commission with a Cost Impact Statement summarizing the direct and indirect service company cost allocations for National Grid transmission and distribution operations, using the existing allocation methodology as well as the new cost allocation methodology proposed by the Company.

**V. Settlement of Rates**

- 1. Granite State. Attached hereto as Exhibit 1, and incorporated herein by reference, is a settlement agreement establishing a distribution rate plan for Granite State following the Commission's approval of the merger of KeySpan and National Grid. ("Granite State Rate Plan")

2. EnergyNorth. Attached hereto as Exhibit 2, and incorporated herein by reference, is a settlement agreement setting forth agreements relating to the rates and certain operational matters of EnergyNorth that will apply following the Commission's approval of the merger of KeySpan and National Grid. ("EnergyNorth Merger Rate Agreement") With the exception of commitments made in Sections 5 and 7(N) therein (which become effective upon the approval of this Settlement by the Commission), the EnergyNorth Merger Rate Agreement is contingent upon the closing of the merger.

#### **VI. Acceptance of the Settlement and Other General Provisions**

1. This Settlement is expressly conditioned upon the Commission's acceptance of all its provisions, without change or condition. If the Commission does not accept the Settlement in its entirety, without change or condition, or if the Commission makes any findings that go beyond the scope of this Settlement, and any of the Settling Parties and Staff do not agree with said changes, conditions or findings, the Settlement shall be deemed to be withdrawn and shall not constitute any part of the record in this proceeding and shall not be used for any other purpose.
2. The Settling Parties and Staff acknowledge that this Settlement is a product of settlement negotiations and that the content of such negotiations shall be privileged and all offers of settlement are without prejudice to the position of any party or participant presenting such offer.

3. Approval of this Settlement does not imply Commission approval, acceptance, agreement with or consent to any concept, theory, principle or methodology underlying or supposed to underlie any matters, nor shall this approval be deemed to have established “settled practice” as the term is used in Public Service Commission of New York v. FERC, 642 F.2d 1335 (D.C. Cir. 1980), cert denied, 454 U.S. 879 (1981).
4. The Settling Parties and Staff agree to this joint submission to the Commission as resolution of the matters specified herein only. The Settling Parties and Staff agree that the Commission’s acceptance of the Settlement does not constitute continuing approval of, or precedent for, any particular issue in this proceeding other than those specified herein. Acceptance of this Settlement by the Commission shall not be deemed to restrain the Commission’s exercise of its authority to promulgate future orders, regulations or rules that resolve similar matters affecting other parties in a different fashion.
5. This Settlement may be executed in multiple counterparts, which together shall constitute one agreement.

IN WITNESS WHEREOF, the signatories below have executed this Settlement, each being fully authorized to do so, as of the day and year written below.

**NATIONAL GRID PLC and  
Granite State Electric Company**  
By their Attorney

Date: April 30, 2007

By: Alexandra E. Blackmore  
Alexandra E. Blackmore

**KEYSPAN CORPORATION and  
Energy North Natural Gas, Inc.**  
By their Attorneys

Date:

By: \_\_\_\_\_  
Thomas O'Neill

Date:

By: \_\_\_\_\_  
Steven V. Camerino  
McLane, Graf, Raulerson & Middleton, PA

**STAFF OF THE NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**  
By its Attorney

Date: May 1, 2007

By: Edward N. Damon  
Edward N. Damon

**OFFICE OF CONSUMER ADVOCATE**  
By its Attorney

Date: 5/1/07

By: Meredith A. Hatfield  
Meredith A. Hatfield

IN WITNESS WHEREOF, the signatories below have executed this Settlement, each being fully authorized to do so, as of the day and year written below.

