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STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

NATIONAL GRID USA
and
KEYSPAN

Joint Petition
for
Approval of Stock Acquisition
and
Other Regulatory Authorizations

PETITION and TESTIMONY

AUGUST, 2006

nationalgrid

KEYSPAN

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Filing Letter

nationalgrid

August 10, 2006

VIA HAND DELIVERY

Ms. Debra A. Howland
Executive Director and Secretary
New Hampshire Public Utilities Commission
21 South Fruit Street, Suite 10
Concord, NH 03301-2429

Re: Joint Petition of National Grid plc and KeySpan Corporation for Approval of the Indirect Acquisition of EnergyNorth Natural Gas, Inc. by way of the Merger of KeySpan Corporation with an Indirect Subsidiary of National Grid plc and Other Regulatory Approvals

Dear Ms. Howland:

Enclosed please find eight (8) copies of the Joint Petition of National Grid plc and its subsidiary National Grid USA (together with their subsidiaries, "National Grid") and EnergyNorth Natural Gas, Inc. ("EnergyNorth") seeking the Commission's approval pursuant to R.S.A. 369:8 and R.S.A. 374:33 of the indirect acquisition of EnergyNorth by National Grid by way of the proposed merger of KeySpan Corporation, EnergyNorth's parent, with an indirect subsidiary of National Grid.

As set forth in the Joint Petition, the merger will benefit New Hampshire customers through reduced costs and improved service. The proposed merger would make possible significant synergy and gas supply savings, and will have the effect of increasing National Grid's scope of business in New Hampshire, thereby increasing the efficiency of both its electric and gas delivery operations in the state.

Accordingly, and for the reasons discussed in the Joint Petition, National Grid and EnergyNorth submit that the proposed merger meets the statutory standards for the Commission's approval in that it "will not have an adverse effect on rates, terms, service, or operation of the public utility within the state" (R.S.A. 369:8, II(b)(1)), and is "lawful, proper and in the public interest" as required by R.S.A. 374:33. We look forward to collaborating with Staff of the Commission and any interested party in discussing the issues raised so that we may bring the benefits of the proposed combination to EnergyNorth's customers as soon as possible.

Thank you very much for your time and attention to this matter.

Very truly yours,

National Grid plc

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Enclosures

Petition

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

In Re: EnergyNorth Natural Gas, Inc., d/b/a KeySpan Energy Delivery New England; National Grid plc; National Grid USA; Granite State Electric Company; New England Power Company; New England Hydro-Transmission Corporation; and New England Electric Transmission Corporation	)	**DOCKET NO. DG 06-____**

JOINT PETITION TO APPROVE THE INDIRECT ACQUISITION OF ENERGYNORTH NATURAL GAS, INC. BY WAY OF THE MERGER OF KEYSPAN CORPORATION WITH AN INDIRECT SUBSIDIARY OF NATIONAL GRID, PLC AND GRANT OTHER REGULATORY APPROVALS NECESSARY TO IMPLEMENT THE TRANSACTION

By this Joint Petition, National Grid plc and its subsidiary National Grid USA (together with their subsidiaries, National Grid)[1] and EnergyNorth Natural Gas, Inc. (EnergyNorth) respectfully request approval of the indirect acquisition of EnergyNorth by National Grid by way of the proposed merger of KeySpan Corporation (KeySpan), EnergyNorth's parent, with an indirect subsidiary of National Grid, pursuant to RSA 369:8 and RSA 374:33 (Transaction). In addition, Granite State Electric Company (Granite State Electric), New England Power Company (NEP), New England Hydro-Transmission Corporation (NH Hydro), New England Electric Transmission Corporation (NEET), and

[1] National Grid is defined to include both the holding companies and their subsidiaries and affiliates. Specific company names will be used when the context requires it.

EnergyNorth request approvals for certain actions that are necessary to implement the Transaction efficiently. As explained below and in the accompanying testimony, the Transaction will benefit New Hampshire customers through reduced costs and improved service. The Transaction meets the statutory standards for the Commission's approval in that it "will not have an adverse effect on rates, terms, service, or operation of the public utility within the state" (RSA 369:8, II(b)(1)), and is "lawful, proper and in the public interest" as required by RSA 374:33.

This Joint Petition is supported by the testimony of William T. Sherry, Executive Vice President New Hampshire Public Affairs for National Grid; Joseph F. Bodanza, Senior Vice President of KeySpan; David J. Hoffman and Richard J. Levin of Mercer Management Consulting (Mercer); and John G. Cochrane, Executive Vice President, Chief Financial Officer, and Treasurer of National Grid USA. In addition, the Petition includes the following appendices: Appendix 1 shows a map of the combined service National Grid-KeySpan service territories; Appendix 2 is the Agreement and Plan of Merger for the Transaction (Agreement); Appendix 3 is the corporate structure of the combined organization after the Transaction;[2] Appendix 4 is a description of the subsidiaries in the National Grid and KeySpan organizations; Appendix 5 provides a comparison of the market premium for the Transaction to other utility mergers; Appendix 6 includes the National Grid Annual Review for the year ended March 31, 2006; and Appendix 7 includes the proposed accounting entries for the Transaction on EnergyNorth's books.

As we describe more fully below, the Transaction will benefit customers and further the public interest by:

[2] The corporate structure shown in Appendix 3 may change before the closing, and in the event that it differs from that included in Appendix 3, we will notify the Commission.

--Producing synergy savings estimated to total about $200 million per year on the combined National Grid/KeySpan system. After netting the costs to achieve the synergies and allocating the savings among the operating companies of the combined organization, the net synergy savings to EnergyNorth are projected to total $12.8 million over the next ten years.

--Producing gas supply benefits that will be reflected in EnergyNorth's Cost of Gas Clause, producing savings to its customers.

--Avoiding various capital investments and associated costs that would otherwise have to be incurred by the stand-alone companies for billing and information systems.

--Combining the expertise and resources of two major energy delivery companies in the Northeast with strong records of reliable, safe, and efficient service to their customers.

--Committing to: (i) freeze EnergyNorth's current delivery rates, which were last increased in 1993, for at least twelve months, despite inflation that increased by 47 percent since that time; and (ii) include in EnergyNorth's next delivery rate filing a plan that excludes any recovery of the acquisition premium associated with the Transaction and shares equally between EnergyNorth and its customers the net synergy savings from the Transaction.

--Implementing steps to improve EnergyNorth's response to telephone calls from customers with a commitment to update its service quality standards at the time of EnergyNorth's next delivery rate filing.

--Providing EnergyNorth with broader access to low cost capital through the National Grid Regulated Money Pool.

--Increasing National Grid's scope of business in New Hampshire, thereby increasing the efficiency of both its electric and gas delivery operations in the state.

For the reasons summarized above and detailed below and in the accompanying testimony, the Commission should find that the Transaction meets the statutory standards for a merger in New Hampshire and approve the Transaction.

The Joint Petitioners

1. National Grid plc is incorporated in England and Wales and is the parent holding company in the National Grid holding company system. National Grid plc'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. The National Grid USA family of companies includes NEP, which owns and operates electric transmission facilities in New Hampshire, Granite State Electric, which provides electric service at retail in New Hampshire, and NH Hydro and NEET, which own interconnection facilities with Hydro Quebec. NEP, Granite State Electric, NH Hydro, and NEET are electric utilities subject to the jurisdiction of the Commission. A description of the National Grid companies is included in Appendix 4. The pre-filed testimony of John G. Cochrane describes the operation of the National Grid holding company system.

2. EnergyNorth is a New Hampshire corporation and a public utility as defined in RSA 362:2 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 communities, and including the city of Berlin in Coos County. EnergyNorth has approximately 12,000 miles of transmission and distribution pipeline. EnergyNorth was indirectly acquired by KeySpan as a result of the transaction approved by the Commission on May 8, 2000. See Order No. 23,470 in Docket No. DG 99-193. EnergyNorth is the New Hampshire public utility whose stock is being acquired indirectly by National Grid in this Transaction. As

explained below, this indirect acquisition of EnergyNorth requires the Commission's approval under RSA 374:33 and 369:8, II (b)(2).

3. 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 (LNG) 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, which provides natural gas service in New Hampshire and is subject to regulation by the Commission. A description of the KeySpan companies in also included in Appendix 4, and the pre-filed testimony of Joseph F. Bodanza describes the operation of the KeySpan holding company system.

The Transaction

4. On February 27, 2006, National Grid and KeySpan announced that they had entered into a definitive agreement (Agreement) under which KeySpan will merge with an indirect subsidiary of National Grid in an all cash transaction. A copy of the Agreement associated with the Transaction is attached as Appendix 2. Pursuant to the 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. The corporate structure after the Transaction, which includes KeySpan, is included in Appendix 3.

5. The Transaction will become effective upon KeySpan's filing of the Certificate of Merger with the Secretary of State of the State of New York or as otherwise specified in the Certificate of Merger (Effective Time). At the Effective Time, each share of common stock of KeySpan will automatically be converted into the right to receive $42.00 in cash per share. National Grid will deposit cash to reimburse the shareholders their $42.00 per share upon surrender of the KeySpan certificates.[3]

6. Consummation of the Transaction is conditioned on several customary provisions, including approval by National Grid and KeySpan shareholders, no adverse effect on KeySpan between the dates of the Agreement and the completion of the Transaction, and the receipt of several federal and state regulatory approvals. Approval of the Commission pursuant to RSA 369:8 and RSA 374:33 for the indirect acquisition of EnergyNorth is required as a condition precedent with respect to the obligations of both KeySpan and National Grid to close the Transaction.

Jurisdiction and Standard of Review

7. Commission authority to approve the indirect acquisition of EnergyNorth stems primarily from two statutory provisions. RSA 374:33 provides in relevant part:

> "No public utility or public utility holding company as defined in section 2(a)(7)(A) of the Public Utility Holding Company Act of 1935 shall directly or indirectly acquire more than 10 percent, or more than the ownership level which triggers reporting requirements under 15 U.S.C., section 78-P, whichever is less, of the stocks or bonds of any other public utility or public utility holding company

[3] As shown in Appendix 5, the market premium for the Transaction is approximately 16 percent above the price of KeySpan's shares one month prior to the announcement of the Transaction, and well within the premiums typically paid in transactions of this kind.

> incorporated in or doing business in this state, unless the commission finds that such acquisition is lawful, proper and in the public interest…."[4]

RSA 369:8, II (b)(1) provides an alternative procedure for the approval of a merger involving the parent companies of a public utility:

> "To the extent that the approval of the commission is required by any other statute for any corporate merger or acquisition involving parent companies of a public utility whose rates, terms, and conditions of service are regulated by the commission, the approval of the commission shall not be required if the public utility files with the commission a detailed written representation no less than 60 days prior to the anticipated completion of the transaction that the transaction will not have an adverse effect on rates, terms, service, or operation of the public utility within the state."

Under the alternative procedure in RSA 369:8, II (b)(2) - (5), a series of dates are set forth that are designed to allow the merger to go forward if it meets the "no adverse effect" test set forth in RSA 369:8, II (b)(1). Specifically, the merger is deemed to be approved if the Commission does not issue an order within 60 days of the filing under RSA 369:8, II (b)(2), subject to various extensions and findings set forth in RSA 369:8, II (b)(3)-(5). Ultimately, if the Commission finds an adverse effect, the Commission is then required under RSA 369:8, section II (b)(5) to review the filing "under the statute that would have otherwise applied but for this section" within 150 days of the filing of the initial petition.[5]

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[4] The Public Utility Holding Company Act of 1935 (PUHCA) was repealed by the Energy Policy Act of 2005. However, this Transaction would have triggered the reporting requirements of 15 U.S.C. section 78-P, and therefore we are filing for approval under RSA 374:33. We do not assume that the repeal of PUHCA affects in any way the operative provisions of state law that may have referenced PUHCA for convenience.

[5] Subsection (b)(2) provides that the transaction is deemed approved if the Commission does not act within 60 days. Subsection (b)(3) allows the Commission to make a preliminary finding of an adverse effect within 30 days allowing the utility to amend its filing to address the issue in the remaining 30 days, and as a result does not affect the 60 day period established in subsection (b)(1). Subsection (b)(4) does allow the Commission to extend the 60 day period by 30 days to 90 days. Subsection (b)(5) authorizes a further 60 day review period under "the statute that would otherwise have applied but for this section" after the Commission has found an adverse effect, producing a total time line of 150 days for action either under RSA 369:8 II (b) or under RSA 374:33.

8. In Order No. 23,308, October 4, 1999, approving the New England Electric System (NEES) acquisition by National Grid, the Commission described the interplay between these statutes as follows:

> "... NNG's proposed acquisition of NEES is governed by the mandate in RSA 369:8 that the merger will 'not adversely affect the rates, terms, service, or operation of the public utility within the state.' We view this inquiry as the same one we have historically made under RSA 374:33 (authorizing Commission approval of mergers that are 'lawful, proper and in the public interest'), to which we apply what has come to be referred to as the 'no net harm' test, *see, e.g., Re Consumers New Hampshire Water Company*, 82 NH PUC 814, 817-18 (1997), first articulated in *Re Eastern Utilities Associates*, 76 NH PUC 236 252-53 (1991) ...
>
> "In essence, the 'no net harm' test requires approval of a proposed transaction if the public interest is not adversely affected.' *Re CCI Telecommunications of N.H., Inc.,* 81 NH PUC 844, 845 (1996). In that regard, 'our obligation is to ensure that the interests of ratepayers are balanced against the right of shareholders to be free of regulation which unreasonably restrains legitimate corporate activities.' *Re Hampton Water Works Co.,* 80 NHPUC 468, 473 (1995). In other words, we must assess the benefits and risks of the proposed merger and determine what the overall effect on the public interest will be, giving the transaction our approval if the effect is at worst neutral from the public-interest perspective."

9. Subsequent to the NEES proceeding (Docket No. DE 99-035), RSA 369:8, II was amended. In Order No. 23,470, dated May 8, 2000, Docket No. DG 99-193 approving the acquisition of EnergyNorth by Eastern Enterprises and KeySpan, the Commission described its responsibilities under the amended version of RSA 369:8, II in conjunction with RSA 374:33 as follows:

> "Under the public interest standard of RSA 374:33 and the 'no adverse effect' standard of RSA 369:8 to be applied by the Commission where a utility or public utility holding company seeks to acquire, directly or indirectly, a jurisdictional utility, the Commission must determine that the proposed transaction will not harm ratepayers." Order No. 23,470, DG 99-193, page 15.

10. In this Petition and the accompanying testimony, we demonstrate that the Transaction meets the statutory standards. In so doing, we do not intend to suggest that the Commission complete its review of the Transaction within the 60-day period contemplated by RSA 369:8 II (b). Rather, we suggest that the Commission evaluate the Transaction under both the statutory standards set forth in RSA 369:8 and RSA 374:33 from the outset and without any preliminary determination of any "adverse effects" under RSA 369:8, II(b). This will allow the Commission the full 150 days to complete its review and approval under both the "no adverse effect" and "no net harm" standards, pursuant to RSA 369:8 and RSA 374:33, respectively, with a final order issuing no later than the 150-day timeframe laid out in RSA 369:8, II. In following sections, we first set forth the benefits of the Transaction that form the basis for the evaluations required under the statutory standards. We then address each statutory standard in turn.

Benefits of the Transaction

11. The Transaction will have several benefits that are summarized in this section of the Petition and supported by the testimony of Mr. Sherry, Mr. Bodanza, Messrs. Hoffman and Levin, and Mr. Cochrane. The benefits include the following:

1. Synergy Savings

12. Mr. Hoffman and Mr. Levin of Mercer estimate the synergy savings that will be produced as a result of the Transaction. Their analysis reviews the operations of KeySpan and National Grid in detail and develops a synergy estimate for each component of the combined entity. Mr. Hoffman and Mr. Levin begin with personnel savings for each function—administrative and general, customer service, and transmission and distribution

operations. In addition, they analyze non-personnel savings in information systems, supply chain, facilities, and administrative and general functions. For the combined organization, they estimate that the synergy savings will equal about $125 million per year, before the costs to achieve the savings are reflected in the analysis. However, Mr. Hoffman and Mr. Levin also recognize that their estimates are preliminary, and that the integration team is at work to develop more comprehensive plans to guide the integration process. They evaluated past integration efforts associated with National Grid USA mergers and adjusted the savings estimate by one to two thirds to reflect the increase that integration teams are likely to identify. This adjustment produces an estimated level of synergy savings that range from $165 million to $210 million per year. We are using $200 million per year in this analysis. The figure may be updated as the integration effort proceeds. Mr. Hoffman and Mr. Levin have found that the costs to achieve these merger savings equal about two times the annual savings or about $400 million on a one time basis.

13. The costs to achieve the synergy savings are deducted from the projected synergy savings and the estimated net savings are then allocated across all of the companies in the combined organization by Mr. Cochrane in his Schedule JGC-1 based on delivery revenues. As shown in that Schedule, this analysis produces an estimate of net synergy savings that will be allocated to EnergyNorth of $12.8 million over the first ten years following the Transaction. These savings then continue indefinitely thereafter. The synergy savings are proposed to be shared with customers as described below.

2. Gas Supply Savings

14. In addition to the synergy savings, the Transaction will also lead to gas supply benefits for EnergyNorth and the KeySpan and National Grid gas utilities in New

England. Specifically, the gas supply portfolio now used by KeySpan to serve EnergyNorth's customers will be combined with that of New England Gas Company's supply portfolio in Rhode Island. As Mr. Bodanza explains, the preliminary analysis of the combination of the portfolios is expected to produce savings and other benefits in gas supply for EnergyNorth's customers. The integration of the gas supply portfolios will require consultation with the other regulatory authorities in affected jurisdictions, and approvals may be required to assign contracts. The actual implementation plan may also change as new opportunities are presented over time. In any event, EnergyNorth will flow 100 percent of the resulting gas supply savings to its customers through its Cost of Gas Clause.

3. Avoidance of Costs that Would Be Required Absent the Transaction

15. The direct synergy savings calculated by Mr. Hoffman and Mr. Levin are focused on the present expenses and capital expenditures for the two organizations. The analysis does not include the savings that will be realized from future capital requirements that will be avoided by merging the two companies. These avoided costs will result in savings that are over and above the synergy savings projected by Mr. Hoffman and Mr. Levin. For example, KeySpan has plans as a stand-alone company to invest in new information and customer service systems. These redundant investments are avoided by consolidating KeySpan's processes into National Grid's information systems. Moreover, the ability to avoid costs goes both ways. KeySpan and National Grid have an array of information systems which have been developed and implemented at different times during the past several years. The combined company will be able to pick the best systems from

the two companies and avoid the costs of replacing systems that would be necessary on a stand-alone basis. As a result, the incremental costs for both companies will be reduced.

4. Increased Resources and Expertise of the Combined System

16. In addition to synergies and savings, the Transaction will provide greater resources to the operating companies of the combined organization. National Grid is the largest delivery company of both electricity and natural gas in the United Kingdom. It operates both the electric and natural gas transmission systems, and provides retail delivery service to over half of the United Kingdom's natural gas customers. A summary of National Grid's operations in the United Kingdom is included in the Annual Review, which is attached as Appendix 5. In the United States, National Grid has a long history of electric and natural gas deliveries. National Grid provides both services in Upstate New York. In New England, National Grid has been focused on electricity. However, the acquisition of New England Gas Company in Rhode Island and KeySpan will make the combined company the largest gas utility in New England as well. The additional resources and management talent provided by KeySpan will enhance the safe, reliable, and efficient operation of the natural gas and electricity delivery system throughout the Northeast.

17. Following the Transaction, National Grid will also have a greater presence in New Hampshire. EnergyNorth and Granite State Electric will serve approximately 125,000 New Hampshire customers (about 41,000 electric delivery service customers and 84,000 gas delivery service customers), creating the second largest utility in New Hampshire measured by the number of customers. By working closely together, EnergyNorth and Granite State Electric will be able to increase the impact of their efforts to publicize energy efficiency programs, implement low income programs, and coordinate

community activities. Both companies have solid records of achievement in all of these areas. Together, we will be able to make these programs even more effective.

5. Continue Stable Delivery Rates

18. The synergy savings from the Transaction will allow EnergyNorth to provide service at more stable rates after the Transaction than as a stand-alone company. As explained by Mr. Bodanza, EnergyNorth has not filed for an increase in delivery rates since 1993 and is not earning its authorized return. Absent the Transaction, EnergyNorth was considering filing for increased delivery rates to recover the higher costs of providing service to its customers. We propose to defer this delivery rate filing and to use the synergy savings from the merger to stabilize rates thereafter. Specifically, we propose to freeze EnergyNorth's delivery rates at their current levels for at least twelve months after the close of the Transaction. At the time of filing for needed rate relief, we propose to share the net synergy savings from the Transaction equally with customers in the cost of service. Under the proposal, EnergyNorth would retain its share to pay for the costs of the Transaction.[6] In so doing, we would waive any right to include the recovery of an acquisition premium in EnergyNorth's delivery rates.

19. We also request the Commission to authorize EnergyNorth to defer and amortize the costs of the transaction and the costs to achieve the synergies resulting from the Transaction over twenty years after the Transaction. The deferral and amortization is reasonable because the costs to achieve are incurred early in the process before the synergy

[6] Specifically, we propose to include an allowance of fifty percent of the net synergy savings net of the amortization of costs to achieve to the cost of service at the time when EnergyNorth submits a delivery rate filing. The net synergy savings estimate would be based on the level of savings that the Commission finds is appropriate in this proceeding, and would continue for twenty years from the date of the Transaction. For the period prior to filing, EnergyNorth would retain the net synergies to limit EnergyNorth's under earnings, and to provide an incentive to continue with current delivery rates.

savings are fully realized. Amortization over twenty years creates a better match between the costs to obtain the savings and the realization of those savings. Accordingly, we propose a straight-line amortization over the twenty years after the Transaction.

6. Service Quality

20. As part of the Transaction and integration process, we are proposing specific actions to address service quality issues that have been identified for EnergyNorth. These steps are discussed in the testimony of Mr. Sherry. Specifically, we propose to: (i) develop an enhanced training program for customer service representatives dealing with our New Hampshire gas customers; and (ii) establish a goal (to be achieved within a year after the Transaction closes) to answer 80 percent of all calls from EnergyNorth's customers within 30 seconds. In addition, EnergyNorth commits to file a review and update of its current Service Quality Plan and standards at the time of its next delivery rate filing, providing us time to evaluate the results of the integration process, and to work with Commission Staff to develop new metrics on service quality.

7. Maintaining Financial Integrity

21. The Transaction will provide EnergyNorth with broader access to low cost capital. Specifically, National Grid USA proposes to include EnergyNorth with National Grid's other regulated subsidiaries in a regulated company money pool. All the regulated companies and the service companies will be able to lend or borrow from the money pool, and National Grid USA will be authorized to lend only. In this way, National Grid USA can provide low cost capital directly or through the international holding company to the subsidiaries on an as needed basis, but the regulated companies provide no loans or credit assurances to National Grid USA. A separate money pool is proposed for the unregulated

companies within National Grid after the Transaction to assure that the regulated companies do not provide credit support to unregulated operations. This is the same structure that KeySpan has in place today and that the Commission has approved for EnergyNorth. National Grid proposes to adopt it for its regulated subsidiaries as well, including Granite State Electric, NEP, NH Hydro, and NEET in New Hampshire. The creation of the regulated money pool is subject to regulatory approvals and will be implemented after the Transaction when those approvals have been received and the regulated money pool can be implemented efficiently.

22. EnergyNorth's financial integrity will not be adversely affected by the Transaction. Because the transaction is an indirect transfer of ownership, EnergyNorth's corporate structure and contracts are not affected by the Transaction. National Grid plc is financing the Transaction through borrowings at the holding company level without recourse to EnergyNorth. The goodwill associated with the Transaction that is allocated to EnergyNorth will be reflected as equity on its balance sheet. EnergyNorth will have no Transaction-related debt on its balance sheet and none of EnergyNorth's assets will be pledged to secure either the bondholders who are loaning the funds for the Transaction or the holding company. Finally, dividend payments by EnergyNorth will be limited to the unappropriated retained earnings, unappropriated distributed earnings, and accumulated comprehensive income of EnergyNorth just prior to the close of the Transaction,[7] plus the income available for common dividends that is generated by EnergyNorth after the Transaction.

[7] The accounting for the unappropriated retained earnings, unappropriated distributed earnings, and accumulated comprehensive income of EnergyNorth at the time that the Transaction closes is shown in Appendix 7.

23. We propose to follow the purchase method of accounting for the proposed Transaction. Under Generally Accepted Accounting Principles (GAAP), for purchase accounting, the purchase price for KeySpan, together with transaction costs, will be allocated to each of its subsidiaries. The assets of the acquired companies are generally restated to their fair value and goodwill is recorded on the company's accounts. The goodwill is then pushed down and allocated among KeySpan and its subsidiaries in accordance with a fair value study. Recording this premium on the books of the acquired company is consistent with Securities and Exchange Commission guidance and GAAP,[8] and the Commission has approved it for other acquisitions, including National Grid's acquisition of the NEES companies.

24. As explained above, the acquisition premium allocated to EnergyNorth will not affect the company's rates. We do not propose to include the acquisition premium in rates; we are only seeking the right to share in the net synergy savings from the Transaction. Under this proposal, the acquisition premium will be excluded from EnergyNorth's rate base, and its assets devoted to utility service will continue to be valued based on their depreciated original cost.

25. These financing and rate commitments should allow EnergyNorth to maintain its financial integrity, use the savings from the Transaction to stabilize delivery rates and reduce gas supply costs, and provide the company with the incentive to produce the projected savings through its performance after the merger.

8. Increased Commitment to New Hampshire

26. Mr. Sherry's testimony addresses the effect of the Transaction on National Grid's commitment to New Hampshire. As he explains, after the Transaction, we will have

[8] See Financial Accounting Standards Board (FASB) Statement No. 141.

125,000 New Hampshire customers, and will become the second largest utility in the state. As a result, National Grid will have more personnel and resources to respond to the needs of customers and the community. Both National Grid and KeySpan have strong ties to the communities they serve. Following the merger, these ties will be maintained and strengthened. Although the combined gas and electric operations are now under review by the integration team, all commitments with unions will be honored by the combined company.

27. The combination will also benefit Granite State Electric's customers. Granite State Electric will share in the projected synergy savings and avoided costs from the Transaction. Following the Transaction, we propose to combine the service companies of KeySpan and National Grid, reducing costs and enhancing services. We also propose to adopt KeySpan's three part formula for allocating service company costs that are not charged directly or through a more precise allocator. Specifically, KeySpan's three part formula allocator is based on operation and maintenance expenses, revenues, and investment, as distinguished from National Grid's that has relied only on operation and maintenance expenses since divestiture of NEP's generation. As with the regulated money pool, the consolidation of the service companies and the changes in allocation methods require regulatory approvals from other commissions and system changes to be implemented efficiently and effectively. This approval is in place for EnergyNorth, but approvals are required for Granite State Electric, NEP, NE Hydro, and NEET to move to the KeySpan methodology, and we are requesting the Commission's approval in this proceeding to implement the changes following the Transaction.[9]

[9] The approval is requested under RSA 366. We will file amended service company contracts under RSA 366:3 as they are developed through the integration process. We are also requesting Commission approval of

28. Finally, the combined companies will continue to develop ways to use the resources of the combined companies more effectively. We have found from our previous experience with other mergers that the creativity does not end with the integration process. It continues throughout the system every day as people explore better ways to provide service for customers. The challenge and opportunity are to use the best people from both organizations to continue to develop ideas for improved service, safety, and reliability in the years after the Transaction has closed. For example, following our last merger, National Grid implemented automated meter reading, a technology that has both improved service and reduced costs. After this Transaction, the management team will continue to evaluate new technologies, business practices, and operating procedures to develop efficiencies, improved service, and better response to the needs of our customers.

Compliance with RSA 369:8 II(b): No Adverse Effect on Rates, Terms, or Operation of EnergyNorth

29. Given the benefits of the Transaction, the demonstration of compliance with RSA 369:8 II(b) is straightforward. The section requires the utility to demonstrate with a detailed written representation that "the transaction will not have an adverse effect on rates, terms, service, or operation of the public utility in the state." In this case the affected public utility is EnergyNorth. The demonstration is as follows:

1. No Adverse Effects on Rates

30. The Transaction will have no adverse effects on EnergyNorth's rates. First, we are proposing to freeze EnergyNorth's delivery rates that were established in 1993, or

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a change in the fiscal year for EnergyNorth to the year ended March 31, which matches National Grid's fiscal year.

thirteen years ago, for at least one more year following the close of the Transaction. Assuming the Transaction closes next year, this commitment extends the freeze of EnergyNorth's delivery rates through 2008, or fifteen years since the rates were first established. Inflation has increased by 47 percent since EnergyNorth's last increase in delivery rates; our commitment extends that freeze for at least two more years. Thus, the Transaction continues a remarkable record of rate stability for the company. Second, when new rates are filed after a period that may extend beyond our minimum twelve-month commitment, we propose to share 50 percent of the net synergy savings from the Transaction with customers. This assures that EnergyNorth's delivery rates will be lower after the Transaction than they would have been as a stand-alone company. Third, EnergyNorth's customers will receive immediate savings in gas supply costs from the combination of the portfolios of National Grid, New England Gas Company in Rhode Island, and KeySpan. These savings will reduce gas rates from the outset over those of the stand-alone company. Finally, the increased resources of the combined National Grid/KeySpan system will avoid costs that would otherwise be incurred by the systems on a stand-alone basis. These avoided costs are over and above the savings quantified in the synergy analysis or by the integration team. All of these factors operate to reduce rates and mitigate increases that otherwise would have been required. Together with the commitment to exclude recovery of the acquisition premium from EnergyNorth's rate base for purposes of setting delivery rates, they assure that the Transaction will produce no adverse effect on EnergyNorth's rates.

2. No Adverse Effects on Terms

31. The continuation of EnergyNorth as a separate corporation within National Grid assures that the Transaction will have no adverse effect on the terms or contracts with customers, suppliers, lenders, employees, or vendors. EnergyNorth will continue to honor all of these commitments following the Transaction. Moreover, EnergyNorth's terms and conditions for service to customers are not proposed to be changed as a result of the Transaction. As a result, the Transaction will have no adverse effect on EnergyNorth's terms.

3. No Adverse Effects on Service

32. As indicated above and in Mr. Sherry's testimony, we are focusing on service to customers. We have developed a proposal to improve service and responsiveness in EnergyNorth's customer inquiry centers. Moreover, we have committed to a comprehensive review of the service quality standards in EnergyNorth's next delivery rate filing based on the results of the integration process. These steps assure that the Transaction produces no adverse effect on that service.

4. No adverse Effect on Operations

33. The final standard under the statute focuses on operations. This is the primary concern of the integration team. Its goal is not only to develop plans that will produce synergy savings and efficiency gains; it is also looking for ways to improve operations so that employees can do their jobs and serve customers more effectively and efficiently. National Grid and KeySpan are devoting substantial resources to the effort. More than 200 executives, managers, and staff are devoted to the effort. Their goals are to: (i) develop plans that will achieve the savings necessary to support the Transaction: (ii)

assure that the Transaction is implemented seamlessly for customers from day one; and (iii) improve operations across the expanded footprint so that employees in the new organization can provide service reliably, safely, and effectively to all customers in the combined system. These efforts will assure that the Transaction produces no adverse effect on the operations of EnergyNorth.

5. Conclusion

34. Based on the representations in this Petition and the accompanying testimony, the Commission should conclude that the Transaction complies with the standards set forth in RSA 369:8 (b) and approve the Transaction on that basis.

Compliance with RSA 374:33: The Transaction Is Lawful, Proper, and in the Public Interest

35. The showing under the second statutory standard is also straightforward. As required by RSA 374:33, the Transaction is both lawful and proper. It requires regulatory approvals from this Commission and several other agencies, including the Federal Energy Regulatory Commission and the New York Public Service Commission. Those applications are pending. Clearance under the United States antitrust and foreign investment laws have been received as of July 7, and July 10, 2006, respectively. In addition, the Transaction must receive several other approvals and the approval of the shareholders of both corporations. National Grid's shareholders approved the Transaction on July 31, 2006. These actions and the Commission's review in this proceeding will demonstrate that the Transaction is lawful and proper.

36. The showing that we have outlined above demonstrates that the Transaction is in the public interest. Simply stated, we do not believe that it is necessary to parse the statute to determine whether the public interest showing requires "no net harm" or a positive benefit. In this case, the Transaction provides both. As we explained above, the Transaction is designed to reduce rates, improve service, maintain financial integrity, and enhance the operations of EnergyNorth. We are not seeking to maintain the status quo; we are aiming to provide affirmative benefits. As a result, the Transaction meets the public interest test, regardless of the definition of that standard. It should be approved by the Commission.

Request for Approvals

WHEREFORE, the Petitioners respectfully request that the Commission:

1. Approve the Transaction under which EnergyNorth becomes an indirect subsidiary of National Grid, plc and National Grid USA pursuant to RSA 369:8 and RSA 374:33;

2. Issue all other approvals, authorizations or clearances, if any, in order that the Petitioners can effect the proposed Transaction;

3. Approve actions necessary to implement the Transaction efficiently including the participation of EnergyNorth, Granite State Electric, NEP, NH Hydro, and NEET in the regulated money pool, the consolidation of service companies and change in cost allocations, and the change in fiscal year for EnergyNorth as discussed in this Petition; and

4. Grant such other and further relief as may be just and proper.

Respectfully submitted,

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Testimony

Sherry

DIRECT TESTIMONY

OF

WILLIAM T. SHERRY

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1 **I. Introduction and Qualifications**

2 Q. Please state your full name, business address and title.

3 A. My name is William T. Sherry. My business address is 9 Lowell Road, Salem, New
4 Hampshire 03079. I am Executive Vice President New Hampshire Public Affairs for
5 National Grid USA ("National Grid").

6

7 Q. Please describe your educational background and professional experience.

8 A. I received a Bachelor of Arts in Politics from Brandeis University in 1982 and a Master's
9 of Business Administration in Management from Bentley College in 1992. I am also a
10 graduate of the Leadership New Hampshire class of 2001 and a veteran of the US Air
11 Force and Air National Guard. I have worked for National Grid, and its predecessor
12 company, New England Electric System, through its distribution subsidiaries
13 Massachusetts Electric Company and Granite State Electric Company ("Granite State
14 Electric") since 1982. I have held a number of different positions in the organization,
15 mostly related to providing service to commercial, industrial and municipal customers and
16 delivering energy efficiency programs to those customers. In 1995, I became the Account
17 Manager for Granite State Electric responsible for all commercial and industrial customer
18 activity in our New Hampshire service territory as well as implementation of the
19 company's commercial and industrial demand side management programs.

20

21 During 1998, I became a Vice President of Massachusetts Electric Company with overall
22 responsibility for that company's operations in southeastern Massachusetts. In 2000, I
23 became Executive Vice President of Granite State Electric, with overall responsibility for
24 the company's legislative, regulatory and business affairs in New Hampshire. In addition, I

1 am also a Vice President of National Grid USA Service Company, the corporate
2 administrative services company of National Grid in the United States. I am National
3 Grid's senior officer in New Hampshire.
4
5 Q. Have you testified before this Commission in the past?
6 A. Yes. I have previously testified before the New Hampshire Public Utilities Commission
7 ("Commission") in various dockets in 1996, 1997, 2000, 2001, and 2005.
8
9 **II. Purpose of Testimony**
10 Q. What is the purpose of your testimony?
11 A. The purpose of my testimony is to: (i) introduce the Joint Petitioners' other witnesses in
12 this proceeding; (ii) summarize the benefits of the Transaction for electric and gas delivery
13 customers in New Hampshire; and (iii) discuss aspects of ongoing operations after the
14 Transaction is closed.
15
16 **III. Introduction of Other Witnesses in Support of the Petition**
17 Q. Would you please identify the other witnesses presented by the petitioners in this case?
18 A. Yes. In addition to my testimony, the Joint Petition regarding the merger of KeySpan
19 Corporation ("KeySpan") and its operating subsidiary in New Hampshire, EnergyNorth
20 Natural Gas Co. Inc. ("EnergyNorth") into National Grid ("Transaction") is supported by
21 the testimony of Joseph F. Bodanza, Senior Vice President of KeySpan, who provides the
22 background on the KeySpan companies and discusses the current earnings of EnergyNorth
23 under delivery rates that were last established by the Commission in 1993. He also focuses
24 on the gas supply savings and benefits that will be realized as the result of the Transaction.

David J. Hoffman and Richard J. Levin of Mercer Management Consulting discuss the integration process in some detail and provide an estimate of the operating savings, also referred to as net synergy savings, that are likely to result from the Transaction. These net synergy savings, together with the gas supply savings estimated by Mr. Bodanza, provide the key economic benefits associated with the Transaction. John G. Cochrane, Chief Financial Officer of National Grid's United States operations, provides an estimate of the allocation of the synergy savings estimated by Mr. Hoffman and Mr. Levin that will go to EnergyNorth, and proposes an approach for sharing the savings between EnergyNorth and its customers. In addition, Mr. Cochrane supports the other requests for approval of implementing actions that are set forth in the Joint Petition. Together, these witnesses support the requests in the Joint Petition for the Commission's approval of the Transaction and the actions necessary to implement it efficiently.

IV. Summary of the Benefits for New Hampshire Customers as a Result of the Transaction

Q. Please summarize the benefits of the Transaction for National Grid's and EnergyNorth's New Hampshire customers as a result of the Transaction.

A. The primary benefits associated with the Transaction stem from the larger scope and scale of the combined companies and the savings and enhanced resources that can be produced by bringing two efficient organizations together. These benefits are detailed in the testimonies of the other witnesses, but it may be helpful if I take this opportunity to summarize them in one place.

1 Synergy Savings. The primary benefits stem from the synergy savings associated with the
2 Transaction. In their joint testimony, Mr. Hoffman and Mr. Levin estimate that the
3 combination of KeySpan and National Grid will save about $200 million per year. The
4 detailed plans to achieve these savings are now being formulated by an integration team
5 composed of executives and managers from both KeySpan and National Grid. Mr.
6 Cochrane then estimates how the synergy savings will affect New Hampshire. He projects
7 that EnergyNorth will realize over $12.8 million in net synergy savings in the ten years
8 following the Transaction. In addition, Granite State Electric and New England Power
9 Company ("NEP") will also realize savings that will be reflected on the electric side of the
10 business. As Mr. Cochrane explains, he estimates that the allocation of net synergy savings
11 to Granite State Electric over the next ten years will total $6.7 million for its distribution
12 business, and to NEP the allocation will total $56.9 million for its transmission business, of
13 which Granite State Electric, and ultimately its customers, will realize about 2.8 percent (on
14 average), or approximately $1.6 million.
15
16 Gas Supply Savings. In addition to New Hampshire's estimated synergy savings identified
17 by Mr. Cochrane, Mr. Bodanza identifies savings in gas supply costs that will benefit
18 EnergyNorth's customers through lower charges in their Cost of Gas Clause.
19
20 Avoided Costs and Investments. Efforts to produce savings and efficiency gains will not
21 end with the integration process. After the Transaction, the combined organization will be
22 able to avoid investments in what would otherwise be redundant information systems,
23 customer inquiry systems, billing systems, and other functions. The avoided future
24 investments are not included in Mr. Levin's and Mr. Hoffman's analysis. Nevertheless,

they represent significant economic benefits for the combined companies. These benefits are addressed by Mr. Cochrane.

Improved Service. The focus of the integration team is not exclusively on producing savings. The integration team is also charged with assuring that the Transaction is seamless for the customers of both KeySpan and National Grid, and that service is improved following the closing. Specifically, we are aware of Staff concerns concerning EnergyNorth's response to customer calls. We have developed a proposal to address this issue. After the Transaction closes, we propose to improve the speed of answering calls from New Hampshire customers and provide a more consistent level of customer service. Specifically, we will: (i) develop an enhanced training program for customer service representatives dealing with New Hampshire customers; and (ii) establish a goal (to be achieved within a year after the Transaction closes) to answer 80 percent of all calls from EnergyNorth's customers within 30 seconds. We are also committing to review EnergyNorth's service quality standards at the time of its next delivery rate filing when the integration process is complete and service improvements identified by the integration team are implemented.

Stable Delivery Rates. As Mr. Cochrane explains in his testimony, the synergy savings from the Transaction will be used to produce stable delivery rates at levels that are below those that would have occurred absent the Transaction. We are proposing to freeze EnergyNorth's currently effective delivery rates for at least twelve months after the close of the Transaction, and then to share 50 percent of the net synergy savings with EnergyNorth's customers in its next delivery rate filing. In addition, we commit to exclude

the effects of any acquisition premium associated with the Transaction from EnergyNorth's delivery rates. This approach provides for an extension of EnergyNorth's remarkable record of rate stability. EnergyNorth's last increase in delivery rates was in 1993; since that time inflation has increased by 47 percent. The freeze will extend those rates through at least 2008, for a total of fifteen years.

Increased Resources and Expertise of the Combined System. In addition to the synergies generated by the merger, we believe that the merger will provide the combined organization with greater resources to address the pressing energy needs in the Northeast. National Grid and KeySpan make a very good fit. Although National Grid is the leading electric transmission provider and natural gas delivery company in the United Kingdom, National Grid's business in the United States has been focused on electricity with the exception of Niagara Mohawk Power Corporation's gas distribution operation. KeySpan provides a wealth of expertise in gas delivery. In addition, KeySpan owns and operates generating facilities and provides resources and expertise in that area of the business. Together, the combined organization will make a more well-rounded utility with the ability to address critical policy areas and needs in all aspects of the utility business. In addition, the combined companies will have broader expertise in our core energy delivery business. The ideas and work practices that are developed in the United Kingdom, Buffalo, Providence, or Manchester will be applied across the organization to improve service and increase the efficiency of our natural gas and electricity delivery business. Service and responsiveness should improve at the same time that synergy savings are produced.

1 Maintain EnergyNorth's Financial Integrity. Mr. Cochrane describes the commitments that
2 we are making to assure that the acquisition will not adversely affect EnergyNorth's
3 financial integrity, and to provide EnergyNorth with broad access to low-cost capital
4 through the regulated National Grid money pool. These commitments are designed to
5 assure that EnergyNorth is always in a position to raise the capital necessary to discharge
6 its public service obligations.
7
8 Increased Commitment to New Hampshire. Following the Transaction, National Grid's
9 New Hampshire operations through EnergyNorth and Granite State Electric will serve
10 approximately 125,000 New Hampshire customers (roughly 41,000 electric delivery
11 service customers and 84,000 gas delivery service customers), creating the second largest
12 footprint in New Hampshire of a public utility as measured by number of customers. This
13 is a significant increase in National Grid's presence in New Hampshire. By working
14 closely together, EnergyNorth and Granite State Electric will be able to increase the impact
15 of both companies' efforts to publicize energy efficiency programs, implement low income
16 programs, and coordinate community activities. Both companies have solid records of
17 achievement in all of these areas. Together, we will be able to make these programs even
18 more effective.
19
20 Q. What do you conclude from this summary?
21 A. We believe that the Transaction will benefit EnergyNorth's and Granite State Electric's
22 customers going forward. We will be able to operate our business more efficiently,
23 respond to customers' requirements more effectively, and address the pressing policy
24 issues facing the Northeast in a more comprehensive way. We look forward to the

challenge of integrating two great companies and using the best of both systems to provide premier energy service to our customers.

V. Ongoing Operations

Q. Please describe National Grid's plan to manage the combined operations in New Hampshire going forward.

A. The integration team is reviewing all aspects of the management of the combined organization including operations in New Hampshire. Nevertheless, we have made some decisions regarding ongoing operations. First, we will honor all labor contracts. Thus, the contracts with the union workforce in New Hampshire will not be affected by the Transaction. Second, we envision a strong management presence in New Hampshire following the close of the Transaction. Granite State Electric and EnergyNorth will closely coordinate operations and other regulatory, legislative, business, customer, and community activities in New Hampshire. Given the highly technical nature of the gas and electric distribution businesses, we plan to continue to rely on the service company to provide engineering and technical services as both KeySpan and National Grid do today. The integration planning effort will determine the ultimate structure of the operating organization in New Hampshire and the structure of these administrative and professional shared services within the combined organization.

VI. Conclusion

Q. What do you conclude from your testimony?

A. The Transaction presents several new opportunities for the combined companies to improve service and enhance efficiency. There are no adverse effects associated with the

Transaction, and, in fact there are real benefits to customers of both EnergyNorth and Granite State Electric that will flow from it. Accordingly, the Transaction meets the Commission's standards and should be approved.

Q. Is there anything further you wish to say about the Transaction?

A. We look forward to working with the Commission, Staff, and the stakeholders as the review process goes forward. We firmly believe that this merger is good for our customers in New Hampshire and it is also specifically good for EnergyNorth's customers. It will also have positive effects on the customers of Granite State Electric as I have described previously. We look forward to a collaborative approach to obtain all the Commission approvals necessary for the Transaction to close and to be implemented as efficiently as possible.

Q. Does that conclude your testimony?

A. Yes.

DIRECT TESTIMONY

OF

JOSEPH F. BODANZA

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I. Introduction and Qualifications

Q. Please state your full name, business address and title.

A. My name is Joseph F. Bodanza. My business address is One Metrotech Center, 23 Floor, Brooklyn, New York 11201-3850. I am Senior Vice President of KeySpan Corporation.

Q. Please describe your educational background and professional experience.

A. I graduated from Nichols College in 1969. In 1975, I received a Master of Business Administration from Suffolk University, and in 1981, I received a Master of Finance from Bentley College. I joined Boston Gas Company ("Boston Gas") in 1972 and held various positions in the financial and regulatory area at Boston Gas, culminating in my being named Senior Vice President Finance, MIS and Treasurer for Boston Gas in 1993. In 2000, following KeySpan's merger with Boston Gas' parent Eastern Enterprises ("Eastern"), I became a Senior Vice President for KeySpan Corporation ("KeySpan").

Q. Have you testified before the New Hampshire Public Utilities Commission ("Commission") in the past?

A. Yes. I testified in the proceeding regarding the merger of KeySpan, Eastern, and EnergyNorth Natural Gas, Inc. ("EnergyNorth") in Docket No. DG 99-193.

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony: (i) describes KeySpan and its operations; (ii) explains the operations and the recent financial performance of EnergyNorth; and (iii) provides our estimate of the gas

supply savings that will result from the Transaction and National Grid's acquisition of the Rhode Island natural gas distribution business from Southern Union Corporation.

III. KeySpan Holding Company and Operations

Q. Please describe the KeySpan holding company and its operations.

A. KeySpan is engaged in utility and non-utility operations in New York and New England. In addition to other business lines, KeySpan's subsidiaries sell and distribute natural gas to approximately 2.6 million retail customers in New Hampshire, Massachusetts and New York. In addition, other KeySpan subsidiaries engage in gas exploration and production and the ownership and operation of domestic pipelines, gas storage facilities, liquefied natural gas ("LNG") facilities, and generation facilities. KeySpan's subsidiaries also provide power, electric transmission and distribution services, billing services, and other customer services for approximately 1.1 million electric customers of the Long Island Power Authority ("LIPA") in New York pursuant to contractual arrangements with LIPA.

KeySpan through its subsidiaries operates in four business segments: gas distribution, electric services, energy services, and energy investments. A chart showing KeySpan's corporate structure is included in Appendix 3, and the individual KeySpan subsidiaries are described in Appendix 4 to the Petition filed in this case.

Q. Please describe the gas distribution segment of KeySpan's business.

A. The gas distribution segment of KeySpan consists of six regulated gas distribution subsidiaries (EnergyNorth in New Hampshire, two in New York, and three in Massachusetts). The New York and Massachusetts subsidiaries are as follows: The

Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York serving portions of the New York City bureaus of Brooklyn, Staten Island and Queens; KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island serving certain counties on Long Island, New York; Boston Gas d/b/a KeySpan Energy Delivery New England ("KEDNE") which distributes natural gas to approximately 541,000 customers located in Boston and various other cities in eastern and central Massachusetts; Colonial Gas Company d/b/a KEDNE which distributes natural gas to approximately 161,000 customers located in northeastern Massachusetts and on Cape Cod; and Essex Gas Company d/b/a KEDNE which distributes natural gas to approximately 44,000 customers in 17 cities and towns in an area of eastern Massachusetts which is contiguous to Boston Gas' service area.

IV. EnergyNorth's Operations and Financial Performance

Q. Would you please describe EnergyNorth's operations?

A. EnergyNorth distributes natural gas to approximately 84,000 residential, commercial, and industrial customers in 30 cities and towns in southern and central New Hampshire, including the city of Berlin in northern New Hampshire. EnergyNorth is a New Hampshire gas utility company subject to the regulatory supervision of the Commission as to gas sales, transportations rates, securities issuances, and other matters. EnergyNorth was indirectly acquired by KeySpan as a result of the transaction approved by the Commission on May 8, 2000. See Order No. 23,470. The transfer of EnergyNorth to National Grid also triggers the Commission's review of this Transaction.

Q. When were EnergyNorth's delivery rates last reviewed by the Commission?

A. EnergyNorth last increased its delivery rates in 1993. Thus, it has been thirteen years since EnergyNorth's last rate review. During that time EnergyNorth has been able to maintain its rates through sales growth, merger synergies and cost reductions, and efficiency programs. Nevertheless, inflation over the period has increased by 46.7 percent and EnergyNorth has invested in excess of $32 million in non-growth related capital projects designed to improve the reliability and safety of EnergyNorth's distribution system in calendar years 2001 through 2005. These factors and other increases in the costs of providing service to customers have caught up with EnergyNorth and affected its financial performance.

Q. What is EnergyNorth currently earning when reported on a regulated basis?

A. EnergyNorth's last report to the Commission for the twelve months ended March 31, 2006, which is included in Schedule JFB-1, showed that the Company only earned 5.01 percent on its rate base investments, an equivalent to a revenue deficiency of approximately $12.5 million below the return of 9.83 percent authorized by the Commission. This is an indication that EnergyNorth needed to begin preparations for a delivery rate filing. As explained by Mr. Cochrane, we propose to defer this filing as a result of this Transaction for at least twelve months after the Transaction closes. We also propose to share 50 percent of the net synergy savings from the Transaction with customers to mitigate any delivery rate increase that may be required thereafter. These commitments assure that the rates of EnergyNorth's customers will be lower as a result of the Transaction.

V. <u>Gas Supply Savings</u>

Q. Do you project any gas supply savings inuring to the benefit of EnergyNorth customers as a result of the Transaction?

A. Yes. KeySpan anticipates net gas supply savings through the joint administration of the gas supply portfolios of KeySpan's New England gas distribution companies and the Rhode Island natural gas assets and supplies of the Southern Union Company that are also being purchased by National Grid. Our preliminary analysis leading to the estimate is included in Schedule JFB-2. In general, we project savings for the New England companies following the Transaction. The precise savings that will occur will vary as new opportunities present themselves, and regardless of the actual level all savings will flow through EnergyNorth's Cost of Gas Clause.

VI. Conclusion

Q. Does that conclude your testimony?

A. Yes it does.

Schedule JFB-1

"F-1, RATE OF RETURN"
ENERGY NORTH NATURAL GAS, INC.
03/31/2006

Line		March-06
1	**Actual Revenues - 12 months**	$169,097,491
2		
3	**Weather normalization:**	$941,632
4		
5	**Actual Operating Expenses:**	
6	Gas Costs	$127,082,741
7	Other Production	$519,669
8	Distribution	$6,452,230
9	Customer Accounting	$7,878,778
10	Sales and New Business	$1,126,284
11	General and Administrative	$4,939,411
12	Federal and State Income Taxes	$3,150,925
13	Property Taxes	$3,154,679
14	Other Taxes	$0
15	Depreciation	$7,402,463
16	Amortization	$622,052
17	Operating Rent	$0
18	Interest on Customer Deposits	$3,823
19	Total Operating Expenses	$162,333,055
20		
21	**Rate Base Components**	
22	NH Plant	$260,810,435
23	Materials & Supplies	$14,647,065
24	Cash Working Capital Requirement	$2,172,965
25	Prepayments	$147,256
26	Customer Deposits	($199,671)
27	Accrued Interest on Customer Deposits	($77,749)
28	Depreciation Reserve	($84,359,279)
29	Deferred Income Taxes	($37,939,756)
30	Reimbursable Contributions	($398,669)
31	Pension & Benefit Reserve	($990,845)
32	Total Rate Base Components	$153,811,752
33		
34	**Actual Operating Utility Income**	$7,706,068
35		
36	**Actual Return on Rate Base**	5.01%
37		
38	**Authorized Rate of Return (DR 91-212)**	9.83%
39		
40	**Revenue Requirement Calculation**	
41	Rate of Return Deficiency	-4.82%
42	Rate base	$153,811,752
43		
44	Earnings Deficiency	($7,413,627)
45	Tax Gross-up	1.681
46		
47	Revenue Requirements Deficiency	($12,462,307)

Schedule JFB-2

Gas Cost Savings Analysis

Since the announcement of the proposed merger between National Grid and KeySpan Corporation, the two companies have had discussions to assess and review what gas cost synergy savings and benefits are likely to be achievable following the merger. Because National Grid has yet to close on its purchase of New England Gas Company of Rhode Island ("NEGas"), we have only taken a preliminary look at NEGas'portfolio. Based on our preliminary review, we believe that synergy savings are possible, as discussed herein. We expect to identify further opportunities for synergy savings from the combined portfolio when we have thoroughly reviewed the NEGas portfolio and forecasted requirements. Both the gas resource portfolios and customer load profiles of EnergyNorth Natural Gas, Inc ("EnergyNorth"), NEGas, and KeySpan Energy New England's Massachusetts Companies ("KEDMA") (collectively "the NE LDCs") complement each other in ways that make synergy savings possible, while also enhancing reliability for all of the NE LDCs. EnergyNorth, NEGas and KEDMA hold firm transportation capacity on many of the same interstate pipelines. These pipelines provide access to the Gulf Coast supply basin and to supplies from Western Canada. The NE LDCs have diversified their gas suppliers, and purchase firm supplies from a variety of suppliers at different receipt points along their respective transportation contract paths. Each of the NE LDCs also contracts for market area storage and all have storage contracts with Tennessee Gas Pipeline ("Tennessee") under Rate Schedule FS-MA, which provides significant balancing and swing flexibility. In addition, each of the NE LDCs also contracts with Distrigas of Massachusetts, LLC ("DOMAC") for liquid and/or vapor LNG supplies. Lastly, each of the NE LDCs owns and operates LNG peakshaving facilities that provide a reliable source of peak day supply. In addition to these on-system facilities, NEGas is also physically connected to the KeySpan LNG

facility located in Providence, Rhode Island. By combining both the complementary and unique assets within these portfolios, the overall reliability of the combined portfolio will be greatly enhanced. With respect to demand growth, the NE LDCs are all expected to experience steady growth over the next ten years.

The combination of the NE LDCs will enable the combined entities to continue to investigate and implement ways to optimize the use of their combined portfolio. Once the merger is completed, all of the NE LDCs will benefit from the increased scale and purchasing power, geographic diversity of assets, and perhaps most significantly, enhanced storage flexibility created by the merger. The post-merger portfolio combination will allow the NE LDCs to plan for capacity and supply additions on a regional basis, which may allow EnergyNorth in particular to postpone a required capacity addition. Moreover, with access to a larger combined portfolio, each of the NE LDCs will be in a better position to manage and weather supply curtailments or disruptions to maintain service to customers.

All of the NE LDCs are projected to experience steady firm demand growth and will have a need to contract for a mix of firm incremental pipeline transportation, storage capacity, bundled city gate winter and peaking supply to reliably serve that growth. As a consequence of the proposed merger, the NE LDCs will be able to contract for such resources regionally.

Based on our preliminary analysis of the NEGas portfolio, two distinct opportunities arise for EnergyNorth as a result of the acquisition by National Grid: the increased leverage for upcoming capacity contract renewals with Tennessee and the opportunity to take advantage of Tennessee's expansion into the region.

With respect to contract renewals, KeySpan has already experienced success in negotiations with Tennessee by coordinating EnergyNorth's contract renewal negotiations with

those of KEDMA and persuading Tennessee to make a significant contribution to a distribution system upgrade to serve additional load in the Tilton, NH. area. More such opportunities and benefits are likely in the future when KeySpan and National Grid are able to coordinate and lead discussions on a larger portfolio of assets. The bulk of EnergyNorth's Tennessee capacity comes up again for renewal in the next three years, as does the bulk of KEDMA's and NEGas' Tennessee capacity. As discussed in EnergyNorth's Integrated Resource Plan filed with the Commission on August 7, 2006, EnergyNorth is forecasting a need for incremental capacity to meet customer requirements during the forecast period. We have already initiated discussions with Tennessee regarding incremental capacity additions. Currently, incremental capacity is not available on Tennessee's Concord lateral, the lateral that provides service to EnergyNorth's distribution system. Preliminary discussions with Tennessee have yielded estimates in the $12 million – $16.5 million range for the needed upgrades to the lateral to provide incremental volumes to EnergyNorth's citygates.

While upgrades on the Concord lateral are necessary in any case to get additional volumes to the New Hampshire distribution system, EnergyNorth will still be able to take advantage of opportunities with the existing and newly contracted capacity in the combined New England portfolio. Both KEDMA and NEGas have signed up for incremental capacity, 112,700 MMBtu/day and 11,600 MMBtu/day respectively, on Tennessee's Northeast ConneXion Project, expected to be in service in November 2007. We believe that NEGas and/or KEDMA will be able to allocate 10,000 MMBtu/day of this upstream capacity to EnergyNorth for at least one winter season and potentially longer, depending on how soon NEGas and KEDMA require the capacity. Access to this capacity will allow EnergyNorth to avoid the purchase of a more

expensive winter peaking supply for as long as the allocated capacity is available. The estimated savings to EnergyNorth customers for year one is approximately $1.1 million.

Moreover, as a consequence of the portfolio enhancements created by the merger, the NE LDCs will be better able to offset and manage the effects of supply curtailments or disruptions by having access to an overall more reliable, flexible and diverse portfolio. This advantage was evidenced in the aftermath of Hurricanes Katrina and Rita, prior to the winter of 2005/06. In a coordinated fashion, KeySpan negotiated replacement supply for KEDMA and EnergyNorth to assure reliable and uninterrupted service to their customers in New England.

In addition to opportunities to defer resource additions and the enhanced ability to manage supply disruptions, we expect there to be other benefits from the regionally coordinated portfolio as a result of the merger. While these benefits are difficult to quantify in advance, we will build on the strategies that KeySpan has successfully employed to generate gas cost savings and other benefits for Energy North customers. These strategies include: (1) the creation of a single Operational Balancing Agreement with Tennessee, (2) displacement, and (3) flexibility with LNG winter trucking. These activities are described in more detail below:

1) KeySpan maintains a single Operational Balancing Agreement ("OBA") with Tennessee for all of the KeySpan New England citygates. This allows EnergyNorth and KEDMA to balance deliveries across all of the Tennessee citygates in New England. With the close of the acquisition, the Company will seek to roll NEGas' citygates into its OBA, which will provide even more balancing flexibility and potential cost savings to all of the NE LDCs by allowing them to maintain one imbalance across all of their city gates;

2) Displacement combines the benefits of both the single OBA and the use of on-system supply and distribution assets between EnergyNorth and KEDMA. On any given day, the Massachusetts LDCs may make LNG available to EnergyNorth by vaporizing LNG into their systems and "deliver" it to EnergyNorth through displacement on its distribution system and the Tennessee pipeline. Because KeySpan has a single OBA for New England, EnergyNorth incurs only the commodity cost of the LNG and the LNG trucking costs to the MA facility and avoids the pipeline transportation costs to which it otherwise would incur on Tennessee in order to transport volumes from the KEDMA citygates to the EnergyNorth city gates. NEGas' physical connection with the KeySpan LNG facility may facilitate more economical displacement activity.

3) Lastly, EnergyNorth benefits as a result of the regionally coordinated portfolio as it relates to LNG winter trucking. Each winter season, KeySpan, on behalf of EnergyNorth and KEDMA, contracts with Transgas, Inc. for a "Dedicated Service" agreement for the months of December, January and February. The agreement provides for a specific level of service including both trailers and drivers for trucking LNG. Each LDC pays a portion of the cost based on its need on the design day for a portable vaporizer(s), if any, and its design winter season sendout percentage of the total design winter season. Given design conditions, each LDC would be limited to the level of service it pays for. However, in the absence of design conditions, if the resources paid for by one LDC are not being fully utilized on any given day, any of the other LDCs may call upon those temporarily unutilized resources and pay only the variable charges incurred for

using those resources. Without this flexibility, each individual LDC would need to contract for incremental trucking service. Additional benefits may accrue as a result of the merger if trucking and displacement activities increase.

As stated, we have performed only a preliminary assessment of the savings opportunities available as a result of National Grid's acquisition of NEGas. Furthermore, we have not addressed here the opportunities that may become available as a result of the integration of the NE LDCs' portfolio with the gas portfolios of KeySpan Energy Delivery New York, KeySpan Energy Delivery Long Island, and Niagara Mohawk Power Corporation. We expect that the larger size of the combined portfolio will afford us increased negotiating leverage in terms of negotiating supply and capacity contracts and renewals, which may result in both gas cost savings and enhanced reliability for all National Grid gas utilities. Once the merger transactions are complete, we will work to maximize the gas cost savings available to both the New England and New York gas utilities, and assure that their customers enjoy the benefits of a larger, more diverse portfolio and the leverage that accompanies it. Any savings achieved in this regard will flow directly to the benefit of all affected National Grid distribution affiliates and their customers.

DIRECT TESTIMONY

OF

DAVID J. HOFFMAN AND RICHARD J. LEVIN

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I. Introduction and Qualifications

Q. Please state your full names, business addresses and titles.

A. My name is David J. Hoffman. My business address is 200 Clarendon Street, Boston, MA 02116. I am a Director of Mercer Management Consulting ("Mercer").

My name is Richard J. Levin. My business address is 200 Clarendon Street, Boston, MA 02116. I am a management consultant also with Mercer.

Q. Mr. Hoffman, please describe your educational background and professional experience.

A. I received a B.S. degree in finance in 1976 and a MBA degree (with honors) in management information systems in 1980 from Boston University.

My professional experience includes over 20 years as a consultant to electric and gas utilities. I joined Mercer in 1982 and prior to that, worked for United Information Systems (from 1980 to 1982).

During my consulting career, I have led a broad range of assignments, encompassing:

- Merger and acquisition analysis
- Organizational and performance improvement
- Strategic and business planning
- Information systems strategy

Since the late 1990s, I (as well as Mr. Levin) have been actively involved in the merger and acquisitions (M&A) area. This work has included 1) screening and evaluating potential merger candidates, 2) estimating cost savings for approximately 20 potential mergers, and 3) assisting utilities in post-merger integration planning. We have also been involved in organizational and/or performance improvement work at more than 30 utilities.

Q. Mr. Levin, please describe your educational background and professional experience.

A. I received a B.A. in economics from Washington University in 1972 and an M.A. in economics from The Ohio State University in 1974. In 1977, I received a J.D. degree from Ohio State and was admitted to the Ohio Bar.

My professional experience includes over 20 years as a management consultant specializing in the management and regulation of utilities. I joined Mercer in May 1983 and, prior to that, worked as an independent consultant and for Booz, Allen & Hamilton, Inc.

During my consulting career, I have served as a project manager or lead consultant on a broad range of assignments for utilities and regulatory commissions. The subject matter of these assignments has encompassed:

- Merger and acquisition analysis
- Organizational and performance improvement
- Strategic and business planning
- Management audits

- Rate of return and cost of capital studies
- Financial forecasting and planning
- Economic and financial feasibility evaluations

Prior to my consulting career, I was a lecturer at Ohio State in economic theory and corporate finance. I held that position from January 1978 through March 1979. From June 1975 to September 1978, I was employed by the Public Utilities Commission of Ohio. From 1975 to 1977, I served as a financial economist with the commission's staff. After graduation from law school in 1977, I became a Hearing Examiner for the commission.

Q. What role have you played to date in National Grid plc's ("National Grid") analysis and documentation of the merger?

A. We led a team that developed an independent estimate of synergy savings associated with the merger of National Grid and KeySpan Corporation ("KeySpan").

Q. Mr. Hoffman, have you testified before this or any other regulatory commission in the past?

A. Yes. I have previously submitted testimony on merger synergy savings to the Rhode Island Public Utilities Commission and the Massachusetts Department of Telecommunications and Energy (involving the merger between the New England Electric System, National Grid's predecessor, and Eastern Utilities Associates); to the New York Public Service Commission (involving the merger between National Grid and Niagara Mohawk Power

Corporation); and to the New York Public Service Commission (involving the merger between National Grid and KeySpan).

Q. Mr. Levin, have you testified before this or any other regulatory commission in the past?

A. Yes. I co-authored the synergy savings testimonies that Mr. Hoffman has referenced above. In addition, I have testified before the state utility commissions in Ohio, Pennsylvania, New Mexico, Massachusetts, Connecticut, Maine, Louisiana and Iowa on a range of ratemaking and regulatory issues.

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. We have been asked to describe the analysis that Mercer conducted to estimate the potential synergy savings associated with the merger of National Grid and KeySpan. During the period March through July 2006, Mercer: 1) identified areas with potential savings or costs to achieve, 2) reviewed relevant data and information, 3) developed operating and financial assumptions about the merger, and 4) estimated potential savings and costs. Schedule MMC-1 presents the results of our analysis.

III. Conclusion

Q. Does that complete your testimony?

A. Yes, it does.

Schedule MMC-1

I. Executive Summary

The merger of National Grid and KeySpan (the Companies) will produce significant cost savings. The purpose of this document is to:

- Provide an estimate of the potential savings and costs to achieve
- Describe the post-merger planning initiative underway 1) to establish how the Companies will operate in the future and 2) to develop more detailed estimates of merger savings and costs

Estimated Savings and Costs

During the period March - July 2006, Mercer Management Consulting: 1) identified areas with potential savings or costs to achieve, 2) reviewed relevant data and information, 3) developed operating and financial assumptions about the merger, and 4) estimated potential savings and costs. Merger-related savings are typically derived from the integration of various corporate functions, cost avoidance, improved utilization of assets and employees, and taking advantage of economies of scale.

Mercer estimated annual "steady-state" savings at approximately $125 million (in $2007). In its two previous mergers (with Niagara Mohawk and Eastern Utilities Associates), National Grid was able to achieve savings that exceeded the original estimate of synergy savings. If National Grid and KeySpan are able to identify and achieve an additional 1/3 to 2/3 of savings (above the $125 million in annual savings), then annual total savings will be in the $165 million to $ 210 million range. At the time that the merger was announced, the Companies estimated total savings at $200 million a year.

In other transactions reviewed, the estimated cost to achieve was in the range of 2.0-2.7 times annual savings. Assuming annual savings of $200 million dollars and a 2.0 times cost to achieve, then the total cost to achieve will be $400 million. Over the following months, the integration team will address cost to achieve and be able to produce a better estimate of the costs that will ultimately be incurred.

Additional details of the synergy analysis are presented in Section II (a narrative discussion) and Attachment 1 (the financial model results).

Post-Merger Integration Planning Initiative

This initiative, described in more detail in Attachment 2, has the overall objective of developing the organizational design, approaches and processes for the combined companies, as well as developing more detailed estimates of savings and costs. Key elements of the initiative include:

- ***Broad participation across the companies:*** More than 200 National Grid and KeySpan executives, managers and staff are involved in this effort. A Joint Senior Management Steering Committee is charged with setting the overall direction for the planning efforts and, ultimately, making decisions on how the post-merger business will be managed and operated. The Committee includes Steve Holliday, the Group Chief Executive designate of National Grid; Michael Jesanis, the President and CEO of National Grid USA; and Robert Catell, the Chairman and CEO of KeySpan. Day-to-day responsibility for managing the initiative resides with Kwong Nuey of National Grid and John Caroselli of KeySpan.

- ***A proven approach:*** This initiative will use an approach similar to the ones successfully used in the previous Niagara Mohawk and EUA mergers. Nine "Tier 1" functional teams organized around the major utility functions (e.g., T&D operations, customer service, and information technology) have been created. These teams are responsible for understanding current National Grid and KeySpan approaches and processes; designing recommended approaches and processes for the future; and developing detailed estimates of potential merger savings and costs to achieve.

  "Tier 2" subteams that will focus on specific parts of the nine functions have also been created. For example, the Customer Service Team includes subteams responsible for specific areas such as call center, meter services, and billing. At this point, approximately 90 subteams have been identified within the structure of the nine functional teams.

- ***A focus on identifying and achieving savings:*** These teams have been charged with conducting detailed analyses to identify savings across the combined companies. The teams will also be responsible for developing detailed implementation plans to ensure that identified savings are realized.

The initiative began in April 2006 and we expect that estimates of savings and costs will be available to the Commission in October 2006.

II. Estimated Synergy Savings

During the period March – July 2006, Mercer Management Consulting developed an estimate of synergy savings using Mercer's merger-related financial model. Annual "steady-state" savings were estimated at approximately $125 million (in $2007). The remainder of this chapter discusses the synergy savings analysis and is organized into the following sections:

- Summary of Personnel and Non-Personnel Savings
- Personnel Savings
- Information Systems Savings
- Supply Chain Savings
- Facilities Savings
- Administrative and General Savings
- Comparisons with Other Transactions
- Cost to Achieve

Attachment 1 provides year-by-year estimates of synergy savings.

Summary of Personnel and Non-Personnel Savings

As illustrated in Attachment 1 to this document, the ten-year savings have been classified into five components:

- ***Personnel savings:*** related to position reductions in A&G; customer, and transmission and distribution functions
- ***Information systems savings (non-personnel):*** related to integration of applications; mainframe, network, midrange/server, and PC/workstation operations; projects; and telecommunications
- ***Supply chain savings (non-personnel):*** related to lower costs for materials, equipment, and contractor services; reductions in inventory and vehicles
- ***Facilities savings (non-personnel):*** related to the closing or consolidation of facilities, including office space

- ***Administrative and general savings (non-personnel):*** related to cost reductions in A&G overheads, advertising, association dues, corporate governance (i.e., shareholder services and board fees), financing costs and fees, insurance, and professional services

The level of estimated savings (in nominal dollars) in each component and the bases for the estimates are discussed below. Annual and ten-year savings figures shown below are taken from Attachment 1, page 1.

Personnel Savings

Personnel savings of approximately $72 million annually (in 2009, the first year in which 100% of savings are achieved) and $699 million over the ten-year period were estimated using the following process:

- National Grid and KeySpan provided databases of current personnel and Mercer assigned each employee to one of the functions listed in Exhibit II-1 below.

Exhibit II-1

Staffing Functions

A&G Functions

- Purchasing and Material Management (excluding Storeroom Personnel)
- Human Resources
- Finance, Accounting, and Planning
- Information Services and Telecommunications
- External Relations
- Legal
- Administrative and Support Services (excluding Storerooms, Transportation, Real Estate, and Facilities Maintenance)
- Executive Management

Customer Functions

- Retail Marketing and Sales
- Customer Service

Transmission and Distribution Functions

- Electric Operations – Field
- Electric Operations – Office and Support
- Gas Operations – Field
- Gas Operations – Office and Support
- T&D Shared Services (Storerooms, Transportation, Real Estate and Facilities Maintenance)

Within these functions, employees were also assigned to specific sub-functions. For example, within Customer Service, an employee could be assigned to meter reading, customer inquiry, credit and collections, or another sub-function. The use of a common format (Mercer's function and sub-function classification) allowed for an "apples-to-apples" staffing analysis.

- Second, the number of positions that could be eliminated as a result of the merger was estimated. The magnitude of the reduction in each sub-function was based upon

identified duplication or redundant activities; the expected degree of integration; potential changes in policies or practices; and any incremental workloads that would result in that area.

- Third, savings were calculated based on the number of personnel reductions times an average compensation per reduced position. Compensation includes base compensation (wages or salaries) and benefits. Benefits included such items as pension plans, medical insurance, life insurance, savings (401k) plans, and payroll taxes.

National Grid and KeySpan have a combined 15,690 pre-merger personnel providing electric and gas delivery (as shown in Exhibit II-2).

- National Grid has 8,389 pre-merger positions in the A&G, customer and electric and gas T&D functions.

- KeySpan has 7,301 pre-merger positions in the A&G, customer and electric and gas T&D functions; this figure excludes personnel in the generation and unregulated businesses.

- The 7,301 KeySpan figure includes personnel who provide services to Long Island Power Authority under the Management Services Agreement. KeySpan has 1,180 positions in electric operations (T&D field, office and support positions). In addition, a portion of KeySpan's A&G, customer and shared services organizations (e.g., fleet maintenance) support the LIPA electric business.

Total position reductions were estimated at 624, or approximately 4.0% of the 15,690 combined positions. These reductions consist of 522 A&G, 55 customer and 47 T&D positions, as shown in Exhibit II-2. At this point, no decisions have been made as to which reductions will come from current National Grid positions or KeySpan positions.

Exhibit II-2

Position Reductions

	A&G	Customer	T&D	Total
National Grid Positions	1,175	1,505	5,709	8,389
KeySpan Positions	1,104	1,660	4,537	7,301
Combined Positions	2,279	3,165	10,246	15,690
Estimated Reductions	522	55	47	624
Reduction as a % of Combined Positions	22.9%	1.7%	0.5%	4.0%

As shown above, the percentage reductions in the A&G functions are significantly higher than the percentage reductions in the customer and T&D functions. The relative difference reflects the fact that corporate or administrative functions offer greater opportunities for savings than do "field" functions, such as line maintenance and construction. The opportunity to reduce non-A&G positions is also limited by 1) the mostly non-contiguous nature of the National Grid and KeySpan service territories and 2) the differences in their relative electric and gas customer mix.

Personnel (as well as non-personnel) savings are also limited by the fact that KeySpan and National Grid have controlled growth in operation and maintenance and administrative and general expenses through 1) achieved efficiencies from prior mergers and acquisitions and 2) the implementation of various cost control and efficiency initiatives.

Information Systems Savings (Non-Personnel)

National Grid's data center is located in Syracuse, New York; KeySpan's data centers are located in Melville and Hicksville, New York. Applications (corporate, customer and T&D operations) have limited overlap at this time.

Estimated merger savings were based on the following assumptions: the combined companies will consolidate corporate applications, architectural platforms and data center operations, but will continue to maintain separate operating environments for customer and T&D applications.

Savings from a reduction in IS personnel was discussed earlier. Non-personnel savings due to the partial consolidation of IS operations result from the consolidation of licenses and other operating expenses, and the reduction of recurring capital costs. Non-personnel IS savings were estimated at approximately $21 million annually (in 2009) and $328 million over the 2007-2016 period.

Supply Chain Savings (Non-Personnel)

Cost savings in supply chain can potentially occur in the following areas:

- Lower prices paid for materials, equipment and contractor services, based on greater purchasing leverage and the potential for more standardization and vendor consolidation
- A reduction in inventory, based on the consolidation of storerooms and a sharing of spare parts
- A reduction in the number of vehicles or in the cost per vehicle

Supply chain-related savings were estimated at approximately $18 million annually (in 2009) and $227 million over the ten-year period.

Procurement savings on materials and equipment were estimated at approximately $15 million annually, based on an estimated 3% reduction in the cost of combined annual purchases. Merger-related savings for contractor services were estimated at approximately $2 million annually, based on an estimated 2% reduction in the cost of KeySpan's purchases.

Potential synergy savings related to the reduction of inventory or vehicles were not identified in this study.

Facilities Savings (Non-Personnel)

National Grid and KeySpan will continue to have significant headquarter presence in New York and New England. At this point, no decisions have been made about closing or reducing any of the current headquarter locations. However, with the reduction of personnel, particularly A&G-related staff, facilities savings will occur with estimated savings at $6 million annually (in 2009) and $58 million over the ten-year period.

Administrative and General Savings (Non-Personnel)

We identified the following seven potential areas of cost savings: A&G overheads; advertising; association dues; corporate governance (i.e., shareholder services and board-related costs); financial fees; insurance; and professional services.

Savings of approximately $22 million annually (in 2009) and $233 million over the 2007-2016 period million were estimated. Savings estimates for each of the seven areas are discussed below.

Estimated A&G overhead-related merger savings of $5 million annually (in 2009) and $52 million during 2007-2016 were identified. A&G overheads include expenses for office supplies, publications, personal computers, and other miscellaneous expenses. We estimated overheads at $7,500 per employee (in 2007 dollars) and multiplied this figure times the number of position reductions to estimate annual savings.

Savings in the advertising area were estimated at $2 million annually (in 2009) and $18 million over the ten-year period. Savings will result from an elimination of duplicative costs, but differences in service territory (and media markets) will limit the savings in the merger.

Association dues-related savings of $1 million annually (in 2009) and $8 million over the ten-year period were identified.

Merger savings related to a reduction in corporate governance costs were estimated at approximately $3 million annually (in 2009) and $32 million over the 2007-2016 period. Savings related to shareholder services result from the elimination of duplicate activities and costs, such as preparation of the annual shareholders' report. Additional savings result from the elimination of director fees and expenses for one company.

Merger savings related to financing costs and fees were estimated at approximately $2 million annually (in 2009) and $17 million over the ten-year period, based on a reduction in the required lines of credit and therefore, the line of credit fees for the combined company.

Merger-related insurance savings were estimated at approximately $2 million annually (in 2009) and $22 million over the ten-year period. Savings were based on expected reductions in property and liability coverage premiums; reductions in directors and officers insurance premiums; and reductions in brokerage fees (due to the consolidation of insurance purchasing).

Merger-related savings for professional services were estimated at $8 million annually (in 2009) and $84 million over the ten-year period. Professional services savings result from the elimination of duplicative efforts in areas such as external auditing, legal support, legislative services, and general consulting. The savings were based on an approximate 10% reduction in KeySpan's stand-alone, annual professional services costs.

Comparison with Other Transactions

Mercer compared the percentage reductions in personnel in this merger (4.0%) with the reductions in synergy studies for other mergers. We would expect the percentage reduction in this merger to be at the lower end of the range, given the non-contiguous nature of the National Grid and KeySpan service territories and differences in their relative electric and gas customer mix.

In addition, in this study, we did not address or include any position reductions in the electric T&D field, office and support positions associated with services provided under the contracts between KeySpan and LIPA. Those savings depend on the outcome of discussions with LIPA on the continuation of the contracts. In the event the contracts are continued, synergy savings associated with KeySpan's services to LIPA will be fully considered by the integration teams in their analyses. If we exclude both KeySpan's and National Grid's electric T&D personnel (combined 5,752 pre-merger positions), consistent with the treatment of KeySpan services to LIPA in the analysis, then the personnel reduction would be 6.3% (624 reductions divided by 9,938 positions), rather than 4.0%.

The 4.0% to 6.3% figures are relatively close to the estimated reductions in the Exelon-Public Service Electric and Gas merger (5.2% of combined staffing); the Duke-Cinergy merger (5.5%); the National Grid-Niagara Mohawk merger (5.6%); and the New York State Electric and Gas-Rochester Gas and Electric merger (6.1%).

As indicated at the outset, the integration teams are now undertaking a comprehensive review of operations for a more complete analysis of synergy savings. As part of their work, the teams will also identify savings in three areas not included in this analysis---generation and energy supply, electric T&D personnel, and unregulated services. Based on this extended scope and our experience in prior National Grid USA mergers (in which the integration teams identified significant savings above our estimates), we expect that the integration analysis will be able to increase the estimate of savings from $125 million to $200 million on an annual basis.

Cost to Achieve

Cost to achieve merger-related savings fall into the following four categories:

- ***Transaction costs:*** primarily the fees paid to investment bankers for advice on the merger transaction and to outside legal counsel for advice on the merger transaction and support in regulatory proceedings

- ***Personnel costs:*** primarily the out-of-pocket costs incurred to achieve the reduction in positions, e.g., voluntary or other severance packages; other costs including retention payments to employees deemed necessary for a successful integration, as well as relocation and retraining costs

- ***Transition costs:*** the costs incurred to integrate the two companies, e.g., support for organizational redesign and process integration and for communications costs

- ***Information systems costs:*** the cost associated with integrating systems, consolidating data centers, and connecting telecommunication networks

As discussed in Section I, cost to achieve is estimated at $400 million (2 times annual total savings of $200 million). Over the following months, the integration team will address cost to achieve and be able to produce a better estimate of the costs that will ultimately be incurred.

Attachment 1
Summary of Estimated Synergy Savings

10-Year Savings Summary

Savings Summary

in $000

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Personnel Savings	13,583	41,942	71,979	74,254	76,593	78,997	81,468	84,009	86,621	89,305	**698,750**
Non-Personnel Savings											
Information Systems	3,369	11,201	21,136	26,063	31,100	36,251	41,517	46,902	52,408	58,038	**327,985**
Supply Chain	3,088	9,871	17,763	20,207	22,706	25,262	27,875	30,547	33,279	36,073	**226,671**
Facilities	-	3,681	6,273	6,414	6,558	6,706	6,857	7,011	7,169	7,330	**58,000**
Administrative and General	21,000	21,473	21,956	22,450	22,955	23,471	23,999	24,539	25,091	25,656	**232,590**
Total Savings	41,041	88,167	139,107	149,387	159,912	170,687	181,717	193,008	204,568	216,403	**1,543,997**
Before Cost to Achieve											
Personnel Savings %	33%	48%	52%	50%	48%	46%	45%	44%	42%	41%	45%
Total Savings											

10-Year Savings Summary

Personnel Savings Summary
in $000

A&G Personnel	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized	0%										
Rev Req Rate	14.8%										
Escalation Total		2.80%	5.68%	8.64%	11.68%	14.81%	18.02%	21.33%	24.72%	28.21%	
% Realized--- IS	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
% Realized---Other	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongong savings - IS	16,310	141									
Ongoing savings - Other	42,585	381									
Total Savings	11,779	36,327	62,240	63,982	65,774	67,616	69,509	71,455	73,456	75,513	597,650
O&M Savings	11,779	36,327	62,240	63,982	65,774	67,616	69,509	71,455	73,456	75,513	597,650
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	**11,779**	**36,327**	**62,240**	**63,982**	**65,774**	**67,616**	**69,509**	**71,455**	**73,456**	**75,513**	**597,650**

10-Year Savings Summary

Customer Related Personnel	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized	0%										
Rev Req Rate	14.8%										
Escalation Total		2.80%	5.68%	8.64%	11.68%	14.81%	18.02%	21.33%	24.72%	28.21%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongoing savings	5,621	55									
Total Savings	1,124	3,467	5,940	6,106	6,277	6,453	6,634	6,820	7,011	7,207	57,039
O&M Savings	1,124	3,467	5,940	6,106	6,277	6,453	6,634	6,820	7,011	7,207	57,039
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	**1,124**	**3,467**	**5,940**	**6,106**	**6,277**	**6,453**	**6,634**	**6,820**	**7,011**	**7,207**	**57,039**

10-Year Savings Summary

T&D Personnel	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized	35%										
Rev Req Rate	14.8%										
Escalation Total		2.80%	5.68%	8.64%	11.68%	14.81%	18.02%	21.33%	24.72%	28.21%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongoing savings	4,846	47									
Total Savings	969	2,989	5,121	5,265	5,412	5,564	5,719	5,879	6,044	6,213	49,176
O&M Savings	630	1,943	3,329	3,422	3,518	3,616	3,718	3,822	3,929	4,039	31,964
1 Capital Savings	339	339	339	339	339	339	339	339	339	339	
2		1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	1,046	
3			1,792	1,792	1,792	1,792	1,792	1,792	1,792	1,792	
4				1,843	1,843	1,843	1,843	1,843	1,843	1,843	
5					1,894	1,894	1,894	1,894	1,894	1,894	
6						1,947	1,947	1,947	1,947	1,947	
7							2,002	2,002	2,002	2,002	
8								2,058	2,058	2,058	
9									2,115	2,115	
10										2,175	
Total Capital Savings	339	1,385	3,178	5,020	6,915	8,862	10,864	12,921	15,037	17,212	81,733
Rev Req Savings	50	205	470	743	1,023	1,312	1,608	1,912	2,225	2,547	12,096
Total O&M + Rev Req Savings	**680**	**2,148**	**3,799**	**4,165**	**4,541**	**4,928**	**5,325**	**5,734**	**6,154**	**6,586**	**44,061**

10-Year Savings Summary

Other Personnel	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized	0%										
Rev Req Rate	14.8%										
Escalation Total		2.80%	5.68%	8.64%	11.68%	14.81%	18.02%	21.33%	24.72%	28.21%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
		Reductions									
Ongoing savings	-	-									
Total Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Personnel Savings											
A&G	11,779	36,327	62,240	63,982	65,774	67,616	69,509	71,455	73,456	75,513	597,650
Customer-Related	1,124	3,467	5,940	6,106	6,277	6,453	6,634	6,820	7,011	7,207	57,039
T&D	680	2,148	3,799	4,165	4,541	4,928	5,325	5,734	6,154	6,586	44,061
Other	-	-	-	-	-	-	-	-	-	-	-
Total	**13,583**	**41,942**	**71,979**	**74,254**	**76,593**	**78,997**	**81,468**	**84,009**	**86,621**	**89,305**	**698,750**

10-Year Savings Summary

IS Savings Summary
in $000

	Ongoing Savings	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized		54.0%										
Rev Req Rate		29.5%										
Escalation			2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
%Realized		20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
O&M	12,500											
Capital	14,700											
Other	-											
Other	-											
	27,200	5,440	16,687	28,438	29,078	29,732	30,401	31,085	31,784	32,499	33,231	268,374
O&M Savings		2,502	7,676	13,081	13,376	13,677	13,984	14,299	14,621	14,950	15,286	123,452
1 Capital Savings		2,938	2,938	2,938	2,938	2,938	2,938	2,938	2,938	2,938	2,938	
2			9,011	9,011	9,011	9,011	9,011	9,011	9,011	9,011	9,011	
3				15,356	15,356	15,356	15,356	15,356	15,356	15,356	15,356	
4					15,702	15,702	15,702	15,702	15,702	15,702	15,702	
5						16,055	16,055	16,055	16,055	16,055	16,055	
6							16,416	16,416	16,416	16,416	16,416	
7								16,786	16,786	16,786	16,786	
8									17,164	17,164	17,164	
9										17,550	17,550	
10											17,945	
Total Capital Savings		2,938	11,949	27,305	43,007	59,062	75,479	92,264	109,428	126,978	144,922	693,332
Rev Req Savings		867	3,525	8,055	12,687	17,423	22,266	27,218	32,281	37,458	42,752	204,533
Total O&M + Rev Req Savings		**3,369**	**11,201**	**21,136**	**26,063**	**31,100**	**36,251**	**41,517**	**46,902**	**52,408**	**58,038**	**327,985**

10-Year Savings Summary

Supply Chain Savings Summary
in $000

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Inventory											
% Capitalized	100%										
Carrying Cost	14.5%										
Total Escalation		2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
Inventory Reduction	-										
Annual Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
O&M +Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-

10-Year Savings Summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Procurement											
% Capitalized	50%										
Rev Req Rate	14.8%										
Escalation Total		2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	23,300										
Total Savings	4,660	14,295	24,360	24,908	25,469	26,042	26,628	27,227	27,840	28,466	229,894
O&M Savings	2,330	7,147	12,180	12,454	12,734	13,021	13,314	13,613	13,920	14,233	114,947
1 Capital Savings	2,330	2,330	2,330	2,330	2,330	2,330	2,330	2,330	2,330	2,330	
2		7,147	7,147	7,147	7,147	7,147	7,147	7,147	7,147	7,147	
3			12,180	12,180	12,180	12,180	12,180	12,180	12,180	12,180	
4				12,454	12,454	12,454	12,454	12,454	12,454	12,454	
5					12,734	12,734	12,734	12,734	12,734	12,734	
6						13,021	13,021	13,021	13,021	13,021	
7							13,314	13,314	13,314	13,314	
8								13,613	13,613	13,613	
9									13,920	13,920	
10										14,233	
Total Capital Savings	2,330	9,477	21,657	34,112	46,846	59,867	73,181	86,794	100,714	114,947	549,926
Rev Req Savings	345	1,403	3,205	5,049	6,933	8,860	10,831	12,846	14,906	17,012	81,389
Total O&M + Rev Req Savings	**2,675**	**8,550**	**15,385**	**17,503**	**19,668**	**21,881**	**24,145**	**26,459**	**28,825**	**31,245**	**196,336**

10-Year Savings Summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Contractor Services											
% Capitalized	50%										
Rev Req Rate	14.8%										
Escalation		2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	3,600										
Total Savings	720	2,209	3,764	3,849	3,935	4,024	4,114	4,207	4,301	4,398	35,520
O&M Savings	360	1,104	1,882	1,924	1,968	2,012	2,057	2,103	2,151	2,199	17,760
1 Capital Savings	360	360	360	360	360	360	360	360	360	360	
2		1,104	1,104	1,104	1,104	1,104	1,104	1,104	1,104	1,104	
3			1,882	1,882	1,882	1,882	1,882	1,882	1,882	1,882	
4				1,924	1,924	1,924	1,924	1,924	1,924	1,924	
5					1,968	1,968	1,968	1,968	1,968	1,968	
6						2,012	2,012	2,012	2,012	2,012	
7							2,057	2,057	2,057	2,057	
8								2,103	2,103	2,103	
9									2,151	2,151	
10										2,199	
Total Capital Savings	360	1,464	3,346	5,270	7,238	9,250	11,307	13,410	15,561	17,760	84,967
Rev Req Savings	53	217	495	780	1,071	1,369	1,673	1,985	2,303	2,628	12,575
Total O&M + Rev Req Savings	**413**	**1,321**	**2,377**	**2,704**	**3,039**	**3,381**	**3,731**	**4,088**	**4,454**	**4,828**	**30,335**

10-Year Savings Summary

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Vehicles											
% Capitalized	0%										
Rev Req Rate	14.8%										
Escalation Total		2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
% Realized	20%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing savings	-										
Total Savings	-	-	-	-	-	-	-	-	-	-	-
O&M Savings	-	-	-	-	-	-	-	-	-	-	-
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total SCM Savings											
Inventory	-	-	-	-	-	-	-	-	-	-	-
Procurement	2,675	8,550	15,385	17,503	19,668	21,881	24,145	26,459	28,825	31,245	196,336
Contractor Services	413	1,321	2,377	2,704	3,039	3,381	3,731	4,088	4,454	4,828	30,335
Vehicles	-	-	-	-	-	-	-	-	-	-	-
Total	**3,088**	**9,871**	**17,763**	**20,207**	**22,706**	**25,262**	**27,875**	**30,547**	**33,279**	**36,073**	**226,671**

10-Year Savings Summary

Facilities Savings Summary
in $000

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized	0%										
Rev Req Rate	17.0%										
Escalation		2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
% Realized	0%	60%	100%	100%	100%	100%	100%	100%	100%	100%	
Ongoing Savings	6,000										
Total Savings	-	3,681	6,273	6,414	6,558	6,706	6,857	7,011	7,169	7,330	58,000
O&M Savings	-	3,681	6,273	6,414	6,558	6,706	6,857	7,011	7,169	7,330	58,000
1 Capital Savings	-	-	-	-	-	-	-	-	-	-	
2		-	-	-	-	-	-	-	-	-	
3			-	-	-	-	-	-	-	-	
4				-	-	-	-	-	-	-	
5					-	-	-	-	-	-	
6						-	-	-	-	-	
7							-	-	-	-	
8								-	-	-	
9									-	-	
10										-	
Total Capital Savings	-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings	-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings	**-**	**3,681**	**6,273**	**6,414**	**6,558**	**6,706**	**6,857**	**7,011**	**7,169**	**7,330**	**58,000**

10-Year Savings Summary

Non-Personnel A&G Savings Summary
in $000

	Ongoing Savings	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
% Capitalized		0%										
Rev Req Rate		14.8%										
Escalation			2.25%	4.55%	6.90%	9.31%	11.77%	14.28%	16.85%	19.48%	22.17%	
%Realized		100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	
A&G Overheads	4,700											
Advertising	1,600											
Association Dues	700											
Corporate Governance	2,900											
Financing Costs and Fees	1,500											
Insurance	2,000											
Professional Services	7,600											
	21,000	21,000	21,473	21,956	22,450	22,955	23,471	23,999	24,539	25,091	25,656	232,590
O&M Savings		21,000	21,473	21,956	22,450	22,955	23,471	23,999	24,539	25,091	25,656	232,590
1 Capital Savings		-	-	-	-	-	-	-	-	-	-	
2			-	-	-	-	-	-	-	-	-	
3				-	-	-	-	-	-	-	-	
4					-	-	-	-	-	-	-	
5						-	-	-	-	-	-	
6							-	-	-	-	-	
7								-	-	-	-	
8									-	-	-	
9										-	-	
10											-	
Total Capital Savings		-	-	-	-	-	-	-	-	-	-	-
Rev Req Savings		-	-	-	-	-	-	-	-	-	-	-
Total O&M + Rev Req Savings		**21,000**	**21,473**	**21,956**	**22,450**	**22,955**	**23,471**	**23,999**	**24,539**	**25,091**	**25,656**	**232,590**

10-Year Savings Summary

Assumptions

Capitalization Rates	
A&G Personnel	0%
Customer Personnel	0%
T&D Personnel	35%
Other Personnel	0%
Non-personnel IS	54%
Inventory	100%
Procurement	50%
Contractor Services	50%
Vehicles	0%
Facilities	0%
Non-Personnel A&G	0%

Revenue Requirements Rates	
WACC	14.5%
Capital	14.8%
Facilities	17.0%
IS	29.5%

Escalation Rates	
Labor and Benefits	2.80%
Other	2.25%

Pulled in from Personnel Savings Model

	Reductions		
	Mgt	Union	Savings
A&G			
IS	131	10	16,310,046
Other	319	62	42,585,369
Total A&G	450	72	58,895,415
Customer	42	13	5,620,942
T&D	23	24	4,846,032
Other	0	0	-
Total	515	109	69,362,389

Attachment 2
Post-Merger Integration Planning Initiative

- Objectives
- Integration Team Structure
- Integration Team Functional Structure and Tier-1 Leads
- Integration Tasks and Schedule

Objectives: National Grid – KeySpan merger integration

The primary objectives for the integration of National Grid and KeySpan will be to maximize the benefits of the merger in a timely manner.

Operational

- "Keep the lights on and the gas flowing"; provide excellent reliability, service and safety
- "Keep the money coming in": execute revenue cycle activities well
- Provide a platform for operational excellence and additional growth
  - Integrate processes, functions, systems and organizations wherever feasible
  - Leverage "better" and "best" practices as much as possible

Financial

- Maximize synergy savings and achieve/exceed pre-merger estimates
- Achieve savings as soon as possible

Customer and Regulatory

- Maintain or grow customer satisfaction and loyalty
- Make the merger seamless and "invisible" to customers and regulators
- Gain necessary approvals quickly

Employee

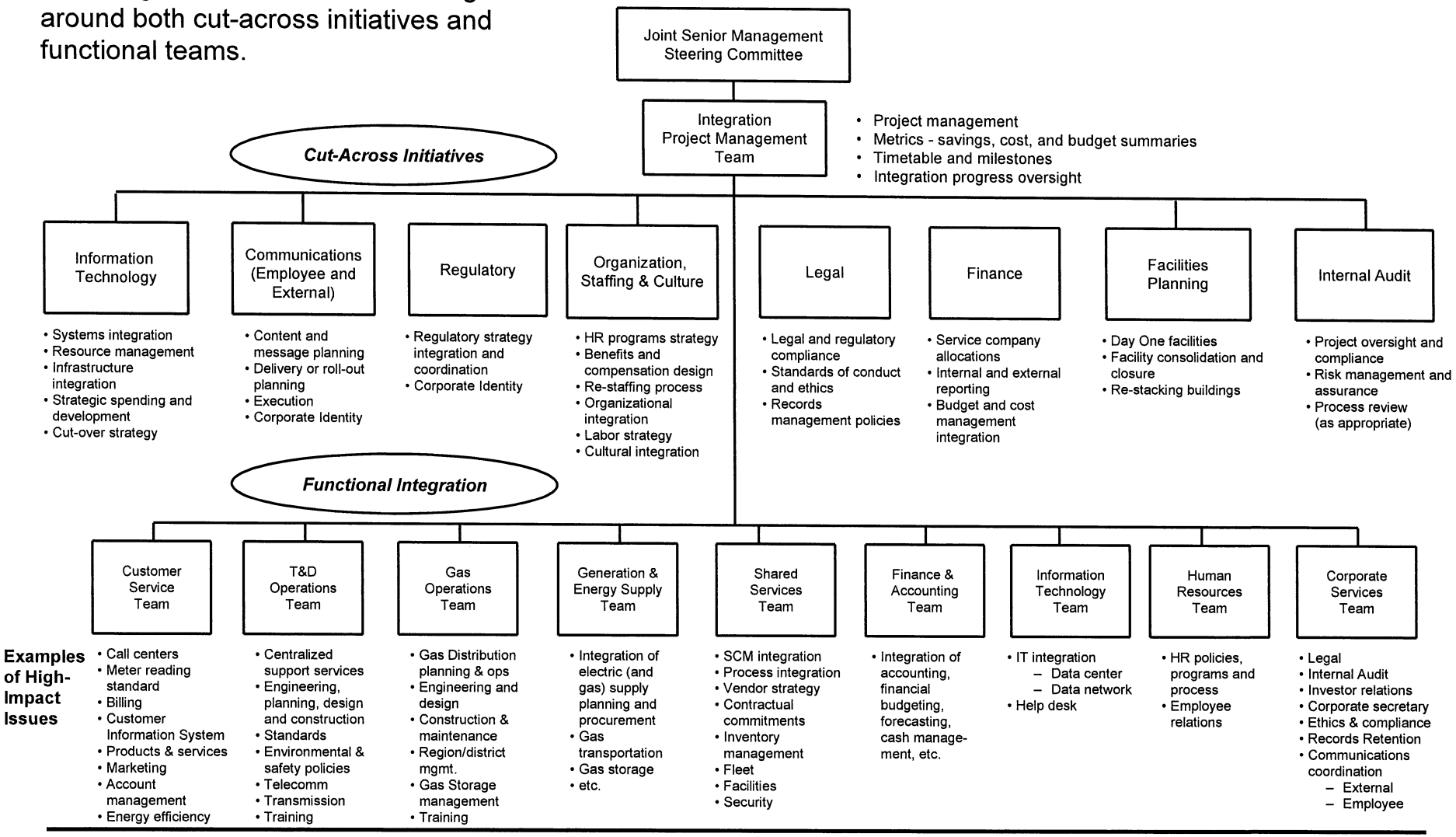
- Treat employees fairly
- Maintain and build employee morale and dedication; Attract and retain key employees

Specific goals for the Integration Team are to:

- Create an expanded company that will lead the region in financial performance and customer service, while providing a platform for further growth
- Be ready for "Day One", when the merger closes
- Make this merger work from an operational, financial and people perspective

Integration Team Structure

The integration team structure is organized around both cut-across initiatives and functional teams.