**NATIONAL GRID PLC and  
Granite State Electric Company**  
By their Attorney

Date:

By: \_\_\_\_\_  
Alexandra E. Blackmore

**KEYSPAN CORPORATION and  
Energy North Natural Gas, Inc.**  
By their Attorneys

Date: May 1, 2007

By: Thomas O'Neill (vrc)  
Thomas O'Neill

Date: May 1, 2007

By: Steven V. Camerino  
Steven V. Camerino  
McLane, Graf, Raulerson & Middleton, PA

**STAFF OF THE NEW HAMPSHIRE  
PUBLIC UTILITIES COMMISSION**  
By its Attorney

Date:

By: \_\_\_\_\_  
Edward N. Damon

**OFFICE OF CONSUMER ADVOCATE**  
By its Attorney

Date:

By: \_\_\_\_\_  
Meredith A. Hatfield

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**EnergyNorth Merger Rate Agreement**

This settlement agreement (“Rate Agreement”) sets forth agreements relating to the rates and certain operational matters of EnergyNorth (“EnergyNorth” or “Company”) that will apply following the merger of KeySpan and National Grid (“Merger”). Specifically, this Rate Agreement establishes a stay out period of one year during which the Company will not change its distribution rates; procedures for rate treatment and sharing of Merger synergy savings in future ratemaking proceedings for the Company; a plan that allows for the acceleration of the Company’s replacement of cast iron and bare steel pipe in the Company’s system; and certain commitments relating to customer service and other operational matters. Other than the commitments made in Sections 5 and 7(N) below, this Rate Agreement is contingent upon the closing of the Merger occurring.

**1. First Rate Case and One Year Rate Freeze**

**(A) First Rate Case Filing**

The Company shall make its first rate case filing pursuant to RSA 378:5 no later than six months from the closing of the Merger, to change distribution delivery rates. (“First Rate Case”) The Company will request temporary rates pursuant to RSA 378:27 with an effective date for the temporary rates to be no earlier than twelve months from the closing of the Merger. Thus, customers will see no change in distribution delivery rates for a period of at least one year from the closing of the Merger.

**(B) Test Year for First Rate Case**

For the First Rate Case, the Company will use a test year based on the twelve month period ending with the quarter immediately preceding the closing date of the Merger. In recognition of the effect of the Merger announcement on the Company's costs during the defined test year, the Company will be allowed to make a normalizing adjustment to test year amounts for the effects of employee attrition caused by the Merger announcement during the test period. The Company also will submit an updated depreciation study with the First Rate Case filing. The stand-alone (EnergyNorth/KeySpan) pre-Merger cost of service ("COS") will be investigated by the Commission for the Company as a stand alone entity. The COS will be adjusted for known and measurable changes and used as the basis for the Company's new rates. Except as provided in subparagraph (C) below, it is agreed that the investigation and the cost of service review will not be adjusted for expected savings that are likely to be achieved as a result of the Merger.

**(C) Savings Credit for Customers and Amortization of CTA**

In the COS, the Company will provide to customers a Merger net synergy savings credit equal to \$619,000 annually. In addition, the Company will commence the amortization of its allocated share of the costs to achieve the Merger savings ("CTA") as provided in section 3 below.

**(D) Capital Structure**

In the First Rate Case and any base rate filing occurring within the ten years immediately following the closing date of the Merger (“Rate Agreement Period”), the Company shall use a capital structure composed of fifty percent equity and fifty percent debt with interest on the debt determined by using the average rate of borrowings by the Company. However, if the Company’s actual average common equity ratio falls below 50%, any party may contend that the use of the average actual capital structure is more reasonable than the use of the imputed capital structure. During the period prior to the effective date of the rate change arising out of the First Rate Case, the Company’s AFUDC rate shall be unchanged from the rate used in calendar year 2007.

**(E) Pension and OPEB Fair Value**

Pursuant to accounting rules, the Company is required to perform a market valuation of the assets in its pension and OPEB plans as of the closing date of the Merger. The Company will defer the recognition of any unrecognized gains or losses resulting from such valuation to a regulatory liability or assets, respectively. The resulting regulatory liability or asset shall be amortized to expense over a period equal to the average estimated remaining service lives of the employees in the plan.

**(F) No Acquisition Premium Recovery**

The Company will not be permitted recovery of the acquisition premium from the Merger (or any prior mergers) in the First Rate Case or any other subsequent rate case.

**2. Synergy Savings Allowance**

**(A) Allowance in Second Rate Case**

If the Company files a second rate case within five years of the closing of the Merger, the Company will be allowed the opportunity to prove the net synergy savings achieved from the Merger (“Actual Synergy Savings”) and add back fifty percent of those savings to the COS in the Second Rate Case (“Savings Allowance”). After rates are set from the Second Rate Case filing, the Company will not be permitted to include a Savings Allowance in any future rate case initiated by the Company. However, to the extent that a rate case is initiated by a party other than the Company during the Rate Agreement Period, the Company will be permitted to retain the Savings Allowance in the cost of service in such case. After the tenth anniversary of the closing of the Merger, the Company will no longer be entitled to such Savings Allowance in future cases.

**(B) Savings Proof Methodology**

The methodology to be used to prove the Actual Synergy Savings is set forth in Exhibit EN-1 to this Rate Agreement utilizing a comparison of the Company’s actual and benchmarked administrative and general expenses charged to the FERC “900 accounts,” as illustrated in the Exhibit.

**(C) Savings Proof and Allowance without Rate Case**

If the Company does not file a rate case within five years of the closing of the Merger, it will file a savings proof to prove the Actual Synergy Savings (“Savings Proof Filing”). The filing will be made no earlier than four years and six months and no later

than five years from the closing of the Merger. The Savings Proof Filing will be made for the sole purpose of establishing the Actual Synergy Savings and will have no immediate rate impact. The filing will provide all of the schedules necessary to perform the savings proof in accordance with the “900 accounts” methodology set forth in Exhibit EN-1 to this Rate Agreement. Once the Actual Synergy Savings is established in the Savings Proof proceeding, the Company will be entitled to add back 50% of the proven savings (“Savings Allowance”) in any future cost of service case initiated during the Rate Agreement Period. The Company will no longer be permitted to include a Savings Allowance in any cost of service initiated by any party after the Rate Agreement Period.

**(D) Shared Earnings After Tenth Year**

Subsequent to the end of the Rate Agreement Period, an earnings sharing mechanism shall be established. For each full twelve month period following the Rate Agreement Period<sup>1</sup>, the Company will file annual earnings reports calculating its return on equity. For purposes of calculating return and income taxes, EnergyNorth shall use the Commission-approved imputed or actual capital structure and cost of capital determined using the Commission-approved return on equity and updated cost of debt in effect at that time. The Company’s allowed rate of return on common equity shall be the last Commission approved return on common equity for the Company (the “Sharing Threshold”). Results will be adjusted to reflect established Commission ratemaking

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<sup>1</sup> To the extent temporary rates go into effect prior to the end of a successive twelve month period after the Rate Agreement Period, these provisions will not be applicable for such partial “year.”

principles. However, there will be no adjustments to actual results to recognize or annualize known and measurable changes. The return on common equity will be calculated by dividing the net income available for common equity by the common equity applicable to rate base. The common equity applicable to rate base shall be calculated by multiplying the common equity ratio required by this subsection by rate base. Annual earnings over the Company's earnings Sharing Threshold shall be shared 50% for customers and 50% for the Company. Any customer share of such earnings sharing shall be returned or credited to customers in a manner determined by the Commission. This post Rate Agreement Period earnings sharing mechanism will remain in effect until the effective date of the Company's first rate change pursuant to the first rate case (initiated by any party) after the end of the Rate Agreement Period.

**3. Amortization of Costs to Achieve**

Commencing with the First Rate Case and continuing for a period of ten years from the effective date of the rates from the First Rate Case, the Company shall be allowed to amortize the prudently incurred costs to achieve the merger (CTA) over ten years, with a return calculated at the pre-tax weighted average cost of capital, using the Commission-approved imputed or actual capital structure in effect for each year and the rate of return established by the Commission. CTA are defined as the costs prudently incurred (i) to meet the legal, regulatory, and accounting/auditing requirements for completing the merger and (ii) to combine the companies and realize potential merger savings. CTA are costs that would not have been incurred without the merger. They include personnel costs (including internal labor costs charged directly to the merger-

related activities described above and early retirement and severance costs, but excluding costs associated with supplemental executive retirement plans such as golden parachutes), IT integration costs, integration process support costs (including consultant support), facilities consolidation costs, costs associated with combining functions, merger-related consultant costs, insurance tail coverage costs, and transaction costs. In the First Rate Case, the estimated CTA as illustrated in Exhibit EN-2 will be used to arrive at the annual amortization level of \$409,203. The Company will separately track, record and report annually to the Commission by May 1 for the previous calendar year the CTA actually incurred. This annual amortization amount then will be adjusted to reconcile to CTA actually incurred.