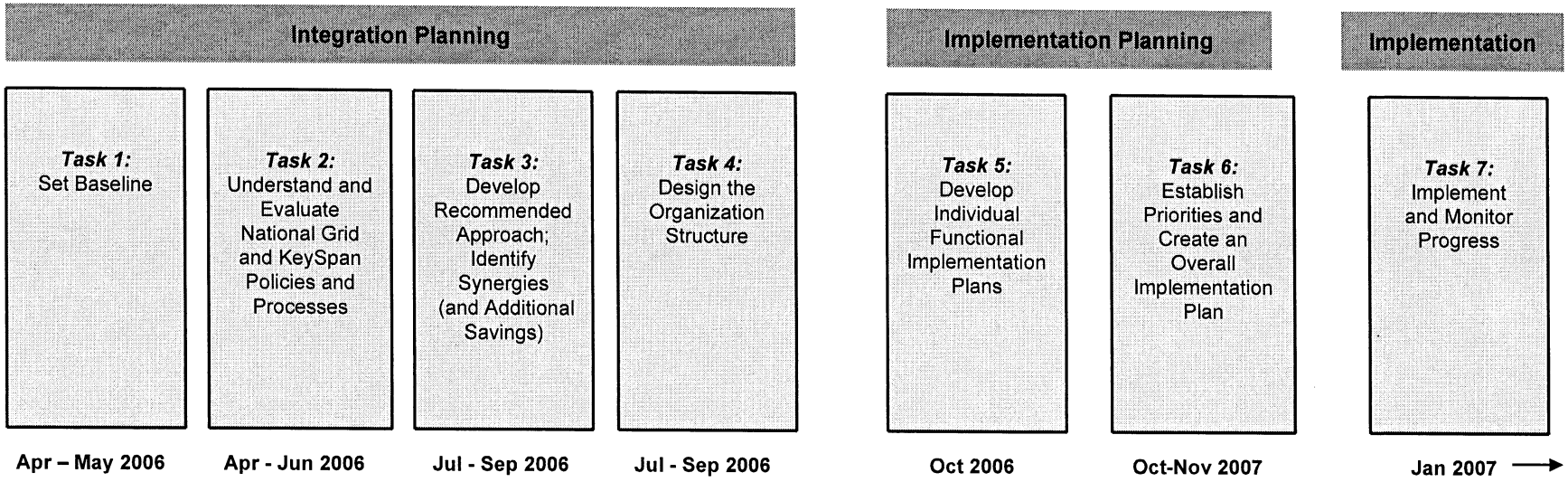
Integration Team Functional Structure & Tier-1 Leads

Team	Customer Service, Marketing & Retail Services	Electric T&D Operations		Generation & Energy Supply	Shared Services
National Grid KeySpan Partner	Tony Pini Rick Murphy Annie Snodgrass	Clem Nadeau Pat Hogan Justin Heyman		Lee Klosowski Rich Rapp Justin Heyman	Mike Kyle Coleen Ceriello Scott Koren
Sub-teams	• Contact Centers • Metering Services • Billing • Credit & Collections • Customer Strategy • Energy Management • Marketing • Sales & Account Management • HVAC Sales & Service Business	• Electric distribution planning and design • Substation engineering and substation construction and maintenance • Regional Management • Distribution Operations (Regional Control, dispatch and trouble center) • Relay and protection • Vegetation management • Third party attachments	• T& D Operations training • Storm and emergency planning • Transmission Planning • Bulk System Control / Energy management • Transmission contracts, data exchange and billing • Transmission line engineering, construction and maintenance • R&D • Safety	• Gas Supply Planning • Gas Transactions and Portfolio Optimization • Electric Supply Acquisition & Planning • Electric Transactions (Unregulated) • Generation Operations • Generation Environmental and Safety • Asset Investment Strategy & Valuation • Customer choice program management • System Control • Gas and Electric Rates • Middle & Back Office	• Supply Chain • - Procurement • - Inventory and material management • - Warehousing and material logistics • - Accounts payable • - Investment recovery • Facilities • Real Estate & Property • Fleet • Environmental • Corporate security

Team	Finance and Accounting	Information Technology	Human Resources	Corporate Services	Gas Operations
National Grid KeySpan Partner	Marcy Reed Mike Taunton Abhi Bhuchar	Bob Lorkiewicz Frank LaRocca Abhi Bhuchar	Bill Dowd Bill Bollbach Monica Chase	John Sherman Mike Walker Monica Chase	Jim Howe Bill Akley Katherine Capelluto
Sub-teams	• General Accounting • Plant Accounting • Revenue Accounting • Financial Planning • Tax • Treasury • Internal Audit	• IT strategy • IT policies • Infrastructure planning and operation –Data center –Network –Telecommunication • User support/help desk • Application design, implementation and maintenance • Office services	• Compensation and benefits • Labor and collective bargaining strategy • EEO/diversity • Employee relations • Payroll • Recruiting and hiring • Medical • Performance mgmt. • Management training/ leadership development • HRIS	• Legal • Internal Audit • Corporate secretary • Corporate affairs • Government relations • Ethics and compliance • External relations/media communications • Employee communications • Records retention and document mgmt. • Regulatory Affairs • Risk management (claims)	• Asset Management • System Operation & Control • Field Operations • Meter Services • Dispatching • Safety • Technical Training • Emergency Planning & Response • IT Systems • Data/project Support

Integration Tasks and Schedule

Key Tasks and Timeframes



Deliverables

- Baseline staffing and costs
- "Clean Room" evaluation of current initiatives (stop/go)
- Day One requirements
- Early decisions and integration direction

- Improvement opportunities
- Identify
  - Similarities and differences
  - Strengths and weaknesses

- Work practice and policy changes
- Process designs
- Systems changes
- Integration plan
- Savings

- Staffing levels
- Organization structure
- Key performance metrics
- Post-merger budgets

- Functional or team implementation plans
- Day-1 initiatives readiness

- Overall (prioritized and integrated) implementation plan
- Day-1 vs. post-merger initiatives

- Implementation
- Progress updates

DIRECT TESTIMONY

OF

JOHN C. COCHRANE

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1 **I. Introduction and Qualifications**

2 Q. Please state your full name, business address and title.

3 A. My name is John G. Cochrane. My business address is 25 Research Drive, Westborough,
4 Massachusetts 01582. I am Executive Vice President, Chief Financial Officer, Treasurer
5 and a Director of National Grid USA.

6

7 Q. Please describe your educational background and professional experience.

8 A. I received a Bachelor of Arts degree in biology from Harvard University in 1979 and a
9 Masters of Business Administration degree from Northeastern University in 1982.

10

11 I joined the predecessor of National Grid USA, the New England Electric System
12 ("NEES") during 1981. Since joining NEES, I have served as vice president and treasurer
13 of NEES, director of corporate finance for NEES' service subsidiary, treasurer or assistant
14 treasurer of various other NEES subsidiaries, and as assistant to the NEES president and
15 chief executive officer. As noted above, I am currently the Executive Vice President, Chief
16 Financial Officer, Treasurer and a Director of National Grid USA.

17

18 Q. Have you testified before this or any other regulatory commission in the past?

19 A. Yes. I have testified before the New Hampshire Public Utilities Commission
20 ("Commission"), the Massachusetts Department of Telecommunications and Energy, the
21 Rhode Island Public Utilities Commission, and the Federal Energy Regulatory Commission
22 ("FERC").

23

II. Purpose of Testimony

Q. What is the purpose of your testimony?

A. My testimony supports the Joint Petition of National Grid plc and KeySpan by: (1) providing background on the National Grid holding company system and its operations; (2) describing the transaction between National Grid and KeySpan ("Transaction") that leads to the change in control over EnergyNorth Natural Gas Co. Inc. ("EnergyNorth"); (3) summarizing the benefits of the Transaction for EnergyNorth's customers, including the allocation of net synergy savings to EnergyNorth and a proposal to freeze EnergyNorth's delivery rates for at least one year after the Transaction closes and to share net synergy savings with customers thereafter; and (4) explaining the rationale for the other approvals requested as part of this proceeding.

III. Description of National Grid

Q. Would you please describe the National Grid holding company system and its operations?

A. National Grid plc is the parent holding company in the National Grid holding company system. In general and unless required by the context, I will use the term "National Grid" to include National Grid plc and its subsidiaries as a group. National Grid plc is incorporated in England and Wales and through various subsidiaries is engaged in utility and non-utility operations, both in the United States and in the United Kingdom, as well as other countries. An organizational chart of National Grid as it will exist after the Transaction is set forth in Appendix 3, and a listing of its subsidiaries is included in Appendix 4. National Grid's Annual Review for the year ended March 31, 2006 is attached as Appendix 6 to the Joint Petition.

In the United Kingdom, National Grid owns and operates the high-voltage electricity transmission system in England and Wales. The high-voltage transmission system in England and Wales consists of approximately 4,500 miles of overhead line, 410 miles of underground cable, and 341 substations. National Grid also operates (but does not own) the high-voltage transmission system in Scotland.

On the natural gas side in the United Kingdom, National Grid owns and operates the national transmission system for high-pressure gas in England, Wales, and Scotland. The national gas transmission system consists of approximately 4,300 miles of underground high-pressure gas pipelines and 26 compressor stations. National Grid also owns a major portion of the gas distribution system in the United Kingdom that distributes gas on behalf of 70 active gas shippers to some 11 million meters in homes, offices, and factories in Britain (and a small number of third-party pipeline systems) over a network of 82,000 miles of distribution pipelines.

National Grid's United States business is conducted through National Grid USA and its subsidiaries, which I also refer to as National Grid. In New England, National Grid is engaged in electric transmission and distribution to residential, commercial and industrial customers in New Hampshire, Massachusetts, and Rhode Island. Under an agreement announced earlier this year, National Grid has also agreed to buy the Rhode Island natural gas business from Southern Union Company ("Southern Union"). That transaction is expected to close later this year. In New York, National Grid distributes and sells both electricity and natural gas.

National Grid USA owns four public utility companies that own and operate electric facilities in New Hampshire: Granite State Electric Company ("Granite State Electric"); New England Power Company ("NEP"); New England Electric Transmission Corporation ("NEET"); and New England Hydro Transmission Corporation ("NH Hydro"). Granite State Electric is a public utility under RSA 362:2 providing retail distribution service to approximately 41,000 customers in 21 municipalities in New Hampshire. The service area includes the Salem area of southern New Hampshire, as well as several communities located along the Connecticut River, primarily in the Lebanon and Walpole, New Hampshire areas. Granite State Electric is subject to the jurisdiction of this Commission. NEP owns transmission facilities throughout New Hampshire, Massachusetts, and supports transmission facilities in Rhode Island, and NEET and NH Hydro own transmission facilities located in New Hampshire related to the interconnection with Hydro Quebec. NEP, NEET, and NH Hydro are also public utilities under RSA 362:2.

When National Grid, KeySpan, and the Rhode Island gas business of Southern Union are combined, National Grid will serve 4.4 million electric customers (including 1.1 million customers served by Long Island Power Authority ("LIPA"), which in turn contracts with KeySpan for many utility services) and 3.2 million gas customers in New Hampshire, Massachusetts, Rhode Island and New York. The Transaction will create the third largest energy delivery company in the United States.

IV. <u>The Transaction between National Grid and KeySpan</u>

Q. Please describe the transaction between National Grid and KeySpan?

A. On February 27, 2006, National Grid and KeySpan announced their agreement and plan of merger ("Agreement"), which is included as Appendix 2 to the Joint Petition. Pursuant to the Agreement, National Grid USA will create a merger subsidiary that will merge with and into KeySpan. KeySpan will be the surviving entity. As a result, KeySpan will become a wholly-owned subsidiary of National Grid USA. All KeySpan subsidiaries will become indirect, wholly-owned subsidiaries of National Grid.

Each share of KeySpan's common stock will be converted into the right to receive $42.00 in cash per share upon surrender of the certificate. At the closing, National Grid's merger subsidiary will be merged with and into KeySpan and the merger subsidiary shall cease to exist. The Transaction shall become effective upon the filing of the Certificate of Merger with the New York Secretary of State. The $42.00 per share consideration for KeySpan's shares represents a sixteen percent premium above the price of KeySpan's shares during the month prior to the announcement of the transaction. As shown in Appendix 5, this premium and the earnings multiples are consistent with premiums paid in other recent utility acquisitions.

The consummation of the Transaction is subject to certain conditions. Among these conditions are several customary provisions, including approval by National Grid and KeySpan shareholders, no adverse effect on KeySpan between the dates of the Agreement and the completion of the Transaction, and the receipt of state and federal regulatory approvals. National Grid and KeySpan are obligated to use their reasonable best efforts to obtain the required regulatory approvals.

The required approvals for the Transaction include approvals from FERC, the Federal Communications Commission, the New York Public Service Commission, the Commission, and the New Jersey Board of Public Utilities. The Agreement is also subject to clearance under U.S. antitrust and foreign investment laws, which were received as of July 7, 2006 and July 10, 2006, respectively.

The Agreement also provides for termination under certain conditions in which event the Transaction will not be consummated. The Agreement may be terminated by mutual agreement. It may also be terminated by either party to the Agreement (National Grid or KeySpan) under certain circumstances, including if a final order, decree or ruling restrains the Transaction, if the other party breaches the Agreement such that the closing conditions cannot be satisfied or cured within thirty days, if either parties' shareholders[1] do not approve the Transaction, or if the Transaction has not been consummated by May 25, 2007, i.e. fifteen months from the date of the Agreement, subject to a three month extension.

V. Benefits of the Transaction for Customers

Q. What regulatory approval is required for the Transaction in New Hampshire?

A. As explained in the Joint Petition, this Transaction involves the change in control of a New Hampshire public utility—EnergyNorth. As a result, this Commission's approval is required under New Hampshire law.

Q. What are the major benefits associated with the Transaction for EnergyNorth's customers?

[1] National Grid's shareholders approved the Transaction on July 31, 2006.

A. The benefits are listed in the Joint Petition and many features are discussed in Mr. Sherry's testimony. Mr. Bodanza describes the gas cost benefits to EnergyNorth's customers. I focus on the synergy savings from the Transaction that we propose to allocate to EnergyNorth's customers, and the additional advantages to the combined companies from their greater scale.

Q. What synergy savings do you project will be produced by the Transaction?

A. As explained in the joint testimony of Mr. Hoffman and Mr. Levin of Mercer Management Consulting ("Mercer"), we expect that when fully implemented, the Transaction will produce $200 million of synergy savings for the combined National Grid and KeySpan companies in 2007 dollars. The $200 million of savings is subject to adjustment for the costs to achieve them, which Mr. Hoffman and Mr. Levin estimate to be twice the annual savings (as a one-time event) or about $400 million. The synergy savings and costs to achieve are phased in over time as they are actually realized or incurred, and the resulting net synergy savings flow to the operating companies as the savings are realized. I have estimated the timing and the allocation of the synergy savings and costs to achieve in Schedule JGC-1. As shown on line 8 of the bottom third of page 1 of the Schedule, the estimated net synergy savings from the merger allocated to EnergyNorth will total $12.8 million over the first ten years after the Transaction closes.

Q. How did you adjust and allocate the synergy savings?

A. First, both the synergy savings and the costs to achieve the savings are not immediately realized or produced on the first day of the Transaction. They are phased in over time, and the synergy savings then continue indefinitely. The estimate for the phase-in is shown on page 4 of Schedule JGC-1. That page shows the percentage of costs to achieve spent in each year and the percentage of synergies produced each year. It also escalates both components for inflation and wage escalation. The phase-in percentages are based on an agreement reached with the parties in our settlement of the Niagara Mohawk Power Corporation merger. We have consistently used the allocation here and in our other proceedings because we believe that it is reasonable, and because if used by all of our commissions, it will provide a fair and consistent allocation of the net synergies across the jurisdictions in which we do business. These total savings and costs to achieve are then allocated based on transmission and distribution revenues on pages 2 and 3 of the Schedule. The total synergies allocated to each company are then shown on the top third of page 1; the total costs to achieve are shown on the middle third; and the net synergies on the bottom third. As indicated, the estimated ten year total of net synergies for EnergyNorth is approximately $12.8 million.

Q. Do you propose to adjust and allocate the net synergy savings in a future delivery rate proposal?

A. Yes. As explained in the Joint Petition, we propose to use the net synergy savings to defer and stabilize EnergyNorth's delivery rates. First, we propose to freeze EnergyNorth's delivery rates for at least twelve months after the Transaction closes. EnergyNorth last increased its delivery rates in 1993. This freeze extends the period of rate stability to at

1 least 2008, or fifteen years. As I explain, we are requesting Commission authorization to
2 defer the costs to achieve and amortize them on a straight line basis over twenty years from
3 the close of the Transaction to facilitate this rate freeze. Second, when a delivery rate filing
4 is ultimately made, we propose to share with customers 50 percent of the net synergy
5 savings produced by the Transaction. EnergyNorth would receive an allowance in the cost
6 of service for its fifty percent share and would not seek recovery of any acquisition
7 premium associated with the Transaction. We propose to continue this allowance for
8 twenty years after closing of the Transaction. An illustration of the twenty year
9 amortization of costs to achieve and the allocation of net synergy savings between
10 customers and EnergyNorth is included in Schedule JGC-2.
11
12 Q. Would you explain the request to defer and amortize the costs to achieve allocated to
13 EnergyNorth equally over twenty years following the Transaction?
14 A. Yes. As I have mentioned, the expenditures associated with the costs to achieve the
15 synergy savings do not match the timing of when synergy savings are realized. The costs
16 to achieve are front-loaded and will be incurred in the earlier years after the Transaction
17 closes; in contrast, the synergy savings are back-loaded and will be realized in later years.
18 As shown on Schedule JGC-1, page 1, this mismatch actually increases our estimated costs
19 during the first year following the Transaction, as National Grid spends the money to
20 complete the integration, but the savings are not fully realized. To better match the costs
21 and the benefits, and to facilitate the proposal to freeze EnergyNorth's delivery rates for at
22 least twelve months after the Transaction, National Grid is requesting the Commission to
23 allow deferral and amortization of the actual costs to achieve the synergy savings allocated

to EnergyNorth over the twenty years following the close of the Transaction. Under this proposal, EnergyNorth would begin amortizing one twentieth of its allocated estimated costs to achieve, as approved by the Commission in this case. National Grid would then update that estimate in a compliance report each year and adjust the annual amortization amount to complete the amortization of actual costs to achieve by the end of the twentieth year.

Q. How would the sharing of net synergy savings between EnergyNorth and its customers be implemented?

A. We would propose to implement the synergy sharing when EnergyNorth files its first delivery rate increase, which would be at least twelve months after the Transaction has closed.[2] At that time, we propose to base EnergyNorth's cost of service on the company's actual costs (adjusted to exclude the deferral and amortization of costs to achieve discussed above). The actual costs should reflect all of the synergy savings that have been realized through the historic test period, which would be further normalized for the additional phase-in of savings that is projected in Schedule JGC-1, page 4.[3] These lower costs will then be used as the baseline to establish EnergyNorth's revenue requirement. To that baseline, 50 percent of the synergy savings less 50 percent of the cost to achieve amortization will be added back to the cost of service to provide EnergyNorth's 50 percent share of net synergy savings as shown on Schedule JGC-2. In this way, customers will

[2] Prior to the delivery rate filing, we propose to use the net synergy savings to postpone the initial rate filing. As explained by Mr. Bodanza in his testimony, EnergyNorth is earning a 5.01percent return on its rate base, well below the overall return of 9.83 percent authorized by the Commission in its last rate proceeding. The retention of synergy savings in the early years (as they are being phased in) will facilitate the extension of time that current delivery rates remain in effect beyond the proposed twelve month commitment that we are proposing in this case.
[3] The analysis would recognize that EnergyNorth is not earning its allowed return prior to the close of the Transaction.

1 receive their share of synergies through an allowance in their delivery rates, and
2 EnergyNorth would be allowed to retain a portion of the synergy savings to recover the
3 costs of the transaction.
4
5 We would propose that this sharing arrangement continue for twenty years following the
6 close of the Transaction to provide EnergyNorth with the opportunity to recover its
7 allocated costs of the Transaction. As part of the proposal, EnergyNorth would waive all
8 rights to request recovery of the acquisition premium associated with the Transaction.
9
10 Q. How will you assure that the acquisition premium does not affect EnergyNorth's delivery
11 rates or cost of service?
12 A. The $42 per share consideration acquisition premium, together with other costs associated
13 with this Transaction, includes a premium over the net book value of EnergyNorth's assets
14 devoted to public service. Following the Transaction, an independent appraisal will be
15 completed that establishes the fair value of all of KeySpan's assets. This fair value study
16 will be used to restate the value of the assets of the acquired companies and to allocate
17 goodwill among KeySpan's subsidiaries. Under Financial Accounting Standards Board
18 ("FASB") Statement 141, the goodwill is pushed down to the subsidiaries. Despite this
19 goodwill adjustment, EnergyNorth will continue to value its rate base on the original
20 depreciated cost of the assets devoted to public service. Moreover, because the goodwill is
21 reflected as equity on EnergyNorth's books, we will establish a hypothetical capital
22 structure for EnergyNorth that is based on the capital structure of other similar companies
23 within the utility industry, and use that hypothetical capital structure to establish

EnergyNorth's return and tax expense for rate making purposes. Finally, fair value adjustments will be implemented to value KeySpan's pension and benefits under FAS 88 and FAS 106. These adjustments generally require the immediate recognition of gains or losses that would have otherwise been reflected in the plans over time, and thus neither increase nor decrease the long term obligations of the company. We will propose to amortize the gains or losses in a fashion that is designed to be consistent with the pension and FAS 106 expense that would otherwise be experienced absent the Transaction. All of these issues will be directly addressed in EnergyNorth's first delivery rate filing.

Q. Are there any benefits to National Grid's electric customers as a result of the Transaction?

A. Yes. As shown on page 1 of Schedule JGC-1, both NEP and Granite State Electric will share in synergy savings following the Transaction. In NEP's case, the net synergies over the next ten years are estimated at $56.9 million and these savings will flow automatically to its customers through its transmission rate. Granite State Electric is allocated on average about 2.8 percent of NEP's transmission billings, and thus will receive an estimated $1.6 million of the NEP net synergy savings automatically through NEP's transmission rate, and will then flow the net savings through to Granite State Electric's customers through the operation of the transmission service adjustment provision. In addition, Granite State Electric will also receive an allocation of net synergy savings associated with its distribution business, estimated at $6.7 million over the ten years following the Transaction. These savings will help Granite State Electric maintain distribution rates that are among the lowest in New England. Moreover, the synergy savings that Mr. Hoffman and Mr. Levin have estimated for the Transaction do not include the avoided investments in

1 redundant systems that would otherwise have to be made by National Grid and KeySpan
2 absent the Transaction. These savings will be ongoing following the Transaction, but are
3 not quantified in the Mercer analysis.
4
5 Q. What other benefits of the Transaction would you like to address?
6 A. There are two. First, the Transaction will maintain EnergyNorth's financial integrity.
7 Following the Transaction, the goodwill will be reflected on EnergyNorth's books as
8 equity. EnergyNorth will have no Transaction-related debt on its balance sheet, and none
9 of EnergyNorth's assets will be pledged to secure those who are lending funds to National
10 Grid plc, National Grid USA or to any other National Grid holding company in connection
11 with the Transaction. As a result, EnergyNorth's existing creditors and financial integrity
12 will not be adversely affected by the Transaction. Second, EnergyNorth will have broader
13 access to capital markets. Specifically, we are proposing to include both National Grid's
14 and KeySpan's regulated subsidiaries and service companies in a regulated money pool
15 that will also include National Grid USA as lender. Under this approach, which has
16 already been adopted by KeySpan, the regulated and service companies may borrow and
17 lend from the pool, and National Grid USA, with broader access to financial markets, can
18 lend to the pool. At the same time, the regulated companies have immediate access to low-
19 cost capital raised directly through National Grid USA or indirectly from the international
20 financing sources of National Grid group that are in turn loaned to National Grid USA for
21 use in the regulated money pool. Finally, the regulated money pool precludes any cross-
22 subsidies with unregulated subsidiaries, which participate in a separate unregulated money
23 pool.

1 **VI. Other Requested Regulatory Approvals**

2 Q. What other regulatory approvals is National Grid requesting to implement the Transaction
3 efficiently?

4 A. We are requesting approvals for both EnergyNorth and National Grid's other New
5 Hampshire utilities—Granite State Electric, NEP, NEET, and NH Hydro—to participate in
6 the regulated money pool that will be implemented for the combined companies following
7 the receipt of required regulatory approvals and when the systems are in place to
8 implement the arrangement efficiently. As I explained, this approach has already been
9 implemented for KeySpan and EnergyNorth, and thus, the National Grid subsidiaries are
10 seeking to use the same model going forward. In addition, we are requesting Commission
11 approval to consolidate the KeySpan and National Grid service companies following the
12 Transaction and to adopt the KeySpan's three part formula for allocating costs that are not
13 otherwise directly charged from the service company. This approach is again consistent
14 with the allocation method in place for EnergyNorth, and we are asking the Commission to
15 approve it for the National Grid companies in New Hampshire. As with the money pool
16 changes, we propose to implement the service company reorganization, upon the receipt of
17 all necessary regulatory approvals and when systems are in place to implement the billing
18 and accounting for service company charges efficiently and effectively. Nevertheless, we
19 are requesting the Commission to approve the approach in this proceeding.

20

21 In addition, we are seeking two approvals that are focused on EnergyNorth. First, we are
22 proposing to change EnergyNorth's fiscal year to the year-ended March 31 to match the
23 fiscal year for the other National Grid companies. Second, we are requesting authority

from the Commission to pay dividends from EnergyNorth's unappropriated retained earnings, unappropriated distributed earnings, and accumulated comprehensive income just prior to the close of the Transaction. As shown on Appendix 7 to the Joint Petition, these items are transferred to paid in capital following the Transaction. We seek to make it clear that this accounting transfer does not limit EnergyNorth's ability to pay dividends from these funds. Associated with this clarification, we also commit to limit dividend payments to these funds plus the income available for common dividends that is generated by EnergyNorth following the Transaction.

VII. Conclusion

Q. What do you conclude from your testimony?

A. As described in my testimony, the testimonies of the other witnesses in this proceeding, and the Petition, the Transaction will provide significant benefits to EnergyNorth's customers and to the customers of Granite State Electric. The Transaction is designed to be implemented without creating any adverse effects on the rates, terms, service, or operations of EnergyNorth and in a fashion that is lawful, proper, and in the public interest. Accordingly, the Transaction should be approved by the Commission. In addition, the Commission should find that the approvals, which we request to implement the Transaction, are also reasonable and in the public interest.

Q. Does that conclude your testimony?

A. Yes.

Schedule JGC-1

Calculation of Synergy Value - Net Synergy by Year

	1	2	3	4	5	6	7	8	9	10	Total
SYNERGIES (Page 2 Column C Times Page 4 Column B)											
1 Massachusetts Electric	$9,683,235	$13,233,821	$16,955,823	$20,855,571	$21,376,960	$21,911,384	$22,459,168	$23,020,648	$23,596,164	$24,186,068	$197,278,842
2 Nantucket Electric	$118,336	$161,726	$207,211	$254,869	$261,241	$267,772	$274,466	$281,328	$288,361	$295,570	$2,410,878
3 New England Power	$3,477,599	$4,752,742	$6,089,447	$7,489,987	$7,677,236	$7,869,167	$8,065,896	$8,267,544	$8,474,232	$8,686,088	$70,849,939
4 Essex Gas	$532,305	$727,488	$932,093	$1,146,469	$1,175,131	$1,204,509	$1,234,622	$1,265,488	$1,297,125	$1,329,553	$10,844,784
5 Colonial Gas	$1,780,439	$2,433,278	$3,117,636	$3,834,676	$3,930,543	$4,028,806	$4,129,526	$4,232,764	$4,338,584	$4,447,048	$36,273,300
6 Boston Gas	$6,381,800	$8,721,837	$11,174,847	$13,745,002	$14,088,627	$14,440,842	$14,801,863	$15,171,910	$15,551,208	$15,939,988	$130,017,924
7 Granite State Electric	$412,029	$563,109	$721,482	$887,419	$909,605	$932,345	$955,654	$979,545	$1,004,034	$1,029,135	$8,394,356
8 EnergyNorth Gas	$784,675	$1,072,395	$1,374,005	$1,690,019	$1,732,269	$1,775,576	$1,819,966	$1,865,465	$1,912,101	$1,959,904	$15,986,376
9 Niagara Mohawk Electric	$19,722,182	$26,953,784	$34,534,515	$42,477,266	$43,539,198	$44,627,678	$45,743,370	$46,886,954	$48,059,128	$49,260,606	$401,804,683
10 Niagara Mohawk Gas	$5,085,973	$6,950,865	$8,905,790	$10,954,074	$11,227,926	$11,508,624	$11,796,340	$12,091,248	$12,393,529	$12,703,367	$103,617,737
11 BUG	$13,265,639	$18,129,797	$23,228,788	$28,571,284	$29,285,566	$30,017,705	$30,768,148	$31,537,351	$32,325,785	$33,133,930	$270,263,993
12 LILCO - GAS	$7,876,404	$10,764,473	$13,791,973	$16,964,052	$17,388,153	$17,822,857	$18,268,429	$18,725,139	$19,193,268	$19,673,100	$160,467,849
13 LIPA	$21,012,224	$28,716,849	$36,793,441	$45,255,734	$46,387,127	$47,546,805	$48,735,475	$49,953,862	$51,202,709	$52,482,776	$428,087,003
14 Unregulated	$3,069,269	$4,194,688	$5,374,441	$6,610,534	$6,775,797	$6,945,192	$7,118,822	$7,296,792	$7,479,212	$7,666,192	$62,530,939
15 Narragansett	$3,903,041	$5,334,183	$6,834,418	$8,406,297	$8,616,455	$8,831,866	$9,052,663	$9,278,979	$9,510,954	$9,748,728	$79,517,585
16 Providence Gas	$2,894,849	$3,956,314	$5,069,024	$6,234,873	$6,390,744	$6,550,513	$6,714,276	$6,882,133	$7,054,186	$7,230,541	$58,977,453
17 Total	$100,000,000	$136,667,350	$175,104,937	$215,378,125	$220,762,578	$226,281,643	$231,938,684	$237,737,151	$243,680,580	$249,772,594	$2,037,323,641
COST TO ACHIEVE (Page 3 Column C Times Page 4 Column A)											
1 Massachusetts Electric	($14,908,309)	($5,926,140)	($5,809,941)	($2,626,093)	($2,815,885)	($2,312,357)	($1,793,335)	($821,138)	($844,378)	($871,491)	($38,729,068)
2 Nantucket Electric	($182,189)	($72,421)	($71,001)	($32,093)	($34,412)	($28,259)	($21,916)	($10,035)	($10,319)	($10,650)	($473,295)
3 New England Power	($5,354,111)	($2,128,290)	($2,086,559)	($943,125)	($1,011,286)	($830,451)	($644,051)	($294,900)	($303,247)	($312,984)	($13,909,003)
4 Essex Gas	($819,537)	($325,771)	($319,383)	($144,361)	($154,794)	($127,115)	($98,583)	($45,140)	($46,417)	($47,907)	($2,129,009)
5 Colonial Gas	($2,741,164)	($1,089,629)	($1,068,263)	($482,855)	($517,752)	($425,169)	($329,737)	($150,981)	($155,254)	($160,239)	($7,121,043)
6 Boston Gas	($9,825,420)	($3,905,662)	($3,829,080)	($1,730,744)	($1,855,827)	($1,523,974)	($1,181,909)	($541,177)	($556,493)	($574,362)	($25,524,648)
7 Granite State Electric	($634,359)	($252,162)	($247,217)	($111,742)	($119,818)	($98,392)	($76,308)	($34,940)	($35,929)	($37,083)	($1,647,950)
8 EnergyNorth Gas	($1,208,086)	($480,221)	($470,805)	($212,804)	($228,184)	($187,380)	($145,322)	($66,540)	($68,424)	($70,621)	($3,138,387)
9 Niagara Mohawk Electric	($30,364,272)	($12,069,976)	($11,833,309)	($5,348,656)	($5,735,211)	($4,709,657)	($3,652,548)	($1,672,441)	($1,719,774)	($1,774,996)	($78,880,840)
10 Niagara Mohawk Gas	($7,830,365)	($3,112,616)	($3,051,584)	($1,379,316)	($1,479,001)	($1,214,530)	($941,922)	($431,291)	($443,497)	($457,738)	($20,341,859)
11 BUG	($20,423,777)	($8,118,571)	($7,959,383)	($3,597,641)	($3,857,648)	($3,167,835)	($2,456,796)	($1,124,926)	($1,156,764)	($1,193,907)	($53,057,248)
12 LILCO - GAS	($12,126,512)	($4,820,360)	($4,725,843)	($2,136,081)	($2,290,458)	($1,880,885)	($1,458,710)	($667,919)	($686,822)	($708,876)	($31,502,467)
13 LIPA	($32,350,420)	($12,859,481)	($12,607,334)	($5,698,515)	($6,110,355)	($5,017,719)	($3,891,464)	($1,781,837)	($1,832,266)	($1,891,100)	($84,040,490)
14 Unregulated	($4,725,446)	($1,878,393)	($1,841,561)	($832,386)	($892,543)	($732,941)	($568,429)	($260,274)	($267,640)	($276,234)	($12,275,848)
15 Narragansett	($6,009,123)	($2,388,661)	($2,341,825)	($1,058,505)	($1,135,004)	($932,046)	($722,843)	($330,978)	($340,345)	($351,274)	($15,610,604)
16 Providence Gas	($4,456,910)	($1,771,648)	($1,736,910)	($785,083)	($841,822)	($691,290)	($536,126)	($245,483)	($252,431)	($260,536)	($11,578,240)
17 Total	($153,960,000)	($61,200,000)	($60,000,000)	($27,120,000)	($29,080,000)	($23,880,000)	($18,520,000)	($8,480,000)	($8,720,000)	($9,000,000)	($399,960,000)
NET SYNERGIES (Synergies Plus Cost To Achieve)											
1 Massachusetts Electric	($5,225,074)	$7,307,681	$11,145,882	$18,229,477	$18,561,075	$19,599,027	$20,665,833	$22,199,509	$22,751,786	$23,314,577	$158,549,774
2 Nantucket Electric	($63,854)	$89,305	$136,210	$222,776	$226,829	$239,513	$252,550	$271,293	$278,042	$284,920	$1,937,583
3 New England Power	($1,876,512)	$2,624,452	$4,002,888	$6,546,862	$6,665,951	$7,038,717	$7,421,845	$7,972,644	$8,170,986	$8,373,104	$56,940,935
4 Essex Gas	($287,232)	$401,717	$612,710	$1,002,108	$1,020,337	$1,077,395	$1,136,039	$1,220,348	$1,250,708	$1,281,646	$8,715,775
5 Colonial Gas	($960,725)	$1,343,650	$2,049,373	$3,351,821	$3,412,791	$3,603,637	$3,799,789	$4,081,783	$4,183,329	$4,286,809	$29,152,257
6 Boston Gas	($3,443,619)	$4,816,175	$7,345,767	$12,014,257	$12,232,799	$12,916,868	$13,619,954	$14,630,733	$14,994,715	$15,365,626	$104,493,276
7 Granite State Electric	($222,331)	$310,947	$474,265	$775,677	$789,787	$833,953	$879,346	$944,605	$968,105	$992,052	$6,746,407
8 EnergyNorth Gas	($423,411)	$592,174	$903,200	$1,477,215	$1,504,086	$1,588,196	$1,674,644	$1,798,924	$1,843,678	$1,889,283	$12,847,989
9 Niagara Mohawk Electric	($10,642,090)	$14,883,808	$22,701,206	$37,128,611	$37,803,988	$39,918,021	$42,090,822	$45,214,513	$46,339,354	$47,485,610	$322,923,842
10 Niagara Mohawk Gas	($2,744,391)	$3,838,249	$5,854,206	$9,574,758	$9,748,925	$10,294,094	$10,854,417	$11,659,958	$11,950,032	$12,245,630	$83,275,878
11 BUG	($7,158,139)	$10,011,226	$15,269,405	$24,973,643	$25,427,918	$26,849,871	$28,311,351	$30,412,425	$31,169,022	$31,940,022	$217,206,745
12 LILCO - GAS	($4,250,108)	$5,944,114	$9,066,130	$14,827,971	$15,097,695	$15,941,972	$16,809,719	$18,057,220	$18,506,445	$18,964,223	$128,965,382
13 LIPA	($11,338,196)	$15,857,368	$24,186,107	$39,557,219	$40,276,772	$42,529,086	$44,844,011	$48,172,026	$49,370,443	$50,591,676	$344,046,513
14 Unregulated	($1,656,177)	$2,316,296	$3,532,880	$5,778,148	$5,883,254	$6,212,250	$6,550,393	$7,036,518	$7,211,572	$7,389,958	$50,255,092
15 Narragansett	($2,106,081)	$2,945,522	$4,492,593	$7,347,793	$7,481,450	$7,899,820	$8,329,820	$8,948,001	$9,170,609	$9,397,454	$63,906,981
16 Providence Gas	($1,562,061)	$2,184,666	$3,332,115	$5,449,789	$5,548,922	$5,859,223	$6,178,150	$6,636,649	$6,801,755	$6,970,004	$47,399,213
17 Total	($53,960,000)	$75,467,350	$115,104,937	$188,258,125	$191,682,578	$202,401,643	$213,418,684	$229,257,151	$234,960,580	$240,772,594	$1,637,363,641

Calculation of Synergy Value - Synergy

		Revenues	Percent	Synergies
		(A)	(B)	(C)
1	Massachusetts Electric	$534,184,464	9.68%	$19,366,471
2	Nantucket Electric	$6,528,087	0.12%	$236,671
3	New England Power	$191,844,885	3.48%	$6,955,197
4	Essex Gas	$29,365,112	0.53%	$1,064,611
5	Colonial Gas	$98,219,521	1.78%	$3,560,878
6	Boston Gas	$352,057,800	6.38%	$12,763,600
7	Granite State Electric	$22,729,932	0.41%	$824,057
8	EnergyNorth Gas	$43,287,327	0.78%	$1,569,351
9	Niagara Mohawk Electric	$1,087,992,090	19.72%	$39,444,365
10	Niagara Mohawk Gas	$280,572,335	5.09%	$10,171,947
11	BUG	$731,811,000	13.27%	$26,531,277
12	LILCO - GAS	$434,509,000	7.88%	$15,752,809
13	LIPA	$1,159,158,400	21.01%	$42,024,448
14	Unregulated	$169,319,000	3.07%	$6,138,538
15	Narragansett	$215,314,821	3.90%	$7,806,083
16	Providence Gas	$159,697,000	2.89%	$5,789,699
17	Total	$5,516,590,774	100.00%	$200,000,000
18	Synergy			$200,000,000

(A) 2004 T&D Revenue (Rather than adjust the $200 million, Unregulated is included)
For the New England electric distribution companies, the amount reflects Distribution revenue only, as Transmission-related savings flow through New England Power Company
(B) Column (A) ÷ Column (A), Line 17
(C) Line 18 * Column (B)

Calculation of Synergy Value - Cost to Achieve

		Revenues	Percent	Cost to Achieve
		(A)	(B)	(C)
1	Massachusetts Electric	$534,184,464	9.68%	$38,732,941
2	Nantucket Electric	$6,528,087	0.12%	$473,342
3	New England Power	$191,844,885	3.48%	$13,910,395
4	Essex Gas	$29,365,112	0.53%	$2,129,222
5	Colonial Gas	$98,219,521	1.78%	$7,121,755
6	Boston Gas	$352,057,800	6.38%	$25,527,201
7	Granite State Electric	$22,729,932	0.41%	$1,648,114
8	EnergyNorth Gas	$43,287,327	0.78%	$3,138,701
9	Niagara Mohawk Electric	$1,087,992,090	19.72%	$78,888,729
10	Niagara Mohawk Gas	$280,572,335	5.09%	$20,343,893
11	BUG	$731,811,000	13.27%	$53,062,555
12	LILCO - GAS	$434,509,000	7.88%	$31,505,618
13	LIPA	$1,159,158,400	21.01%	$84,048,895
14	Unregulated	$169,319,000	3.07%	$12,277,075
15	Narragansett	$215,314,821	3.90%	$15,612,166
16	Providence Gas	$159,697,000	2.89%	$11,579,398
17	Total	$5,516,590,774	100.00%	$400,000,000
18	Cost to Achieve (Page 2 Line 18 times 2)			$400,000,000

(A) Page 2, Column (A)
(B) Column (A) ÷ Column (A), Line 17
(C) Line 18 * Column (B)

Calculation of Synergy Value - Phase in Rates

Cost to Achieve		Synergy Multiplier		Inflation		Phase-In	
	(A)		(B)		(C)		(D)
Year 1	38.49%	Year 1	50.00%	Year 1	1	Year 1	50%
Year 2	15.30%	Year 2	68.33%	Year 2	1.0250	Year 2	67%
Year 3	15.00%	Year 3	87.55%	Year 3	1.0506	Year 3	83%
Year 4	6.78%	Year 4	107.69%	Year 4	1.0769	Year 4	100%
Year 5	7.27%	Year 5	110.38%	Year 5	1.1038	Year 5	100%
Year 6	5.97%	Year 6	113.14%	Year 6	1.1314	Year 6	100%
Year 7	4.63%	Year 7	115.97%	Year 7	1.1597	Year 7	100%
Year 8	2.12%	Year 8	118.87%	Year 8	1.1887	Year 8	100%
Year 9	2.18%	Year 9	121.84%	Year 9	1.2184	Year 9	100%
Year 10	2.25%	Year 10	124.89%	Year 10	1.2489	Year 10	100%

(A) These percentages are derived from a prior National Grid settlement on the Niagara Mohawk merger
(B) Column (C) * Column (D)
(C) Assumed Inflation Growth of

	Mercer Study	Rates	Weighted Rates
Labor	45.25%	2.80%	1.27%
Non-Labor	54.75%	2.25%	1.23%
Total	100.00%		2.50%

(D) These percentages are derived from a prior National Grid settlement on the Niagara Mohawk merger

Schedule JGC-2

Twenty Year Allocation of Net Synergies Savings to EnergyNorth

Year	Synergies (A)	CTA (B)	Difference (C)	Customers Share (D)	COS Add Back (E)
1	$784,675	$156,935	$627,740	$313,870	$313,870
2	$1,072,395	$156,935	$915,460	$457,730	$457,730
3	$1,374,005	$156,935	$1,217,070	$608,535	$608,535
4	$1,690,019	$156,935	$1,533,084	$766,542	$766,542
5	$1,732,269	$156,935	$1,575,334	$787,667	$787,667
6	$1,775,576	$156,935	$1,618,641	$809,321	$809,321
7	$1,819,966	$156,935	$1,663,031	$831,515	$831,515
8	$1,865,465	$156,935	$1,708,530	$854,265	$854,265
9	$1,912,101	$156,935	$1,755,166	$877,583	$877,583
10	$1,959,904	$156,935	$1,802,969	$901,484	$901,484
11	$2,008,902	$156,935	$1,851,966	$925,983	$925,983
12	$2,059,124	$156,935	$1,902,189	$951,095	$951,095
13	$2,110,602	$156,935	$1,953,667	$976,834	$976,834
14	$2,163,367	$156,935	$2,006,432	$1,003,216	$1,003,216
15	$2,217,451	$156,935	$2,060,516	$1,030,258	$1,030,258
16	$2,272,888	$156,935	$2,115,953	$1,057,976	$1,057,976
17	$2,329,710	$156,935	$2,172,775	$1,086,387	$1,086,387
18	$2,387,953	$156,935	$2,231,018	$1,115,509	$1,115,509
19	$2,447,651	$156,935	$2,290,716	$1,145,358	$1,145,358
20	$2,508,843	$156,935	$2,351,908	$1,175,954	$1,175,954
Total	$38,492,867	$3,138,701	$35,354,166	$17,677,083	$17,677,083

(A) Schedule JGC-1, Page 1, Line 8. Years 11 through 20 inflated at 2.5%.
(B) Schedule JGC-1, Page 3, Line 8. Straight Line amortization over 20 years.
(C) Column (A) less Column (B)
(D) Column (C) * 50%
(E) Column (C) - Column (D)

STATE OF NEW HAMPSHIRE
PUBLIC UTILITIES COMMISSION

NATIONAL GRID
and
KEYSPAN

Joint Petition
for
Approval of Stock Acquisition
and
Other Regulatory Authorizations

APPENDICES

AUGUST, 2006

nationalgrid

KEYSPAN

Appendix 1

LIST OF APPENDICES

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INSERT

11x17

COLOR

MAP

Appendix 2

Agreement and Plan of Merger
Dated
February 25, 2006

Exhibits and schedules described or referenced in the Merger Agreement that would not assist the Commission in understanding or analyzing the Transaction has been omitted. To the extent submission of such supplementary information may be required, Applicants respectfully request waiver of this requirement.

EXECUTION COPY

AGREEMENT AND PLAN OF MERGER

DATED AS OF FEBRUARY 25, 2006

between

NATIONAL GRID PLC,

NATIONAL GRID US8 INC.

and

KEYSPAN CORPORATION

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AGREEMENT AND PLAN OF MERGER

AGREEMENT AND PLAN OF MERGER, dated as of February 25, 2006 (this "Agreement"), by and among NATIONAL GRID PLC, a public limited company incorporated under the laws of England and Wales with registration number 4031152 ("Parent"), NATIONAL GRID US8 INC. a New York corporation ("Merger Sub") and KEYSPAN CORPORATION, a New York corporation ("KeySpan").

W I T N E S S E T H :

WHEREAS, the Boards of Directors of Parent, Merger Sub and KeySpan have each approved, and deem it advisable and in the best interests of their respective stockholders to consummate, the business combination transaction provided for herein pursuant to which Merger Sub would merge with and into KeySpan (the "Merger"), with KeySpan as the surviving entity, as a result of which Parent will, directly or indirectly, own all of the issued and outstanding common shares of KeySpan; and

WHEREAS, Parent, Merger Sub and KeySpan desire to make certain representations, warranties covenants and agreements in connection with the Merger and also to prescribe various conditions to the Merger.

NOW, THEREFORE, in consideration of the foregoing and the respective representations, warranties, covenants and agreements set forth herein, the parties hereto agree as follows:

ARTICLE I

THE MERGER

1.1. Effective Time of the Merger. Subject to the provisions of this Agreement, a certificate of merger (the "Certificate of Merger") shall be duly prepared and executed by KeySpan as the Surviving Corporation (as defined in Section 1.3) and thereafter delivered to the Secretary of State of the State of New York for filing, in such form as is required by and executed in accordance with the New York Business Corporation Law (the "NYBCL"), on the Closing Date (as defined in Section 1.2). The Merger shall become effective upon the filing of the Certificate of Merger with the Secretary of State of the State of New York or at such subsequent time thereafter as is provided in the Certificate of Merger (the "Effective Time").

1.2. Closing. The closing of the Merger (the "Closing") will take place at 10:00 a.m. (New York City time) on the date (the "Closing Date") that is the fifth business day after the satisfaction or waiver (subject to applicable law) of the conditions set forth in Article VI (excluding conditions that, by their terms, are to be satisfied on the Closing Date), unless another time or date is agreed to by the parties hereto. The Closing shall be held at the offices of Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017, unless another place is agreed to by the parties hereto.

1.3. Effects of the Merger. At and after the Effective Time, Merger Sub shall be merged with and into KeySpan and the separate existence of Merger Sub shall cease. The

Merger will have the effects set forth in §906 of the NYBCL. As used in this Agreement, "Constituent Corporations" shall mean each of Merger Sub and KeySpan, and "Surviving Corporation" shall mean KeySpan, at and after the Effective Time, as the surviving corporation in the Merger.

1.4. Certificate of Incorporation and By-Laws. The Certificate of Incorporation of Merger Sub as in effect immediately prior to the Effective Time, shall be the Certificate of Incorporation of the Surviving Corporation (the "Surviving Corporation Certificate of Incorporation") except that the name of the Surviving Corporation shall be changed to KeySpan. The By-laws of Merger Sub as in effect immediately prior to the Effective Time, shall be the By-laws of the Surviving Corporation (the "Surviving Corporation By-laws") except that the name of the Surviving Corporation shall be changed to KeySpan.

1.5. Directors and Officers. The directors of Merger Sub immediately prior to the Effective Time shall be the initial directors of the Surviving Corporation, each to hold office in accordance with the certificate of incorporation and by-laws of the Surviving Corporation. At the Effective Time, the officers of the Surviving Corporation shall be the officers of Merger Sub immediately prior to the Effective Time, together with any additional officers as may be agreed upon prior thereto by Parent and KeySpan or as may be appointed thereafter.

ARTICLE II

EFFECT OF THE MERGER ON THE CAPITAL STOCK OF THE CONSTITUENT CORPORATIONS; SURRENDER OF CERTIFICATES

2.1. Effect on Capital Stock. As of the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof:

(a) Merger Consideration. Each share of common stock par value $0.01 per share of KeySpan ("KeySpan Common Stock"), including, without limitation, each restricted share of KeySpan Common Stock granted under the KeySpan Benefit Plans, that is issued and outstanding immediately prior to the Effective Time (other than shares of KeySpan Common Stock to be cancelled in accordance with Section 2.1(c)), shall automatically be converted into the right to receive $42.00 in cash per share (such per share amount, as adjusted pursuant to the following sentence, the "Merger Consideration"), without interest, payable to the holder of such shares of KeySpan Common Stock, upon surrender, in the manner provided in Section 2.2, of the certificate that formerly evidenced such share of KeySpan Common Stock. All such shares of KeySpan Common Stock, when so converted, shall no longer be outstanding and shall automatically be cancelled and retired and shall cease to exist, and each holder of a certificate representing any such shares of KeySpan Common Stock shall cease to have any rights with respect thereto, except the right to receive the Merger Consideration therefor, without interest, upon the surrender of such certificate in accordance with Section 2.2.

(b) Conversion of Merger Sub Common Stock. Each share of common stock par value $0.01 per share of Merger Sub ("Merger Sub Common Stock") issued and outstanding immediately prior to the Effective Time shall be converted into one duly authorized, fully paid and nonassessable share of KeySpan Common Stock.

(c) Cancellation of Certain KeySpan Capital Stock. Each share of KeySpan Common Stock that is owned as treasury stock by KeySpan or owned by any wholly-owned Subsidiary of KeySpan, and all shares of KeySpan Common Stock that are owned by Parent, Merger Sub or any other wholly-owned subsidiary of Parent shall be canceled and retired and shall cease to exist and no cash or other consideration shall be delivered in exchange therefor.

2.2. Surrender of Certificates.

(a) Exchange Agent. Prior to the Effective Time, Parent shall select a bank or trust company reasonably acceptable to KeySpan to act as the exchange agent (the "Exchange Agent") for the holders of shares of KeySpan Common Stock in connection with the Merger and shall enter into an agreement with the Exchange Agent which is reasonably acceptable to KeySpan. As of the Effective Time, Parent shall deposit, or shall cause to be deposited, with the Exchange Agent, in trust for the benefit of the holders of certificates or evidence of shares in book entry form which immediately prior to the Effective Time evidenced shares of KeySpan Common Stock (collectively, the "KeySpan Certificates"), cash in an aggregate amount equal to the product of (i) the number of shares of KeySpan Common Stock issued and outstanding at the Effective Time (other than shares of KeySpan Common Stock to be cancelled in accordance with Section 2.1(c)) and (ii) the Merger Consideration. Any funds deposited with the Exchange Agent shall hereinafter be referred to as the "Exchange Fund."