**4. Comparison to Merger Benefits in New York**

The parties are aware that the Merger also requires the approval of the New York Public Service Commission. At the time of the filing of the Company's First Rate Case, the Company shall include an analysis of the economic benefits related to the allocation, calculation, and sharing of synergy savings from the Merger that is being provided to New York natural gas delivery customers of KeySpan in the service territories of KeySpan Energy Delivery-LI and KeySpan Energy Delivery- NY ("New York Customers"). To the extent that the synergy savings benefits being provided to New York Customers appear to be more favorable to such customers than the benefits provided to EnergyNorth customers as contemplated in the Rate Agreement, the Company must provide a further total economic analysis that demonstrates that the total economic benefits being provided to EnergyNorth customers is at least equal to or better

than the total economic benefits provided to New York Customers. In performing this economic analysis, the Company shall compare the net present value of the customers' share of net synergies as contemplated in this Rate Agreement to the net present value of customers' share of net synergy savings produced by applying the customer share of net synergy savings established in New York. In recognition of the Company's commitment to delay the implementation of required rate relief for one year from the closing of the Merger, in contrast to the immediate rate increases being implemented by the New York Companies, the comparison will include an economic valuation of the avoided rate increase ultimately determined by the Commission in New Hampshire for the Company. To the extent that it is determined that the total economic benefits were greater to New York, on a proportional basis, the Company will be required to provide additional credits to EnergyNorth customers in its First Rate Case filing to provide the economic equivalent benefit. The other parties to this Rate Agreement reserve their rights to perform an independent analysis, take a position different from the Company, and argue for a different result in the rate case proceeding before the Commission.

5. **Cast Iron/Bare Steel Replacement Program**

The parties agree to the implementation of the cast iron/bare steel replacement program set forth in Exhibit EN-3 to this Rate Agreement, beginning with fiscal year 2009 (April 1, 2008 through March 31, 2009).

6. **Call Answering Time**

(A) By the end of the first full calendar year following the closing of the Merger, the Company agrees to bring the Company's performance regarding call answering time to answering 80% of calls within 30 seconds. Thereafter, the Company agrees to maintain its call answering time at no worse than that level until such time as the

Company's customer information system is consolidated with the rest of National Grid.

If the Company believes that it would be imprudent to incur the cost or suffer other unforeseen consequences in order to achieve the standard, it will meet with Staff and the OCA to explain its concerns. If Staff and the OCA agree with the Company's concerns, the Company, Staff and the OCA agree to negotiate in good faith a new call answering standard, taking into account the needs of customers.

(B) When the Company's customer information system is consolidated with the rest of National Grid, the Company, OCA, and Staff agree to negotiate in good faith service quality standards pertaining to customer service.

(C) Each year, the Company shall provide performance reports within 60 days of the end of each calendar year after the closing of the Merger. If Staff or OCA are not satisfied with the performance of the Company and believe customer service is being materially compromised by poor performance, Staff or OCA may request the Commission to open an investigation to determine whether additional actions should be taken by the Commission to address the Company's service quality performance, which may include establishing service quality performance standards with financial penalties associated with future performance, together with consideration of offsets and incentives, if the Commission deems appropriate.

(D) For purposes of this Section, the timing of a call answered is measured from when the call leaves the automated menu system and enters the queue to be “live answered” by a customer service representative. However, a call that never leaves the automated menu system is included in the number of calls for purposes of the monthly and annual reported results. The Company will file annual reports of its results to determine whether it has met the standards. Whether the Company is determined to be in compliance with the standards set forth in this section will be determined on a 12 month reporting basis, aggregating all the calls for the 12 month period.

**(E) Monthly Reports and Meetings with Staff and OCA**

The Company shall provide monthly reports of call answering results to Staff and the OCA. At least every 6 months, the Company will meet with Staff and the OCA to review its customer service commitment performance. To the extent that there are meetings scheduled to discuss customer service quality issues relating to Granite State Electric with Staff and the OCA and similar matters relate to EnergyNorth, the Company will attempt to coordinate meetings to discuss both companies at the same meetings.

**7. Operating Commitments and Annual Report**

**(A) Ownership of System**

Unless the Company obtains the consent of the Commission otherwise, the Company shall continue to own, operate, and maintain the distribution system to the upstream of the customer piping connection to the meter outlet. All meters shall be located at the customer’s structure unless impractical.

**(B) Cast Iron Encroachment Policy**

Unless the Company obtains the consent of the Commission otherwise, the Company will continue to follow its Cast Iron Encroachment Policy PBWK5010.

**(C) Critical Valves**

The Company shall maintain an adequate quantity of primary (critical) distribution valves such that it is reasonably likely in most instances that customer restoration time will not exceed twelve hours duration and isolation areas are limited to no more than 1,250 customers. (Distribution valves do not include station valves.)

The Company will notify the Staff within 60 days of any planned significant change in this program if the quantity of primary (critical) distribution valves decreases by more than 5% during an annual program review.

**(D) Annual Operating Report**

By May 1 of each year, the Company will provide an annual operating report to the Staff ("Annual Report"), containing the information specified below in sections 7(E), (G), (H), and (N).

**(E) Aldyl A Pipe**

The Company's current practice regarding replacement of Aldyl A pipe is to monitor performance issues associated with Aldyl A and make replacements if and when a performance issue is identified in a specific location. In the Annual Report, the

Company will provide a report to the Staff regarding its Aldyl A replacement pipe activity. The report will identify the reasons for replacements and note any additional remedial actions taken.

**(F) Contact Information**

The Company will provide a list of names and contact information along with timely updates to the Staff of Company personnel designated to have responsibility for gas safety issues and for the management and resolution of gas safety complaints referred by the Staff.

**(G) Outside Contractor Activities**

(1) The Company shall maintain its current practice of inspecting and monitoring outside contractors installing pipeline facilities to ascertain that the facility is installed in accordance with the Company's Operations and Maintenance Manual for safe and reliable operations. The Company shall utilize a combination of in-house supervisors, inspectors including QA/QC personnel, and qualified outside inspection personnel hired by the company on a temporary basis, to observe contractor activities. The company shall maintain a span of control of between 3 to 4 crews per company representative.

(2) The Company recently instituted a self-monitoring program that employs random checking of recently installed pipeline facilities, whether installed by outside contractors or by Company personnel. This is accomplished by "redigging" randomly selected areas of recent installations. In each instance where a random "redig" has been employed, the Company shall make a record of the check and describe its findings. The

Company shall compile these records of “redigs” from the previous fiscal year and provide them as a part of the Annual Report to the Staff. The Company will continue this program and not make any material modifications without notifying the Staff and explaining the reasons for such changes.

(3) If at any time after the closing of the Merger, the Staff has reason to believe that the Company is not adequately inspecting and monitoring outside contractors consistent with this section and, after notice and meetings with the Company setting forth the reasons for the Staff's concerns, the Company does not take reasonable steps to address those concerns, the Staff may request the Commission to open a docket to investigate the Company's practices to determine if corrective actions should be taken.

**(H) Quality Assurance/Quality Control (QA/QC) System Program Update**

In the Annual Report, the Company will provide an update of the improvements resulting from the Company's QA/QC system program, as it relates to New Hampshire.

**(I) Marking of Underground Facilities**

The Company commits that it will continue to exclusively use in-house personnel for the marking of underground facilities for a period of no less than two years from the closing of the Merger. If at any time after two years, the Company plans to use outside contractors for this activity, it will notify the Staff no later than six months before implementing a change and hold a technical conference. To the extent the Staff has any safety concerns about a proposed change in practice after the technical conference, it may request the Commission to open a docket before the Company implements the change, in

order to address the Staff's concerns. In any such proceeding, the Company shall have the burden of showing that any changes will not result in a degradation to service quality, safety, and reliability.

**(J) Operator Qualification (OQ) Plan Compliance**

The Company will take steps to maintain its operations after the Merger in a manner that meets or exceeds the standards set forth in the OQ merger section of the existing KeySpan OQ Plan revision D.

**(K) Location of Operation Centers**

The Company commits to maintain operation centers in Tilton, Nashua, and Manchester, New Hampshire. To the extent the Company desires to make a material change in the location of these operating centers following the Merger or relocate material operating functions from any of these locations, it will provide a plan to the Staff, setting forth all the changes and the reasons. The plan will be provided no later than 90 days before implementation. To the extent the Staff has any safety concerns about the proposed changes after technical conference(s) with the Company, it may request the Commission to open a docket before the Company implements the change, in order to address the Staff's concerns. In any such proceeding, the Company shall have the burden of showing that any changes will not result in a degradation to service quality, safety, and reliability.