(b) Exchange Procedures. As soon as reasonably practicable after the Effective Time, Parent shall cause the Exchange Agent to mail to each holder of record of a certificate or certificates (the "Certificates") which represented shares of KeySpan Common Stock immediately prior to the Effective Time and whose shares were converted into the right to receive the Merger Consideration pursuant to Section 2.1: (i) a letter of transmittal which shall specify that delivery shall be effected, and risk of loss and title to the KeySpan Certificates shall pass, only upon delivery of the KeySpan Certificates to the Exchange Agent, and which letter shall be in such form and have such other provisions as KeySpan may reasonably specify prior to the Effective Time and (ii) instructions for use in effecting the surrender of the KeySpan Certificates in exchange for the Merger Consideration to which such holder is entitled pursuant to Section 2.1. Upon surrender of a KeySpan Certificate for cancellation to the Exchange Agent together with such letter of transmittal, duly executed, completed in accordance with the instructions thereto, and such other documents as the Exchange Agent may reasonably require, the holder of such KeySpan Certificate shall be entitled to receive in exchange therefor the aggregate Merger Consideration which such holder has the right to receive pursuant to Section 2.1 (after taking into account all shares of KeySpan Common Stock surrendered by such holder) and the Certificate so surrendered shall forthwith be cancelled. Until so surrendered, each Certificate will represent, from and after the Effective Time, only the right to receive the Merger Consideration in cash as contemplated by this Article II. No interest shall accrue or be paid on the amounts payable pursuant to this Article II upon surrender of a Certificate.

(c) No Further Ownership Rights in KeySpan Common Stock. From and after the Effective Time, the holders of KeySpan Common Stock outstanding immediately prior to the Effective Time shall cease to have any rights with respect to such shares of KeySpan Common Stock except as otherwise provided herein or by applicable law. The Merger Consideration paid in exchange for shares of KeySpan Common Stock in accordance with the

terms hereof shall be deemed to have been paid in full satisfaction of all rights pertaining to such shares of KeySpan Common Stock previously represented by such Certificates. As of the Effective Time, the stock transfer books of KeySpan shall be closed and there shall be no further registration of transfers on the records of the Surviving Corporation of shares of KeySpan Common Stock that were outstanding immediately prior to the Effective Time. If, after the Effective Time, Certificates are presented to the Surviving Corporation or the Exchange Agent for any reason, such Certificates shall be cancelled and exchanged as provided for in this Article II.

(d) Termination of Exchange Fund. Any portion of the Exchange Fund which remains undistributed to the holders of KeySpan Certificates for twelve months after the Effective Time shall be delivered to the Surviving Corporation, upon demand, and any holders of KeySpan Certificates who have not theretofore complied with this Article II shall thereafter look only to the Surviving Corporation for payment, as general creditors thereof, of their claim for the Merger Consideration, without interest, to which such holders would be entitled pursuant to Section 2.1.

(e) No Liability. None of Parent, Merger Sub, KeySpan or the Surviving Corporation shall be liable to any Person in respect of any Merger Consideration for any amount properly delivered to a public official pursuant to any applicable abandoned property, escheat or similar law.

(f) Lost, Stolen or Destroyed Certificates. If any KeySpan Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such KeySpan Certificate to be lost, stolen or destroyed and, if required by the Surviving Corporation, the posting by such Person of a bond in such reasonable amount as the Surviving Corporation may direct as indemnity against claim that may be made against it with respect to such KeySpan Certificate, the Exchange Agent will deliver in exchange for such lost, stolen or destroyed KeySpan Certificate the Merger Consideration to which the holder thereof is entitled pursuant to this Article II.

(g) Withholding. Each of the Exchange Agent, KeySpan, Parent, Merger Sub and the Surviving Corporation shall be entitled to deduct and withhold from payments otherwise payable pursuant to this Agreement to any holder of shares of KeySpan Common Stock such amounts as they are respectively required to deduct and withhold with respect to the making of such payment under the Internal Revenue Code of 1986, as amended, (the "Code") and the rules and regulations promulgated thereunder, or any provision of state, local or foreign Tax law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes of this Agreement as having been paid to the holder of the shares of KeySpan Common Stock in respect of which such deduction and withholding was made.

(h) Transfers of Ownership. If the Merger Consideration is to be paid to a Person other than the Person in whose name the surrendered Certificate formerly evidencing shares of KeySpan Common Stock is registered, it will be a condition of payment that the Certificate so surrendered will be properly endorsed and otherwise in proper form for transfer and that the Person requesting such payment will have paid to Parent or any agent designated by it any transfer or other Taxes required by reason of the payment of the amount specified in

Section 2.1(a) to a Person other than the registered holder of the Certificates surrendered, or established to the satisfaction of the Parent or any agent designated by it that such Tax has been paid or is not payable.

(i) Further Action. After the Effective Time, the officers and directors of Parent and the Surviving Corporation will be authorized to execute and deliver, in the name and on behalf of KeySpan and Merger Sub, any deeds, bills of sale, assignments or assurances and to take and do, in the name and on behalf of KeySpan and Merger Sub, any other actions and things to vest, perfect or confirm of record or otherwise in the Surviving Corporation any and all right, title and interest in, to and under any of the rights, properties or assets acquired or to be acquired by the Surviving Corporation as a result of, or in connection with, the Merger.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.1. Representations and Warranties of KeySpan. Except as set forth in the Disclosure Schedule delivered by KeySpan to Parent prior to the execution of this Agreement (the "KeySpan Disclosure Schedule") and except as set forth in the KeySpan SEC Reports (as defined in Section 3.1(e)) filed prior to the date of this Agreement (only to the extent the qualifying nature of such disclosure is readily apparent from the face of such KeySpan SEC Reports):

(a) Organization, Standing and Power. (i) Each of KeySpan and each of its Subsidiaries (as defined in Section 8.12) is a corporation or other entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, except in each case as would not reasonably be expected to result in a Material Adverse Effect (as defined in Section 8.12) on KeySpan. The copies of the certificate of incorporation and by-laws of KeySpan which were previously furnished to Parent are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(ii) Each of the Joint Ventures of KeySpan (as defined below) is a corporation or other entity duly incorporated or otherwise organized, validly existing and in good standing under the laws of its jurisdiction of incorporation or organization, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary, except in each case as would not reasonably be expected to result in a Material Adverse Effect on KeySpan. As used in this Agreement, "Joint Venture" with respect to any person shall mean any corporation or other entity (including partnerships and other business associations and joint ventures) in which such person or one or more of its Subsidiaries owns an equity interest that is less than a majority of any class of the outstanding voting securities or equity, other than equity interests held for investment purposes that (a) are less than 10% of any

class of the outstanding voting securities or equity or (b) with respect to which the net book value as of December 31, 2005 of such person's interest does not exceed $35,000,000.

(b) Subsidiaries. Section 3.1(b) of the KeySpan Disclosure Schedule contains a description as of the date hereof of all Subsidiaries and Joint Ventures of KeySpan, including the name of each such entity, the state or jurisdiction of its incorporation or organization and KeySpan's interest therein.

(c) Capital Structure.

(i) As of February 23, 2006, the authorized capital stock of KeySpan consisted of (A) 450,000,000 shares of KeySpan Common Stock, of which 174,573,840 shares were outstanding, (B) 16,000,000 shares of Preferred Stock, par value $25 per share, of which no shares were outstanding, (C) 1,000,000 shares of Preferred Stock, par value $100 per share, of which no shares were outstanding and (D) 83,000,000 shares of Preferred Stock, par value $.01 per share, of which no shares were outstanding. From February 23, 2006 to the date of this Agreement, there have been no issuances of shares of the capital stock of KeySpan or any other securities of KeySpan other than issuances of shares pursuant to options or rights outstanding as of February 23, 2006 under the KeySpan Benefit Plans (as defined in Section 3.1(o)) and shares of the capital stock of KeySpan or any other securities of KeySpan issued pursuant to The KeySpan Investor Program. All issued and outstanding shares of the capital stock of KeySpan are duly authorized, validly issued, fully paid and nonassessable, and no class of capital stock is entitled to preemptive rights. There were outstanding as of February 23, 2006 no options, warrants or other rights to acquire capital stock from KeySpan, and no options or warrants or other rights to acquire capital stock from KeySpan have been issued or granted from February 23, 2006 to the date of this Agreement. There are no outstanding or authorized deferred stock units, stock appreciation rights, security-based performance units, "phantom" stock, profit participation or other similar rights or other agreements, arrangements or commitments of any character (contingent or otherwise) pursuant to which any Person is or may be entitled to receive any payment or other value based on the revenues, earnings or financial performance, stock price performance or other attribute of KeySpan or any of its Subsidiaries or assets or calculated in accordance therewith. There are no contractual obligations for KeySpan or any of its Subsidiaries to file a registration statement under the Securities Act or which otherwise relate to the registration of any securities of KeySpan or its Subsidiaries under the Securities Act.

(ii) As of the date of this Agreement, no bonds, debentures, notes or other indebtedness of KeySpan having the right to vote on any matters on which stockholders may vote are issued or outstanding.

(iii) All of the outstanding shares of capital stock of, or other equity interests in, each of KeySpan's Subsidiaries and to the Knowledge of KeySpan all of the shares of capital stock or other equity interests which KeySpan owns in all of its Joint Ventures have been duly authorized and validly issued and are fully paid and nonassessable and are owned directly or indirectly by KeySpan, free and clear of all pledges, claims, liens, charges, encumbrances and security interests of any kind or nature

whatsoever (collectively, "Liens") (other than any customary provisions contained in the applicable investment, stockholder, joint venture or similar agreements governing any Joint Venture of KeySpan which have been provided to Parent prior to the date hereof).

(iv) Except as otherwise set forth in this Section 3.1(c) or as contemplated by Section 5.6, as of the date of this Agreement, there are no securities, options, warrants, calls, rights, commitments, agreements, arrangements or undertakings of any kind to which KeySpan or any of its Subsidiaries is a party, or by which any of them is bound, obligating KeySpan or any of its Subsidiaries to issue, deliver or sell, or cause to be issued, delivered or sold, additional shares of capital stock or other voting securities of KeySpan or any of its Subsidiaries or obligating KeySpan or any of its Subsidiaries to issue, grant, extend or enter into any such security, option, warrant, call, right, commitment, agreement, arrangement or undertaking. As of the date of this Agreement, there are no outstanding obligations of KeySpan or any of its Subsidiaries containing any right of first refusal with respect to, or obligations to repurchase, redeem or otherwise acquire, any shares of capital stock of KeySpan or any of its Subsidiaries.

(v) Neither KeySpan nor any of its Subsidiaries is a party to any voting agreement with respect to the voting of any shares of capital stock or other voting securities or other equity interests in KeySpan or any of its Subsidiaries.

(vi) There are no outstanding contractual obligations of KeySpan or any of its Subsidiaries to make any loan to, or any equity or other investment (in the form of a capital contribution or otherwise) in, any Subsidiary of KeySpan or any other Person, other than guarantees by KeySpan of any indebtedness (pursuant to agreements that have been made available to Parent) or of any other obligations of any wholly-owned Subsidiary of KeySpan.

(d) Authority; No Conflicts.

(i) KeySpan has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Required KeySpan Vote (as defined in Section 3.1(j)). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of KeySpan, subject in the case of the consummation of the Merger to the adoption of this Agreement by the Required KeySpan Vote. This Agreement has been duly executed and delivered by KeySpan and constitutes a valid and binding agreement of KeySpan, enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally or by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law).

(ii) The execution and delivery of this Agreement by KeySpan do not, and the consummation by KeySpan of the Merger and the other transactions contemplated hereby will not, result in any violation of, or constitute a default (with or

without notice or lapse of time, or both) under, or give rise to a right of termination, amendment, cancellation or acceleration of any obligation or the loss of a material benefit under, or the creation of a lien, pledge, security interest, charge or other encumbrance on any assets (any such conflict, violation, default, right of termination, amendment, cancellation or acceleration, loss or creation, a "Violation") pursuant to: (A) any provision of the certificate of incorporation or by-laws of KeySpan or (B) except as would not reasonably be expected to result in a Material Adverse Effect on KeySpan, subject to obtaining or making the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings referred to in paragraph (iii) below, any loan or credit agreement, note, contract, mortgage, bond, indenture, lease, Benefit Plan (as defined below) or other agreement, obligation, instrument, permit, concession, franchise, license, or judgment, order, writ or decree (collectively "Order"), statute, law, ordinance, rule or regulation (collectively "Law") of any kind to which KeySpan or any of its Subsidiaries is now subject to, a party to or by which any of them or any of their respective properties or assets may be bound or affected.

(iii) No material consent, approval, order, license, permit or authorization of, or registration, declaration, notice or filing with, any supranational, national, state, municipal or local government, any instrumentality, subdivision, court, administrative agency or commission or other authority thereof, or any quasi-governmental or private body exercising any regulatory, taxing, importing or other governmental or quasi-governmental authority (a "Governmental Entity") is necessary or required to be obtained or made by or with respect to KeySpan or any Subsidiary of KeySpan in connection with the execution and delivery of this Agreement by KeySpan or the performance and consummation by KeySpan of the Merger and the other transactions contemplated hereby, except for those required under or in relation to (A) the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), (B) state securities or "blue sky" laws (the "Blue Sky Laws"), (C) the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (the "Exchange Act"), (D) the NYBCL with respect to the filing of the Certificate of Merger, (E) rules and regulations of the NYSE and the Pacific Stock Exchange, (F) applicable state public utility Laws, rules and regulations promulgated by the New York Public Service Commission ("NYPSC"), and the New Hampshire Public Utilities Commission ("NHPUC"), (G) Section 203 of the Federal Power Act, as amended and the rules and regulations promulgated thereunder (the "Federal Power Act"), (H) Federal Communications Commission ("FCC"), (I) antitrust or other competition laws of other jurisdictions, and (J) the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings set forth in Section 3.1(d)(iii) of the KeySpan Disclosure Schedule. Consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings required under or in relation to any of the foregoing clauses (A) through (H) are hereinafter referred to as the "KeySpan Required Approvals".

(e) Reports and Financial Statements.

(i) KeySpan and its Subsidiaries have filed each form, report, schedule, registration statement, registration exemption, if applicable, definitive proxy

statement and other document (together with all amendments thereof and supplements thereto) required to be filed by KeySpan or any of its Subsidiaries pursuant to the Securities Act of 1933, as amended and the rules and regulations promulgated thereunder (the "Securities Act") or the Exchange Act with the Securities and Exchange Commission ("SEC") since January 1, 2003 (as such documents have since the time of their filing been amended or supplemented, the "KeySpan SEC Reports"). As of their respective dates, the KeySpan SEC Reports (A) complied as to form in all material respects with the requirements of the Securities Act or the Exchange Act, if applicable, as the case may be, and, to the extent in effect and applicable, the Sarbanes-Oxley Act of 2002 ("SOX"), and (B) did not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

(ii) KeySpan has provided to Parent copies of all correspondence sent to or received from the SEC by or on behalf of KeySpan and its Subsidiaries since December 31, 2003.

(iii) Each of the principal executive officers of KeySpan and the principal financial officer of KeySpan (or each former principal executive officer of KeySpan and each former principal financial officer of KeySpan, as applicable) has made all certifications required by Rule 13a-14 or 15d-14 under the Exchange Act or Sections 302 and 906 of SOX and the rules and regulations of the SEC promulgated thereunder with respect to the KeySpan SEC Reports. For purposes of the preceding sentence, "principal executive officer" and "principal financial officer" shall have the meanings given to such terms in SOX. Since the effectiveness of SOX, neither KeySpan nor any of its Subsidiaries has arranged any outstanding "extensions of credit" to directors or executive officers within the meaning of Section 402 of SOX.

(iv) The audited consolidated financial statements and unaudited interim consolidated financial statements (including, in each case, the notes, if any, thereto) included in the KeySpan SEC Reports (the "KeySpan Financial Statements") complied as to form in all material respects with the published rules and regulations of the SEC with respect thereto, were prepared in accordance with United States generally accepted accounting principles ("GAAP") applied on a consistent basis during the periods involved (except as may be indicated therein or in the notes thereto and except with respect to unaudited statements as permitted by rules and regulations promulgated by the SEC) and fairly present (subject, in the case of the unaudited interim financial statements, to normal, recurring year-end audit adjustments that have not or are not reasonably expected to result in a Material Adverse Effect on KeySpan) the consolidated financial position of KeySpan and its consolidated Subsidiaries as of the respective dates thereof and the consolidated results of their operations and cash flows for the respective periods then ended. No restatement of the KeySpan Financial Statements has occurred or is reasonably likely to occur.

(v) All filings (other than immaterial filings) required to be made by KeySpan or any of its Subsidiaries since January 1, 2003 and in the case of any filing made pursuant to the Public Utility Holding Company Act of 1935, as amended and in

effect prior to its repeal effective February 8, 2006 (the "PUHCA"), prior to February 8, 2006, under the Federal Power Act, the Communications Act of 1934, as amended by the Telecommunications Act of 1996, the Natural Gas Act of 1938, as amended, the PUHCA and applicable state laws and regulations, have been filed with the Federal Energy Regulatory Commission ("FERC"), the Department of Energy, the SEC and the FCC or any applicable state public utility commissions (including, to the extent required, the NYPSC, the Massachusetts Department of Telecommunications and Energy, and the NHPUC), as the case may be, including all forms, statements, reports, agreements (oral or written) and all documents, exhibits, amendments and supplements appertaining thereto, including all rates, tariffs, franchises, service agreements and related documents and all such filings complied, as of their respective dates, with all applicable requirements of the applicable statute and the rules and regulations thereunder, except for filings the failure of which to make or the failure of which to make in compliance with all applicable requirements of the applicable statute and the rules and regulations thereunder, have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan.

(vi) KeySpan maintains a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences. Since December 31, 2003, KeySpan has not received any oral or written notification of a (x) "reportable condition" or (y) "material weakness" in its internal controls. The terms "reportable condition" and "material weakness" shall have the meanings assigned to them in the Statements of Auditing Standards 60, as in effect on the date hereof.

(vii) The management of KeySpan has (x) designed disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), or caused such disclosure controls and procedures to be designed under their supervision, to ensure that material information relating to KeySpan, including its consolidated Subsidiaries, is made known to the management of KeySpan by others within those entities and (y) has disclosed, based on its most recent evaluation of internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act), to KeySpan's outside auditors and the audit committee of the Board of Directors of KeySpan (A) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect KeySpan's ability to record, process, summarize and report financial information and (B) any fraud, whether or not material, that involves management or other employees who have a significant role in KeySpan's internal control over financial reporting. KeySpan has disclosed to Parent all matters set forth in clauses (A) and (B) above discovered or disclosed since December 31, 2003. Since December 31, 2003, any material change in internal control over financial reporting required to be disclosed in any KeySpan SEC Report has been so disclosed.

(viii) Since December 31, 2003, (x) neither KeySpan nor any of its Subsidiaries nor, to the Knowledge of the Executive Officers (for the purposes of this Section 3.1(e)(viii), as such term is defined in Section 3b-7 of the Exchange Act) of KeySpan, any director, officer, employee, auditor, accountant or representative of KeySpan or any of its Subsidiaries has received or otherwise obtained Knowledge of any material complaint, allegation, assertion or claim, whether written or oral, regarding the accounting or auditing practices, procedures, methodologies or methods of KeySpan or any of its Subsidiaries or their respective internal accounting controls relating to periods after December 31, 2003, including any material complaint, allegation, assertion or claim that KeySpan or any of its Subsidiaries has engaged in questionable accounting or auditing practices (except for any of the foregoing after the date hereof which have no reasonable basis), and (y) to the Knowledge of the Executive Officers of KeySpan, no attorney representing KeySpan or any of its Subsidiaries, whether or not employed by KeySpan or any of its Subsidiaries, has reported evidence of a material violation of securities laws, breach of fiduciary duty or similar violation, relating to periods after December 31, 2003, by KeySpan or any of its officers, directors, employees or agents to the Board of Directors of KeySpan or any committee thereof or to any director or Executive Officer of KeySpan.

(f) Compliance; Permits. KeySpan and its Subsidiaries hold all permits, licenses, certificates, franchises, consents, authorizations and approvals of all Governmental Authorities ("Permits") necessary for the lawful conduct of their respective businesses as currently conducted, except where failures to so hold has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. KeySpan and its Subsidiaries are in compliance with the terms of such Permits, except where failure to so comply has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. KeySpan, and its Subsidiaries and the Joint Ventures of KeySpan are not in violation of or default under any Law or Order of any Governmental Entity, except for such violations or defaults that have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan. Without limitation to the foregoing, KeySpan is, and has been, in compliance in all material respects with the applicable listing standards and corporate governance rules and regulations of the NYSE and the Pacific Stock Exchange. This Section 3.1(f) does not relate to matters with respect to Taxes, such matters being the subject of Section 3.1(n), benefits plans, such matters being the subject of Section 3.1(o), labor matters, such matters being the subject of Section 3.1(p) and Environmental Laws, such matters being the subject of Section 3.1(r).

(g) Information Supplied. None of the information to be contained in the Proxy Statement (as defined in Section 5.1) or any proxy supplement will, at the date it is first mailed to KeySpan's stockholders or at the time of the KeySpan Stockholders Meeting (as defined in Section 5.1), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Proxy Statement will comply as to form in all material respects with the requirements of the Exchange Act and the rules and regulations thereunder, except that no representation is made by KeySpan with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of Parent or Merger Sub for inclusion or incorporation by reference in the Proxy Statement. None of the information supplied or to be supplied by KeySpan for inclusion or

incorporation by reference in the Circular (as defined in Section 5.1) will, at the date it is first mailed to Parent's Shareholders or at the time of the Parent Shareholders Meeting (as defined in Section 5.1), contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(h) Absence of Certain Changes or Events; Absence of Undisclosed Liabilities.

(i) Since December 31, 2005, KeySpan and its Subsidiaries have conducted their business in the ordinary course of business and no event has occurred which has had, and no fact or circumstance exists that has resulted in or would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(ii) Neither KeySpan nor any of its Subsidiaries has any liabilities or obligations (whether absolute, contingent, accrued or otherwise) of a nature required by GAAP to be reflected in a consolidated corporate balance sheet, except liabilities, obligations or contingencies that are accrued or reserved against in the consolidated financial statements of KeySpan or are reflected in the notes thereto for the year ended December 31, 2005, that were incurred in the ordinary course of business since December 31, 2005. Neither KeySpan nor any of its Subsidiaries is a party to, or has any commitment to become a party to, any joint venture, off-balance sheet partnership or any similar contract or arrangement (including any contract relating to any transaction or relationship between or among KeySpan and any of its Subsidiaries, on the one hand, and any unconsolidated affiliate, including any structured finance, special purpose or limited purpose entity or person, on the other hand or any "off-balance sheet arrangements" (as defined in Item 303(a) of Regulation S-K of the SEC)), where the result, purpose or effect of such contract is to avoid disclosure of any material transaction involving, or material liabilities of, KeySpan or any of its Subsidiaries, in KeySpan's or any of its Subsidiary's audited financial statements or other KeySpan SEC Reports.

(i) Board Approval. The Board of Directors of KeySpan, by resolutions duly adopted at a meeting duly called and held and not subsequently rescinded or modified in any way (the "KeySpan Board Approval"), has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of KeySpan and its stockholders, (ii) adopted this Agreement and approved the Merger and (iii) recommended that the stockholders of KeySpan adopt this Agreement and approve the Merger.

(j) Vote Required. The affirmative vote of the holders of a majority of the outstanding shares of KeySpan Common Stock is the only vote of the holders of any class or series of KeySpan capital stock necessary to adopt this Agreement and approve the transactions contemplated hereby (the "Required KeySpan Vote").

(k) Takeover Statutes. No "fair price," "moratorium," "control share acquisition" or other similar antitakeover statute or regulation enacted under state or federal laws in the United States applicable to KeySpan is applicable to the Merger or the other transactions contemplated hereby.

(l) Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement based on arrangements made by or on behalf of KeySpan, except Lazard Freres & Co. LLC (the "KeySpan Financial Advisor"), whose fees and expenses will be paid by KeySpan in accordance with KeySpan's agreement with such firm, based upon arrangements made by or on behalf of KeySpan and previously disclosed to Parent.

(m) Opinion of KeySpan Financial Advisor. KeySpan has received the opinion of KeySpan Financial Advisor, dated the date of this Agreement, to the effect that, as of such date, the Merger Consideration is fair to the holders of KeySpan Common Stock from a financial point of view, a copy of which opinion has been made available to Parent.

(n) Taxes. Each of KeySpan and each of its Subsidiaries have timely filed with the relevant taxing authority all material Tax Returns required to be filed by any of them, and have timely paid (or KeySpan has timely paid on their behalf), or have set up an adequate reserve for the payment of, all material Taxes in accordance with GAAP. Such Tax Returns are true, correct and complete in all material respects. No material deficiencies or other claims for any Taxes have been proposed, asserted or assessed against KeySpan or any of its Subsidiaries that are not adequately reserved for in accordance with GAAP. There are no Liens with respect to Taxes upon any of the assets or properties of either KeySpan or its Subsidiaries, other than with respect to Taxes not yet due and payable, or for Taxes that are being contested in good faith by appropriate proceedings and for which adequate reserves have been provided. There is no outstanding audit, assessment, dispute, claim or administrative or judicial proceeding concerning any material Tax liability of KeySpan or any of its Subsidiaries either within KeySpan's knowledge or claimed, pending or raised by any Governmental Entity in writing. All material Taxes required to be withheld, collected or deposited by or with respect to KeySpan and each of its Subsidiaries have been timely withheld, collected or deposited as the case may be, and to the extent required, have been paid to the relevant taxing authority. The tax years in the principal jurisdictions in which KeySpan and each of its Subsidiaries pay income Tax are closed through the dates enumerated in Section 3.1(n) of the KeySpan Disclosure Schedule. Neither KeySpan nor any of its Subsidiaries is a party to, bound by or has any material obligation under any Tax allocation, Tax sharing, Tax indemnity or similar agreement, arrangement or understanding. The income Tax Returns delivered to Parent for inspection are true and complete copies. All material written communications to or from any federal, New York State or New York City taxing authority have been delivered to Parent for inspection. Neither KeySpan nor any of its Subsidiaries has constituted either a "distributing corporation" or a "controlled corporation" under Section 355 of the Code (i) in the two years prior to the date of this Agreement or (ii) in a distribution which could otherwise constitute part of a "plan" or "series of related transactions" (within the meaning of Section 355(e) of the Code) in conjunction with the Merger. Neither KeySpan nor any of its Subsidiaries has participated in a "reportable transaction" as defined in Treasury Regulation Section 1.6011-4 (as in effect at the relevant time) (or any comparable regulations of jurisdictions other than the United States). Neither KeySpan nor any of its Subsidiaries (A) has ever been a member of a consolidated, combined, unitary or aggregate group filing a consolidated federal income Tax Return (other than a group the common parent of which was KeySpan) or (B) has any material liability arising from the application of Treasury Regulation Section 1.1502-6 or any analogous provision of state, local or foreign law, or as a

transferee or successor, by contract or otherwise. All closing agreements with the Internal Revenue Service have been provided to Parent for inspection. For the purpose of this Agreement, the term "Tax" (including, with correlative meaning, the terms "Taxes" and "Taxable") shall mean all Federal, state, local and foreign income, profits, franchise, gross receipts, payroll, sales, employment, use, property, withholding, excise, occupancy and other Taxes, duties or assessments of any nature whatsoever, together with all interest, penalties and additions imposed with respect to such amounts, and "Tax Return" shall mean any return, report, information return or other document (including any related or supporting information) required to be filed with any taxing authority with respect to Taxes, including information returns, claims for refunds of Taxes and any amendments or supplements to any of the foregoing.

(o) Benefit Plans. (i) With respect to each material employee benefit plan (including, without limitation, any "employee benefit plan", as defined in Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), including, without limitation, multiemployer plans within the meaning of ERISA Section 3(37)) and all stock purchase, stock option, severance, employment, change-in-control, fringe benefit, collective bargaining, bonus, incentive, deferred compensation and other material employee benefit plans, agreements, programs, policies or other arrangements, whether or not subject to ERISA, (all the foregoing being herein called "Benefit Plans"), under which any employee, former employee, consultant, former consultant or director of KeySpan or any of its Subsidiaries has any present or future right to benefits, maintained or contributed to by KeySpan or by any trade or business, whether or not incorporated (an "ERISA Affiliate"), that together with KeySpan would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA, or under which KeySpan or any of its Subsidiaries has any present or future liability or potential liability (the "KeySpan Benefit Plans"), KeySpan has made available, or within 30 days after the execution hereof will make available, to Parent a true and correct copy of (A) the most recent annual report (Form 5500) filed with the IRS, (B) such KeySpan Benefit Plan, (C) each trust agreement relating to such KeySpan Benefit Plan, (D) the most recent summary plan description for each KeySpan Benefit Plan for which a summary plan description is required by ERISA, (E) the most recent actuarial report or valuation relating to a KeySpan Benefit Plan subject to Title IV of ERISA and (F) the most recent determination letter issued by the IRS with respect to any KeySpan Benefit Plan qualified under Section 401(a) of the Code.

(ii) With respect to the KeySpan Benefit Plans, individually and in the aggregate, no event has occurred and there exists no condition or set of circumstances, in connection with which KeySpan or any of its Subsidiaries could be subject to any liability that would reasonably be expected to have a Material Adverse Effect on KeySpan under ERISA, the Code or any other applicable law. Without limiting the generality of the foregoing, except as would not reasonably be expected to have a Material Adverse Effect on KeySpan, (i) no liability under Title IV or section 302 of ERISA has been incurred by KeySpan or any ERISA Affiliate that has not been satisfied in full, and no condition exists that presents a risk to KeySpan or any ERISA Affiliate of incurring any such liability, other than liability for premiums due the Pension Benefit Guaranty Corporation ("PBGC") (which premiums have been paid when due), (ii) the PBGC has not instituted proceedings to terminate any KeySpan Benefit Plan that is subject to Title IV of ERISA (a "Title IV Plan") and no condition exists that presents a risk that such proceedings will be instituted and (iii) no Title IV Plan or any trust established thereunder has incurred any "accumulated funding deficiency" (as defined in Section 302 or ERISA and Section

412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each Title IV Plan ended prior to the Closing Date.

(iii) Prior to the date of this Agreement, KeySpan has delivered to Parent a report that sets forth KeySpan's good faith estimate, as of the date of such report, of (x) the amount to be paid under all KeySpan Benefit Plans (subject to the exceptions described in such report and based upon the assumptions described in such report) to the current officers and key employees of KeySpan and its Subsidiaries who have contractual entitlements under any KeySpan Benefit Plan to receive "gross-up" payments for golden parachute excise taxes that may be imposed pursuant to Section 280G of the Code (or the amount by which any of their benefits may be accelerated or increased) as a result of (i) the execution of this Agreement, (ii) the obtaining of stockholder approval of the Merger, (iii) the consummation of the Merger or (iv) the termination or constructive termination of the employment of such officers or key employees following one of the events set forth in clauses (i) through (iii) above and (y) the ramifications of such payments under Sections 280G and 4999 of the Code.

(p) Labor Matters. As of the date hereof, neither KeySpan nor any of its Subsidiaries is a party to, bound by or in the process of negotiating any collective bargaining agreement or other labor agreement with any union or labor organization. As of the date of this Agreement (i) there are no disputes, grievances or arbitrations pending or, to the Knowledge of KeySpan, threatened between KeySpan or any of its Subsidiaries and any trade union or other representatives of its employees, (ii) there is no charge or complaint pending or threatened in writing against KeySpan or any of its Subsidiaries before the National Labor Relations Board (the "NLRB"), the Equal Employment Opportunity Commission or any similar Governmental Entity, (iii) there are no litigations, lawsuits, claims, charges, complaints, arbitrations, actions, investigations or proceedings pending or, to the Knowledge of KeySpan, threatened between or involving KeySpan or any of its Subsidiaries and any of their respective current or former employees, independent contractors, applicants for employment or classes of the foregoing, except in each case as have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan and, (iv) to the Knowledge of KeySpan, as of the date of this Agreement, there are no material organizational efforts presently being made involving any of the employees of KeySpan or any of its Subsidiaries. No labor union, labor organization or group of employees of KeySpan or any of its Subsidiaries has made a pending demand for recognition or certification, and there are no representation or certification proceedings or petitions seeking a representation proceeding presently pending or threatened to be brought or filed with the NLRB or any other Governmental Entity. From January 1, 2003, to the date of this Agreement, there has been no work stoppage, strike, slowdown or lockout by or affecting the employees of KeySpan or any of its Subsidiaries and, to the Knowledge of KeySpan, no such action has been threatened in writing. KeySpan and its Subsidiaries are in compliance with all material applicable Laws respecting employment and employment practices, including, without limitation, all material legal requirements respecting terms and conditions of employment, equal opportunity, affirmative action, workplace health and safety, wages and hours, child labor, immigration, discrimination, disability rights or benefits, facility closures and layoffs, workers' compensation, labor relations, employee leaves and unemployment insurance. Since January 1, 2003, neither KeySpan nor any of its Subsidiaries has engaged in any "plant closing" or "mass layoff", as defined in the Worker Adjustment Retraining and Notification Act or any comparable state or local Law (the "WARN Act"), without complying with the notice requirements of such

Laws. To the Knowledge of KeySpan (i) none of the employees of KeySpan or any of its Subsidiaries is in any material respect in violation of any term of any employment agreement, nondisclosure agreement, common law nondisclosure obligation, fiduciary duty, non-competition agreement, restrictive covenant or other obligation to a former employer relating to the right of such employee to be employed by KeySpan or any of its Subsidiaries or the employee's knowledge or use of trade secrets or proprietary information, and (ii) no employees of KeySpan or any of its Subsidiaries earning $100,000 or more per year intend to terminate his or her employment with KeySpan or any of its Subsidiaries.

(q) Litigation. Except for claims, actions, suits, proceedings or investigations that would not reasonably be expected to result in a Material Adverse Effect on KeySpan, there are no claims, actions, suits, proceedings, audits, arbitrations or investigations pending or, to the Knowledge of KeySpan, threatened against, relating to or affecting KeySpan or any of its Subsidiaries, or any of their respective assets or properties, before or by any Governmental Entity. As of the date hereof, neither KeySpan nor any of its Subsidiaries nor any of their respective properties is or are subject to any order, writ, judgment, injunction, decree or award having, or which would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(r) Environmental Matters. Except as would not reasonably be expected to result in a Material Adverse Effect on KeySpan: (i) KeySpan and each of its Subsidiaries (x) comply, and at all times have complied, with all applicable Environmental Laws (as defined below), and possess and comply with all Environmental Permits (as defined below) required under any applicable Environmental Laws to operate as they presently operate, which Environmental Permits are in good standing or, where applicable, a renewal application has been timely filed with and is pending approval by all applicable Governmental Entities, and (y) possess all air emission allowances and air emissions reduction credits required under any applicable Environmental Laws to operate as they presently operate; (ii) to the Knowledge of KeySpan, there are no Materials of Environmental Concern (as defined below) at any current or former assets, facilities or properties owned or operated by KeySpan or any of its predecessors or Subsidiaries, or under circumstances that are reasonably likely to result in liability of KeySpan or any Subsidiary or any of their predecessors under any applicable Environmental Laws; (iii) neither KeySpan nor any of its Subsidiaries has received any written notification alleging that it is liable for, or has received any request for information pursuant to Section 104(e) of the Comprehensive Environmental Response, Compensation and Liability Act or similar state statute or any other similar applicable Environmental Laws concerning, any release or threatened release of Materials of Environmental Concern at any location; (iv) to the Knowledge of KeySpan, no capital expenditures are or will be required of KeySpan or any of its Subsidiaries to achieve or maintain compliance with any applicable Environmental Laws; and (v) to the Knowledge of KeySpan, neither KeySpan nor any of its Subsidiaries is subject to or has contractually assumed or retained from any person or entity (including any Governmental Entity), liability for any matters arising under or pursuant to any Environmental Laws or arising from or relating to Materials of Environmental Concern. For purposes of this Agreement, the following terms shall have the following meanings: (x) "Environmental Laws" shall mean all foreign, federal, state, or local statutes, regulations, ordinances, common law, codes, or decrees and any binding administrative or judicial interpretation thereof relating to the protection of the environment, including protection of the ambient air, soil, natural resources, surface water or

groundwater and protection of human health or safety as affected by the environment, (y) "Environmental Permits" shall mean all permits, licenses, registrations, and other authorizations under applicable Environmental Laws; and (z) "Materials of Environmental Concern" shall mean any hazardous, dangerous, radioactive, acutely hazardous, or toxic substance or waste defined, characterized, regulated or as to which liability could reasonably be expected to be imposed under any applicable Environmental Laws, including without limitation the federal Comprehensive Environmental Response, Compensation and Liability Act and the federal Clean Air Act, Clean Water Act, Toxic Substances Control Act, Resource Conservation and Recovery Act and any analogous state and local laws and regulations.

(s) Intellectual Property. KeySpan and its Subsidiaries own or have a valid license to use all trademarks, service marks and trade names (including any registrations or applications for registration of any of the foregoing) (collectively, the "KeySpan Intellectual Property") necessary to carry on their business substantially as currently conducted, except where such failures to own or validly license such KeySpan Intellectual Property would not reasonably be expected to have a Material Adverse Effect on KeySpan. Neither KeySpan nor any such Subsidiary has received any notice of infringement of or conflict with, and there are no infringements of or conflicts with, the rights of others with respect to the use of any KeySpan Intellectual Property that, in either such case, would reasonably be expected to have a Material Adverse Effect on KeySpan.

(t) Insurance. Except for failures to maintain insurance or self-insurance that have not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan, from January 1, 2003, through the date of this Agreement, each of KeySpan and its Subsidiaries has been continuously insured with financially responsible insurers or has self-insured, in each case in such amounts and with respect to such risks and losses as are customary for companies in the United States conducting the business conducted by KeySpan and its Subsidiaries during such time period. Neither KeySpan nor any of its Subsidiaries has received any notice of cancellation or termination with respect to any insurance policy of KeySpan or any of its Subsidiaries, except with respect to any cancellation or termination that, has not had and could not reasonably be expected to have a Material Adverse Effect on KeySpan.

(u) Interested Party Transactions. Since January 1, 2005, no event has occurred that would be required to be reported as a Certain Relationship or Related Transaction pursuant to Statement of Financial Accounting Standards No. 57 or Item 404 of Regulation S-K of the SEC.

(v) Material Contracts.

(i) All "material contracts" (as such term is defined in Item 601(b)(10) of Regulation S-K of the SEC) ("KeySpan Material Contracts") required to be have been filed with the SEC have been filed, so and no such material contract has been amended or modified, except for such amendments or modifications which have been filed as an exhibit to a subsequently dated and filed SEC document or are not required to be filed with the SEC.

(ii) No Breach. All KeySpan Material Contracts are valid and in full force and effect and enforceable in accordance with their respective terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting the rights and remedies of creditors generally and to general principles of equity (regardless of whether considered in a proceeding in equity or at law), except to the extent that (x) they have previously expired in accordance with their terms or (y) the failure to be in full force and effect, individually or in the aggregate, would not reasonably be likely to have a Material Adverse Effect. Neither KeySpan nor any of its Subsidiaries, nor, to KeySpan's Knowledge, any counterparty to any KeySpan Material Contract, has violated any provision of, or committed or failed to perform any act which, with or without notice, lapse of time or both, would constitute a default under the provisions of any KeySpan Material Contract, except in each case for those violations or defaults which, individually or in the aggregate, would not reasonably be likely to have a Material Adverse Effect.

(w) Foreign Corrupt Practices and International Trade Sanctions. To the Knowledge of KeySpan, neither KeySpan, nor any of its Subsidiaries, nor any of their respective directors, officers, agents, employees or any other Persons acting on their behalf has, in connection with the operation of their respective businesses, (i) used any corporate or other funds for unlawful contributions, payments, gifts or entertainment, or made any unlawful expenditures relating to political activity to government officials, candidates or members of political parties or organizations, or established or maintained any unlawful or unrecorded funds in violation of Section 104 of the Foreign Corrupt Practices Act of 1977, as amended, or any other similar applicable foreign, Federal or state law, (ii) paid, accepted or received any unlawful contributions, payments, expenditures or gifts, or (iii) violated or operated in noncompliance with any export restrictions, anti-boycott regulations, embargo regulations or other applicable domestic or foreign laws and regulations.

3.2. Representations and Warranties of Parent and Merger Sub. Except as set forth in the Disclosure Schedule delivered by Parent and Merger Sub to KeySpan prior to the execution of this Agreement (the "Parent Disclosure Schedule"), Parent and Merger Sub, jointly and severally, represent and warrant to KeySpan as follows:

(a) Organization, Standing and Power. (i) Each of Parent and Merger Sub is a corporation duly incorporated, validly existing and, with respect to Merger Sub only, in good standing under the laws of its respective jurisdiction of incorporation, has all requisite power and authority to own, lease and operate its properties and to carry on its business as now being conducted and is duly qualified and in good standing to do business in each jurisdiction in which the nature of its business or the ownership or leasing of its properties makes such qualification necessary except in each case as would not reasonably be expected to result in a Material Adverse Effect on Parent or Merger Sub, as the case may be. The copies of the certificate of incorporation and by-laws (or similar organizational documents) of Parent and Merger Sub which were previously furnished to KeySpan are true, complete and correct copies of such documents as in effect on the date of this Agreement.

(b) Authority; No Violations.

(i) Each of Parent and Merger Sub has all requisite corporate power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, subject to approval of the consummation of the Merger set forth in this Agreement by the Required Parent Vote (as defined in Section 3.2(j)). The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of Parent and Merger Sub, subject in the case of the consummation of the Merger to the approval of this Agreement by the Required Parent Vote. This Agreement has been duly executed and delivered by each of Parent and Merger Sub and constitutes a valid and binding agreement enforceable against it in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium and similar laws relating to or affecting creditors generally, by general equity principles (regardless of whether such enforceability is considered in a proceeding in equity or at law) or by an implied covenant of good faith and fair dealing.

(ii) The execution and delivery of this Agreement by each of Parent and Merger Sub does not, and the consummation by each of Parent and Merger Sub of the Merger and the other transactions contemplated hereby will not, result in a Violation pursuant to: (A) any provision of the certificate of incorporation or by-laws (or similar organizational documents) of Parent or Merger Sub or (B) except (x) as would not reasonably be expected to result in a Material Adverse Effect on Parent or Merger Sub or (y) would or would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

(iii) No material consent, approval, order, license, permit or authorization of, or registration, declaration, notice or filing with, any Governmental Entity is necessary or required to be obtained or made by or with respect to Parent, Merger Sub or any other Subsidiary of Parent in connection with the execution and delivery of this Agreement by Parent and Merger Sub or the performance and consummation by Parent and Merger Sub of the Merger and the other transactions contemplated hereby except for those required under or in relation to (A) the HSR Act, (B) the Blue Sky Laws, (C) the Exchange Act, (D) the NYBCL with respect to the filing of the Certificate of Merger, (E) rules and regulations of the NYSE and the London Stock Exchange plc (the "LSE") and the UK Listing Rules (as defined in 3.2(e)), (F) applicable state public utility Laws, rules and regulations promulgated by the NYPSC, and the NHPUC, (G) Section 203 of the Federal Power Act, (H) if required, the Atomic Energy Act, (I) the FCC, (J) notice to the Committee on Foreign Investment (CFIUS) pursuant to the Exon-Florio Act, (K) antitrust or other competition laws of other jurisdictions, and (L) the consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings set forth in Section 3.2(b)(iii) of the Parent Disclosure Schedule. Consents, approvals, orders, permits, authorizations, registrations, declarations, notices and filings required under or in relation to any of the foregoing clauses (A) through (J) are hereinafter referred to as the "Parent Required Approvals".

(c) Compliance. Parent and Merger Sub and the Subsidiaries of Parent are not in violation of or default under any Law or Order of any Governmental Entity, except for

such violations or defaults that have not had and could not reasonably be expected to have a Material Adverse Effect on Parent or Merger Sub.

(d) Litigation. Except for claims, actions, suits, proceedings or investigations that would not reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement, there are no claims, actions, suits, proceedings, audits, arbitrations or investigations pending or, to the Knowledge of Parent, threatened against, relating to or affecting Parent or any of Parent's Subsidiaries, or any of their respective assets or properties, before or by any Governmental Entity. As of the date hereof, neither Parent nor any of Parent's Subsidiaries nor any of their respective properties is or are subject to any order, writ, judgment, injunction, decree or award having, or which would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

(e) Information Supplied. None of the information to be contained in the Circular or any supplementary circular will, at the date it is first mailed to Parent's Shareholders or at the time of the Parent Shareholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading. The Circular will comply in all material respects with all United Kingdom statutory and other legal and regulatory provisions (including, without limitation, the Companies Act 1985, as amended, (the "Companies Act"), the Financial Services and Markets Act 2000, as amended, and the rules and regulations made thereunder, the listing rules (the "UK Listing Rules") promulgated by the United Kingdom Listing Authority (the "UKLA") and the rules and requirements of the LSE except that no representation is made by Parent or Merger Sub with respect to statements made or incorporated by reference therein based on information supplied by or on behalf of KeySpan for inclusion or incorporation by reference in the Circular. None of the information supplied or to be supplied by Parent or Merger Sub for inclusion or incorporation by reference in the Proxy Statement will, at the date it is first mailed to KeySpan's stockholders or at the time of the KeySpan Stockholders Meeting, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they are made, not misleading.

(f) Operations of Merger Sub. Merger Sub is an indirect, wholly owned subsidiary of Parent, was formed solely for the purpose of engaging in the Transactions, has engaged in no other business activities and has conducted its operations only as contemplated by this Agreement.

(g) Brokers or Finders. No agent, broker, investment banker, financial advisor or other firm or Person is or will be entitled to any broker's or finder's fee or any other similar commission or fee in connection with any of the transactions contemplated by this Agreement based on arrangements made by or on behalf of Parent or Merger Sub, except Rothschild, Inc., whose fees and expenses will be paid by Parent or Merger Sub in accordance with Parent or Merger Sub's agreement with such firm, based upon arrangements made by or on behalf of Parent or Merger Sub and previously disclosed to KeySpan.

(h) Availability of Funds. Parent and Merger Sub will have at the Effective Time sufficient immediately available funds to pay the Merger Consideration, consummate the transactions contemplated hereby and to pay all related fees and expenses.

(i) Board Approval. The Board of Directors of Parent, by resolutions duly adopted at a meeting duly called and held and not subsequently rescinded or modified in any way (the "Parent Board Approval"), has duly (i) determined that this Agreement and the Merger are advisable and in the best interests of Parent and its shareholders, (ii) approved this Agreement and approved the Merger and (iii) will recommend that the shareholders of Parent approve this Agreement and the Merger in connection with the mailing of the Circular.

(j) Vote Required. The only vote of the holders of any class of shares of Parent that is required to approve the consummation of the Merger set out in this Agreement and the other transactions contemplated thereby, but not, for the avoidance of doubt, any fee payable by Parent pursuant to Article VII herein, (in respect of which no vote shall be required) is the affirmative vote of a majority of such ordinary shareholders of Parent as (being entitled to do so) are present in person and vote (or, in the case of a vote taken on a poll, the affirmative vote by shareholders representing a majority of the Parent Ordinary Shares in respect of which votes were validly exercised) at the Parent Shareholders' Meeting in relation to this Agreement, the Merger and other transactions contemplated hereby (the "Required Parent Vote").

(k) Ownership of KeySpan Common Stock. Neither Parent nor any of its subsidiaries or other affiliates beneficially owns any KeySpan Common Stock.

ARTICLE IV

COVENANTS RELATING TO CONDUCT OF BUSINESS

4.1. Covenants of KeySpan. During the period from the date of this Agreement and continuing until the Effective Time, KeySpan agrees as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on Section 4.1 of the KeySpan Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or by applicable law, rule or regulation, or to the extent that Parent shall otherwise consent in writing (which consent not to be unreasonably delayed or withheld)):

(a) Ordinary Course of Business. KeySpan shall, and shall cause its Subsidiaries to, carry on its and their businesses in the usual, regular and ordinary course consistent with past practice and good utility practice and use reasonable best efforts to preserve intact in all material respects their present business organizations and relationships with customers, suppliers, Governmental Entities and others having significant business dealings with them and, subject to prudent management of their workforces and business needs, keep available the services of their present officers and employees.

(b) Dividends and Distributions, etc. KeySpan shall not, and shall not permit any of its Subsidiaries to: (i) declare or pay any dividends on or make other distributions in respect of any of their capital stock other than (A) by a wholly owned Subsidiary or by a partially

owned Subsidiary (provided that KeySpan or a Subsidiary of KeySpan receives its proportionate share of such dividend or distribution), (B) dividends required to be paid on preferred stock of any Subsidiaries in accordance with their terms, (C) regular dividends on KeySpan Common Stock with usual record and payment dates at a rate not in excess of $0.465 per share per quarter and (D) with respect to any quarter in which the Effective Time occurs, a special dividend with respect to KeySpan Common Stock in an amount consisting of the pro rata portion of the dividend permitted under clause (C), for the period from and including the ex-dividend date (as referred to in Rule 235 of the New York Stock Exchange Constitution and Rules) through, but not including, the day of the Effective Time; (ii) split, combine or reclassify any of their capital stock or issue or authorize or propose the issuance of any other securities in respect of, in lieu of, or in substitution for, shares of its capital stock; or (iii) directly or indirectly redeem, repurchase or otherwise acquire any shares of their capital stock other than (x) in the ordinary course of business consistent with past practice in connection with: (1) repurchases, redemptions and other acquisitions in connection with the administration of the KeySpan Benefit Plans in the ordinary course of operation of such plans, (2) redemptions, purchases or acquisitions required by the terms of any series of preferred stock of any Subsidiary or (3) in connection with the refunding of the preferred stock of any Subsidiary through the issuance of additional preferred stock of any Subsidiary or indebtedness either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-Tax basis) or through the incurrence of indebtedness permitted under Section 4.1(h) and (y) intercompany redemptions, repurchases or acquisitions, of capital stock.

(c) Issuance of Securities. KeySpan shall not, and shall not permit any of its Subsidiaries to, issue, sell, pledge, dispose of, grant, transfer, encumber, or authorize the issuance, sale, pledge, disposition, grant, transfer or encumbrance of any shares of capital stock of, or other equity interests in, KeySpan or any of its Subsidiaries of any class, or securities convertible or exchangeable or exercisable for any shares of such capital stock or other equity interests, or any options, warrants or other rights of any kind to acquire any shares of such capital stock or other equity interests or such convertible or exchangeable securities, or any other ownership interest, of KeySpan or any of its Subsidiaries, except for (x) in the ordinary course of business consistent with past practice in connection with: (1) the refunding of the preferred stock of any Subsidiary through the issuance of additional preferred stock of any Subsidiary either at its stated maturity or at a lower cost of funds (calculating such cost on an aggregate after-Tax basis) or through the incurrence of indebtedness permitted under Section 4.1(h), (2) the issuance of KeySpan Common Stock pursuant to the terms of the KeySpan 401(k) Plans and the KeySpan Employee Discount Stock Purchase Plan, (3) the issuance of KeySpan Common Stock upon exercise or settlement of KeySpan stock options and Other KeySpan Stock Awards, (4) the granting of awards of performance shares, restricted shares, stock options, stock appreciation or similar rights, as the case may be, pursuant to the KeySpan Benefit Plans in the ordinary course of the operation of such plans, provided that the aggregate number of shares of KeySpan Common Stock issuable upon the exercise or settlement, as the case may be, of any such awards granted after the date of this Agreement shall not exceed 450,000 shares, (5) the issuance by a Subsidiary of shares of its capital stock to KeySpan or a Subsidiary of KeySpan, and (6) the issuance of securities by KeySpan pursuant to The KeySpan Investor Program.

(d) Charter Documents. KeySpan shall not amend or propose to amend its certificate of incorporation or its bylaws or the certificate of incorporation or the bylaws (or other organizational document) of any of its Subsidiaries.

(e) Acquisitions. Except for acquisitions of the entities, assets and facilities identified in Section 4.1(e) of the KeySpan Disclosure Schedule, KeySpan shall not, nor shall it permit any of its Subsidiaries to, acquire or agree to acquire (whether by merger, consolidation, purchase or otherwise) any person or assets or make any investment in any entity in excess of $150,000,000 in the aggregate. For the purposes of this Section 4.1(e), the value of any acquisition or series of related acquisitions shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such acquisition or capital expenditure, including liabilities assumed. Notwithstanding anything to the contrary in this Agreement, KeySpan shall not make any acquisition involving, or otherwise enter into, in any manner, any line of business that is not conducted by KeySpan, its Subsidiaries or Joint Ventures as of the date of this Agreement.

(f) Capital Expenditures. Except for (x) capital expenditures relating to matters identified in Section 4.1(f) of the KeySpan Disclosure Schedule, and (y) capital expenditures (1) required by law or Governmental Authorities or (2) incurred in connection with the repair or replacement of facilities destroyed or damaged due to casualty or accident (whether or not covered by insurance) necessary to provide or maintain safe, adequate and reliable electric and natural gas service (after consultation with Parent), KeySpan shall not, nor shall it permit any of its Subsidiaries to, make any capital expenditures in excess of $15,000,000 in the aggregate. For the purposes of this Section 4.1(f), the value of any capital expenditure or series of related capital expenditures shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such capital expenditure, including liabilities assumed.

(g) No Dispositions. Except for (x) dispositions set forth in Section 4.1(g) of the KeySpan Disclosure Schedule, (y) dispositions of obsolete equipment or assets or dispositions of assets being replaced and (z) dispositions by KeySpan or its Subsidiaries of its assets in accordance with the terms of restructuring and divestiture plans required by applicable local or state regulatory agencies prior to the date hereof and previously disclosed to Parent, KeySpan shall not, nor shall it permit any of its Subsidiaries to, pledge, sell, lease, grant any security interest in or otherwise dispose of or encumber any of its assets or properties in excess of $5,000,000 individually or $25,000,000 in the aggregate. For the purposes of this Section 4.1(g), the value of any disposition or series of related dispositions shall mean the greater of (i) the book value or (ii) the sales price, in each case of the person, asset or property which is the subject of such disposition, including liabilities assigned.

(h) Indebtedness. KeySpan shall not, and shall not permit any of its Subsidiaries to, incur or guarantee any indebtedness or enter into any "keep well" or other agreement to maintain the financial condition of another person or enter into any arrangement having the economic effect of any of the foregoing (including any capital leases, "synthetic" leases or conditional sale or other title retention agreements) other than (i) indebtedness set forth in Section 4.1(h) of the KeySpan Disclosure Schedule, (ii) indebtedness incurred in connection with the refinancing of existing indebtedness either at its stated maturity or at a lower cost of

funds (calculating such cost on an aggregate after-Tax basis) and (iii) indebtedness and guarantees among KeySpan and its Subsidiaries.

(i) Compensation and Benefits. During the period from the date of this Agreement and continuing until the Effective Time, KeySpan agrees as to itself and its Subsidiaries that it will not, without the prior written consent of Parent, (i) other than in the ordinary course of business, enter into, adopt, amend (except for such amendments as may be required by law or reasonably necessary to avoid adverse tax consequences to KeySpan or its employees) or terminate any KeySpan Benefit Plan, or any other employee benefit plan or any agreement, arrangement, plan or policy or any equity-based award (or agreement governing the terms of such award) between KeySpan or a Subsidiary of KeySpan and one or more of its directors or officers, (ii) except for normal payments, awards and increases in the ordinary course of business or as required by any plan or arrangement as in effect as of the date hereof, increase in any manner the compensation or fringe benefits of any director, officer or employee or pay any benefit not required by any plan or arrangement as in effect as of the date hereof or enter into any contract, agreement, commitment or arrangement to do any of the foregoing or (iii) enter into or renew any contract, agreement, commitment or arrangement (other than a renewal occurring in accordance with the terms thereof) providing for the payment to any director, officer or employee of such party of compensation or benefits contingent, or the terms of which are materially altered, upon the occurrence of any of the transactions contemplated by this Agreement.

(j) Accounting. KeySpan shall not, and shall not permit any of its Subsidiaries to, make any changes in their accounting methods materially affecting the reported consolidated assets liabilities or results of operations of KeySpan, except as required by law or GAAP or permitted by GAAP and consented to by its independent auditors.

(k) Collective Bargaining Agreements. KeySpan shall not, and shall not permit any of its Subsidiaries to negotiate the renewal or extension of any of the collective bargaining agreements listed in Section 3.1(p) of the KeySpan Disclosure Schedule without providing Parent with access to all information relating to the renewal or extension of any such collective bargaining agreement and permitting Parent to consult with KeySpan or its Subsidiaries and their counsel on the progress thereof from time to time.

(l) Regulatory Status. Except as disclosed in Section 4.1(k) of the KeySpan Disclosure Schedule, KeySpan shall not, nor shall it permit any of its Subsidiaries to, agree or consent to any material agreements or material modifications of existing agreements or course of dealings with any Governmental Entity in respect of the operations of their businesses, except as required by law to obtain or renew Permits or agreements in the ordinary course of business consistent with past practice.

(m) Insurance. KeySpan shall, and shall cause its Subsidiaries, to maintain with financially responsible insurance companies (or through self-insurance not inconsistent with such party's past practice), insurance in such amounts and against such risks and losses as are customary for companies engaged in the utility industry.

(n) Certain Consents. If requested by Parent, KeySpan shall use reasonable best efforts to obtain the consents identified in Sections 3.2(b)(ii) and 3.2(b)(iii) of the Parent Disclosure Schedule (provided that such consents and any obligations thereunder shall not be effective until the Closing).

(o) Taxes. Neither KeySpan nor its Subsidiaries shall (i) change any Tax accounting methods, policies or practices of KeySpan or its Subsidiaries, (ii) make, revoke or amend any material Tax election of KeySpan or its Subsidiaries, (iii) file any amended Tax Return of KeySpan or its Subsidiaries, (iv) enter into any closing agreement affecting any Tax liability or refund of KeySpan or its Subsidiaries, (v) settle or compromise any material Tax liability or refund of KeySpan or its Subsidiaries, or (vi) extend or waive the application of any statute of limitations regarding the assessment or collection of any material Tax of KeySpan or its Subsidiaries (except with respect to regular and routine extensions of Tax Returns); provided, however, that Parent shall be deemed to have consented to any request with respect to clauses (i) and (iii) above to the extent that Parent does not notify KeySpan or any of its Subsidiaries of its consent or withholding of consent within ten (10) Business Days of receipt of the request made by KeySpan or its Subsidiaries.

(p) Claims Settlement. KeySpan shall not settle any claim, action, proceeding or investigation, whether civil, criminal, administrative or investigative, except (A) in the ordinary course of business consistent with past practice, (B) settlements to the extent subject to reserves existing as of the date hereof in accordance with GAAP or (C) the settlement of any Claim that would not reasonably be expected to have a Material Adverse Effect, except in the case of clauses (A) and (C) for such claims as are set forth in Section 4.1(p) of the KeySpan Disclosure Schedule, which shall require the consent of Parent.

(q) Waiver of Rights. KeySpan shall not modify, amend or terminate, or waive, release or assign any material rights or claims with respect to any confidentiality or standstill agreement to which KeySpan or any Subsidiary is a party.

(r) No Restrictions on Future Business Activities. KeySpan shall not enter into any agreements or arrangements that limit or otherwise restrict KeySpan or any of its Subsidiaries or any of their respective Affiliates or any successor thereto or that could, after the Effective Time, limit or restrict Parent or any of its Affiliates (including the Surviving Corporation) or any successor thereto, from engaging or competing in any line of business or product line or in any geographic area.

(s) Actions to Impede Merger. KeySpan shall not take any action that is intended or is reasonably likely to result in any of the conditions to the Merger set forth in Article VI not being satisfied.

(t) Agreement to do the Foregoing. KeySpan shall not authorize or enter into any agreement or otherwise make any commitment to do any of the foregoing in this Section 4.1.

4.2. Covenants of Parent. During the period from the date of this Agreement and continuing until the Effective Time, Parent and Merger Sub each agree as to itself and its Subsidiaries that (except as expressly contemplated or permitted by this Agreement or as otherwise indicated on the Parent Disclosure Schedule or as required by a Governmental Entity of competent jurisdiction or by applicable law, rule or regulation, or to the extent that KeySpan shall otherwise consent in writing (which consent not to be unreasonably delayed or withheld)):

(a) Conduct of Business of Merger Sub. Parent shall cause Merger Sub to (i) perform its obligations under this Agreement, (ii) not engage directly or indirectly in any business or activities of any type or kind and not enter into any agreements or arrangements with any person, or be subject to or bound by any obligation or undertaking, which is inconsistent with this Agreement.

(b) Conduct of Business of Parent. Parent agrees that, during the period from the date hereof and continuing until the earlier of the termination of this Agreement or the Effective Time, except as expressly contemplated or permitted by this Agreement or as required by applicable law, and except as may be consented to in writing by KeySpan (such consent not to be unreasonably withheld or delayed), Parent shall not, and shall not permit any of its Subsidiaries to enter into or consummate any agreements or transactions for an acquisition (via stock purchase, merger, consolidation, purchase of assets or otherwise), merger or joint venture or other agreement or otherwise if, in any such cases, such agreement or transaction would or would reasonably be expected to, individually or in the aggregate, prevent Parent or Merger Sub from performing, or materially impair the ability of Parent or Merger Sub to perform, their respective obligations under this Agreement.

4.3. Advice of Changes; Governmental Filings. KeySpan shall file all reports required to be filed by it with the SEC (and all other Governmental Entities) between the date of this Agreement and the Effective Time and shall (to the extent permitted by law or regulation or any applicable confidentiality agreement) deliver to Parent copies of all such reports, announcements and publications promptly after the same are filed. Subject to applicable laws relating to the exchange of information, each of Parent and KeySpan shall have the right to review in advance, and will consult with the other with respect to, all the information relating to the other party and each of their respective Subsidiaries, which appears in any filings, announcements or publications made with, or written materials submitted to, any third party or any Governmental Entity in connection with the transactions contemplated by this Agreement. In exercising the foregoing right, each of the parties hereto agrees to act reasonably and as promptly as practicable. Each party agrees that, to the extent practicable and as timely as practicable, it will consult with, and provide all appropriate and necessary assistance to, the other party with respect to the obtaining of all permits, consents, approvals and authorizations of all third parties and Governmental Entities necessary or advisable to consummate the transactions contemplated by this Agreement and each party will keep the other party apprised of the status of matters relating to completion of the transactions contemplated hereby.

4.4. Transition Planning. KeySpan and Parent shall each appoint one or more representatives to a committee that will be responsible for coordinating transition planning and implementation relating to the Merger.

4.5. Control of Other Party's Business. Nothing contained in this Agreement shall be deemed to give Parent or Merger Sub, directly or indirectly, the right to control or direct KeySpan's operations prior to the Effective Time. Prior to the Effective Time, KeySpan shall exercise, consistent with the terms and conditions of this Agreement, complete control and supervision over its operations.

ARTICLE V

ADDITIONAL AGREEMENTS

5.1. Preparation of Proxy Statement and Circular; Stockholders Meetings. (a) As promptly as practicable following the date hereof, KeySpan shall, in cooperation with Parent, prepare and file with the SEC preliminary proxy materials (such proxy statement, and any amendments or supplements thereto, the "Proxy Statement"). The Proxy Statement shall comply as to form in all material respects with the applicable provisions of the Exchange Act. KeySpan shall, as promptly as practicable after receipt thereof, provide copies of any written comments received from the SEC with respect to the Proxy Statement to Parent and advise Parent of any oral comments with respect to the Proxy Statement received from the SEC. KeySpan agrees that none of the information supplied or to be supplied by KeySpan for inclusion or incorporation by reference in the Proxy Statement or any supplemental proxy, at the time of mailing thereof and at the time of the KeySpan Stockholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Parent agrees that none of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Proxy Statement or any supplemental proxy, at the time of mailing thereof and at the time of the KeySpan Stockholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of the foregoing, it is understood and agreed that information concerning or related to KeySpan and the KeySpan Stockholders Meeting will be deemed to have been supplied by KeySpan and information concerning or related to Parent or Merger Sub shall be deemed to have been supplied by Parent. KeySpan will provide Parent with a reasonable opportunity to review and comment on the Proxy Statement and any amendment or supplement to the Proxy Statement prior to filing such with the SEC, and will provide Parent with a copy of all such filings made with the SEC. No amendment or supplement to the information supplied by Parent for inclusion in the Proxy Statement shall be made without the approval of Parent, which approval shall not be unreasonably withheld or delayed.

(b) Parent shall, in cooperation with KeySpan, prepare and file with the UKLA a circular to shareholders (such circular, and any amendments or supplements thereto, the "Circular"). The Circular shall comply as to form in all material respects with the applicable provisions of the UK Listing Rules. Parent shall, as promptly as practicable after receipt thereof, provide copies of any written comments received from the UKLA with respect to the Circular to

KeySpan and advise KeySpan of any oral comments with respect to the Circular received from the UKLA. Parent agrees that none of the information supplied or to be supplied by Parent for inclusion or incorporation by reference in the Circular or any supplementary circular, at the time of mailing thereof and at the time of the Parent Shareholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. KeySpan agrees that none of the information supplied or to be supplied by KeySpan for inclusion or incorporation by reference in the Circular or any supplementary circular, at the time of mailing thereof and at the time of the Parent Shareholders Meeting, will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. For purposes of the foregoing, it is understood and agreed that information concerning or related to Parent or Merger Sub and the Parent Shareholders Meeting will be deemed to have been supplied by Parent and information concerning or related to KeySpan shall be deemed to have been supplied by KeySpan. Parent will provide KeySpan with a reasonable opportunity to review and comment on any amendment or supplement to the Circular prior to filing such with the UKLA, and will provide KeySpan with a copy of all such filings made with the UKLA. No amendment or supplement to the information supplied by KeySpan for inclusion in the Circular shall be made without the approval of KeySpan, which approval shall not be unreasonably withheld or delayed.

(c) KeySpan shall take all lawful action to solicit proxies in favor of the adoption of this Agreement, and the transactions contemplated hereby, by the Required KeySpan Vote and the Board of Directors of KeySpan shall recommend adoption of this Agreement, and the transactions contemplated hereby, by the stockholders of KeySpan unless the Board of Directors of KeySpan determines in its reasonable good faith judgment, after consultation with outside counsel, that taking any such action would be inconsistent with its fiduciary duties under applicable law. KeySpan shall, as soon as reasonably practicable following the date of this Agreement, duly call, give notice of, convene and hold a meeting of its stockholders (the "KeySpan Stockholders Meeting") for the purpose of obtaining the Required KeySpan Vote. Without limiting the generality of the foregoing, KeySpan agrees that its obligations pursuant to the second sentence of this Section 5.1(c) shall not be affected by (i) the commencement, public proposal, public disclosure or communication to KeySpan of any Takeover Proposal (as defined in Section 5.5), (ii) the withdrawal or modification by the Board of Directors of KeySpan of its approval or recommendation of this Agreement, the Merger or the other transactions contemplated hereby, or (iii) subject to KeySpan's right to terminate this Agreement under Section 7.1(e), the approval or recommendation of any KeySpan Superior Proposal. Notwithstanding any of the events set forth in clauses (i), (ii) and (iii) of the immediately preceding sentence, in the event KeySpan fulfills its obligations pursuant to this Section 5.1(c) and the KeySpan Stockholder Approval is not obtained at the KeySpan Stockholders Meeting, Parent shall not thereafter have the right to terminate this Agreement pursuant to Section 7.1(d), as a result of the Board of Directors of KeySpan (or any committee thereof) having withdrawn or modified, or proposed publicly to withdraw or modify, the approval or recommendation by the KeySpan Board of Directors of this Agreement or the Merger, provided Parent shall retain all other rights to terminate this Agreement set forth in Section 7.1.

(d) Parent shall recommend approval of this Agreement, and the transactions contemplated hereby, by the shareholders of Parent. Parent shall duly call, give notice of, convene and hold its general meeting of shareholders (the "Parent Shareholders Meeting") at which shareholders shall be asked to vote to approve the Merger. Without limiting the generality of the foregoing, Parent agrees that its obligations pursuant to the second sentence of this Section 5.1(d) shall not be affected by (i) the commencement, public proposal, public disclosure or communication to Parent of any Parent Acquisition Transaction (as defined in Section 7.2) or (ii) the withdrawal or modification by the Board of Directors of Parent of its approval or recommendation of this Agreement, the Merger or the other transactions contemplated hereby.

(e) KeySpan and Parent will use their reasonable best efforts to hold the KeySpan Stockholders Meeting and the Parent Shareholders Meeting as soon as practicable after the date of this Agreement; provided, however, that Parent may hold the Parent Shareholder Meeting as part of its Annual General Meeting scheduled for July 31, 2006; provided, further that the Parent Shareholder Meeting shall in any event be held no later than August 31, 2006.

5.2. Corporate Governance. (a) The name of the Surviving Corporation shall initially be KeySpan. The headquarters of the Surviving Corporation shall be in Brooklyn, New York.

(b) At or prior to the Effective Time, Parent shall take all actions necessary to appoint two directors who immediately prior to the Effective Time served as directors of KeySpan to the Board of Directors of Parent. One such director shall be the Person specified on Exhibit A hereto and the second such director shall be appointed pursuant to the conditions and process set forth on Exhibit A hereto. Exhibit A hereto shall also set forth (i) as of the Effective Time the Chairman of the Board of Directors of the Surviving Corporation, (ii) the manner in which certain senior officers of the Surviving Corporation as of the Effective Time will be selected after the date hereof and prior to the Effective Time and (iii) certain other matters. All appointments made pursuant to this Section 5.2 and Exhibit A hereto shall be effective as of the Effective Time and shall comply with the applicable listing and corporate governance rules of the NYSE, the UKLA, the LSE and the applicable provisions of the Exchange Act and all other applicable laws and regulations, in each case, as in effect at the Effective Time.

(c) During the four-year period immediately following the Effective Time, the Surviving Corporation shall provide, directly or indirectly, charitable contributions and traditional local community support within the service areas of KeySpan and each of its Subsidiaries that are utilities at levels substantially comparable to and no less than the levels of charitable contributions and community support provided by KeySpan and such Subsidiaries within their service areas within the four-year period immediately prior to the date of this Agreement, as set forth on Section 5.2 of the KeySpan Disclosure Schedule. Without limitation to the foregoing, the Surviving Corporation will for such period continue to support the KeySpan Foundation in a manner substantially comparable to the manner in which KeySpan supported the KeySpan Foundation within the four-year period immediately prior to the date of this Agreement, as set forth on Section 5.2 of the KeySpan Disclosure Schedule.

5.3. Access to Information. Upon reasonable notice, KeySpan shall (and shall cause its Subsidiaries to) afford to the officers, employees, accountants, counsel, financial

advisors and other representatives of Parent reasonable access during normal business hours, during the period prior to the Effective Time, to all its properties, books, contracts, commitments and records (including, without limitation, any Tax Returns) and, during such period, KeySpan shall (and shall cause its Subsidiaries to) furnish promptly to Parent (a) a copy of each report, schedule, registration statement and other document filed, published, announced or received by it during such period pursuant to the requirements of Federal or state securities laws, as applicable (other than documents which such party is not permitted to disclose under applicable law), and (b) consistent with its legal obligations, all other information concerning its business, properties and personnel as Parent may reasonably request; provided however, that KeySpan may restrict the foregoing access to the extent that (i) a Governmental Entity requires KeySpan or any of its Subsidiaries to restrict access to any properties or information reasonably related to any such contract on the basis of applicable laws and regulations with respect to national security matters, (ii) any law, treaty, rule or regulation of any Governmental Entity applicable to KeySpan requires KeySpan or its Subsidiaries to restrict access to any properties or information, (iii) KeySpan or its Subsidiaries is bound by a confidentiality agreement that requires KeySpan or its Subsidiaries to restrict such access or (iv) where such access would be reasonably likely to waive the attorney-client privilege. The parties will hold any such information which is non-public in confidence to the extent required by, and in accordance with, the provisions of the letter dated June 13, 2005 between KeySpan and Parent (the "Confidentiality Agreement"). Any investigation by KeySpan or Parent shall not affect the representations and warranties of KeySpan or Parent, as the case may be.

5.4. Reasonable Best Efforts. (a) Subject to the terms and conditions of this Agreement, each party shall, and shall cause its respective Subsidiaries to, use its reasonable best efforts to take, or cause to be taken, all actions and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate the Merger and the other transactions contemplated by this Agreement as soon as practicable after the date hereof. In furtherance and not in limitation of the foregoing, each party hereto agrees to make an appropriate filing (and to share equally in the filing fees) of a Notification and Report Form pursuant to the HSR Act with respect to the transactions contemplated hereby at a mutually agreed time and to supply as promptly as practicable any additional information and documentary material that may be requested pursuant to the HSR Act and to take all other actions necessary to cause the expiration or termination of the applicable waiting periods under the HSR Act as soon as practicable.

(b) Each of Parent and KeySpan shall, and shall cause its respective Subsidiaries to, in connection with the efforts referenced in Section 5.4(a) to obtain all requisite approvals and authorizations for the transactions contemplated by this Agreement under the HSR Act or any other applicable law or regulation, use its reasonable best efforts to (i) make all appropriate filings and submissions with any Governmental Entity that may be necessary, proper or advisable under applicable laws or regulations in respect of any of the transactions contemplated by this Agreement, (ii) cooperate in all respects with each other in connection with any such filing or submission and in connection with any investigation or other inquiry, including any proceeding initiated by a private party, (iii) promptly inform the other party of any communication received by such party from, or given by such party to, the Antitrust Division of the Department of Justice (the "DOJ") or any other Governmental Entity and of any material communication received or given in connection with any proceeding by a private party, in each

case regarding any of the transactions contemplated hereby and (iv) as reasonably practical, permit the other party to review any communication given by it to, and consult with each other in advance of any meeting or conference with, the DOJ or any such other Governmental Entity or, in connection with any proceeding by a private party, with any other Person.

(c) Each of Parent and KeySpan shall, and shall cause its respective Subsidiaries, in connection with the efforts referenced in Section 5.4 (a), to obtain all requisite approvals and authorizations for the transactions contemplated by the Agreement, and use its reasonable best efforts to obtain the KeySpan Required Approvals and the Parent Required Approvals; provided, however, that Parent shall have primary responsibility for the preparation and filing of any applications, filings or other materials with the FERC, the NYPSC and the NHPUC. If Parent determines to make a filing with the Massachusetts Department of Telecommunications and Energy in connection with the Merger, KeySpan shall cooperate with Parent in connection with such filing. KeySpan and Parent shall cooperate in connection with seeking the consents set forth in Section 5.4(c) of the KeySpan Disclosure Letter (the "Additional KeySpan Consents") subject to the terms and conditions set forth therein. KeySpan shall have the right to review and approve in advance all characterizations of the information relating to KeySpan and the Merger that appear in any application, notice, petition or filing made in connection with the Merger. KeySpan and Parent agree that they will consult and cooperate with each other with respect to the obtaining of the KeySpan Required Approvals, the Parent Required Approvals and the Additional KeySpan Consents, as well as any additional necessary approvals and authorizations of Governmental Authorities.

(d) In furtherance and not in limitation of the covenants of the parties contained in Sections 5.4(a), (b) and (c), if any objections are asserted with respect to the transactions contemplated by this Agreement or if any suit is instituted (or threatened to be instituted) by any Governmental Entity or any private party challenging any of the transactions contemplated hereby as violative of any Antitrust Law or other Law or otherwise brought under any such Law that would otherwise prohibit or materially impair or materially delay the consummation of the transactions contemplated hereby, each of Parent, Merger Sub and KeySpan shall use its reasonable best efforts to resolve any such objections or suits so as to permit consummation of the transactions contemplated by this Agreement, including in order to resolve such objections or suits which, in any case if not resolved, could reasonably be expected to prohibit or materially impair or delay the consummation of the transactions contemplated hereby, including selling, holding separate or otherwise disposing of or conducting its business in a manner which would resolve such objections or suits or agreeing to sell, hold separate or otherwise dispose of or conduct its business in a manner which would resolve such objections or suits or permitting the sale, holding separate or other disposition of, any of its assets or the assets of its Subsidiaries or the conducting of its business in a manner which would resolve such objections or suits; provided, however, that no party shall be required to, or may, in the case of KeySpan, take any such actions to resolve any such objections or suits which actions, individually or in the aggregate, (x) are not conditional on the consummation of the Merger, or (y) would have a Material Adverse Effect on National Grid USA or KeySpan. Without excluding other possibilities, the transactions contemplated by this Agreement shall be deemed to be materially delayed if unresolved objections or suits delay or could reasonably be expected to delay the consummation of the transactions contemplated hereby beyond the End Date (as defined in Section 7.1(h)). For purposes of this Agreement, "Antitrust Law" shall mean the

Sherman Act, as amended, the Clayton Act, as amended, Council Regulation (EC) 139/2004, the HSR Act, the FTC Act, as amended, and all other federal, state and foreign statutes, rules, regulations, orders, decrees, administrative and judicial doctrines and other laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade or impeding or lessening of competition through merger or acquisition, in any case that are applicable to the transactions contemplated by this Agreement.

(e) Subject to the obligations under Section 5.4(d), in the event that any administrative or judicial action or proceeding is instituted (or threatened to be instituted) by a Governmental Entity or private party challenging any transaction contemplated by this Agreement, or any other agreement contemplated hereby each of Parent and KeySpan shall cooperate in all respects with each other and use its respective reasonable best efforts to contest and resist any such action or proceeding.

(f) Notwithstanding the foregoing or any other provision of this Agreement, nothing in this Section 5.4 shall limit a party's right to terminate this Agreement pursuant to Section 7.1(h) so long as such party has up to then complied in all material respects with its obligations under this Section 5.4.

5.5. No Solicitation by KeySpan. (a) From the date hereof until the earlier of the Effective Time or the date on which this Agreement is terminated in accordance with the terms hereof, KeySpan shall not, nor shall it permit any of its Subsidiaries to, nor shall it or its Subsidiaries authorize or permit any of their respective officers, directors, employees, representatives or agents to, directly or indirectly, (i) solicit, initiate or knowingly encourage or facilitate (including by way of furnishing non-public information) any inquiries regarding, or the making of any proposal which constitutes or that may reasonably be expected to lead to, any Takeover Proposal, (ii) enter into any letter of intent or agreement related to any Takeover Proposal (each, an "Acquisition Agreement") or (iii) participate in any discussions or negotiations regarding, or take any other action to facilitate any inquiries or the making of any proposal that constitutes, or that may reasonably be expected to lead to, any Takeover Proposal; provided, however, that if, at any time after the date hereof and prior to the KeySpan Stockholders Meeting, KeySpan receives an unsolicited *bona fide* written Takeover Proposal from any third Person that in the reasonable good faith judgment of KeySpan's Board of Directors constitutes, or is reasonably likely to result in, a Superior Proposal and the Board of Directors of KeySpan determines in its reasonable good faith judgment, after consultation with outside counsel, that failure to take any such action would be inconsistent with its fiduciary duties under applicable law, KeySpan may, in response to such Superior Proposal, (x) furnish information with respect to KeySpan to any such Person pursuant to a confidentiality agreement no more favorable to such Person than the Confidentiality Agreement is to Parent and (y) participate in negotiations with such Person regarding such Superior Proposal if (A) prior to furnishing such non-public information to, or entering into discussions or negotiations with, such third Person, KeySpan or any of its Subsidiaries provides at least four business days advance written notice to Parent of the identity of the third Person making, and the proposed terms and conditions of, such Superior Proposal and a copy of all written materials delivered by such third Person to KeySpan or any of its Subsidiaries, (B) KeySpan shall have provided to Parent a copy of all written materials delivered to the third Person making the Superior Proposal in connection with such Superior Proposal and made available to Parent all materials and information made

available to the third Person making the Superior Proposal in connection with such Superior Proposal and (C) KeySpan shall have fully complied with this Section 5.5. For purposes of this Agreement, "Takeover Proposal" means any inquiry, proposal or offer from any Person (other than Parent and its Affiliates) relating to any direct or indirect acquisition or purchase of 20% or more of the assets of KeySpan and its Subsidiaries or 20% or more of the voting power of the capital stock of KeySpan or the capital stock of any of its Significant Subsidiaries then outstanding, any tender offer or exchange offer that if consummated would result in any Person beneficially owning 20% or more of the voting power of the capital stock of KeySpan or the capital stock of such Subsidiaries then outstanding, or any merger, consolidation, business combination, recapitalization, liquidation, dissolution or similar transaction involving KeySpan or any of its Significant Subsidiaries, other than the transactions with Parent and Merger Sub contemplated by this Agreement. For purposes of this Agreement, a "Superior Proposal" means any unsolicited *bona fide* written offer made by any Person (other than Parent and its Affiliates) to acquire, directly or indirectly, for consideration consisting of cash and/or securities, more than 50% of the voting power of the capital stock of KeySpan then outstanding or all or substantially all the assets of KeySpan and otherwise on terms which the Board of Directors of KeySpan determines in its reasonable good faith judgment (after consultation with its financial advisors) to be more favorable (taking into account (i) all financial and strategic considerations, including relevant legal, financial, regulatory and other aspects of such Takeover Proposal and the Merger and the other transactions contemplated by this Agreement deemed relevant by the Board of Directors, (ii) the identity of the third party making such Takeover Proposal, (iii) the conditions and prospects for completion of such Takeover Proposal and (iv) all other factors that the Board of Directors of KeySpan are permitted to consider pursuant to §717 of the NYBCL; provided, however, that no Takeover Proposal consisting of all cash consideration may be deemed a Superior Proposal unless the per share cash consideration proposed pursuant to the Takeover Proposal is greater than the Merger Consideration (as such consideration may be proposed to be changed by Parent pursuant to the terms of this Agreement) to KeySpan's stockholders than the Merger and the other transactions contemplated by this Agreement (taking into account all of the terms of any proposal by Parent to amend or modify the terms of the Merger and the other transactions contemplated by this Agreement).

(b) Except as set forth in Section 7.1(e), neither the Board of Directors of KeySpan nor any committee thereof shall (i) approve or recommend, or propose to approve or recommend, any Takeover Proposal or (ii) authorize or permit KeySpan or any of its Subsidiaries to enter into any Acquisition Agreement.

(c) Nothing contained in this Section 5.5 shall prohibit KeySpan from complying with Rules 14d–9 or 14e–2 promulgated under the Exchange Act with respect to a Takeover Proposal; provided, however, that compliance with such rules shall not in any way limit or modify the effect that any action taken pursuant to such rules has under any other provision of this Agreement, including Section 7.1(d).

(d) KeySpan agrees that it and its Subsidiaries shall, and KeySpan shall direct and cause its and its Subsidiaries' respective officers, directors, employees, representatives and agents to, immediately cease and cause to be terminated any activities, discussions or negotiations with any Persons with respect to any Takeover Proposal. KeySpan agrees that it will notify Parent in writing as promptly as practicable (and in any event within 24 hours) after

any Takeover Proposal is received by, any information is requested from, or any discussions or negotiations relating to a Takeover Proposal are sought to be initiated or continued with, KeySpan, its Subsidiaries, or their officers, directors, employees, representatives or agents. The notice shall indicate the name of the Person making such Takeover Proposal or taking such action, the material terms and conditions of any proposals or offers and a copy of all written materials delivered by such Person making the Takeover Proposal to KeySpan or any of its Subsidiaries, and thereafter KeySpan shall keep Parent informed, on a current basis, of the status and material terms of any such proposals or offers and the status and details of any such discussions or negotiations and provide Parent with copies of all written materials delivered by such Person making the Takeover Proposal to KeySpan or any of its Subsidiaries and keep Parent informed of any amendments or prospective amendments to such information. KeySpan also agrees that it will promptly request each Person that has heretofore executed a confidentiality agreement in connection with any Takeover Proposal to return or destroy all confidential information heretofore furnished to such Person by or on behalf of it or any of its Subsidiaries. KeySpan shall provide Parent with reasonable advance notice of any meeting of the KeySpan Board of Directors to discuss or consider a Takeover Proposal.

5.6. KeySpan Stock Options and Other Stock Awards; Employee Benefits Matters. (a) Options. KeySpan shall take all action reasonably necessary so that, immediately prior to the Effective Time, each outstanding stock option issued under the KeySpan Benefit Plans shall become vested and exercisable as of the Effective Time and shall be canceled and the holder thereof shall be entitled to receive at the Effective Time from KeySpan or as soon as practicable thereafter (but in no event later than 10 days after the Effective Time) from Parent or the Surviving Corporation in consideration for such stock option an amount in cash equal to (A) the excess, if any, of the Merger Consideration per share over the exercise price per share previously subject to such stock option, less any required withholding taxes, multiplied by (B) the number of shares of KeySpan Common Stock previously subject to such stock option (a "Canceled Option"). As soon as practicable after the Effective Time, Parent shall deliver or cause to be delivered to each holder of Canceled Options an appropriate notice setting forth such holder's rights to receive cash payments with respect to Cancelled Options pursuant to the KeySpan Benefit Plans and this Section 5.6(a).

(b) Other KeySpan Stock Awards. All shares of KeySpan Common Stock and any other KeySpan stock unit awards (and any dividend equivalent rights thereunder) granted subject to vesting, deferral or other lapse restrictions pursuant to any KeySpan Benefit Plan (collectively, the "Other KeySpan Stock Awards") which are outstanding immediately prior to the Effective Time shall vest and become free of such restrictions as of the Effective Time, and shall be cancelled to the extent provided by the terms of such KeySpan Benefit Plans and the award agreements governing such Other KeySpan Stock Awards at the Effective Time, and each holder thereof shall be entitled to receive the product of (i) the Merger Consideration, multiplied by (ii) the total number of shares of KeySpan Common stock subject to such Other KeySpan Stock Award, less any required withholding taxes.

(c) Employment Related Obligations; Employee Benefits.

(i) Obligations of Parent; Comparability of Benefits. Parent shall cause the Surviving Corporation and each of its Subsidiaries to honor all employment

related obligations and agreements with respect to any current and former employees, directors and consultants of KeySpan or any of its Subsidiaries ("KeySpan Employees") (including without limitation (A) recognizing and, as required by Law, bargaining with, or continuing to recognize and, as required by Law, bargain with, the current exclusive collective bargaining representatives of the KeySpan Employees and (B) honoring, or continuing to honor, all current collective bargaining agreements. As of the Effective Time, each KeySpan Employee covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule shall remain covered by such collective bargaining agreement. In addition, each KeySpan Benefit Plan shall be assumed by the Surviving Corporation at the Effective Time (and Parent shall cause the Surviving Corporation to make all required payments pursuant to such KeySpan Benefit Plans and any trusts thereunder). For at least two years thereafter, Parent shall cause the Surviving Corporation and each of its Subsidiaries to provide each KeySpan Employee, who is not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule, with a base salary or hourly wages, as applicable, at least equal to that provided to such KeySpan Employee immediately prior to the Effective Time, and to provide benefits to KeySpan Employees, who are not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule, that are no less favorable than the benefits provided, in the aggregate, to KeySpan Employees immediately prior to the Effective Time; provided, however, that for such two-year period, each KeySpan Employee who is not covered by a collective bargaining agreement listed on Section 3.1(p) of the KeySpan Disclosure Schedule shall be eligible to receive severance payments and benefits no less favorable than those provided under the KeySpan severance plans and policies as set forth in Section 5.6(c) of the KeySpan Disclosure Schedule. Notwithstanding the foregoing, nothing herein shall require the continuation of any particular KeySpan Benefit Plan or prevent the amendment or termination thereof (subject to the maintenance of the benefits as provided in the preceding sentence and subject to satisfaction of any legal duty to bargain with the collective bargaining representatives of KeySpan Employees with respect to such matters).

(ii) Pre-Existing Limitations; Deductible; Service Credit. With respect to any KeySpan Benefit Plans in which KeySpan Employees participate after the Effective Time, Parent shall: (A) to the extent satisfied or inapplicable under applicable KeySpan Benefit Plans immediately prior to the Effective Time, waive all limitations as to pre-existing conditions, exclusions and waiting periods with respect to participation and coverage requirements applicable to KeySpan Employees under any Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, (B) provide each KeySpan Employee with credit for any co-payments and deductibles paid prior to participation in such Parent Benefit Plan in satisfying any applicable deductible or out-of-pocket requirements under any welfare Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, and (C) recognize all service except to the extent such recognition would result in duplication of benefits (unless such duplication is expressly contemplated in a plan, agreement or other arrangement of, or approved by, Parent) of KeySpan Employees with KeySpan and its current and former affiliates for purposes (of eligibility to participate, vesting credit and entitlement for benefits (but not for purposes of benefit accrual under any defined benefit

pension plan) in any Parent Benefit Plan in which such employees may be eligible to participate after the Effective Time, to the same extent taken into account under a comparable KeySpan Benefit Plan immediately prior to the Effective Time.

5.7. Fees and Expenses. Except as provided in this Section 5.7 and Section 7.2, all fees and expenses incurred in connection with the Merger, this Agreement and the transactions contemplated by this Agreement shall be paid by the party incurring such fees or expenses, whether or not the Merger is consummated, except that each of Parent and KeySpan shall bear and pay one-half of the costs and expenses incurred in connection with the filings of the premerger notification and report forms under the HSR Act (including filing fees).

5.8. Directors' and Officers' Indemnification and Insurance. (a) After the Effective Time through the sixth anniversary of the Effective Time, Parent shall, or shall, cause the Surviving Corporation to, indemnify and hold harmless each present (as of the Effective Time) or former officer, director or employee of KeySpan and its Subsidiaries (the "Indemnified Parties"), against all claims, losses, liabilities, damages, judgments, fines and reasonable fees, costs and expenses (including attorneys' fees and expenses) incurred in connection with any claim, action, proceeding or investigation, whether civil, criminal, administrative or investigative, arising out of or pertaining to (i) the fact that the Indemnified Party is or was an officer, director or employee of KeySpan or any of its Subsidiaries or (ii) matters existing or occurring at or prior to the Effective Time (including this Agreement and the transactions and actions contemplated hereby), whether asserted or claimed prior to, at or after the Effective Time, to the fullest extent permitted under applicable law; provided that no Indemnified Party may settle any such claim without the prior approval of Parent (which approval shall not be unreasonably withheld or delayed). Each Indemnified Party will be entitled to advancement of expenses incurred in the defense of any claim, action, proceeding or investigation from Parent within ten Business Days of receipt by Parent from the Indemnified Party of a request therefor; provided that any person to whom expenses are advanced provides an undertaking, to the extent required by the NYBCL, to repay such advances if it is ultimately determined that such person is not entitled to indemnification.

(b) Parent shall cause the Surviving Corporation to maintain in effect (i) in its certificate of incorporation and by-laws for a period of six years after the Effective Time, the current provisions regarding elimination of liability of directors and indemnification of, and advancement of expenses to, officers, directors and employees contained in the certificate of incorporation and by-laws of KeySpan and (ii) at the election of Parent, for a period of six years after the Effective Time, (A) maintain in effect the current policies of directors' and officers' liability insurance and fiduciary liability insurance maintained by KeySpan (provided that Parent may substitute therefor policies of at least the same coverage and amounts containing terms and conditions which are, in the aggregate, no less advantageous to the insured) with respect to claims arising from facts or events that occurred on or before the Effective Time; provided, however, that in no event shall the Surviving Corporation be required to expend in any one year an amount in excess of 200% of the annual premiums currently paid by KeySpan for such insurance; and, provided, further, that if the annual premiums of such insurance coverage exceed such amount, Parent or the Surviving Corporation shall be obligated to obtain a policy with the greatest coverage available for a cost not exceeding such amount or (B) provide tail coverage for such persons covered by current policies of directors' and officers' liability insurance and

fiduciary liability insurance maintained by KeySpan which tail coverage shall provide coverage for a period of six years for acts prior to the Effective Time on terms no less favorable than the terms of such current insurance coverage.

(c) Notwithstanding anything herein to the contrary, if any claim, action, proceeding or investigation (whether arising before, at or after the Effective Time) is made against any Indemnified Party on or prior to the sixth anniversary of the Effective Time, the provisions of this Section 5.8 shall continue in effect until the final disposition of such claim, action, proceeding or investigation.

(d) In the event that Parent, any of its successors or assigns or the Surviving Corporation (i) consolidates with or merges into any other Person and shall not be the continuing or surviving corporation or entity of such consolidation or merger or (ii) transfers or conveys all or substantially all of its properties and assets to any Person, then, and in each such case, proper provision shall be made so that the successors or assigns of Parent or the Surviving Corporation, as the case may be, shall succeed to the obligations set forth in Section 5.6 and this Section 5.8.

5.9. Public Announcements. KeySpan and Parent shall cooperate to develop a joint communications plan and cooperate (i) to ensure that all press releases and other public statements with respect to the transactions contemplated hereby shall be consistent with such joint communications plan, and (ii) unless otherwise required by applicable law or by obligations pursuant to any listing agreement with or rules of any securities exchange, to consult with each other before issuing any press release or otherwise making any public statement with respect to this Agreement or the transactions contemplated hereby.

5.10. Conveyance Taxes. KeySpan and Parent shall cooperate in the preparation, execution and filing of all Tax Returns, questionnaires, applications or other documents regarding any real property transfer or gains, sales, use, transfer, value added, stock transfer and stamp Taxes, any transfer, recording, registration and other fees and any similar Taxes which become payable in connection with the transactions contemplated by this Agreement that are required or permitted to be paid on or before the Effective Time.

5.11. Restructuring of Merger. It may be preferable to effectuate a business combination between Parent and KeySpan by means of an alternative structure to the Merger. Accordingly, if prior to satisfaction of the conditions contained in Article VI hereto, Parent proposes the adoption of an alternative structure that otherwise preserves for Parent and KeySpan the economic benefits of the Merger and will not materially delay the consummation thereof, then the parties shall use their respective reasonable best efforts to effect a business combination among themselves by means of a mutually agreed upon structure other than the Merger that so preserves such benefits; provided, however, that prior to closing any such restructured transaction, all material third party and Governmental Authority declarations, filings, registrations, notices, authorizations, consents or approvals necessary for the effectuation of such alternative business combination shall have been obtained and all other conditions to the parties' obligations to consummate the Merger and other transactions contemplated hereby, as applied to such alternative business combination, shall have been satisfied or waived.

ARTICLE VI

CONDITIONS PRECEDENT

6.1. Conditions to Each Party's Obligation to Effect the Merger. The obligations of KeySpan and Parent to effect the Merger are subject to the satisfaction or mutual waiver on or prior to the Closing Date of the following conditions:

(a) Required KeySpan Vote. KeySpan shall have obtained the Required KeySpan Vote for the adoption of this Agreement by the stockholders of KeySpan.

(b) Required Parent Vote. Parent shall have obtained the Required Parent Vote for the approval of this Agreement.

(c) No Injunctions or Restraints; Illegality. No federal, state, local or foreign, law, statute, regulation, code, ordinance or decree shall have been adopted or promulgated, and no temporary restraining order, preliminary or permanent injunction or other order issued by a court or other Governmental Entity of competent jurisdiction (collectively "Restraints") shall be in effect, having the effect of making the Merger illegal or otherwise prohibiting consummation of the Merger.

(d) Approvals. The KeySpan Required Approvals and the Parent Required Approvals shall have been obtained (including, in each case and without limitation, the waiting period (and any extension thereof) applicable to the Merger under the HSR Act shall have been terminated or shall have expired) at or prior to the Effective Time, such approvals shall have become Final Orders and such Final Orders, together with the Additional KeySpan Consents, shall not individually or in the aggregate, impose terms or conditions that would reasonably be expected to result in a Material Adverse Effect on National Grid USA or KeySpan. "Final Order" means action by the relevant Governmental Entity that has not been reversed, stayed, enjoined, set aside, annulled or suspended, with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired (but without the requirement for expiration of any applicable rehearing or appeal period), and as to which all conditions to the consummation of such transactions prescribed by law, regulation or order have been satisfied. Any reference in this Agreement to the "obtaining" of any such approvals shall mean making such declarations, filings, registrations, giving such notice, obtaining such authorizations, orders, consents, permits or approvals and having such waiting periods expire as are, in each case, necessary to avoid a violation of law.

6.2. Additional Conditions to Obligations of Parent and Merger Sub. The obligations of Parent and Merger Sub to effect the Merger are subject to the satisfaction of, or waiver by Parent and Merger Sub, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of KeySpan set forth herein shall be true and correct both when made and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so

true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein) does not have, and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on KeySpan; provided, that the representation and warranties of KeySpan in Section 3.1(h)(i) shall be true in all respects without disregarding the reference to Material Adverse Effect therein.

(b) Performance of Obligations of KeySpan. KeySpan shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Absence of Certain Changes or Events. Since the date of this Agreement, no event has occurred which has had, and no fact or circumstance exists that has resulted in or would reasonably be expected to result in, a Material Adverse Effect on KeySpan.

(d) Certificate. Parent shall have received a certificate, dated as of the closing date, executed on behalf of KeySpan by the chief executive officer or the chief financial officer of KeySpan, to such effect that the conditions specified in paragraphs (a), (b) and (c) of this Section 6.2 have been satisfied.

6.3. Additional Conditions to Obligations of KeySpan. The obligations of KeySpan to effect the Merger are subject to the satisfaction of, or waiver by KeySpan, on or prior to the Closing Date of the following additional conditions:

(a) Representations and Warranties. The representations and warranties of Parent and Merger Sub set forth herein shall be true and correct both when made and at and as of the Closing Date, as if made at and as of such time (except to the extent expressly made as of an earlier date, in which case as of such date), except where the failure of such representations and warranties to be so true and correct (without giving effect to any limitation as to "materiality" or "material adverse effect" set forth therein) does not have, and could not reasonably be expected to have, individually or in the aggregate, a Material Adverse Effect on Parent or Merger Sub.

(b) Performance of Obligations of Parent and Merger Sub. Parent and Merger Sub shall have performed or complied in all material respects with all agreements and covenants required to be performed by it under this Agreement at or prior to the Closing Date.

(c) Certificate. KeySpan shall have received a certificate, dated as of the closing date, executed on behalf of Parent by the chief executive officer or the chief financial officer of Parent, to such effect that the conditions specified in paragraphs (a) and (b) of this Section 6.3 have been satisfied.