**(L) Peak Shaving Facilities**

The Company commits to maintain the existing location and operation of its peak shaving facilities and associated supplemental storage. To the extent the Company desires to make a material change in the location or operation of these facilities following the Merger, it will provide a plan to the Staff and OCA, setting forth all the changes and the reasons. The plan will be provided no later than 90 days before implementation. To the extent the Staff or OCA has any safety or reliability concerns about the proposed changes after technical conference(s) with the Company, it may request the Commission to open a docket before the Company implements the change, in order to address those concerns. In any such proceeding, the Company shall have the burden of showing that any changes will not result in a degradation to service quality, safety, and reliability.

**(M) Internet Access to Operations Manuals and Procedures.**

The Company will maintain the current practice of allowing the Staff electronic internet access to the Company's Operations and Maintenance Manual, OQ Compliance Plan, and other safety related procedures maintained by the Company.

**(N) Emergency Response Time**

(1) Beginning January 1, 2008, the Company agrees to comply with the emergency response time standards set forth in Exhibit EN-4 to respond to emergency calls that are made to the Company when the caller is reporting a gas leak or gas odor. In the Annual Report, the Company will report on its performance against these targets for the year. To the extent the Company has missed the targets, the Company must provide an explanation. If the Staff is not satisfied with the explanation and believes

safety is being materially compromised by the Company's poor performance, the Staff may request the Commission to open an investigation to determine whether additional actions should be taken by the Commission to address the Company's service quality performance, which may include establishing service quality performance standards with financial penalties associated with future performance, together with consideration of offsets and incentives, if the Commission deems appropriate.

(2) In order to recognize that there are incremental costs that will be incurred to comply with the emergency response time standards and to provide an incentive to the Company to achieve compliance with the emergency response time standards earlier than required, the Company may earn an incentive for achieving compliance. Specifically, to the extent that the Company achieves compliance for the 12 month period referenced below, the Company will be entitled to earn the corresponding one time incentive set forth below subject to the further restriction as detailed in the following paragraph:

<u>Compliance Period</u>	<u>Incentive</u>
(1) September 1, 2007 through August 31, 2008	\$600,000
(2) October 1, 2007 through September 30, 2008	\$550,000
(3) November 1, 2007 through October 31, 2008	\$500,000
(4) December 1, 2007 through November 30, 2008	\$450,000
(5) January 1, 2008 through December 31, 2008	\$400,000

Once the Company achieves compliance for one of the periods specified above, it must maintain compliance over the successive rolling 12 month periods identified above, including the final period of calendar year 2008, in order to earn the triggered incentive.

Otherwise, the maximum incentive to be paid will be the amount listed for the last 12 month period for which compliance was obtained, if any. In the event the Company does not achieve the emergency response time standards for the latest period shown above (i.e., the 12 month period beginning January 1, 2008), no incentive shall be earned. Any incentive earned would be deferred and recovered in rates when they are set in the Company's First Rate Case or in the next LDAC rate change, whichever is earlier.

(3) In the Company's First Rate Case following the effective date of this Rate Agreement, the Company shall be allowed to include in its cost of service all of its prudently incurred pro forma test year costs associated with complying with the emergency response time standards set forth in this Section.

(4) In the event of an extraordinary event beyond the Company's control to which the Company appropriately responds and the response to such circumstances and events causes the Company to miss its performance measures for emergency response during that response measurement period, the Company has the right to seek relief from the Commission to exclude the emergency response calls received during the event from the calculation of the measures. In such a filing, the Company has the burden of proving the extraordinary nature of the event that is beyond the Company's control and the appropriateness of its response and Staff and the other parties reserve their right to take any position they deem appropriate. If such an event were to occur, the Company agrees to meet and discuss the circumstances with Staff before making any filing.

(5) The emergency response time standards will be measured annually, but reported quarterly in accordance with Commission regulations.

(6) The agreement in this section resolves all outstanding issues with the Staff regarding any alleged or actual non-compliance by EnergyNorth with emergency response times prior to the Commission's order approving this Agreement. The Staff agrees that, upon approval of the Commission of this Rate Agreement, it will not file any complaints or request any investigations directly based on any alleged or actual non-compliance with emergency response time prior to the approval of this Agreement.