ARTICLE VII

TERMINATION AND AMENDMENT

7.1. Termination. This Agreement may be terminated at any time prior to the Effective Time, whether before or after the Required KeySpan Vote or the Required Parent Vote:

(a) by mutual written consent of KeySpan and Parent;

(b) by either KeySpan or Parent if any Restraint having any of the effects set forth in Section 6.1(c) shall be in effect and shall have become final and nonappealable; provided that the party seeking to terminate this Agreement pursuant to this Section 7.1(b) shall have fulfilled its obligations pursuant to Section 5.4;

(c) by Parent if there has been a breach of any representation, warranty, covenant or other agreement made by KeySpan in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, in each case such that Section 6.2(a) or Section 6.2(b) would not be satisfied and such breach or condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by Parent to KeySpan;

(d) by Parent if (i) the Board of Directors of KeySpan shall not have recommended, or the Board of Directors of KeySpan (or any committee thereof) shall have withdrawn or shall have qualified or modified in any manner adverse to Parent its recommendation of, this Agreement or its approval of or declaration that this Agreement and the Merger are advisable and fair to, and in the best interests of, KeySpan and its stockholders or shall have taken any other action or made any other statement in connection with the KeySpan Stockholders Meeting inconsistent with such recommendation, approval or declaration, (ii) the Board of Directors of KeySpan (or any committee thereof) shall have approved or recommended any Takeover Proposal, (iii) the Board of Directors of KeySpan (or any committee thereof) shall have proposed or resolved to do any of the foregoing in clauses (i) and (ii) or (iv) a tender offer or exchange offer for 20% or more of the outstanding shares of capital stock of KeySpan is commenced, and the Board of Directors of KeySpan fails to recommend against acceptance of such tender offer or exchange offer by its stockholders within 10 business days after such commencement (including by taking no position with respect to the acceptance of such tender offer or exchange offer by its stockholders);

(e) by KeySpan prior to the KeySpan Stockholders Meeting if (A) the Board of Directors of KeySpan authorizes KeySpan, subject to complying with the terms of this Agreement, to enter into a definitive agreement concerning a transaction that constitutes a Superior Proposal, (B) Parent does not make, or cause to be made, within four business days of receipt of KeySpan's written notification of its intention to enter into a definitive agreement for a Superior Proposal, an offer that the Board of Directors of KeySpan determines, in its reasonable good faith judgment after consultation with its financial advisors, is at least as favorable, from a financial point of view, to the stockholders of KeySpan as the Superior Proposal and (C) KeySpan, prior to or concurrently with such termination pays to Parent in immediately available funds the amount required by Section 7.2(b). KeySpan agrees (x) that it will not enter into a definitive agreement referred to in clause (A) above until at least the fifth business day after it has provided the notice to Parent required thereby and (y) to notify Parent promptly in writing if its intention to enter into a definitive agreement referred to in its notification shall change at any time after giving such notification;

(f) by KeySpan if there has been a breach of any representation, warranty, covenant or other agreement made by Parent or Merger Sub in this Agreement, or any such representation and warranty shall have become untrue after the date of this Agreement, in each case such that Section 6.3(a) or Section 6.3(b) would not be satisfied and such breach or

condition is not curable or, if curable, is not cured within 30 days after written notice thereof is given by KeySpan to Parent;

(g) by either KeySpan or Parent if (i) at the KeySpan Stockholders Meeting (including any adjournment or postponement thereof), the Required KeySpan Vote shall not have been obtained, or (ii) at the Parent Shareholders Meeting (including any adjournment or postponement thereof), the Required Parent Vote shall not have been obtained; or

(h) by either Parent or KeySpan, if the Merger shall not have been consummated by the 15-month anniversary of the date of this Agreement (the "End Date"); provided, however, that if all other conditions set forth in Article VI (other than conditions that by their nature are to be satisfied on the Closing Date) are satisfied other than the condition to the Closing set forth in Section 6.1(d) which remains capable of being fulfilled, then either Parent or KeySpan by written notice delivered prior to the End Date, may extend such period by three months after the End Date; provided, further, that the right to terminate this Agreement under this Section 7.1(h) shall not be available to any party whose failure to fulfill any obligation under this Agreement has been the cause of or resulted in the failure of the Merger to occur on or before the End Date.

7.2. Effect of Termination. (a) In the event of a termination of this Agreement by either KeySpan or Parent as provided in Section 7.1, this Agreement shall forthwith become void and there shall be no liability or obligation on the part of Parent, Merger Sub or KeySpan or their respective officers or directors, except with respect to Section 3.1(l), Section 3.2(g), Section 5.7, this Section 7.2 and Article VIII; provided, however, that nothing herein shall relieve any party for liability for any willful or knowing breach hereof.

(b) In the event of a termination of this Agreement by Parent pursuant to Section 7.1(d) or by KeySpan pursuant to Section 7.1(e), then KeySpan shall, on the date of such termination, pay to Parent, by wire transfer of immediately available funds, the amount of $250,000,000 (the "Termination Fee").

(c) In the event that between the date hereof and the termination of this Agreement any Person shall have directly or indirectly publicly disclosed to KeySpan and/or publicly disclosed or made known to KeySpan's stockholders (x) a Takeover Proposal or (y) generally that if the Merger is not consummated such Person or one of its Affiliates will make a Takeover Proposal and thereafter, in each case, this Agreement is terminated by Parent or KeySpan pursuant to Section 7.1(g)(i) or Section 7.1(h), and if concurrently with such termination or within twelve months of such termination KeySpan or any of its Subsidiaries enters into a definitive agreement with respect to a Takeover Proposal or consummates a Takeover Proposal, then KeySpan shall, upon the earlier of entry into a definitive agreement with respect to a Takeover Proposal or consummation of a Takeover Proposal, pay to Parent, by wire transfer of immediately available funds, the Termination Fee.

(d) In the event that between the date hereof and the termination of this Agreement (A) any Person shall have directly or indirectly publicly disclosed to Parent and/or publicly disclosed or made known to Parent's shareholders (x) a proposal with respect to a Parent Acquisition Transaction or (y) generally that if the Merger is not consummated such

Person or one of its Affiliates will commence a Parent Acquisition Transaction and (B) thereafter this Agreement is terminated by KeySpan or Parent pursuant to Section 7.1(g)(ii), and if concurrently with such termination or within twelve months of such termination a Parent Acquisition Transaction occurs or Parent or any of its Subsidiaries shall enter into a definitive agreement with respect to a Parent Acquisition Transaction then Parent shall, upon the earlier of the date on which such Parent Acquisition Transaction occurs or the date on which Parent enters into a definitive agreement with respect to a Parent Acquisition Transaction, pay to KeySpan by wire transfer of immediately available funds the amount of the Parent Termination Fee. For the purposes of this Agreement (i) "Parent Termination Fee" means the lesser of $250,000,000 or one percent of the market capitalization of Parent on the date such payment becomes due and payable and (ii) "Parent Acquisition Transaction" means the acquisition, directly or indirectly, for consideration consisting of cash and/or securities, of more than 50% of the voting power of the capital stock of Parent then outstanding or all or substantially all the assets of Parent.

(e) KeySpan and Parent acknowledge that the agreements contained in Sections 7.2(b) through (e) are an integral part of the transactions contemplated by this Agreement, and that, without these agreements, Parent or KeySpan, as applicable, would not enter into this Agreement; accordingly, if KeySpan or Parent, as applicable, fails to promptly pay the amount due pursuant to Section 7.2(b), (c) or (d), as the case may be, and, in order to obtain such payment, Parent or KeySpan, as applicable, commences a suit which results in a judgment against KeySpan or Parent, as applicable, for any of the amounts set forth in Section 7.2(b), (c) or (d), as the case may be, KeySpan or Parent, as applicable, shall pay to Parent or KeySpan, as applicable, its costs and expenses (including attorneys' fees) in connection with such suit. Interest shall accrue on any amounts due under Section 7.2(b), (c), or (d) from and after 30 days of the date such amount is due at the prime rate of Citibank N.A. in effect on the date such payment was required to be made.

7.3. Amendment. This Agreement may be amended by the parties at any time before or after the Required KeySpan Vote or the Required Parent Vote; provided, however, that after any such approval, there shall not be made any amendment that by law requires further approval by the stockholders of KeySpan or shareholders of Parent without the further approval of such stockholders or such shareholders. This Agreement may not be amended except by an instrument in writing signed on behalf of each of the parties.

7.4. Extension; Waiver. At any time prior to the Effective Time, a party may (a) extend the time for the performance of any of the obligations or other acts of the other parties, (b) waive any inaccuracies in the representations and warranties of the other parties contained in this Agreement or in any document delivered pursuant to this Agreement or (c) subject to the proviso of Section 7.3, waive compliance by the other parties with any of the agreements or conditions contained in this Agreement. Any agreement on the part of a party to any such extension or waiver shall be valid only if set forth in an instrument in writing signed on behalf of such party. The failure of any party to this Agreement to assert any of its rights under this Agreement or otherwise shall not constitute a waiver of such rights.

ARTICLE VIII

GENERAL PROVISIONS

8.1. Non-Survival of Representations, Warranties and Agreements. None of the representations, warranties, covenants and other agreements in this Agreement or in any instrument delivered pursuant to this Agreement, including any rights arising out of any breach of such representations, warranties, covenants and other agreements, shall survive the Effective Time, except for those covenants and agreements contained herein and therein that by their terms apply or are to be performed in whole or in part after the Effective Time and this Article VIII. Nothing in this Section 8.1 shall relieve any party for any breach of any representation, warranty, covenant or other agreement in this Agreement occurring prior to termination.

8.2. Notices. All notices and other communications hereunder shall be in writing and shall be deemed duly given (a) on the date of delivery if delivered personally, or by telecopy or facsimile, upon confirmation of receipt, (b) on the first Business Day following the date of dispatch if delivered by a recognized next-day courier service, or (c) on the tenth Business Day following the date of mailing if delivered by registered or certified mail, return receipt requested, postage prepaid. All notices hereunder shall be delivered as set forth below, or pursuant to such other instructions as may be designated in writing by the party to receive such notice:

(a) if to Parent or Merger Sub to:

National Grid USA
25 Research Drive
Westborough, Massachusetts 01582
Attention: Lawrence J. Reilly
Telecopy No.: (508) 389-2605

with a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
4 Times Square
New York, New York 10036
Attention: Sheldon S. Adler
Telecopy No.: (212) 735-2000

(b) if to KeySpan to:

KeySpan Corporation
One MetroTech Center
Brooklyn, New York 11201
Attention: John J. Bishar, Jr.
Telecopy No.: (718) 403-2809

with a copy to:

Simpson Thacher & Bartlett LLP
425 Lexington Avenue
New York, New York 10017
Attention: Mario A. Ponce
Telecopy No.: (212) 455-2502

8.3. Interpretation. When a reference is made in this Agreement to Sections, Exhibits or Schedules, such reference shall be to a Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. The table of contents and headings contained in this Agreement are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement. Whenever the words "include", "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation".

8.4. Counterparts. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement and shall become effective when one or more counterparts have been signed by each of the parties and delivered to the other parties, it being understood that the parties need not sign the same counterpart.

8.5. Entire Agreement; Third Party Beneficiaries. (a) This Agreement constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, among the parties with respect to the subject matter hereof, other than the Confidentiality Agreements, which shall survive the execution and delivery of this Agreement.

(b) This Agreement shall be binding upon and inure solely to the benefit of each party hereto, and nothing in this Agreement, express or implied, is intended to or shall confer upon any other Person any right, benefit or remedy of any nature whatsoever under or by reason of this Agreement, other than, immediately after the Effective Time, Section 5.8 (which is intended to be for the benefit of the Persons covered thereby and may be enforced by such Persons).

8.6. Governing Law. THIS AGREEMENT SHALL BE GOVERNED AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

8.7. No Limitation on Other Representation. Except as otherwise expressly provided in this Agreement, nothing in any representation or warranty in this Agreement shall in any way limit or restrict the scope, applicability or meaning of any other representation or warranty made by KeySpan herein. It is the intention of the parties that, to the extent possible, unless provisions are mutually exclusive and effect cannot be given to both or all such provisions, the representations, warranties, covenants and closing conditions in this Agreement shall be construed to be cumulative and that each representation, warranty, covenant and closing condition in this Agreement shall be given full separate and independent effect.

8.8. Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any law or public policy, all other terms and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any party. Upon such determination that any term or other provision is invalid, illegal

or incapable of being enforced, the parties hereto shall negotiate in good faith to modify this Agreement so as to effect the original intent of the parties as closely as possible in an acceptable manner in order that the transactions contemplated hereby are consummated as originally contemplated to the greatest extent possible.

8.9. Assignment. Neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties hereto, in whole or in part (whether by operation of law or otherwise), without the prior written consent of the other parties, and any attempt to make any such assignment without such consent shall be null and void. Subject to the preceding sentence, this Agreement will be binding upon, inure to the benefit of and be enforceable by the parties and their respective successors and assigns.

8.10. Submission to Jurisdiction; Waivers. Any suit, action or proceeding against any party hereto may be brought in any federal or state court of competent jurisdiction located in the Borough of Manhattan in the State of New York, and each party hereto irrevocably consents to the jurisdiction and venue in the United States District Court for the Southern District of New York and in the courts hearing appeals therefrom unless no federal subject matter jurisdiction exists, in which event, each party hereto irrevocably consents to jurisdiction and venue in the Supreme Court of the State of New York, New York County, and in the courts hearing appeals therefrom. Each party hereto hereby irrevocably waives, and agrees not to assert, by way of motion, as a defense, counterclaim or otherwise, in any action or proceeding with respect to this Agreement, any claim that it is not personally subject to the jurisdiction of the above-named courts for any reason other than the failure to serve process in accordance with this Section 8.10, that it or its property is exempt or immune from jurisdiction of any such court or from any legal process commenced in such courts (whether through service of notice, attachment prior to judgment, attachment in aid of execution of judgment, execution of judgment or otherwise), and to the fullest extent permitted by applicable law, that the suit, action or proceeding in any such court is brought in an inconvenient forum, that the venue of such suit, action or proceeding is improper, or that this Agreement, or the subject matter hereof or thereof, may not be enforced in or by such courts and further irrevocably waives, to the fullest extent permitted by applicable law, the benefit of any defense that would hinder, fetter or delay the levy, execution or collection of any amount to which the party is entitled pursuant to the final judgment of any court having jurisdiction. Each party hereto agrees that promptly following the date hereof (and in no event more than ten (10) days following the date hereof) it shall irrevocably designate a New York Person, such person, upon such designation, to be set forth (along with the address of such U.S. Person) across from such party's name on Exhibit B hereto (each a "Process Agent"), as the designees, appointees and agents of such party to receive, for and on such party's behalf, service of process in such jurisdiction in any legal action or proceeding with respect to this Agreement and such service shall be deemed complete upon delivery thereof to the Process Agent; provided that in the case of any such service upon a Process Agent, the party effecting such service shall also deliver a copy thereof to the party who designated such Process Agent in the manner provided in Section 8.2. Each party shall take all such action as may be necessary to continue said appointment in full force and effect or to appoint another agent so that it will at all times have an agent for service of process for the above purposes in New York, New York. Each party further irrevocably consents to the service of process out of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered airmail, postage prepaid, to such party at its address set forth in

this Agreement, such service of process to be effective upon acknowledgement of receipt of such registered mail. Nothing herein shall affect the right of any party to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the other party in any other jurisdiction in which the other party may be subject to suit. Each party expressly acknowledges that the foregoing waiver is intended to be irrevocable under the laws of the State of New York and of the United States of America; provided that each such party's consent to jurisdiction and service contained in this Section 8.10 is solely for the purpose referred to in this Section 8.10 and shall not be deemed to be a general submission to said courts or in the State of New York other than for such purpose. This Agreement does not involve less than $250,000, and the parties intend that §5-1401 of the New York General Obligations Law shall apply to this Agreement.

In the event of the transfer of all or substantially all of the assets and business of a Process Agent to any other corporation by consolidation, merger, sale of assets or otherwise, such other corporation shall be substituted hereunder for such Process Agent with the same effect as if originally named herein in place of such party's Process Agent.

8.11. Enforcement. The parties agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms. It is accordingly agreed that the parties shall be entitled to specific performance of the terms hereof, this being in addition to any other remedy to which they are entitled at law or in equity.

8.12. Definitions. As used in this Agreement:

(a) "Board of Directors" means the Board of Directors of any specified Person and any committees thereof.

(b) "Business Day" means any day on which banks are not required or authorized to close in the City of New York or the City of London.

(c) "Knowledge" when used with respect to any party means the knowledge, after reasonable investigation, of any executive officer of such party and with respect to KeySpan, shall also include those individuals listed in Section 8.12 of the KeySpan Disclosure Schedule.

(d) "Material Adverse Effect" means, when used with reference to any entity, any event, effect, change or development that, individually or in the aggregate with other events, effects, changes or developments (a) is, or would reasonably be expected to be, material and adverse to the financial condition, business, assets, liabilities (contingent or otherwise), operations or results of operations of such entity and any of its Subsidiaries, taken as a whole, or (b) prevents or has a material and adverse effect on the ability of such entity to perform its material obligations under this Agreement or to consummate the transactions contemplated hereby by the End Date; provided, however, that to the extent any event, effect, change or development is caused by or results from any of the following, in each case, it shall not be taken into account in determining whether there has been (or would reasonably be expected to be) a "Material Adverse Effect": (i) factors affecting the economy, financial markets or capital

markets as a whole except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (ii) factors affecting the utility industry as a whole, except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (iii) the announcement of the execution of this Agreement, (iv) changes in laws, rules or regulations of any Governmental Entity affecting the utility industry as a whole except to the extent that such entity and any of its Subsidiaries, taken as a whole, are materially and adversely affected in a disproportionate manner as compared to comparable participants in the utility industry, (v) any change in generally accepted accounting principles by the Financial Accounting Standards Board, the SEC or any other regulatory body unless such change results in a cash impact on such party or (vi) any matter to the extent identified in Section 8.12 of the KeySpan Disclosure Schedule or Section 8.12 of the Parent Disclosure Schedule. For the avoidance of doubt, it is expressly agreed that (a) the failure to obtain any consent pursuant to the terms of items 9, 10 and 11 on Section 3.1(d)(ii) of the KeySpan Disclosure Schedule or necessary to prevent consummation of the Merger from being a default under the terms of items 9, 10 and 11 on Section 3.1(d)(ii) of the KeySpan Disclosure Schedule, the costs of obtaining any such consent and the impact of any agreements entered into in connection with obtaining such consents, shall be included in determining whether a Material Adverse Effect on KeySpan shall have occurred or shall be reasonably expected to occur and (b) with respect to regulatory approvals sought in connection with the Merger, only the terms and conditions of the KeySpan Required Approvals, the Parent Required Approvals and the Additional KeySpan Consents, as set forth in Section 6.1(d) of this Agreement, shall be included in determining whether a Material Adverse Effect on KeySpan shall have occurred or shall be reasonably expected to occur.

(e) "The Other Party" means, with respect to KeySpan, Parent and means, with respect to Parent, KeySpan.

(f) "Person" means an individual, corporation, limited liability company, partnership, association, trust, unincorporated organization, other entity or group (as defined in the Exchange Act).

(g) "Significant Subsidiary" of any person means a Subsidiary of such Person that would constitute a "significant subsidiary" of such Person within the meaning of Rule 1.02(w) of Regulation S-X as promulgated by the SEC.

(h) "Subsidiary" when used with respect to any party means any corporation or other organization, whether incorporated or unincorporated, (i) of which such party or any other Subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interests in such partnership), (ii) of which at least a majority of the securities or other interests which have by their terms ordinary voting power to elect a majority of the Board of Directors or others performing similar functions with respect to such corporation or other organization are owned by such party or one or more of its Subsidiaries or (iii) that is directly or indirectly controlled by such party or by any one or more of its Subsidiaries, or by such party and one or more of its Subsidiaries.

8.13. Other Agreements. The parties hereto acknowledge and agree that, except as otherwise expressly set forth in this Agreement, the rights and obligations of KeySpan, Parent and Merger Sub under any other agreement between the parties shall not be affected by any provision of this Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: _____
Name: Steven Holliday
Title: Group Director

NATIONAL GRID US8 INC.

By: _____
Name: Michael E. Jesanis
Title: President

KEYSPAN CORPORATION

By: _____
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: _____
Name: Steven Holliday
Title: Group Director

NATIONAL GRID US8 INC.

By: _____
Name: Michael E. Jesanis
Title: President

KEYSPAN CORPORATION

By: _____
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

IN WITNESS WHEREOF, Parent, Merger Sub and KeySpan have caused this Agreement to be signed by their respective officers thereunto duly authorized, all as of the day and year first above written.

NATIONAL GRID PLC

By: _____
Name: Steven Holliday
Title: Chief Executive designate

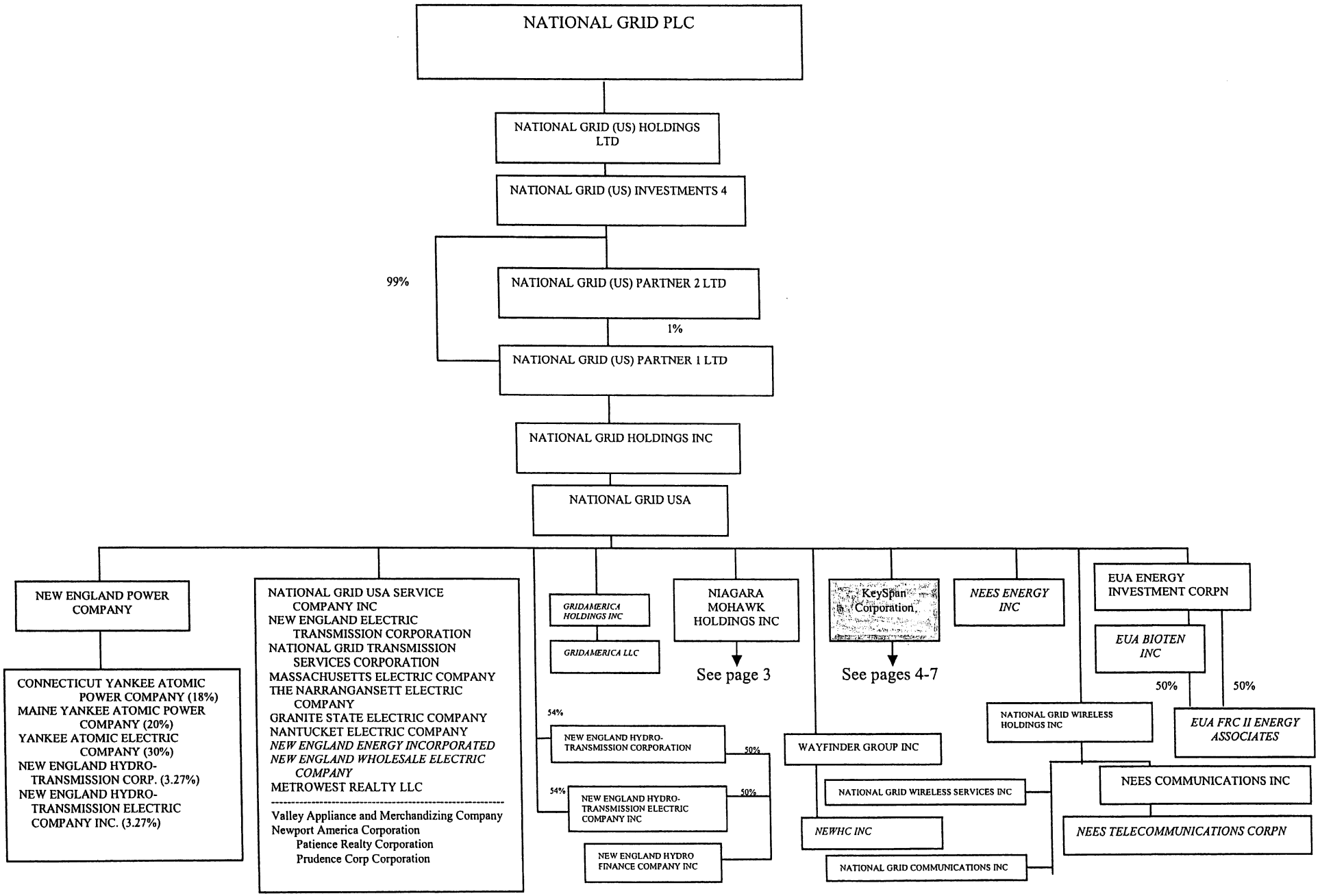
NATIONAL GRID US8 INC.

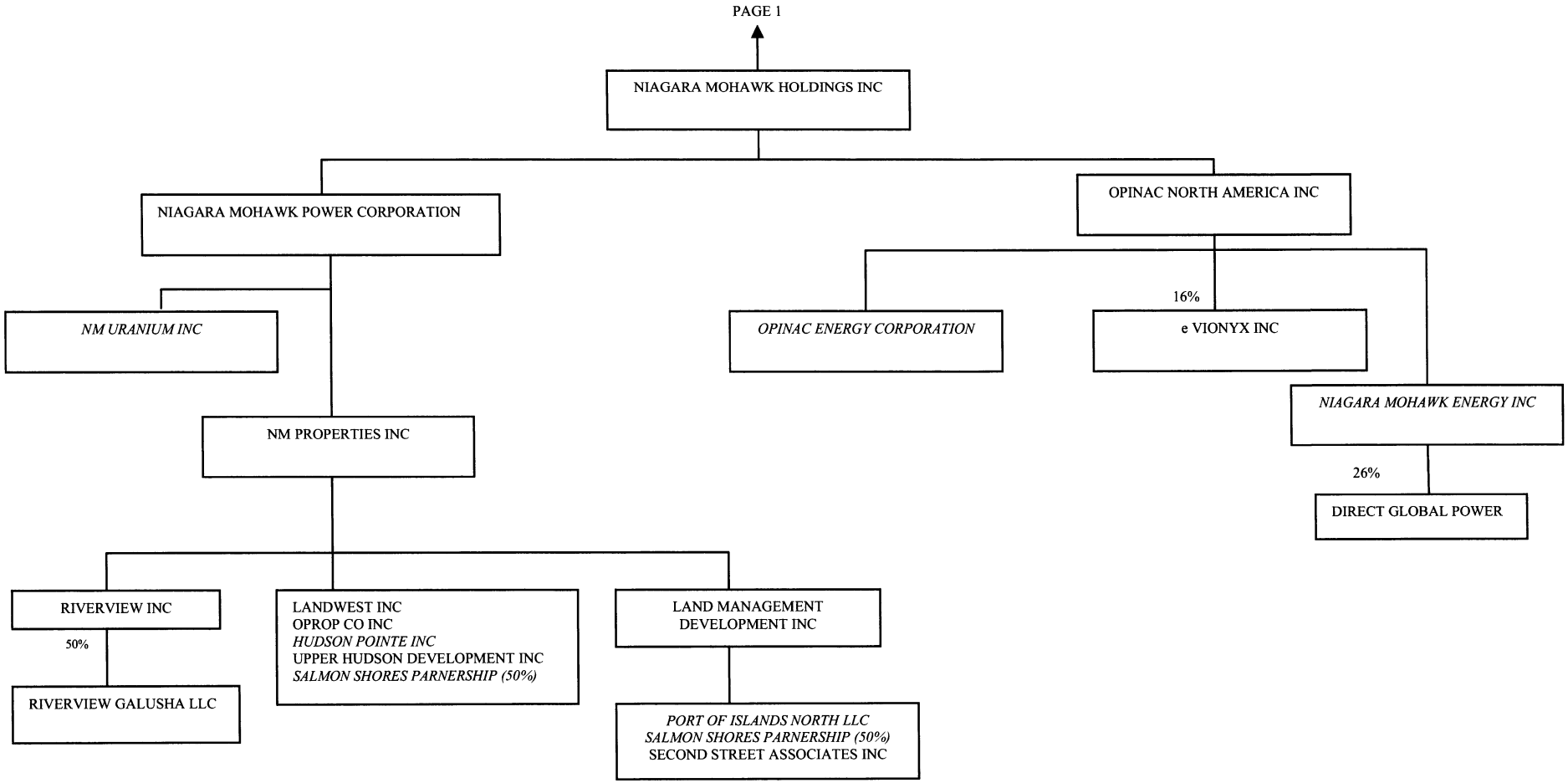
By: _____
Name: Michael E. Jesanis
Title: President

KEYSPAN CORPORATION

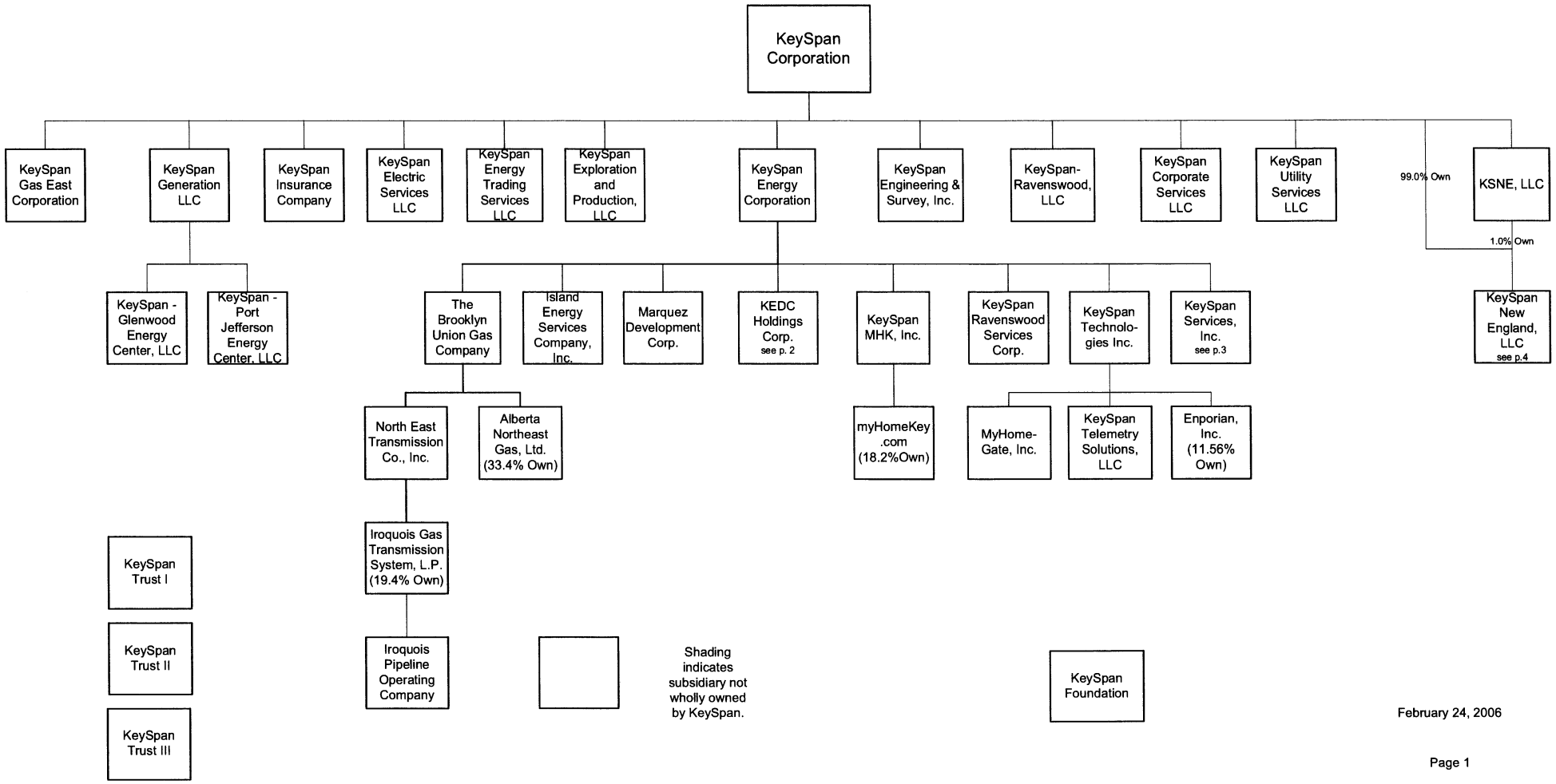
By: _____
Name: Robert B. Catell
Title: Chairman and Chief Executive Officer

Appendix 3


NATIONAL GRID PLC
NATIONAL GRID (US) HOLDINGS LTD
NATIONAL GRID (US) INVESTMENTS 4
99%
NATIONAL GRID (US) PARTNER 2 LTD
1%
NATIONAL GRID (US) PARTNER 1 LTD
NATIONAL GRID HOLDINGS INC
NATIONAL GRID USA
NEW ENGLAND POWER COMPANY
CONNECTICUT YANKEE ATOMIC POWER COMPANY (18%)
MAINE YANKEE ATOMIC POWER COMPANY (20%)
YANKEE ATOMIC ELECTRIC COMPANY (30%)
NEW ENGLAND HYDRO-TRANSMISSION CORP. (3.27%)
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY INC. (3.27%)
NATIONAL GRID USA SERVICE COMPANY INC
NEW ENGLAND ELECTRIC TRANSMISSION CORPORATION
NATIONAL GRID TRANSMISSION SERVICES CORPORATION
MASSACHUSETTS ELECTRIC COMPANY
THE NARRANGANSETT ELECTRIC COMPANY
GRANITE STATE ELECTRIC COMPANY
NANTUCKET ELECTRIC COMPANY
NEW ENGLAND ENERGY INCORPORATED
NEW ENGLAND WHOLESALE ELECTRIC COMPANY
METROWEST REALTY LLC
Valley Appliance and Merchandizing Company
Newport America Corporation
Patience Realty Corporation
Prudence Corp Corporation
GRIDAMERICA HOLDINGS INC
GRIDAMERICA LLC
54%
NEW ENGLAND HYDRO-TRANSMISSION CORPORATION
50%
54%
NEW ENGLAND HYDRO-TRANSMISSION ELECTRIC COMPANY INC
50%
NEW ENGLAND HYDRO FINANCE COMPANY INC
NIAGARA MOHAWK HOLDINGS INC
See page 3
KeySpan Corporation
See pages 4-7
NEES ENERGY INC
WAYFINDER GROUP INC
NATIONAL GRID WIRELESS SERVICES INC
NEWHC INC
NATIONAL GRID COMMUNICATIONS INC
EUA ENERGY INVESTMENT CORPN
EUA BIOTEN INC
50%
50%
EUA FRC II ENERGY ASSOCIATES
NATIONAL GRID WIRELESS HOLDINGS INC
NEES COMMUNICATIONS INC
NEES TELECOMMUNICATIONS CORPN


PAGE 1
NIAGARA MOHAWK HOLDINGS INC
NIAGARA MOHAWK POWER CORPORATION
OPINAC NORTH AMERICA INC
NM URANIUM INC
OPINAC ENERGY CORPORATION
16%
e VIONYX INC
NIAGARA MOHAWK ENERGY INC
NM PROPERTIES INC
26%
DIRECT GLOBAL POWER
RIVERVIEW INC
50%
RIVERVIEW GALUSHA LLC
LANDWEST INC
OPROP CO INC
HUDSON POINTE INC
UPPER HUDSON DEVELOPMENT INC
SALMON SHORES PARNERSHIP (50%)
LAND MANAGEMENT DEVELOPMENT INC
PORT OF ISLANDS NORTH LLC
SALMON SHORES PARNERSHIP (50%)
SECOND STREET ASSOCIATES INC

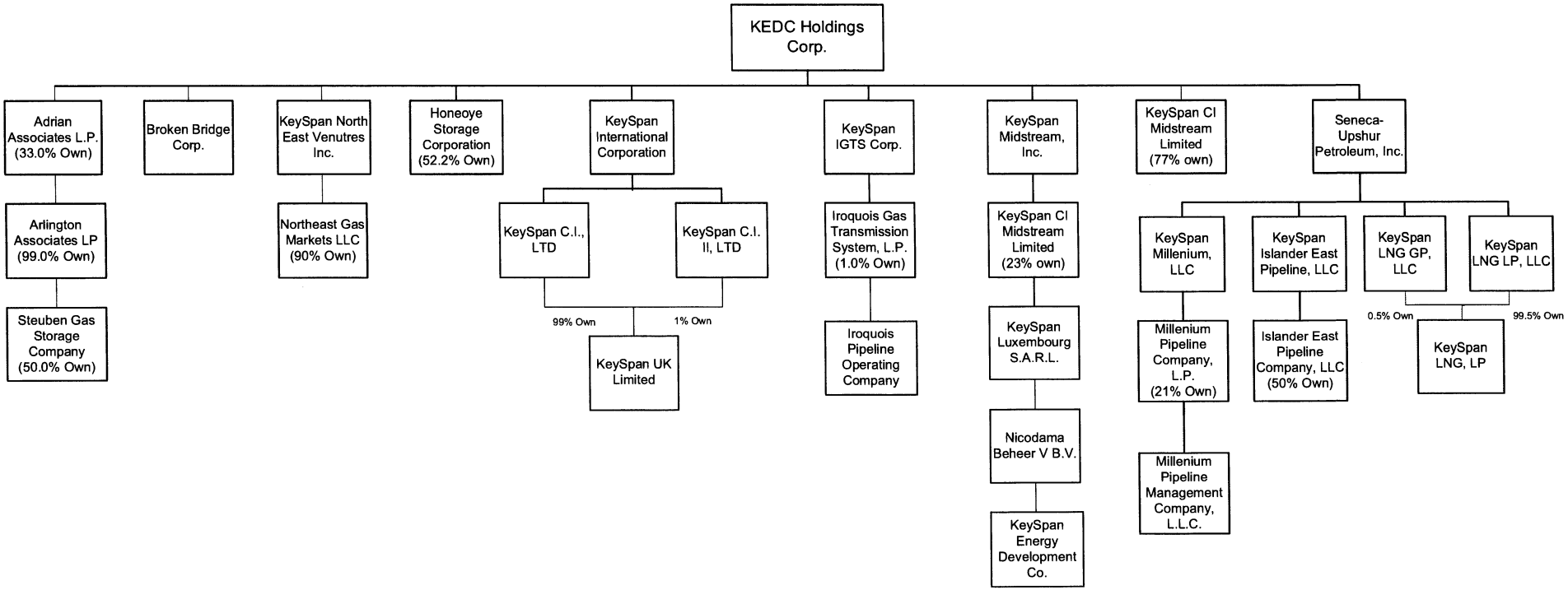
KEYSPAN CORPORATION



February 24, 2006

Page 1

KEDC HOLDINGS CORP.

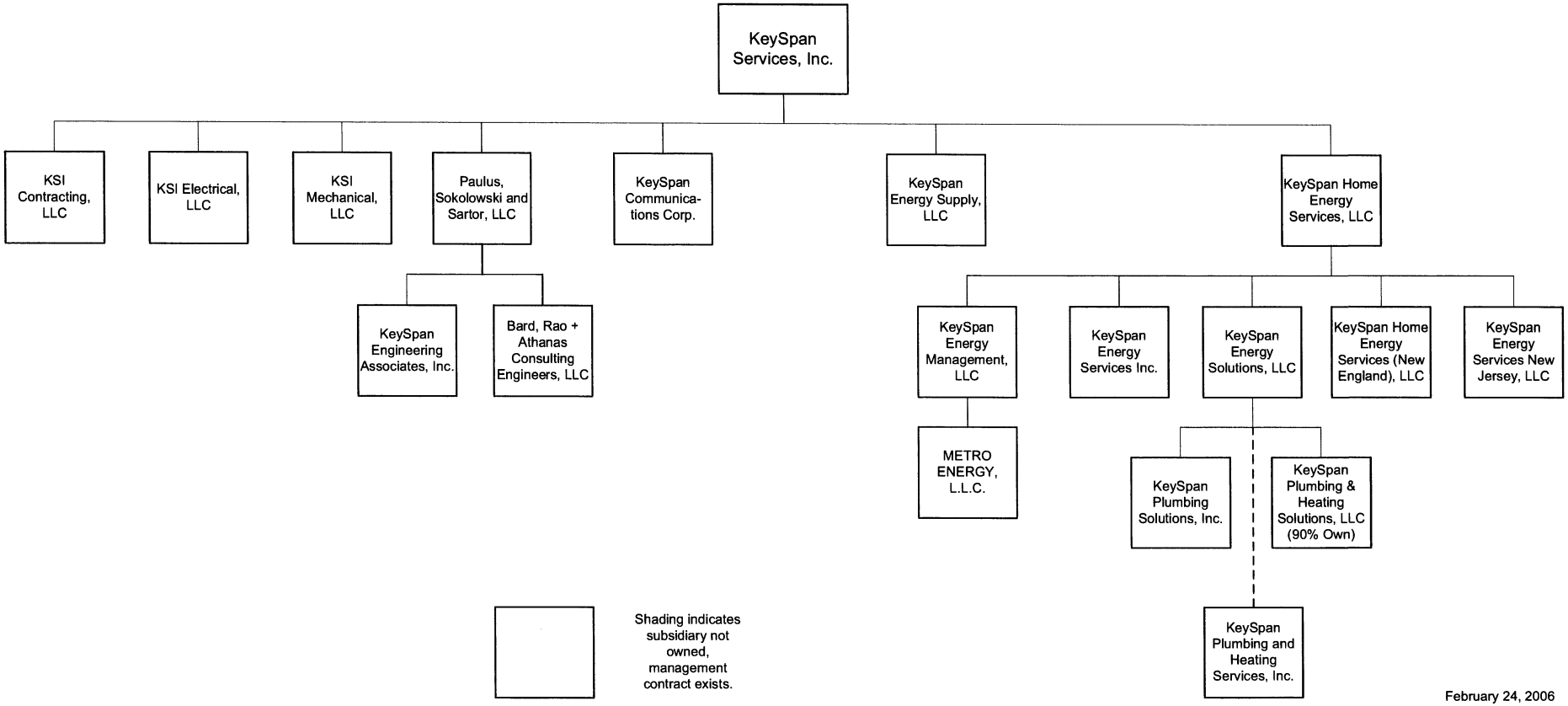


Shading indicates subsidiary not wholly owned by KeySpan.

February 24, 2006

Page 2

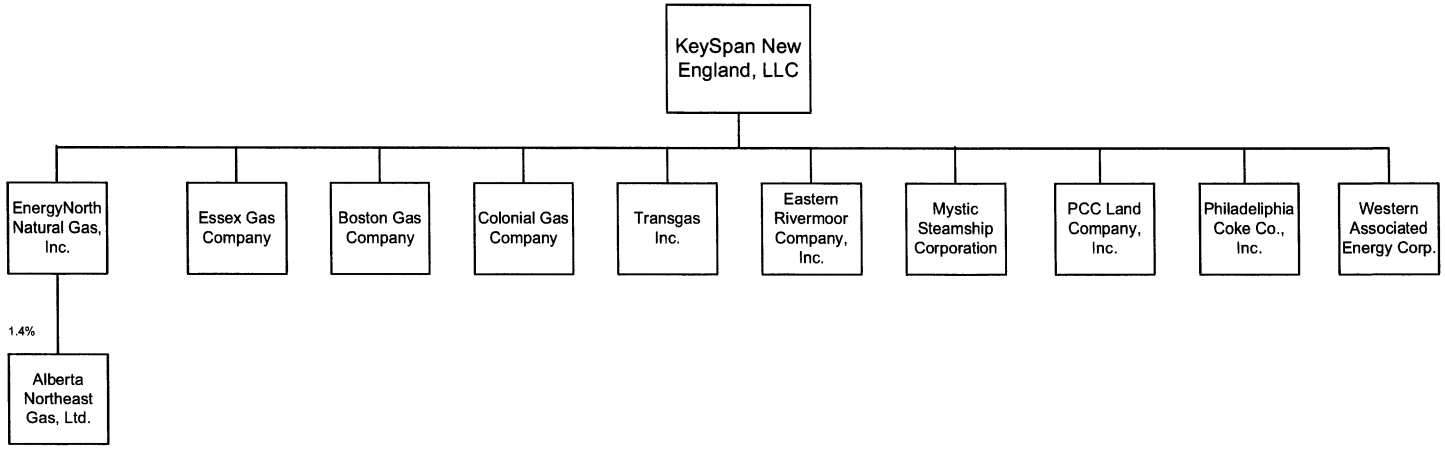
KEYSPAN SERVICES, INC.



February 24, 2006

Page 3

KEYSPAN NEW ENGLAND, LLC
formerly Eastern Enterprises



Shading indicates subsidiary not wholly owned by KeySpan.

February 24, 2006

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Appendix 4

National Grid Entity List

National Grid PLC
A registered holding company headquartered in London that indirectly owns and operates the high-voltage electric network in England and Wales, and Great Britain's gas transmission system and approximately half of Great Britain's gas distribution systems.
National Grid USA
A register public utility holding company headquartered in Westborough, MA, with electric subsidiaries operating in MA, NH, RI, and Vermont and an electric and gas utility subsidiary operating in upstate NY.
New England Power Company
A wholly-owned subsidiary of National Grid USA; a FERC regulated public utility company. It operates approximately 2,300 miles of transmission facilities. NEP has non-operating interests in three retired nuclear utilities (Yankee Atomic, Connecticut Yankee, and Maine Yankee).
Connecticut Yankee Atomic Power Company
A retired nuclear facility.
Maine Yankee Atomic Power Company
A retired nuclear facility.
Yankee Atomic Electric Company
A retired nuclear facility.
New England Hydro-Transmission Corporation
Owns and operates 121 miles of high-voltage direct current transmission line in New Hampshire for the second phase of the Hydro-Quebec and New England interconnection, extending to the Massachusetts border.
New England Hydro-Transmission Electric Company, Inc.
Owns and operates a direct current/alternating current terminal and related facilities for the second phase of the Hydro-Quebec and New England interconnection and 12 miles of high-voltage direct current transmission line in Massachusetts.
National Grid USA Service Company, Inc.
A service company providing support services for National Grid USA and its subsidiaries.
New England Electric Transmission Corporation
Owns and operates a direct current/alternating current converter terminal and related facilities for the first phase of the Hydro-Quebec and New England interconnection, and six-miles of high-voltage direct current transmission line in New Hampshire.
National Grid Transmission Services Corporation
Provides technical, management, development, engineering, and other similar services related to electric power transmission to non-affiliates.
Massachusetts Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 1.2 million retail customers in 169 cities and towns in the Commonwealth of Massachusetts.
The Narragansett Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 478,000 retail customers in 38 municipalities and towns in Rhode Island.

Granite State Electric Company
A wholly-owned subsidiary of National Grid delivering electric energy to approximately 41,000 customers in 21 municipalities and towns in New Hampshire.
Nantucket Electric Company
A wholly-owned subsidiary of National Grid USA delivering electric energy to approximately 12,000 retail customers on Nantucket Island in the Commonwealth of Massachusetts.
Metrowest Realty LLC
Conducts real estate investment and management activities.
New England Hydro Finance Company, Inc.
A finance company.
Niagara Mohawk Holdings, Inc.
Exempt holding company incorporated under the laws of New York State and headquartered in Syracuse New York.
Wayfinder Group, Inc.
Provides energy related products and services.
National Grid Wireless Holdings, Inc.
An exempt telecommunications company serving as a holding company for National Grid Wireless Services, Inc., National Grid Communications, Inc., and NEES Communications, Inc.
NEES Communications, Inc.
An exempt telecommunications company building high-speed fiber-optic communications networks in New England, and providing telecommunications and information-related products and services.
National Grid Wireless Services, Inc.
An exempt telecommunications company providing services to wireless telecommunications providers.
National Grid Communications, Inc.
An exempt telecommunications company providing telecommunication services, information services, and other services or products subject to the jurisdiction of the Federal Communications Commission.
EUA Energy Investment Corporation
Initially formed to engage in identifying, evaluating, investing in cogeneration and small power production facilities and other energy-related or energy conservation ventures. This entity does not plan any further investment and has written off its investments.
Niagara Mohawk Power Corporation
A combination gas and electric utility serving approximately 1.6 million electric and 568,000 gas customers in central, northern, eastern and western New York.
NM Properties, Inc.
A New York corporation engaged in real estate activities and holds interests in several subsidiaries. NM Properties is not directly engaged in real estate matters and does not hold any real property assets for its own account; all such assets are currently owned by subsidiaries of NM Properties.
Riverview, Inc.
A New York corporation engaged in the development and sale of real estate.

Riverview Galusha, LLC
A New York limited liability company engaged in development and sale of a multiple lot residential subdivision in the Town of Moreau, New York.
Landwest, Inc.
A New York corporation engaged in the development, sale and leasing of real estate.
OPropCo, Inc.
A New York corporation engaged in the sale of real property.
Upper Hudson Development, Inc,
A New York corporation engaged in the development and sale of real estate. Some of this real estate is subject to regulation by the New York Adirondack Park Agency ("APA").
Land Management and Development, Inc.
A New York corporation engaged in the development and sale of real estate.
Second Street Associates, LLC
a New York limited liability company engaged in the leasing and management of an office building in the City of Fulton, New York and a contiguous parcel of land.
Opinac North America, Inc.
Non-utility holding company
eVionyx, Inc.
Engaged in fuel cell and battery research and development. The investment in eVionyx has been written off.
Direct Global Power
Engaged in development of photovoltaic and other renewable energy products and the sale of proprietary solar electric products and systems. The investment in Direct Global Power has been written off.

The following entities are inactive:
EUA Biote, Inc.
EUA FRC II Energy Associates
GridAmerica Holdings Inc.
GridAmerica LLC
NEES Telecommunications Corp.
NEES Energy, Inc.
New England Energy Incorporated
New England Wholesale Electric Company
Niagara Mohawk Energy inc.
Hudson Pointe, Inc.
Port of Islands North LLC
Salmon Shores Partnership
NM Uranium, Inc.
Opinac Energy Corporation
NEWHC, Inc.
The following entities are being acquired from Southern Union in a transaction that has not yet been consummated.
Newport America Corporation
An investment and holding company which serves as the parent for Patience Realty Corp. and Prudence Corporation.

Patience Realty Corp.
This entity is currently inactive.
Prudence Corporation
Owns the Weybosset Street Garage and the Teste Building on Weybosset Street and invests and manages real estate.
Valley Appliance and Merchandising Company
d/b/a New England Gas Appliance Company
Conducts the sale and rental of gas appliances and heating systems.

KeySpan

As of 5/15/06

Description of KeySpan Companies

Adrian Associates, L.P. (approximate 40% total – held by KEDC Holding Corp's 33.67% interest and approximate 7% ownership interest through Honeoye Storage)

Adrian Associates L.P. is a New York limited partnership, which owns a 99% interest in Arlington Associates, L.P. which in turn owns a 75% interest in the Steuben Gas Storage Company. KEDC Holdings Corp. directly owns a 33.67% ownership interest in Adrian Associates, and additionally owns an approximate 7% ownership interest through its approximate 52% ownership in Honeoye Storage Corporation (Honeoye owns a 13.468% ownership interest in Adrian Associates).

Alberta Northeast Gas, Limited (29.6% total - held 28.1% by The Brooklyn Union Gas Company and 1.5% by EnergyNorth Natural Gas, Inc.)

Alberta Northeast Gas, Limited is a corporation organized under the laws of Alberta, Canada and is a consortium of gas distribution companies which engage in gas marketing activities. Alberta purchases supplies of natural gas from Canadian suppliers and resells it at the U.S./Canadian border to 17 local distribution gas companies which include 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, Boston Gas Company d/b/a KeySpan Energy Delivery New England, Colonial Gas Company d/b/a KeySpan Energy Delivery New England, Essex Gas Company d/b/a KeySpan Energy Delivery New England and EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England The buyers ship the gas they purchase from Alberta to their operations located in the northeastern part of the United States through, *inter alia*, the Iroquois pipeline.

Arlington Associates, L.P. (owned 99% by Adrian Associates LP)

Arlington Associates, L.P. is a limited partnership that owns a 75% interest in the Steuben Gas Storage Company. KeySpan's ownership in Arlington Associates is held through its approximate 40% interest in Adrian Associates, L.P.

Bard, Rao & Athanas Consulting Engineers, LLC

Bard, Rao & Athanas Consulting Engineers, LLC is a Delaware limited liability company engaged in the business of providing mechanical, electrical and plumbing related engineering services.

Boston Gas Company d/b/a KeySpan Energy Delivery New England ("Boston Gas")

Boston Gas is a Massachusetts corporation that distributes natural gas to approximately 541,000 customers located in Boston and 73 other cities and towns throughout eastern and central Massachusetts. Boston Gas is a Massachusetts public utility subject to regulation by the Massachusetts Department of Telecommunications and Energy ("MDTE") as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Broken Bridge Corp.

Broken Bridge is a New Hampshire corporation that is winding down its business and will be dissolved as soon as practicable. It formerly held unimproved real estate acquired for utility purposes and which interconnected with the EnergyNorth Natural Gas, Inc. gas system.

Colonial Gas Company d/b/a KeySpan Energy Delivery New England ("Colonial Gas")

Colonial Gas is a Massachusetts corporation that distributes natural gas to approximately 161,000 customers in 24 communities located in northeastern Massachusetts (contiguous to Boston Gas's service territory) and on Cape Cod. Colonial Gas is a Massachusetts public utility subject to regulation by the MDTE as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Eastern Associated Securities Corp.

Eastern Associated Securities Corp. is a Massachusetts corporation which is winding down its business operations and will be dissolved as soon as practicable.

Eastern Rivermoor Company, Inc.

Eastern Rivermoor Company, Inc. is a Massachusetts corporation which formerly held the title to real estate used by Boston Gas Company in its operations (*e.g.*, for service centers, garages, *etc.*). The company is winding down its business operations and will be dissolved as soon as practicable.

EnergyNorth Natural Gas, Inc. d/b/a KeySpan Energy Delivery New England ("ENNGI")

ENNGI is a New Hampshire corporation with its principal offices located at 1260 Elm Street in Manchester, New Hampshire. It is a gas utility company that operates exclusively within the state of New Hampshire. It distributes natural gas to approximately 73,000 residential, commercial and industrial customers in 27 cities and towns in an area covering approximately 922 square miles and having a total population of approximately 470,000. ENNGI's service territory is located in southern and central New Hampshire, with the exception of the city of Berlin, in northern New Hampshire. As a public utility under the laws of New Hampshire, ENNGI is subject to the regulatory supervision of the New Hampshire Public Utility Commission as to gas sales, transportation rates, securities issuances and other matters.

Enporian, Inc. (12.71%)

KeySpan is a shareholder in Enporian, Inc. ("Enporian") through its wholly owned subsidiary KeySpan Technologies, Inc. KeySpan Technologies, Inc owns 12.71% of the outstanding shares of Enporian. Enporian provides e-procurement exchange and related services.

Essex Gas Company d/b/a KeySpan Energy Delivery New England ("Essex Gas")

Essex Gas, a regulated utility, is a Massachusetts corporation that distributes natural gas to approximately 44,000 customers in 17 cities and towns in an area of eastern Massachusetts that is contiguous to Boston Gas's service territory. Essex Gas is a Massachusetts public utility subject to regulation by the MDTE as to retail rates, transportation rates, affiliate transactions, securities issuances and other matters.

Honeoye Storage Corporation (approximately 52%)

Honeoye Storage Corporation ("Honeoye") is a New York corporation which owns an underground gas storage facility in Ontario County, New York consisting of 27 injection/withdrawal wells, 12 observation wells, 19 miles of field gathering lines, compressor units totaling 2750 hp and 10.5 miles of transmission pipeline connecting the facilities to the Tennessee Gas Pipeline gas transmission system. Honeoye provides up to 6.7 billion cubic feet ("BCF") of storage service to New York and New England area gas distribution companies. Honeoye is regulated by the Federal Energy Regulatory Commission with respect to its natural gas activities. Honeoye also owns a 10% interest in Adrian Associates LP, which owns an indirect ownership interest in the Steuben Gas Storage Company. KeySpan's approximate 52% ownership interest in Honeoye is held by its indirect, wholly owned subsidiary KEDC Holdings Corp. Honeoye also owns a 13.468% ownership interest in Adrian Associates, L.P.

Iroquois Gas Transmission System L.P. (20.4% total – held 19.4% by North East Transmission Co., Inc. and 1% by KeySpan IGTS Corp.))

Iroquois Gas Transmission System, L.P. ("Iroquois") is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly-owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois pipeline. KeySpan's interests in Iroqouis are held 19.4% by North East Transmission Co., Inc. and 1% by KeySpan IGTS Corp, both wholly owned subsidiaries of KeySpan.

Iroquois Pipeline Operating Company (owned 100% by Iroquois Gas Transmission System, L.P.

Iroquois Pipeline Operating Company is a Delaware corporation that is the operating company for Iroquois Gas Transmission System L.P.

Island Energy Services Company, Inc.

Island Energy Services Company, Inc. is a wholly owned subsidiary of KeySpan Energy Corporation. It is an inactive company that owns no assets. It will be dissolved as soon practicable.

Islander East Pipeline Company, LLC (50%)

Islander East Pipeline Company, LLC ("Islander East") is a Delaware limited liability company. Islander East is involved in the development of the Islander East pipeline, a proposed 40-mile pipeline that will bring natural gas from Connecticut to Long Island. The remaining 50% interest is held by an affiliate of Duke Energy.

KEDC Holdings Corp.

KEDC Holdings Corp. ("KEDC") is a Delaware corporation which is engaged in non-utility development activities, including, but not limited to natural gas pipelines, generation facilities and oil and gas exploration activities. It is also a holding company for subsidiaries engaged in the development, ownership and operation of market area natural gas pipelines and storage facilities located in the United States, liquefied natural gas processing facilities and gas and oil exploration activities. It formerly indirectly held our investments in Canadian and United Kingdom gas facilities.

KeySpan C.I., Ltd.

KeySpan CI Limited is a Cayman Island corporation that is a non-utility holding company which directly holds a 99% interest in KeySpan UK Limited. KeySpan UK Limited formerly held interests in Premier Transco Limited and Phoenix Natural Gas Limited which were engaged in gas facilities in the United Kingdom and Northern Ireland. Our interest in Premier was sold on March 18, 2005 and in Phoenix in on December 23, 2003. Pursuant to certain contractual obligations, KeySpan has agreed that this company and KeySpan UK will remain in existence for a period of two years following the sale of Premier. Thereafter, it will be dissolved as soon as practicable.

KeySpan CI, II, Ltd.

KeySpan CI II, Limited is a Cayman Island corporation that is a non-utility holding company which directly holds a 1% interest in KeySpan UK Limited. It formerly held interests in Grupo KeySpan S. de R.L. de C.V., which in turn held a 50% interest in FINSA Energeticos, S. de R.L. de C.V, which were engaged in generation development activities in Mexico. Following the sale of our interest in Premier on March 18, 2005, this company was restructured and subscribed to a 1% interest of KeySpan UK. Pursuant to certain contractual obligations, KeySpan has agreed that this company and KeySpan UK will remain in existence for a period of two years following the sale of Premier. Thereafter, it will be dissolved as soon as practicable.

KeySpan CI Midstream Limited (100% total – held 77% by KEDC Holding Corp. and 23% by KeySpan Midstream Inc.)

KeySpan CI Midstream Limited is a Delaware corporation which was formed as a non-utility holding company to directly and wholly-own KeySpan Luxembourg S.A.R.L. KeySpan CI Midstream Limited indirectly held KeySpan's former interests in gas processing facilities in Western Canada which were divested in 2004. KeySpan CI Midstream is winding down its business and will be dissolved as soon as practicable. KeySpan's ownership interest is held in two pieces: 77% of KeySpan CI Midstream Limited is owned directly by KEDC Holding Corp. and the remaining 23% is owned by KeySpan Midstream, Inc, both wholly-owned, indirect subsidiaries of KeySpan.

KeySpan Communications Corp.

KeySpan Communications Corp. ("KCC") is a New York corporation and wholly-owned subsidiary of KeySpan Services Inc., and owns and operates a fiber optic network on Long Island, New York City and New Jersey. KCC constructs and operates fiber optic networks and transportation facilities. KCC also has a contract with its affiliate, KeySpan Corporate Services LLC (KCS) pursuant to which portions of the fiber optic network is used by KCS to serve the telecommunications needs (*e.g.,* internal voice and data transmission requirements) of KeySpan and certain of its utility and non-utility subsidiaries.

KeySpan Corporate Services LLC

KeySpan Corporate Services LLC ("KCS") is a New York limited liability company and wholly-owned subsidiary of KeySpan that provides a variety of traditional corporate administrative services to KeySpan and its subsidiaries. It is a service company pursuant to the Public Utility Holding Company Act of 2005. The services KCS provides include general supervision, corporate planning, and providing centralized services including the following activities: human resources planning and administration; accounting; financing and treasury

services; insurance and risk management; regulatory and governmental relations; corporate communications and external relations; consumer outreach and education; information systems and technology; materials management and procurement; legal services; call center operations; corporate and strategic planning; internal auditing; billing and payment processing; budget administration; security services; fleet management and maintenance; and, design, maintenance and management of buildings owned or leased by affiliates.

KeySpan Corporation

KeySpan Corporation ("KeySpan") is a holding company under the Public Utility Holding Company Act of 2005. It is a New York corporation and is the ultimate parent company of all the subsidiaries described above and herein.

KeySpan Electric Services LLC

KeySpan Electric Services LLC ("KES") is a New York limited liability company and wholly-owned subsidiary of KeySpan which, pursuant to a contract, provides day-to-day operation and maintenance services and construction management services to the Long Island Power Authority ("LIPA") for LIPA's transmission and distribution facilities located on Long Island, New York (the "T&D Facilities"). In addition, KES provides management and administration services to LIPA for its interests in the Nine Mile Point Unit 2 nuclear facility ("NMP2"). KES's services are subject to the overall direction of LIPA, and LIPA maintains control over major decisions. The services KES provides to LIPA include performance of routine and emergency facility additions and improvements, customer connections and disconnections, construction of new facilities, supervision of routine and major capital improvements, preparation of proposed budgets and monitoring LIPA approved capital and operating budgets, load and energy forecasts, long-range and short-range system and strategic plans, management and repair or modification activities associated with public works projects and emergency response activities for events affecting LIPA's facilities.

KeySpan Energy Corporation

KeySpan Energy Corporation is a New York corporation and wholly-owned subsidiary of KeySpan. It is a holding company for a variety of energy-related businesses which are conducted through its eight (8) direct, subsidiaries (The Brooklyn Union Gas Company d/b/a/ KeySpan Energy Delivery New York, KEDC Holding Corp., Marquez Development Corporation, Island Energy Services Company, Inc., KeySpan Services, Inc., KeySpan Technologies, Inc. KeySpan Ravenswood Services Corp. and KeySpan MHK, Inc.).

KeySpan Energy Development Co.

KeySpan Energy Development Co. (KEDCO) is a company incorporated in Nova Scotia, Canada. It was a holding company for KeySpan's former investments in gas processing plants and facilities in western Canada. KeySpan divested these assets in 2003 and 2004. It is winding up its business and will be dissolved as soon as practicable.

KeySpan Energy Services New Jersey, LLC (f/k/a Fritze KeySpan, LLC)

KeySpan Energy Services New Jersey, LLC is a Delaware limited liability company that was formerly engaged in HVAC system installations for small commercial and residential

customers in North and Central New Jersey. This company sold substantially all of its assets and will be dissolved as soon as practicable following the winding up of its remaining obligations.

KeySpan Energy Management, LLC

KeySpan Energy Management, LLC is a Delaware limited liability company engaged in providing HVAC services to commercial customers and wholly owns Metro Energy, L.L.C.

KeySpan Energy Services, Inc. d/b/a KeySpan Home Energy Services

KeySpan Energy Services, Inc. is a Delaware corporation, and is a gas and retail electricity marketer. It buys and sells gas to residential, commercial and industrial customers located in the Northeastern United States.

KeySpan Energy Solutions, LLC d/b/a KeySpan Home Energy Services

KeySpan Energy Solutions, LLC is a Delaware limited liability company and a wholly-owned subsidiary of KeySpan Home Energy Services, LLC. KeySpan Energy Solutions, LLC provides residential and light commercial customers with service, maintenance and installation of heating equipment, water heaters, central air conditioners and gas appliances in New York and New Jersey.

KeySpan Energy Supply, LLC

KeySpan Energy Supply, LLC is a Delaware limited liability company. It is engaged in energy brokering activities (*i.e.*, it acts as an intermediary and does not take title to energy). Specifically, it manages the purchases of gas and electricity as agent for customers of KeySpan Energy Services, Inc. and KeySpan Energy Management, LLC. KeySpan Energy Supply, LLC also manages KeySpan Utility Services' purchases of its fuel supply for the Ravenswood Facility, and manages the bidding of KeySpan-Ravenswood's power sales into wholesale electricity markets.

KeySpan Energy Trading Services LLC

KeySpan Energy Trading Services ("KETS"), a New York limited liability company and wholly-owned subsidiary of KeySpan, is a broker of electricity and gas on behalf of LIPA. Specifically, the services provided by KETS include energy supply portfolio management, risk management and associated administration and billing, and, as agent for LIPA, KETS is responsible for arranging for: (a) the purchase from third parties of additional capacity and energy that LIPA needs to serve its customers; (b) the off-system sale of LIPA's energy which it does not require to meet the needs of its system customers; and (c) fuel procurement, delivery, storage and management to meet LIPA's obligations to provide fuel to its electricity supplier to generate power for LIPA to provide for its retail and wholesale customers.

KeySpan Engineering Associates, Inc.

KeySpan Engineering Associates, Inc. is a New York professional engineering corporation providing engineering services to commercial, industrial and institutional customers, including the designs of new power supply systems, such as cogeneration facilities.

KeySpan Engineering & Survey, Inc.

KeySpan Engineering & Survey, Inc. is a New York corporation and wholly-owned subsidiary of KeySpan. It is a service company pursuant to the Public Utility Holding Company Act of 2005. KE&S provides advice and assistance to KeySpan affiliates in the study, planning, engineering, maintenance and construction of energy plant facilities, gas systems and electric systems; advises, assists and manages the planning, engineering (including maps and records) and construction operations of certain affiliates; develops and administers quality assurance programs; and, develops long-range operational programs and advises and assists coordination of such programs. It also provides surveying services.

KeySpan Exploration and Production, LLC

KeySpan Exploration and Production, LLC ("KEP") is a Delaware limited liability company and wholly-owned subsidiary of KeySpan. It is part of a joint venture with The Houston Exploration Company, a KeySpan affiliate described below, to conduct offshore gas and oil exploration and development in the Gulf of Mexico consisting of drilling undeveloped offshore leases. The offshore leases are owned 55% by Houston Exploration and 45% by KEP. Houston Exploration is the joint venture manager and operator. KEP focuses its operations, along with Houston Exploration, offshore in the Gulf of Mexico and onshore in South Texas, South Louisiana, the Arkoma Basin, East Texas and West Virginia.

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island ("KEDLI")

KEDLI is a New York corporation and wholly-owned subsidiary of KeySpan. KEDLI, is a gas utility company regulated by the New York Public Service Commission ("NYPSC") as to rates, corporate, financial, operational, reliability, safety and other matters, and affiliate transactions. KEDLI distributes natural gas at retail to approximately 500,000 customers located on Long Island, New York in Nassau and Suffolk counties and the Rockaway Peninsula in Queens County, New York.

KeySpan Generation LLC

KeySpan Generation LLC is a New York limited liability company which owns and operates approximately 4,032 megawatts of electric generation capacity located on Long Island (the "KeySpan Generation Facilities"). The KeySpan Generation Facilities consist of approximately 53 oil and gas-fired generating facilities located throughout Long Island. All of the capacity from the KeySpan Generation Facilities is sold at wholesale to the Long Island Power Authority ("LIPA") pursuant to a 15 year power supply agreement entered into in June 1997 and effective as of May 1998 at contractual, cost-of-service based rates approved by the Federal Energy Regulatory Commission ("FERC"). LIPA provides electricity to approximately 1 million customers on Long Island. KeySpan Generation does not own any electric transmission or distribution facilities other than limited facilities necessary to interconnect its generating facilities with LIPA's transmission and distribution system. KeySpan Generation is a public utility under the Federal Power Act subject to the jurisdiction of FERC. KeySpan Generation is also a New York utility subject to lightened regulation by the New York Public Service Commission since it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan-Glenwood Energy Center, LLC

KeySpan-Glenwood Energy Center, LLC ("KeySpan-Glenwood") is a Delaware corporation and is an exempt wholesale generator ("EWG"). KeySpan-Glenwood developed and constructed a 79.9 megawatt electric peaking facility on Long Island, New York. It sells wholesale capacity, energy, and ancillary services at market-based rates pursuant to authority granted by the Federal Energy Regulatory Commission ("FERC"). Pursuant to its market-based rate authority, KeySpan-Glenwood entered into an agreement with the Long Island Power Authority ("LIPA") to sell all the capacity, energy and ancillary services from the facility for a twenty (20) year period beginning in 2002 and expiring in 2027. Additionally, KeySpan-Glenwood is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan Home Energy Services, LLC d/b/a KeySpan Home Energy Services

KeySpan Home Energy Services, LLC ("KHES") is a Delaware limited liability company, and is the holding company of several direct and indirect wholly-owned subsidiaries which provide residential and small commercial customers with service, maintenance and installation of heating equipment, water heaters, central air conditioners and gas appliances.

KeySpan Home Energy Services (New England), LLC d/b/a KeySpan Home Energy Services

KeySpan Home Energy Services (New England), Inc. ("KHESNE) is a Delaware limited liability company and a wholly-owned subsidiary of KHES. KHESNE offers heating, ventilation and air conditioning services, primarily to residential and small commercial customers in eastern Massachusetts.

KeySpan Insurance Company

KeySpan Insurance Company ("KIC") is organized as a captive insurance company under Vermont law. It reinsures certain commercial insurance bought by the KeySpan system of companies from commercial insurance companies. In particular, KIC provides several major types of coverage to the KeySpan companies, including automobile liability, workers' compensation and general liability. KIC also offers property, boiler and machinery "all risk" insurance services to the KeySpan companies.

KeySpan IGTS Corp.

KeySpan IGTS Corp. is a New York corporation and holds a 1% general partner interest in the Iroquois Gas Transmission System, L.P, an interstate pipeline. Collectively, KeySpan indirectly holds a 20.4% interest in Iroquois through KeySpan IGTS Corp.'s 1% interest and, as described below, North East Transmission Co., Inc's 19.4% general partnership interest. Iroquois is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois' pipeline.

KeySpan International Corporation

KeySpan International Corporation is a Delaware corporation and a wholly-subsidiary of KEDC Holdings Corp. which serves as a non-utility holding company. for KeySpan's former foreign investments in gas distribution, transportation and electric projects. KeySpan divested these assets and the operations of this company are being unwound and it will be dissolved as

soon as practicable. As described above, KeySpan International has two (2) direct, wholly-owned subsidiaries, KeySpan CI Limited and KeySpan CI II Limited, which formerly held KeySpan's interests in certain foreign operations.

KeySpan Islander East Pipeline, LLC

KeySpan Islander East Pipeline, LLC is a Delaware limited liability company that was formed to own KeySpan's 50% ownership interest in the Islander East Pipeline Company, LLC. Islander East is involved in the development of the Islander East pipeline, a proposed 40-mile pipeline that will bring natural gas from Connecticut to Long Island. The remaining 50% interest is held by an affiliate of Duke Energy.

KeySpan LNG GP, LLC

KeySpan LNG GP, LLC is a Delaware limited liability company and is the general partner in a limited partnership known as KeySpan LNG, LP. KeySpan LNG, LP owns and operates a liquefied natural gas ("LNG") storage and receiving facility in Providence, Rhode Island. KeySpan LNG GP, LLC owns a 0.5% interest in this limited partnership and operates the facility for the partnership.

KeySpan LNG LP, LLC

KeySpan LNG LP, LLC is a Delaware limited liability company and is a limited partner in KeySpan LNG, LP with a 95.5% ownership interest in the limited partnership.

KeySpan LNG, LP (owned 100% through a 95.5% interest held by KeySpan LNG LP, LLC and a 0.5% interest held by KeySpan LNG GP, LLC)

KeySpan LNG, LP is a Delaware limited partnership and is the owner of a 600,000 barrel FERC-regulated liquefied natural gas (LNG) storage and receiving facility in Providence, Rhode Island which was acquired from Duke Energy on December 13, 2003.

KeySpan Luxembourg S.A.R.L.

KeySpan Luxembourg S.A.R.L., a Luxembourg limited liability company, was formed to be a non-utility holding company to directly and wholly-own interests in Nicodama Beheer V.B.V. KeySpan Luxembourg and Nicodama were holding companies if KeySpan's former gas processing facilities in Western Canada which have been divested. KeySpan Luxembourg is winding up its business activities and will be dissolved as soon as practicable.

KeySpan MHK, Inc.

KeySpan MHK, Inc. is a Delaware corporation and currently owns an approximately 18.2% equity interest in MyHomeKey.com, Inc. ("MHK"). MHK, a Delaware corporation and an exempt telecommunications company ("ETC") pursuant to the regulations of the Federal Communications Commission. It maintains an Internet-based website which serves as a platform for (1) local websites offering energy and home-related goods and services and (2) contractors for energy and home-related services from goods and services providers of national scope.

KeySpan Midstream Inc.

KeySpan Midstream Inc. is a Delaware limited liability company that is a holding company of a chain of intermediary, wholly-owned and international subsidiaries related to KeySpan's former ownership of gas processing facilities in Western Canada. KeySpan Midstream directly and wholly-owns KeySpan CI Midstream Limited. KeySpan Midstream is winding up its business activities and will be dissolved as soon as practicable.

KeySpan Millennium, LLC

KeySpan Millennium LLC is a Delaware limited liability company that is a holding company of KeySpan's 26.25% interest in the Millennium Pipeline Company, LLC. Millennium Pipeline Company, LLC, is developing the Millennium Pipeline project, a proposed pipeline that will transport up to 500,000 dekatherms of natural gas a day from Corning, NY to Ramapo, NY.

KeySpan New England, LLC

KeySpan New England, LLC is a Massachusetts limited liability company and the successor company to Eastern Enterprises. KeySpan New England, LLC owns all of the issued and outstanding shares in KeySpan's three (3) Massachusetts gas utility companies: Boston Gas Company, Colonial Gas Company and Essex Gas Company. It also owns all of the issued and outstanding shares in EnergyNorth Natural Gas, Inc., a New Hampshire gas utility. Additionally, through the following six (6) subsidiaries, it engages in unregulated activities: Transgas Inc., Eastern Rivermoor Company, Inc., Mystic Steamship Corporation, PCC Land Company, Inc., Philadelphia Coke Co., Inc. and Western Associated Energy Corp.

KeySpan North East Ventures Inc.

KeySpan North East Ventures, Inc. is a Delaware corporation which holds a 90% ownership interest in Northeast Gas Markets, LLC. Northeast Gas Markets provides natural gas procurement, contract management and marketing services to clients located in the northeastern part of the United States, including affiliates of KeySpan.

KeySpan Plumbing Solutions, Inc. d/b/a KeySpan Home Energy Services

KeySpan Plumbing Solutions, Inc., a New York corporation, and provides piping and plumbing maintenance services associated with the installation of gas heating, systems, principally with regard to boiler and hot water heater installations. These services are provided to residential and small commercial customers located in the New York metropolitan area.

KeySpan Plumbing & Heating Solutions, LLC d/b/a KeySpan Home Energy Services

KeySpan Plumbing & Heating Solutions, LLC ("KSP&HS ") is a Delaware limited liability company and is owned 90% by KeySpan Energy Solutions, LLC. It provides piping and plumbing maintenance services associated with the installation of gas heating systems, principally with regard to boiler and hot water heater installations in New Jersey. The remaining 10% interest is owned by a licensed New Jersey plumber. KSP&HS has a contract with KeySpan Energy Solutions, LLC pursuant to which it exclusively provides its services to KeySpan Energy Solutions, LLC and its affiliates.

KeySpan-Port Jefferson Energy Center, LLC ((Electric Services))

KeySpan-Port Jefferson Energy Center, LLC ("KeySpan-Port Jefferson") is a Delaware corporation and is an exempt wholesale generator ("EWG"). KeySpan-Port Jefferson developed

and constructed a 79.9 megawatt electric peaking facility on Long Island, New York. It sells wholesale capacity, energy, and ancillary services at market-based rates pursuant to authority granted by the Federal Energy Regulatory Commission ("FERC"). Pursuant to its market-based rate authority, KeySpan-Port Jefferson entered into an agreement with the Long Island Power Authority ("LIPA") to sell all the capacity, energy and ancillary services from the facility for sell all the capacity, energy and ancillary services from the facility for a twenty (20) year period beginning in 2002 and expiring in 2027. Additionally, KeySpan-Port Jefferson is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan-Ravenswood, LLC

KeySpan-Ravenswood, is a New York limited liability company and is an exempt wholesale generator ("EWG"). KeySpan-Ravenswood owns and/or leases and operates an approximately 2,200 megawatt electric generating facility located in Queens, New York ("Ravenswood Facility"). KeySpan-Ravenswood acquired the Ravenswood Facility from The Consolidated Edison Company of New York, Inc. ("Con Edison") in June of 1999 as part of Con Edison's divestiture of its generation assets. Ravenswood also leases and operates a 250-MW co-generation facility it constructed at the same site. Additionally, KeySpan-Ravenswood is subject to lightened regulation by the New York Public Service Commission because it sells energy, capacity and ancillary services exclusively at wholesale in New York.

KeySpan Ravenswood Services Corp.

KeySpan Ravenswood Services ("KRS") is a New York corporation and wholly-owned subsidiary of KeySpan Energy Corporation, is primarily engaged in providing day-to-day operation and maintenance services to KeySpan-Ravenswood for the Ravenswood Facility, subject to KeySpan-Ravenswood's overall direction and control. KRS also provides, at no charge, small amounts of electricity to Con Edison and provides day to day operation and maintenance services to Con Edison for its steam plant located at the site of the Ravenswood Facility; the provision of these services was a condition of Con Edison's sale of the Ravenswood Facility to KeySpan-Ravenswood. Con Edison sells the steam produced at the plant to its steam distribution customers located in New York. KRS employees include Con Edison employees who were transferred to KRS at the time KeySpan-Ravenswood acquired the Ravenswood Facility. KRS does not own any electric or steam facilities.

KeySpan Services, Inc.

KeySpan Services Inc. ("KSI") is a Delaware corporation and wholly-owned subsidiary of KeySpan, and is the holding company for non-utility subsidiaries which are engaged in providing HVAC, fiber optic, engineering, consulting and energy-related services to customers located primarily within the Northeastern United States.

KeySpan Technologies Inc.

KeySpan Technologies Inc. is a New York corporation and wholly-owned subsidiary of KeySpan involved in developing, demonstrating, marketing, operating and maintaining, for residential and institutional customers, new technologies, such as fuel cells that utilize natural gas. Its industrial customers include hospitals and chemical companies located in New York.

KeySpan Telemetry Solutions, LLC

KeySpan Telemetry Solutions, LLC is a Delaware limited liability company that is wholly-owned by KeySpan Technologies Inc. KeySpan Telemetry Solutions, LLC is engaged in remote, wireless communication devices for utility applications.

KeySpan UK Limited

KeySpan UK Limited is a company incorporated under the laws of the United Kingdom. It formerly held a 25.5% interest in Premier Transco Limited, which owned certain gas facilities in the United Kingdom. KeySpan sold its interest in Premier on March 18, 2005 and has agreed that this company must remain in existence for a period of two years following the sale of Premier.

KeySpan Utility Services LLC

KeySpan Utility Services LLC is a New York limited liability company and wholly-owned subsidiary of KeySpan. It is a service company pursuant to the Public Utility Holding Company Act of 2005 and provides services only to these New York companies, KEDNY, KEDLI, KeySpan Electric Services LLC, KeySpan Energy Trading Services LLC and KeySpan Generation LLC. The service it provides are: gas and electric transmission and distribution system planning; gas supply planning and procurement; marketing services (*i.e.,* planning, administration and support); research and development services; and meter repair operations.

KSI Contracting, LLC

KSI Contracting, LLC (formerly Roy Kay, Inc.) is a Delaware limited liability company and wholly-owned subsidiary of WDF, Inc. It was primarily engaged in providing mechanical and electrical services to commercial, industrial and institutional customers in New York and New Jersey. It is not actively engaging in new business, winding up its current obligations, and will be dissolved as soon as practicable.

KSI Electrical, LLC

KSI Electrical Company, LLC (formerly known as Roy Kay Electrical Company) is a Delaware limited liability company. KSI Electrical is licensed to perform electrical contracting work in both New York and New Jersey. It is not actively engaging in new business, is winding up its current obligations and will be dissolved as soon as practicable.

KSI Mechanical, LLC

KSI Mechanical, LLC (formerly known as Roy Kay Mechanical, Inc.) is a Delaware limited liability company. It is not actively engaging in new business, is winding up its current obligations, and will be dissolved as soon as practicable.

KSNE, LLC

KSNE is a Delaware limited liability company which is a holding company for a 1% interest in KeySpan New England, LLC.

Marquez Development Corp.

Marquez Development Corporation is a New York corporation which previously owned a uranium mill and mine in New Mexico. Marquez's facilities have been fully dismantled and, as a result, this entity is inactive and will be dissolved as soon as practicable.

METRO ENERGY, L.L.C.

Metro Energy, L.L.C. is a New York limited liability company which owns, operates and maintains the central heating and cooling facility at the Brooklyn Marriott Hotel in Brooklyn, New York.

Millennium Pipeline Company, LLC (26.25%)

Millennium Pipeline Company, LLC is an entity developing the Millennium Pipeline project, a proposed pipeline that will transport up to 500,000 dekatherms of natural gas a day from Corning, NY to Ramapo, NY, running along on existing right-of-way to replace and upgrade a Columbia Gas Transmission pipeline. In Ramapo, Millennium will connect with the existing Algonquin Gas Transmission pipeline. KeySpan's 26.25% interest in Millennium Pipeline Company, LLC is held by KeySpan Millennium, LLC.

Millennium Pipeline Management Company, L.L.C. (approximately 21%)

Millennium Pipeline Management Company, L.L.C., a Delaware limited liability company, formerly served as the general partner of Millennium Pipeline Company, L.P. Millennium Pipeline Company, L.P was converted from a Delaware limited partnership to a Delaware limited liability company known as Millennium Pipeline Company, LLC in March 2006. Millennium Pipeline Management Company, L.L.C. is winding up its affairs and will be dissolved as soon as practicable. KeySpan's approximate 21% interest in Millennium Pipeline Management Company, LLC is held by KeySpan Millennium, LLC.

MyHomeGate, Inc.

My Home Gate, Inc., is a Delaware corporation engaged in the business of remote, wireless communication devices for security and home maintenance, such as temperature control and lighting.

myhomekey.com, Inc. (18.2%)

The company myhomekey.com, Inc. ("MHK") is a Delaware corporation and is an exempt telecommunications company ("ETC") pursuant to the regulations of the Federal Communications Commission. It maintains an Internet-based website which serves as (1) a national platform for local websites offering energy and home-related goods and services and (2) a contractor for energy and home-related services from goods and services providers of national scope.

Mystic Steamship Corporation

Mystic Steamship Corporation is a Delaware corporation and is an inactive company with no material assets and will be winding up its business affairs.

Nicodama Beheer V.B.V.

Nicodama Beheer V.B.V., is a wholly-owned subsidiary of KeySpan Luxembourg S.A.R.L. and is incorporated under the laws of the Netherlands. It is a non-utility holding

company in a hain of intermediary companies that formerly held investments in certain gas processing facilities in Western Canada which were fully divested in 2004. Nicodama Beheer is winding up its business activities and will be dissolved as soon as practicable.

North East Transmission Co., Inc.

North East Transmission Co., Inc., is a Delaware corporation that was created to hold a general partner interest in the Iroquois Gas Transmission System, L.P. ("Iroquois"). Its general partner interest is currently 19.4%. Iroquois is a FERC-regulated natural gas pipeline which transports natural gas from Canada to the Northeast United States. Iroquois has a wholly-owned subsidiary, Iroquois Pipeline Operating Company, which operates the Iroquois pipeline.

Northeast Gas Markets LLC (90%)

Northeast Gas Markets, LLC, a Delaware limited liability company, provides natural gas procurement, contract management and marketing services to clients located in the northeastern part of the United States, including affiliates of KeySpan. Northeast Gas Markets, LLC is owned 90% by KeySpan Northeast Ventures, LLC.

Paulus, Sokolowski and Sartor, LLC

Paulus, Sokolowski & Sartor, LLC. is a Delaware limited liability company that provides engineering services to commercial, industrial and institutional clients.

PCC Land Company, Inc.

PCC Land Company, Inc. is a company incorporated under the laws of Texas. It holds title to real property in Pennsylvania that was the site of a coke plant operated by Philadelphia Coke Co., Inc., an associate company that is now inactive.

Philadelphia Coke Co., Inc.

Philadelphia Coke Co., Inc., is a Delaware corporation, is an inactive company with no material assets, and will be winding up its business affairs as soon as practicable.

Seneca-Upshur Petroleum, Inc.

Seneca-Upshur Petroleum, Inc. is a West Virginia corporation which is engaged in natural gas and oil exploration and production activities. It is also a holding company for four subsidiaries engaged in pipeline and liquefied natural gas activities, KeySpan LNG GP, LLC, KeySpan LNG LP, LLC, KeySpan Islander East Pipeline, LLC and KeySpan Millennium, LLC.

Steuben Gas Storage Company (approximate 30%)

Steuben Gas Storage Company owns a gas storage facility in Steuben, New York. The facility consists of 9 injection/withdrawal wells, an observation well, 2 miles of field gathering lines, compressor units totaling 2700 hp and 13.5 miles of transmission pipeline connecting the facilities to the gas transportation pipeline owned by Tennessee Gas Pipeline. Steuben provides up to 6.2 BCF of storage service to Public Service Electric and Gas Company, Elizabethtown Gas Company and Commonwealth Gas Company, which are gas distribution companies located in New Jersey and Massachusetts. KeySpan's ownership interests in Steuben are held indirectly through a chain of subsidiaries. KEDC Holding Corp has direct 33.67% ownership interest in Adrian Associates, L.P and additionally owns an approximate 7% ownership interest in Adrian

Associates through its approximate 52% ownership in Honeoye Storage Corporation (Honeoye owns a 13.468% ownership interest in Adrian Associates). Adrian Associates in turn owns a 99% ownership interest in Arlington Associates LP, which in turn owns a 75% interest in the Steuben Gas Storage Company.

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York d/b/a (KEDNY)

KEDNY is a New York corporation and wholly-owned subsidiary of KeySpan Energy Corporation. KEDNY is a gas utility corporation regulated by the New York Public Service Commission. KEDNY distributes natural gas at retail to approximately 1.1 million residential, commercial and industrial customers in the New York City Boroughs of Brooklyn, Staten Island and Queens.

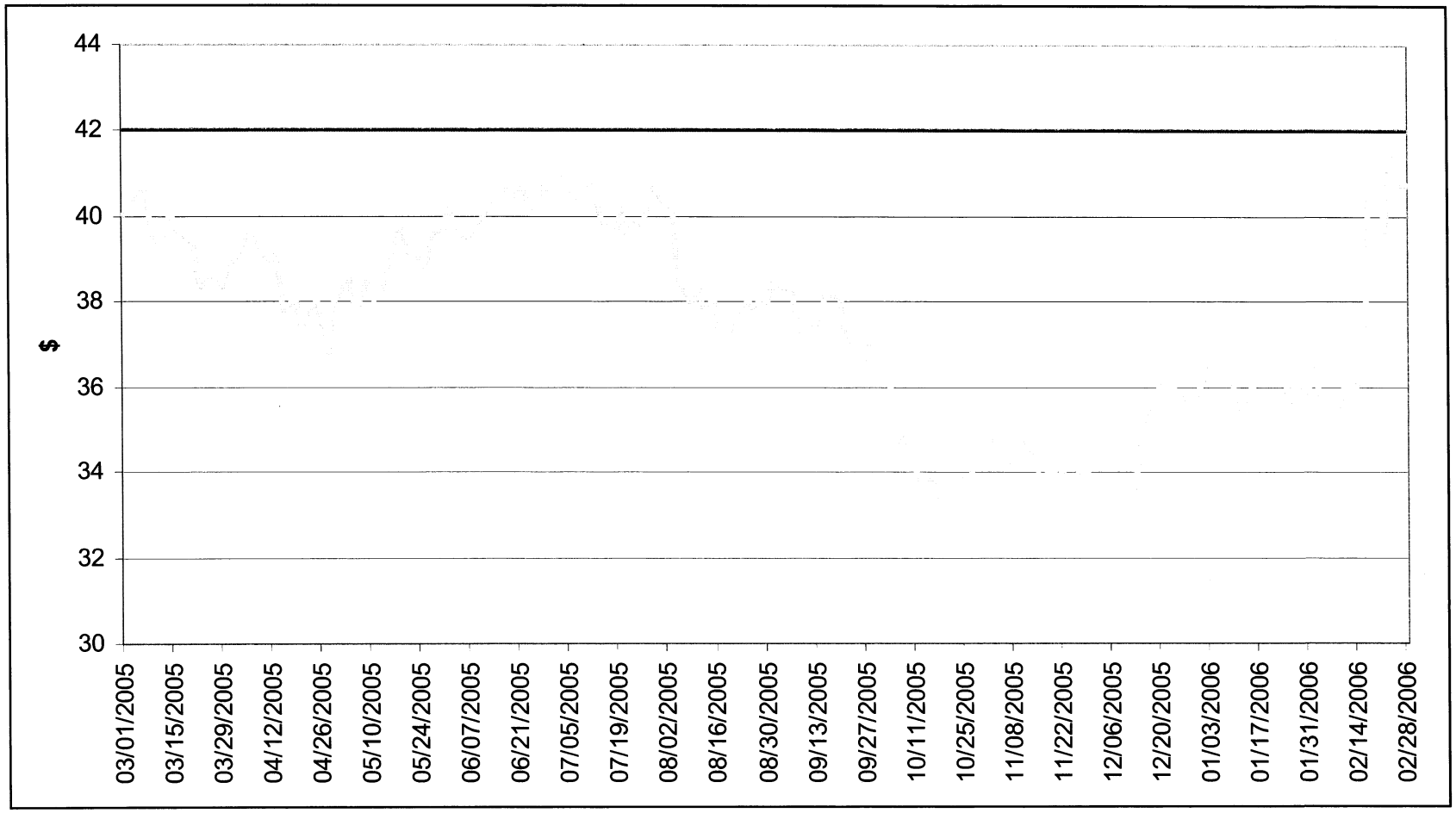
Transgas, Inc.

Transgas Inc. is a Massachusetts corporation, which provides over-the-road transportation of LNG, propane and other commodities to companies in the United States, including affiliates of KeySpan.

Doc. # 197809

Appendix 5

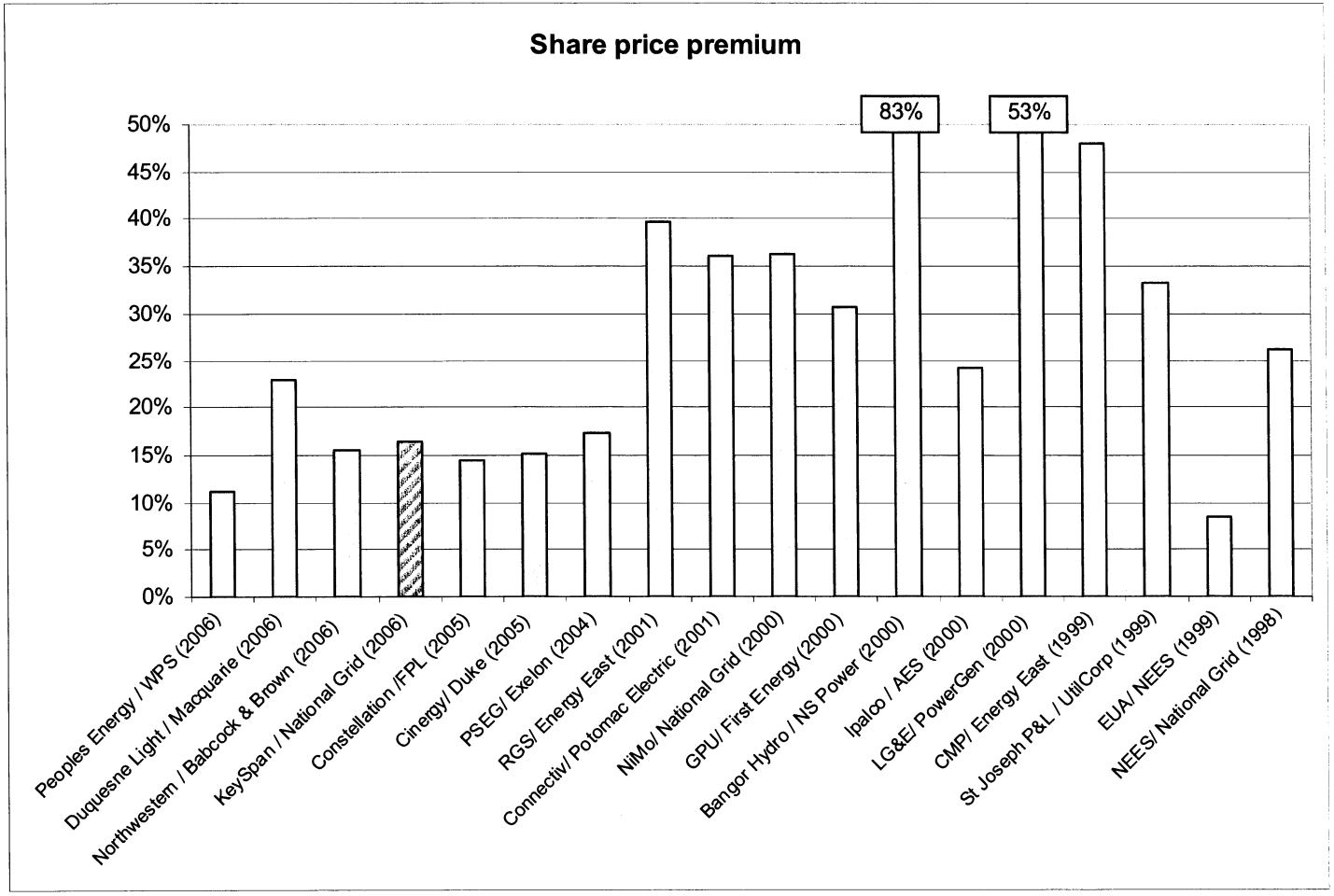
KeySpan Stock Price



KEYSPAN

nationalgrid

Market Premium

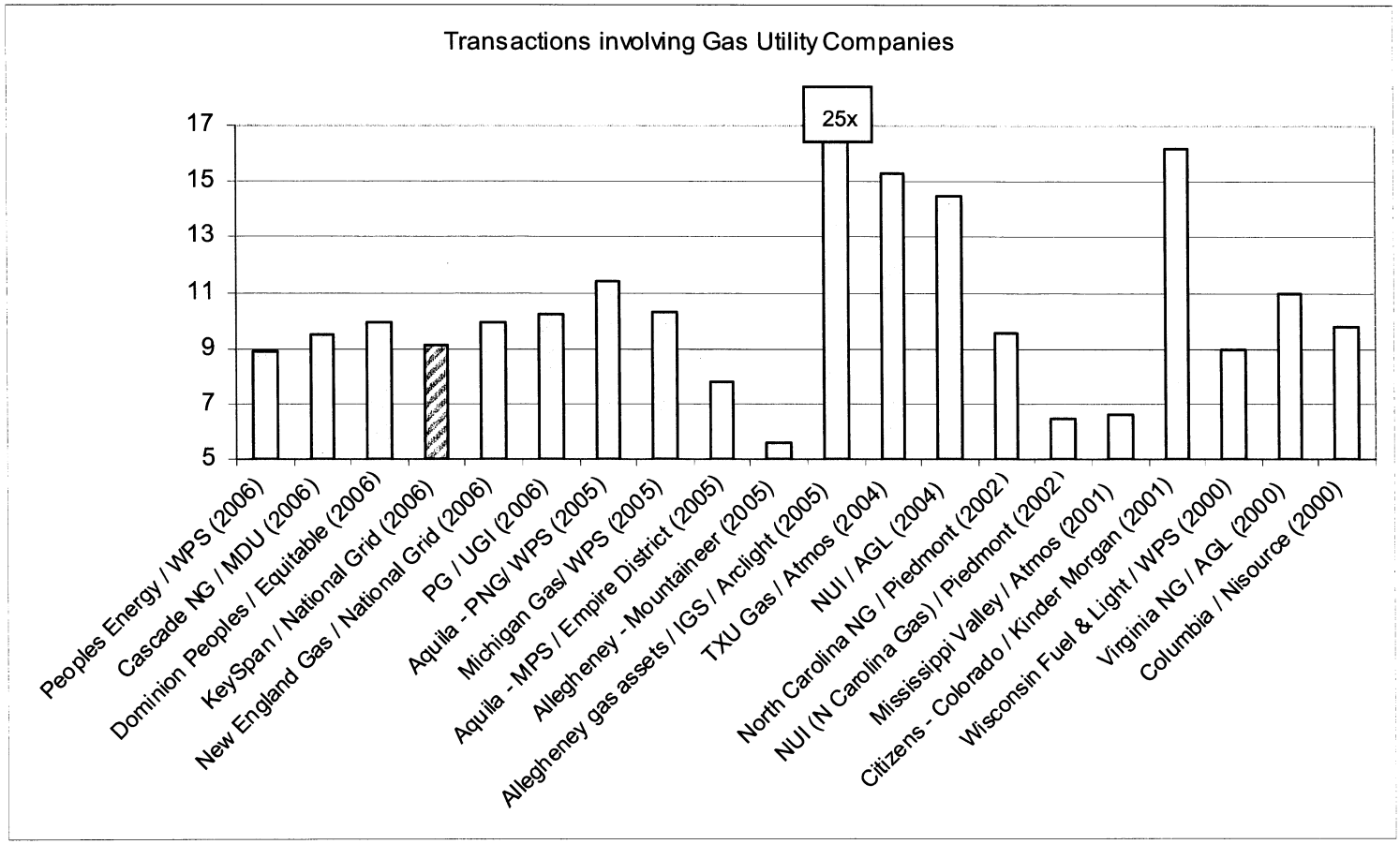


Based on public data – announced purchase price per share against price 1 month prior to announcement

KEYSPAN

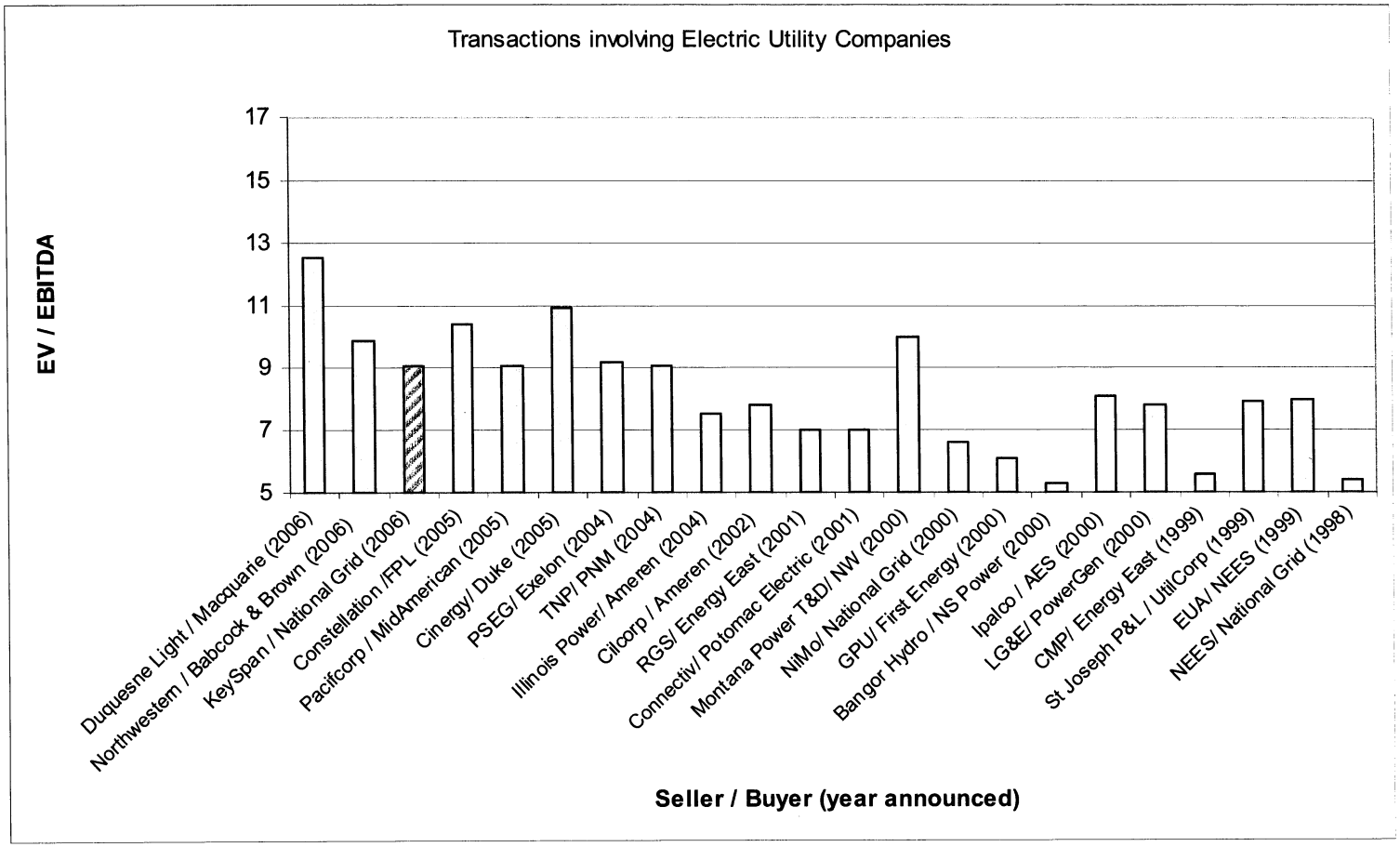
nationalgrid

Enterprise Value / EBITDA – Gas Utility Transactions



Based on public data
Enterprise Value = announced purchase price, including assumed debt
EBITDA = Earnings before interest, tax, depreciation & amortization for last 12 months before announcement

EV / EBITDA – Electric Utility Transactions



Based on public data

Enterprise Value = Announced purchased price, including assumed debt

EBITDA = Earnings before Interest, tax, depreciation & amortization for (last 12 months before announcement)

Backup data

Share price premium - electric & gas transactions

Seller/ buyer (year announced)	Premium to share price (1 month prior)
Peoples Energy / WPS (2006)	11.20%
Duquesne Light / Macquarie (2006)	22.90%
Northwestern / Babcock & Brown (2006)	15.60%
KeySpan / National Grid (2006)	16.40%
Constellation /FPL (2005)	14.40%
Cinergy/ Duke (2005)	15.20%
PSEG/ Exelon (2004)	17.40%
RGS/ Energy East (2001)	39.80%
Connectiv/ Potomac Electric (2001)	36.10%
NiMo/ National Grid (2000)	36.30%
GPU/ First Energy (2000)	30.60%
Bangor Hydro / NS Power (2000)	83.50%
Ipalco / AES (2000)	24.20%
LG&E/ PowerGen (2000)	53.50%
CMP/ Energy East (1999)	48.00%
St Joseph P&L / UtilCorp (1999)	33.30%
EUA/ NEES (1999)	8.50%
NEES/ National Grid (1998)	26.10%

Transaction comps - gas utility companies

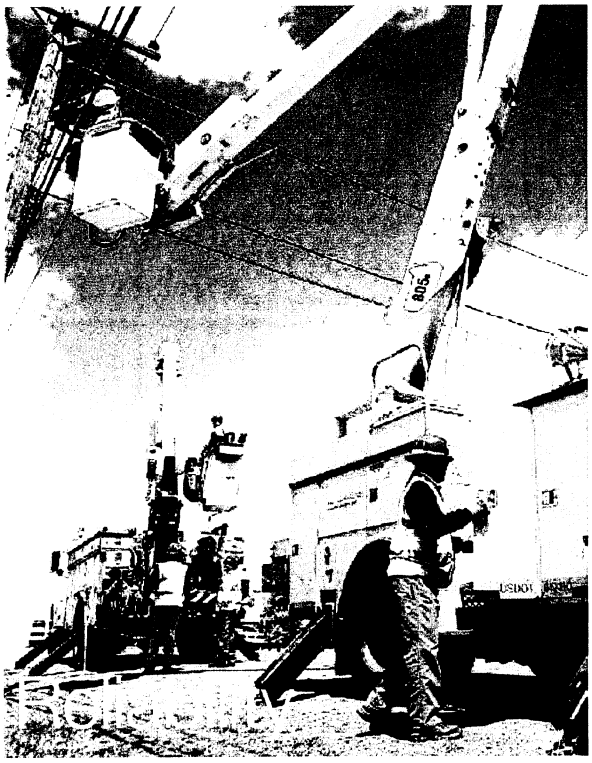
Seller/ buyer (year announced)	EV / EBITDA
Peoples Energy / WPS (2006)	8.9
Cascade NG / MDU (2006)	9.5
Dominion Peoples / Equitable (2006)	9.9
KeySpan / National Grid (2006)	9.1
New England Gas / National Grid (2006)	9.9
PG / UGI (2006)	10.2
Aquila - PNG/ WPS (2005)	11.4
Michigan Gas/ WPS (2005)	10.3
Aquila - MPS / Empire District (2005)	7.8
Allegheney - Mountaineer (2005)	5.6
Allegheney gas assets / IGS / Arclight (2005)	25.1
TXU Gas / Atmos (2004)	15.3
NUI / AGL (2004)	14.5
North Carolina NG / Piedmont (2002)	9.6
NUI (N Carolina Gas) / Piedmont (2002)	6.5
Mississippi Valley / Atmos (2001)	6.6
Citizens - Colorado / Kinder Morgan (2001)	16.2
Wisconsin Fuel & Light / WPS (2000)	9
Virginia NG / AGL (2000)	11
Columbia / Nisource (2000)	9.8

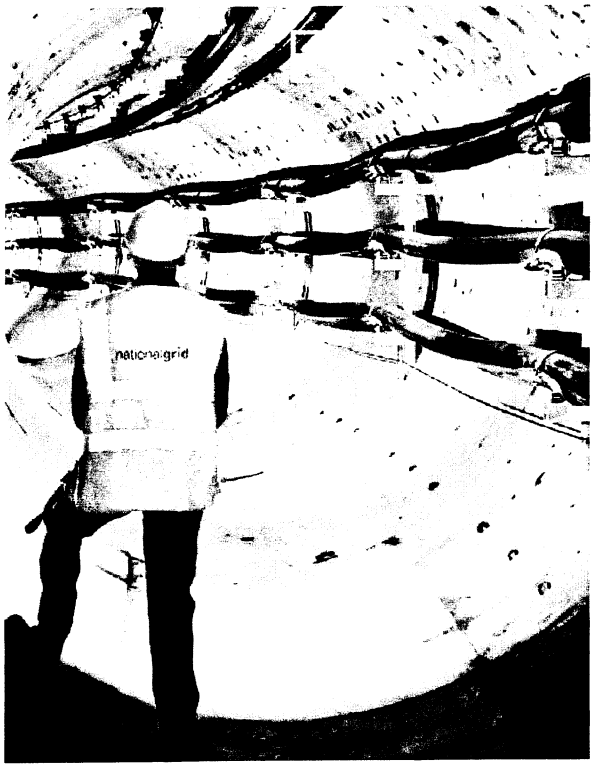
Transaction comps - electric utility companies

Seller/ buyer (year announced)	EV/ EBITA
Duquesne Light / Macquarie (2006)	12.5
Northwestern / Babcock & Brown (2006)	9.9
KeySpan / National Grid (2006)	9.1
Constellation /FPL (2005)	10.4
Pacifcorp / MidAmerican (2005)	9.1
Cinergy/ Duke (2005)	10.9
PSEG/ Exelon (2004)	9.2
TNP/ PNM (2004)	9.1
Illinois Power/ Ameren (2004)	7.5
Cilcorp / Ameren (2002)	7.8
RGS/ Energy East (2001)	7
Connectiv/ Potomac Electric (2001)	7
Montana Power T&D/ NW (2000)	10
NiMo/ National Grid (2000)	6.6
GPU/ First Energy (2000)	6.1
Bangor Hydro / NS Power (2000)	5.3
Ipalco / AES (2000)	8.1
LG&E/ PowerGen (2000)	7.8
CMP/ Energy East (1999)	5.6
St Joseph P&L / UtilCorp (1999)	7.9
EUA/ NEES (1999)	8
NEES/ National Grid (1998)	5.4

Appendix 6

national grid
gas




national grid

Dear shareholder

We are delighted to report a strong financial performance for the year ended 31 March 2006. Adjusted operating profit* is up 3%, with adjusted profit before tax* and adjusted earnings per share* up 11% and 10% respectively. These results reflect our continued commitment to driving our strategy forward together with careful investment in both our assets and the development of our people.

The Group's operational performance has also been strong and we continue to build on our reputation for world-leading standards of service for reliability in energy delivery. Managing our networks to the highest standards of safety is at the core of everything we do. We continue to improve our safety performance while constantly striving to be world class. As a Group, we also recognise the importance of acting responsibly in all that we do.

Our core skills lie in the design, development, safe operation and maintenance of large and complex networks. We will continue to invest and focus on organic growth in our existing networks while making appropriate acquisitions of network-related businesses that complement our current portfolio. Indeed, the two acquisitions that we are making in the US embody this strategy.

We also appreciate that our success is due to the talented and diverse individuals whom we employ. To secure, grow and retain the very best employees available, we are committed to investing in developing our people's futures throughout all levels of our organisation.

This is the first year that we are reporting as National Grid plc following shareholder approval of the Group name change for our principal businesses. Our drive and determination, coupled with our substantial investment programmes, emphasise our Group-wide commitment to being the world's premier network utility by creating value from our existing businesses and identifying new opportunities both at home and abroad.

Sir John Parker
Chairman

Roger Urwin
Group Chief Executive

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Shareholder Information

Highlights

Financial highlights†

Group revenue
£9,193m
2004/05: £7,382m
up 25%

Adjusted operating profit*
£2,527m
2004/05: £2,443m
up 3%

Operating profit
£2,439m
2004/05: £2,142m
up 14%

Cash generated from operations
£3,131m
2004/05: £2,911m
up 8%

Ordinary dividends
26.1p
2004/05: 23.7p
up 10%

Adjusted earnings per share*
46.7p
2004/05: 42.3p
up 10%

Earnings per share
42.8p
2004/05: 36.3p
up 18%

Operating highlights

- We agreed to acquire KeySpan Corporation, a northeastern US gas and electricity distribution company, for $7.3 billion (£4.2 billion) plus assumed debt of approximately $4.5 billion (£2.6 billion).
- Grain LNG commenced commercial operations in July 2005 and Phase II expansion is under way.
- Over the last 12 months, a 27% reduction in lost time injuries has been reported across the Group.
- £200 million London infrastructure tunnel project connecting Hertfordshire to North London completed in September 2005.
- Proposed acquisition announced of Southern Union Company's Rhode Island gas distribution business for cash consideration of $498 million (£286 million) and assumed debt of $77 million (£44 million).
- £2 billion return of value to shareholders – 65 pence per share – made in August 2005.
- Construction of Basslink complete, with commercial operations having commenced in April 2006.

† Continuing operations
*** Excludes the impact of exceptional items and remeasurements**

Important Notice
This Summary Financial Statement, as extracted from the full Annual Report and Accounts, does not contain sufficient information to allow for a full understanding of the results of the Group and the state of affairs of the Company or the Group as would be provided by the full Annual Report and Accounts.

The Auditors' Report on the full financial statements for the year ended 31 March 2006 was unqualified and did not contain a statement concerning accounting records or failure to obtain necessary information and explanations.

Shareholders who would like more detailed information may obtain a copy of the full Annual Report and Accounts 2005/06 and request any future full Annual Report and Accounts by contacting Capita Registrars, whose details are on the back cover.

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. For a description of factors that could affect future results, reference should be made to the full 'Cautionary Statement' on the back cover.

Chairman's Statement

I would like to thank the Executive team for its strong leadership and all our employees for their individual contributions to our continued success during the past year.

Board

As a Board, we are conscious that we oversee the activities of the business in the interests of all our stakeholders. In order to achieve this, we must ensure that we have the very best people for the task. To ensure this, we carry out a rigorous review of Board performance annually and regularly examine senior management succession very carefully.

Roger Urwin, Group Chief Executive, intends to retire from National Grid at the end of this calendar year. Roger has led National Grid through transformational change and delivered an outstanding track record of success and value creation. It has been my privilege to have worked closely with Roger since the merger of National Grid Group and Lattice Group in 2002. At the Board's request, Roger agreed to defer his retirement to enable a smooth transition to his successor, ensuring that operating performance momentum is maintained, together with management continuity through this year's Transmission Price Review.

To find a suitable replacement for Roger, the Non-executive Directors undertook an extensive process of evaluating both internal and external candidates. We are delighted to report that Steve Holliday will succeed Roger and was appointed Deputy Group Chief Executive from the beginning of National Grid's 2006/07 financial year. Since joining National Grid in 2001, Steve has led the UK transmission and the UK gas distribution businesses to world-leading performance. All the Directors and I are confident of the future of the Group under Steve's leadership and wish him every success.

This year will also see John Grant stepping down from his Non-executive Directorship.

26.1p
Ordinary dividends

46.7p
Adjusted earnings per share*

* Excludes the impact of exceptional items and remeasurements

John joined National Grid in November 1995. He has made an outstanding contribution to the Board and our Committees over the past 10½ years. He has also been a major contributor to all our key debates and we shall miss his wisdom and insight.

Governance

The Board of National Grid continues to be committed to the highest standards of corporate governance. It also seeks to ensure that our values and internal processes lead to the effective management of risk and the equitable treatment of all our stakeholders and employees. We recognise the significant benefit of management leadership within a robust governance framework that embodies strong financial control and sound administration.

In a climate where the governance arrangements in large companies are increasingly under scrutiny, the Board has implemented a transparent approach. This is driven by our Framework for Responsible Business, underpinned by a suite of policies, procedures, public position statements and well-defined internal control processes.

Employee engagement

In May 2006, we undertook our second Group-wide employee opinion survey. The first survey was undertaken in July 2004. One initiative that resulted from the previous survey was the promotion of 'Managers as Communicators' to enhance dialogue and feedback among the workforce.

Following the 2004 employee opinion survey, the Executive identified a number of areas for improvement. These included improving opportunities for dialogue across the Group, ensuring understanding of strategy amongst employees, managing change better, managing individual performance effectively, demonstrating our values in all

that we do and continuing to progress our inclusion and diversity policy.

The re-branding programme provided a platform this year to demonstrate our improvement in a number of these areas and to introduce new approaches. Across the Group we have also refined our employee briefing processes and our national employee publications. For the first time this year, we have introduced a Group-wide publication, 'National Grid World', to provide employees with a broader view of Group activities.

Community investment
National Grid continues to support its customers and communities through its community investment activities. The areas that we support are closely aligned to our business priorities: Education & Skills, Environment & Energy and Community Development.

Both our US and UK operations have programmes to support domestic consumers who have difficulty with energy payments. In the US, approximately 215,000 National Grid customers are supported through our Low Income Discount Rates, which reduce fuel bills by up to 25%. National Grid also administers grants in the US to allow customers to install energy efficiency measures. Through the Gas Efficiency Programme, which was initiated at the end of 2005, low-income customers are able to receive support from a fund of $5 million. In addition, National Grid in the US sponsors assistance programmes run by charitable organisations to support those who are not able to pay their energy bills.

In the UK, National Grid has supported the fuel poor through its 'Affordable Warmth Programme'. Since it was established in 1999, the programme has assisted 377,841 homes. One of its key elements is the support for the Warm Zones concept. National Grid currently supports four Warm Zones working with Government and social housing providers and integrating sources of funding to tackle the issue of fuel poverty in a concentrated and systematic manner.

We have also continued to lead on the 'Young Offender Into Work Programme'. With the involvement now of over 50 FTSE companies, we have seen 400 young people secure a new future with a significant reduction in the re-offending rate.

Dividend
The Board is recommending a final dividend of 15.9p per ordinary share – representing a 10% increase in the full-year dividend. This increase reflects our confidence in the Group's longer-term prospects based on this year's good results and our strategic commitment to invest in the growth of our businesses.

Going forward, we continue to target annual increases of 7% to March 2008.

Outlook
Given the opportunities across the Group for capital investment and revenue growth with the continuing drive for cost efficiencies, the Board continues to have full confidence in the Group's ability to generate future earnings growth. The Group will also continue to maintain its disciplined approach to both organic growth and strategic investment.

Sir John Parker
Chairman

377,841

The number of homes that National Grid has assisted through its 'Affordable Warmth Programme'

400

The number of young people securing new futures from National Grid's 'Into Work Programme'

nationalgrid

The new name for our principal businesses

Group Chief Executive's Review

Our aim to be the world's premier network utility, and the delivery of our strategy, are both at the heart of our day-to-day activities.

Strategy
As an infrastructure-based network provider, it is essential that we deliver high standards of service and reliability as well as outperforming our benchmarks and regulatory targets. We need to continue managing our regulatory relationships successfully to benefit both our customers and shareholders. Our disciplined approach to capital management remains paramount.

Progress
Delivering our strategy involves the continued focus on our key strengths of operational excellence, our ability to exceed our efficiency targets and our prudent use of capital. Investment in our current businesses and strategic opportunities are made only where we believe we can create shareholder value.

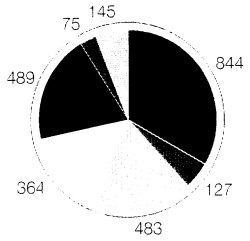
Our regulatory controls provide significant incentives towards improving operational efficiency by permitting the sharing of the benefits of increased efficiencies between energy users and shareholders. This year we added to National Grid's impressive cost-efficiency track record when UK gas distribution achieved its cost-efficiency target one year early.

Investment†
Investment in our networks remains a priority for the Group. Total investment reached £2 billion this year, up by one third over last year's £1.5 billion. We project a further rise to around £2.5 billion per annum over the next five years. Investment is rising across the Group with the largest increases in our UK regulated businesses.

New investment in UK electricity transmission is being driven largely by asset replacement which reflects the age and condition of the network. UK gas transmission investment is also increasing, but here it is primarily due to new infrastructure required to meet the changing gas supply pattern as the UK becomes a net importer of gas. This includes our largest ever project, connecting the new liquefied natural gas (LNG) terminals currently being built at Milford Haven. This will require investment of more than £750 million over the next two years.

£2,527m
Adjusted operating profit*

Adjusted operating profit* by business £m



844 UK electricity and gas transmission
127 US electricity transmission
483 UK gas distribution
364 US electricity and gas distribution
489 US stranded cost recoveries
75 Wireless infrastructure
145 Other activities

Our disciplined approach to capital management is also reflected in the strategic moves we made during the year. On 1 June 2005, we completed the sales of four of our regional gas distribution networks for a total cash consideration of £5.8 billion. This creates what is in effect a new gas distribution market in the UK. We have retained four of the networks, which together represent the largest of the UK gas distribution businesses. We look forward to setting new levels of efficiency for the benefit of both our customers and shareholders. The network sales led directly to the £2 billion return of value to shareholders, at 65 pence per share, which we made in August. This was one of the largest returns of value ever for a UK company.

This year we also commissioned Phase I of our LNG import terminal at the Isle of Grain in Kent. The facility has the capability to import and process 3.3 million tonnes of LNG per year. Construction of Phase II is now under way, which will triple capacity by the end of 2008. When complete, our total investment will be around £500 million and the facility will have the capacity to import around 13% of the current UK annual gas demand.

In February 2006, we announced the agreed acquisition of KeySpan Corporation, a major US energy delivery company, for $7.3 billion (£4.2 billion) plus assumed debt of approximately $4.5 billion (£2.6 billion).

† Continuing operations
* Excludes the impact of exceptional items and remeasurements

It is the largest distributor of natural gas in the northeastern US with approximately 2.6 million customers. In the same month, we announced the acquisition of gas distribution assets from the Southern Union Company for cash consideration of $498 million (£286 million) and assumed debt of $77 million (£44 million).

Both acquisitions have an excellent strategic, operational and geographic fit. They are a natural extension of our business and will expand the Group's growth platform as well as creating substantial opportunities for new cost savings.

Financial performance†

The Group's financial performance for 2005/06 has been strong. Adjusted profit before tax* and adjusted earnings per share* were 11% and 10% higher respectively than last year while operating cash flows were more than £3 billion.

The performance of all our individual businesses has been encouraging. UK transmission has entered an investment-led growth phase. During the year, the Group invested £584 million in new electricity and gas infrastructure and a further £265 million replacing assets that were nearing the end of their useful technical life. The increased investment, as well as the write-off of certain assets, led to an increase in depreciation and amortisation. This increase was partially offset by successful capacity auctions resulting in adjusted operating profit* of £844 million compared with £859 million last year. US electricity transmission had another good year with adjusted operating profit* of £127 million.

UK gas distribution results were particularly strong as adjusted operating profit* was up 14% at £483 million compared with £424 million last year. This performance is primarily due to the reduction in operating expenditure (excluding shrinkage), which was down £52 million, as a result of our 'Way Ahead' programme. Controllable costs have been cut by 35% in real terms since March 2002.

Adjusted operating profit* for US electricity and gas distribution was down 3% at £364 million, primarily due to timing differences related to pension charges and commodity costs. The majority of these costs will be recovered in future periods. Adjusting for these items, profits were broadly flat, since weather-normalised residential volume growth of 1.7% was offset by higher depreciation and amortisation.

The enlarged Wireless infrastructure business had a strong first full year as a member of the Group. Adjusted operating profit* was £75 million and the business met its £18 million annualised cash synergy target. Growth from broadcast was particularly strong reflecting the successful launch of three new channels. We are expecting double-digit organic operating profit growth over the medium term.

Other activities contributed £145 million to adjusted operating profit*, a decrease of £7 million from 2004/05. National Grid Metering has delivered strong performance, with adjusted operating profit* up £28 million. The business made good progress in driving operational efficiency, which together with growth in our competitive metering business, more than offset a decline in regulated metering revenue. Adjusted operating profit* from National Grid Property at £88 million was £14 million less than last year. National Grid Grain, our new LNG import terminal, contributed £6 million of adjusted operating profit* after coming on line in July.

Safety

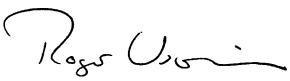
Safety is at the centre of everything we do. Over the past 12 months we have maintained an encouraging improvement in our safety performance across the Group. Against these very significant improvements over the past three years, it is all the more tragic that one of our colleagues was overcome by gas and died while re-laying a gas service pipe in our UK gas distribution business.

This very sad incident underlines the fundamental importance of safety in all that we do. It serves as a stark reminder to ensure that we continue to develop and implement ever safer ways of working for the protection of ourselves, our colleagues, our contractors and members of the public.

Outlook

The environment in which National Grid operates is ever more challenging and complex. However, I am confident that we have a strong and clear strategy that underpins everything we do and that will benefit all our stakeholders. Our growth is expected to be driven by new investments, new efficiencies and selected expansion in our current businesses.

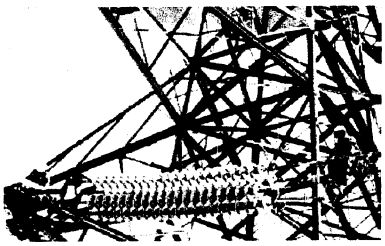
You will have seen from Sir John's statement that I intend to retire at the end of 2006. It has been my privilege to lead National Grid through a series of major changes. Our success is built on the talent, commitment and effort of everyone in National Grid. With that continuing support and his outstanding record leading UK transmission and UK distribution, I am confident that Steve Holliday will lead the Group to new levels of success.



Roger Urwin
Group Chief Executive

What we do

National Grid is dedicated to becoming the world's premier network utility. Our core skills are in the management of large and complex networks. Our businesses are primarily concerned with energy delivery and other infrastructure and related services where we can exploit our core skills to create value.



UK electricity and gas transmission

Area of operation
We own and operate the electricity transmission system in England and Wales. This is the high-voltage network that runs across both countries. We operate (but do not own) the electricity transmission system in Scotland. We also own and operate the gas transmission network in Great Britain. This is the high pressure gas pipeline network that runs across the country.

2005/06 highlights
On 1 April 2005, we became responsible for operating the Great Britain electricity transmission system, setting charges and maintaining the charging statements for all transmission users in Great Britain.

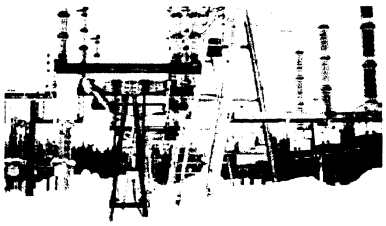
The winter of 2005/06 saw demand from the electricity transmission network in England and Wales hit a peak of 53.73 GW (gigawatt). This compares with the previous year's peak of 53.29 GW.

Size and scope
4,500 miles of overhead line

415 miles of underground cable

337 electricity substations

4,300 miles of high pressure gas pipeline



US electricity transmission

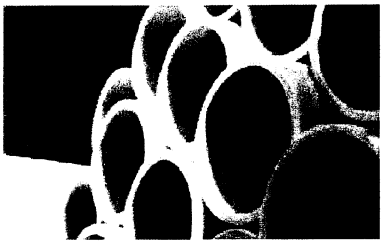
Area of operation
We own and operate an electricity transmission network of approximately 9,000 miles. We are the largest electricity transmission service provider in the northeastern US by reference to the length of our high-voltage transmission line. We also own and operate a 139-mile direct current transmission line that is a key section of an interconnector between New England and Canada.

2005/06 highlights
Capital investment in the replacement, reinforcement and extension of the US electricity transmission networks in 2005/06 was £91 million, compared with £74 million in 2004/05.

Size and scope
8,900 miles of overhead line

94 miles of underground cable

496 substations



UK gas distribution

Area of operation
Our UK gas distribution business comprises almost half of Great Britain's gas distribution system. This system comprises the gas pipelines that service homes and businesses. Our gas distribution business remains the largest in the country.

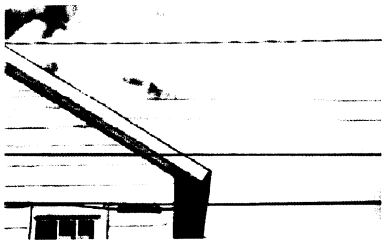
We continue to operate the UK national gas emergency number for our networks, the sold networks and other gas transporters.

2005/06 highlights
On 1 June 2005, we successfully completed the sales of four gas distribution networks for £5.8 billion.

We achieved our 35% controllable cost-reduction target one year early.

Size and scope
Distributes gas to **11 million** homes and businesses

82,000 miles of gas distribution pipeline



US electricity and gas distribution

Area of operation

Our US electricity and gas distribution business serves approximately 3.4 million electricity customers in Massachusetts, New Hampshire, New York and Rhode Island, and around 569,000 gas customers in New York.

2005/06 highlights

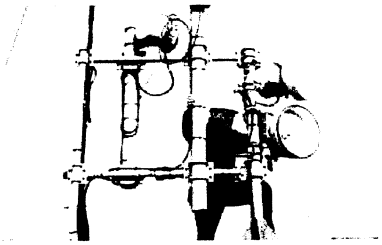
We launched the multi-year 'Reliability Enhancement Programme' that utilises new information technologies to identify problem areas together with a combination of asset replacement, increased maintenance and inspections, and other actions to improve reliability cost effectively.

The Nantucket Island cable project was completed (at a cost of more than $40 million) to deliver electricity to the island with enhanced capacity and reliability.

Size and scope

72,000 circuit miles of electricity distribution network

8,600 miles of gas pipeline forming the gas distribution network



Wireless infrastructure

Area of operation

In the UK, we are the leading independent provider of network infrastructure, such as towers, to mobile telephone operators and one of two providers of transmission networks to television and radio broadcasters. Our US business provides communications infrastructure and related network services to wireless and fixed network operators in the northeastern US.

2005/06 highlights

During 2005/06, we completed the process of integrating the UK operations of Crown Castle International Corp. that we acquired for £1.1 billion in 2004/05.

In November, we concluded an agreement with the BBC, the UK-based public service broadcaster, to extend the provision of analogue television until 2012, and AM and FM radio until 2013.

Size and scope

5,500 active sites used for mobile communications

750 purpose-built broadcast towers for radio and television broadcasting

Other businesses

National Grid Metering provides regulated gas metering and meter-reading services on behalf of our UK gas distribution business.

OnStream provides gas and electricity metering and meter-reading services to the competitive market.

National Grid Australia provides the 224-mile interconnector linking the electricity network on the island of Tasmania to mainland Australia – the longest such cable in the world.

National Grid Grain is a liquefied natural gas (LNG) import terminal and storage facility constructed and operated in the UK.

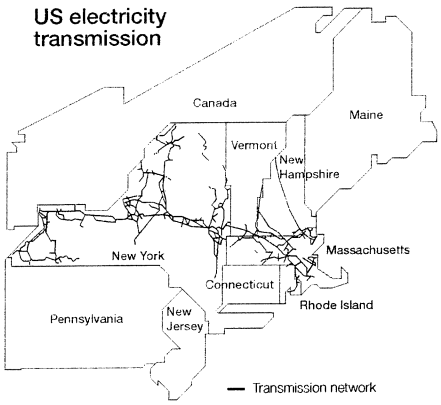
National Grid Property is responsible for the management of all our major occupied property in the UK and the management, clean up and disposal of surplus properties.

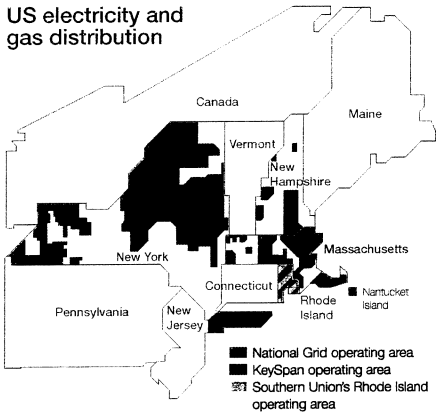
Fulcrum Connections provides gas connections and associated design services on behalf of gas distribution networks in the UK.

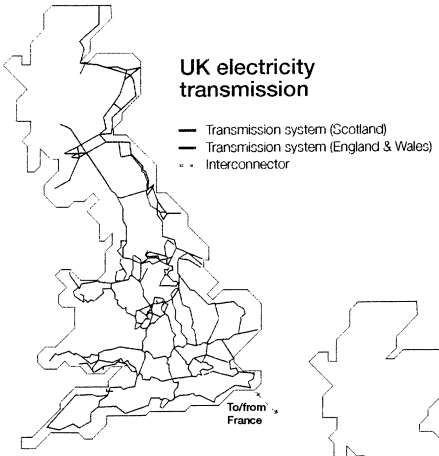
Advantica is a consultancy business providing engineering and software services to enhance safety and performance in the gas, oil, electricity and water sectors.

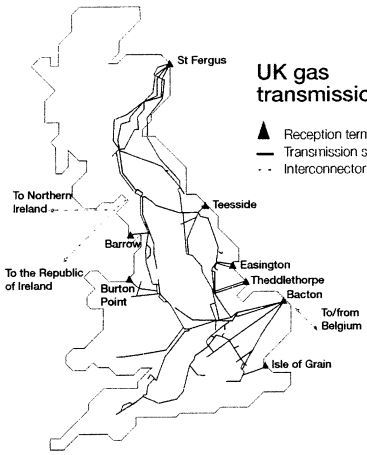
Where we are

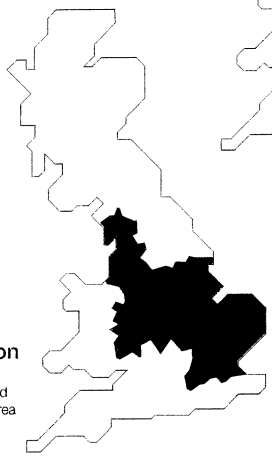
National Grid's main operations are based in the UK and the US. The maps below show where we operate in each country.

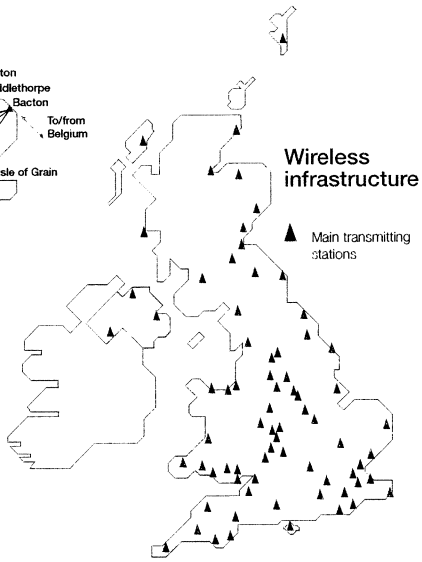












Our history

National Grid's original UK businesses were created by the restructuring of the UK gas industry in 1986 and the UK electricity industry in 1990. We entered the US energy delivery market in 2000 and substantially expanded our UK wireless infrastructure activities in 2004. This is a history of our development.

August 1986	British Gas incorporated as a public limited company
March 1990	Electricity transmission network in England and Wales transferred to National Grid on electricity privatisation (National Grid owned by 12 Regional Electricity Companies)
December 1995	National Grid listed on the London Stock Exchange
February 1997	Centrica demerged from British Gas which was renamed BG
December 1997	Energis demerged from National Grid
December 1999	BG became BG Group
March 2000	New England Electric System acquired by National Grid
April 2000	Eastern Utilities Associates acquired by National Grid
October 2000	Lattice Group demerged from BG Group
January 2002	Niagara Mohawk Power Corporation merged with National Grid's US operations
October 2002	Merger of National Grid and Lattice Group to form National Grid Transco
August 2004	Acquisition of UK wireless infrastructure network from Crown Castle International Corp.
June 2005	Sales of four UK gas distribution networks
July 2005	Adoption of National Grid as single name for principal businesses
February 2006	Agreements to acquire KeySpan Corporation and Southern Union Company's gas distribution network in Rhode Island

Our brand promise defines the way we approach the delivery of all our services in all the communities in which we operate.

Safety

Nothing we do is more important than the safety of our employees, contractors, customers and the general public. A sustainable business must operate to the highest safety standards.

Reliability

Our society depends on the reliable transmission and distribution of electricity and gas. National Grid is focused on the highest levels of reliability, developing our networks and other businesses to meet the changing patterns of supply and demand.

Efficiency

We aim to deliver world-class operational and financial performance, while improving continuously against demanding targets for safety, reliability and customer service.

Responsibility

We are committed to operating our business in a responsible way, having due regard for the impacts we have on society. In all our activities we operate within our Framework for Responsible Business.

"I believe safety is core to the business. We must all recognise the responsibility each one of us has to ensure our own safety, the safety of our colleagues and those who work with us or who are affected by our operations."

STEVE HOLLIDAY, DEPUTY GROUP CHIEF EXECUTIVE

Retention of the 0800 number and re-branding

Following the sales of four of our gas distribution networks, we are operating the four remaining networks as one, now known as National Grid Gas. Its operating area is shown on page 8.

We continue to operate the UK national gas emergency number (0800 111 999) for our own network, the sold networks and other gas transporters. During 2005/06, we handled approximately 2.5 million calls to the national gas emergency number.

We again exceeded our targets on safety-related standards of service for our gas distribution network.

More than 97% of 'uncontrolled' gas escapes (where the gas leak cannot be stopped by turning the gas supply off at the meter) were attended within one hour. More than 98% of 'controlled' gas escapes (where the gas leak can be stopped at the meter) were attended within two hours.

Road safety initiative

Our National Grid Property site at Ward Street, Bilston was one of the first to incorporate a road safety initiative as part of the clean up programme. The site is situated close to a residential area and within 500 yards of a primary school. During the 31-week project, 5,800 lorry movements were anticipated with up to 290 per week at the busiest times. The safety initiative included a school assembly briefing about road safety and the dangers of construction sites. To support this, we produced posters, wrote to parents and guardians, produced a driver road safety briefing pack for hauliers, thoroughly briefed the school crossing patrol and worked closely with the local authority. The campaign minimised risk to the public and educated both the local community and our contractors. This initiative is now being replicated at other sites around the UK.

Avoiding overhead electricity cables in the US

In 2005, National Grid launched 'DangerZone', a comprehensive public safety awareness campaign in the US. DangerZone consists of multilingual billboard advertising, videos, brochures and posters to alert contractors, construction workers and homeowners to the danger of contacting overhead electrical lines with ladders, scaffolding, vehicles, heavy machinery and equipment. In the first year of DangerZone, contacts with overhead electricity cables were reduced significantly. We will be expanding the campaign this year to include underground safety and the importance of the public calling a freephone number to check on the presence of underground lines and pipes before digging. Additionally, teachers in elementary and secondary schools within National Grid's US service territory requested and received more than 420,000 student booklets and 4,500 safety videos designed to increase safety awareness among children.

Golden Rules for safety – UK gas and electricity businesses

National Grid's Golden Rules are a framework to help everyone in the UK gas and electricity businesses to be safe in everything they do. The Rules apply as much to working in offices as they do to working on site.

The Golden Rules are a fundamental building block for 'Road to Zero', our five-year programme to reach the target of zero injuries.

The Golden Rules do not introduce new policies and procedures. They reinforce what we should be doing all the time, setting the standards for good safety behaviours and continuing to develop a culture whereby safety becomes second nature. They will also be used to identify areas in which we can make our working practices and behaviours even safer.

Sharing best practice between the UK and US businesses

There is an ongoing programme of exchange of best practice between the US transmission line services and UK transmission line construction and maintenance groups. Phase I was completed when US staff visited the UK, which resulted in the implementation within transmission line services of the double-lanyard fall protection system.

The double-lanyard system ensures enhanced fall protection by allowing at least one lanyard to be securely clipped to the structure at all times while ascending to and descending from heights. The UK transmission groups visited the US in April 2006 to demonstrate various tools, equipment and procedures such as the hook ladder and insulator replacement techniques for possible implementation in the US. These tools and techniques enable workers to perform their transmission construction tasks better, while reducing the potential risk for injury and providing for increased work efficiencies.

Metering

National Grid Metering and OnStream place great importance upon safety performance not only internally but within our service provider network.

During 2005/06, over 6.3 million jobs were completed by the businesses with only two employee lost time injuries and three contractor lost time injuries, both representing over a 40% improvement on 2004/05.

Going forward, both companies will continue to work closely with service providers to identify joint initiatives to improve safety performance further.

Reduction in lost time injuries

Safety will always be at the centre of everything we do. During 2005/06, 117 of our employees received injuries that resulted in them taking time off work, a 27% reduction compared on a like-for-like basis with 2004/05.

The employee lost time injury frequency rate provides a more accurate indicator of year-on-year performance by taking into account the changes in employee numbers that result from acquisitions and disposals. The number of employee lost time injuries per 100,000 hours worked in 2005/06 fell to 0.28, a 24% improvement when compared with the previous year.

There has also been a significant reduction in the number of contractor lost time injuries across the Group, falling from 146 in 2004/05 to 119 in 2005/06, an 18.5% decrease.

"The reliability of our operations is borne out by our ability to deliver our services 24 hours a day, 365 days a year."

MIKE JESANIS, GROUP DIRECTOR

Reliability Enhancement Programme

The US electricity business has launched a five-year programme to address its ageing system and strengthen its infrastructure to reduce the number and duration of outages.

National Grid's 'Reliability Enhancement Programme' utilises data gleaned from geographic information systems and other technologies in which the Company has invested that enable better identification of problem areas and the steps necessary to fix them.

The key focus areas for the next three years include significant increases in vegetation management, improving protection of the system from animal contacts and lightning, and 'hardening' of circuits. Hardening improves the ability of a circuit to withstand exposure to the elements through targeted replacement of deteriorated components and equipment.

The Reliability Enhancement Programme also includes ongoing condition assessment of the distribution system as well as increased inspection and maintenance programmes and substation refurbishments, expansions and rebuilds.

Nantucket Island cable project

Located off the Massachusetts coast, the island of Nantucket is a popular travel destination and place to own property that, over the past few years, has seen growth in demand for electricity rise dramatically.

As a result, National Grid has installed a second submarine cable system at a cost of more than $40 million to deliver electricity to the island. Nantucket was previously served by a single 46 kilovolt, 26-mile underground and submarine distribution cable connected to the regional transmission grid on Cape Cod. This cable went into service in late 1996, replacing diesel generating units and ushering in a new era of reliable electric service for customers on the island.

The second cable system consists of a new connection to the regional transmission grid, more than five miles of underground cable on the mainland and the island, and roughly 27 miles of submarine cable that traverse Nantucket Sound at a depth of approximately eight feet below the seabed.

Improvements and upgrades

National Grid has undertaken major expansion projects at its Ward Hill and Wachusett substations in northeastern and central Massachusetts respectively. Both projects, which include the addition of new transmission equipment and upgrades of existing transmission lines, as well as distribution improvements at Ward Hill, will greatly enhance the reliability of New England's bulk transmission system. They will also improve local service for our customers.

Sharing best practice

UK gas distribution uses, where possible, no-dig pipe-laying techniques to replace old cast iron pipe with new plastic pipe. One of these methods is known as 'live main insertion' which enables the replacement of mains under live gas conditions and avoids the need to dig long trenches. Instead, construction crews excavate small sections at two ends of a length of cast iron pipe and insert the plastic replacement pipe into the iron pipe. This avoids the need to interrupt supply to customers and reduces construction costs with significantly less excavation of roads, driveways and gardens. Consequently, this reduces inconvenience to the public and customers from construction work.

This process has been shared and adopted by our colleagues in the US and received the 2005 Technology Project of the Year Award from the Technology Alliance of Central New York.

Last year, UK gas distribution invested £444 million in the reinforcement, extension and replacement of the UK gas distribution network compared with £359 million in 2004/05 (this excludes the investment in the four regional gas distribution networks that were sold on 1 June 2005). Replacement expenditure increased from £239 million in 2004/05 to £295 million in 2005/06 in line with the planned increase in the long-term cast iron mains replacement programme agreed with the Health and Safety Executive. This enabled us to decommission over 1,710 km (1,063 miles) of old gas pipe in 2005/06 compared with 1,458 km (906 miles) in 2004/05.

Ensuring the integrity of Great Britain's gas transmission network

Operating from a newly established control facility, the Gas National Control Centre (GNCC) is responsible for operating Great Britain's gas transmission network safely, reliably and efficiently, managing the flow of gas from suppliers to customers. We ensure that all gas entering the gas transmission network meets the appropriate quality standards. We operate the system in accordance with appropriate legislation and the Health and Safety Executive safety case, while facilitating equitable and transparent access to all market participants.

GNCC operates 4,300 miles of high pressure transmission pipeline across Great Britain, facilitating the transportation of around 100 billion cubic metres of gas per year to power stations, industrial and commercial customers and approximately 20 million domestic customers.

Securing an alternative energy source

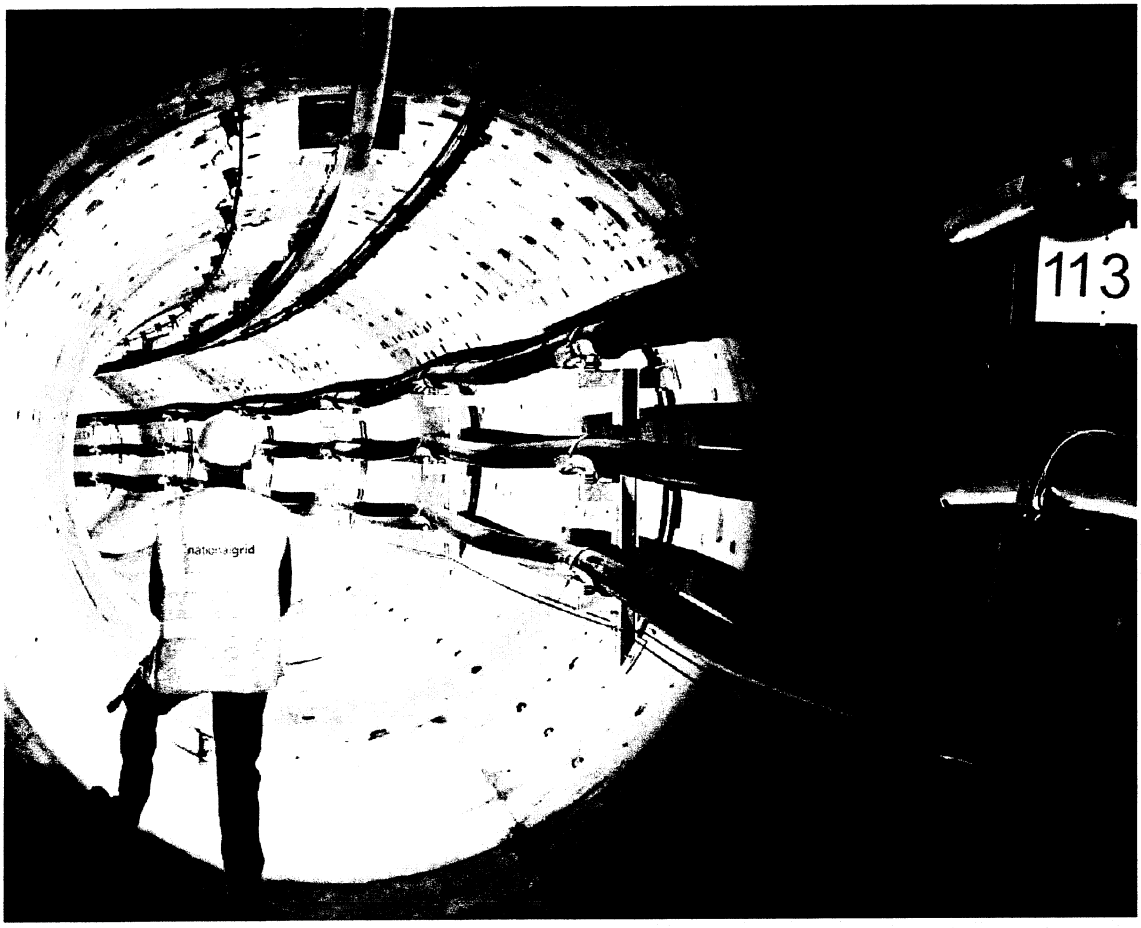
National Grid Grain owns and operates the liquefied natural gas (LNG) import facility located at the Isle of Grain, in Kent.

Commercial operations commenced on 15 July 2005. As at 31 March 2006, on the instruction of its customer BP/Sonatrach, 19 gas shipments had been received and around 16.1 TWh (terawatt hours) of gas delivered into the gas network. The facility currently has the capacity to import and process 3.3 million tonnes of LNG per year.

The business is incentivised to maintain plant availability and reliability and was available for 99% of the Winter period.

"I believe we can continue to improve our efficiency and profitability, without compromising the reliability and integrity of our operations, for the benefit of all our stakeholders."

NICK WINSER, GROUP DIRECTOR



London connection

In September 2005, National Grid completed its £200 million London infrastructure tunnel project that links Elstree in Hertfordshire to St John's Wood, North London. This 12-mile tunnel houses the longest 400 kilovolt (kV) cross-linked polyethylene (XLPE) cable circuit in Europe. XLPE cable is insulated and cooled without the use of oil and hence is more environmentally friendly than traditional oil-cooled cables.

This project represents a major investment by National Grid to reinforce the transmission system. The new 400 kV circuit will enable us to continue to meet London's demand for electricity. By constructing a tunnel, most of the works carried out underground were invisible, inaudible at ground level and minimised traffic disruption.

Since works started in March 2000, in addition to the 12-mile tunnel, seven head house buildings and two new 400 kV substations have been constructed at existing National Grid sites at Elstree and St John's Wood.

Way Ahead

Following completion of the 'Way Ahead' restructuring programme in UK gas distribution, a series of strategic development initiatives has been successfully delivered in support of our aim to be the most efficient UK gas distribution network. Centralisation of many key processes has enabled us to place increased emphasis on safety and efficiency while sharing best practice across the organisation and delivering our office rationalisation programme. Having completed the Way Ahead transformation, we are now concentrating on continuous improvement techniques to refine our existing business processes.

Strategic review of estate management

Throughout the year, we have continued to derive further value from the procurement of property services for the UK businesses. This has been achieved by aggregating our business needs which in turn has enabled us to leverage better value from our supply chain. In addition, we continue to share best practice across the whole portfolio thus enabling us to maximise efficiencies in the delivery and administration of property services, while providing optimal service levels to occupiers.

Work and Asset Management project

Work and Asset Management (WAM) aims to reshape the way the Company manages its electricity transmission system assets in the UK.

WAM is about finding a smarter way of doing things. The changes to business processes supported by WAM and the implementation of new information systems will enable us to be smarter in capital planning, target investment more effectively and gain procurement efficiencies.

MWork rollout – access to data from crew cabs

'MWork' is National Grid's new mobile work management system in the US that automates the way work and work-related information are scheduled, received and reported in the field. MWork enhances the process of dispatching and managing work in the field ultimately to provide better customer service through cost-efficient and consistent work practices throughout National Grid's US service territory.

All metering services and certain operations field workers and supervisors who use MWork will have computers in their vehicles that provide real-time information online and right at their fingertips to help them serve customers more efficiently and effectively. MWork provides optimised routing assignments and all of the information necessary to perform and report work, including allocating work orders from the Customer Service and Operations systems, real-time work status and job closeouts – all delivered via the wireless computer in vehicles.

National Grid's UK electricity transmission business uses a similar version of this technology called 'Office in the Hand', and our UK gas distribution business uses another version called 'Quarterback5'.

Automated meter reading

Available to businesses via their gas suppliers, our UK National Grid Metering business is now installing smart meter units for monthly and six-monthly read gas meters. The new technology logs data remotely and uses either SMS text message or GPRS to send the meter reading data to the customer.

Without any disruption to supply, a bolt-on device is connected to the frequency output of the meter and counts the number of pulses as gas passes through it, converts them into a reading and then transmits the data to a digital hub using mobile communications. This accurate information is then forwarded to gas suppliers to provide consumption profiles at regular intervals. Benefits to commercial users include synchronised billing for multiple sites, identification of energy wastage and better management of cost.

Supporting the 2012 Olympics

National Grid is working to assist the successful delivery of the London 2012 Olympic Games and Paralympic Games through a range of activities. We are working with the London Development Agency and the Olympic Delivery Authority, primarily in the undergrounding of the power lines crossing the Olympic Park site in the Lower Lea Valley, to ensure continued security of electricity and gas supplies to the area. National Grid is also one of the two infrastructure providers for the UK digital switchover, due to take place by 2012.

Digital television

National Grid Wireless has a strong position in the growing digital television market. We hold two of the six UK digital terrestrial television licences and provide infrastructure services to all Freeview channels including the BBC and BSkyB.

During the year, the business successfully increased capacity on its multiplexes (used for digital broadcasting) to launch three new channels. This was made possible by taking advantage of improvements in infrastructure technology and maximising the value of scarce digital capacity.

This has allowed viewers of the Freeview service to have a greater variety of channels to choose from.

"It is important that we promote and maintain our reputation as a company that manages its business in a responsible way and contributes to all the societies in which we operate."

EDWARD ASTLE, GROUP DIRECTOR

Environmental considerations

As part of National Grid Australia's environmental approvals for the Basslink Project and our commitment to the environmental integrity of the Gippsland region, Victoria, we took responsibility for 280 hectares of run-down agricultural property to return it to its native state.

In doing this work, National Grid Australia will provide a minimum of 30,000 new large and medium-sized trees to replace the 1,000 native trees removed to build the overhead transmission line. The native trees selected for the project are being grown from seed collected from the nearby Mullundung Forest and nearby regions to ensure they are similar to what would have grown there originally. In the Spring (September to November) of 2005, 90 hectares of derelict agricultural land was replanted with seed and 50 hectares of scrubland was protected to assist in natural regeneration. The remaining 140 hectares of land will be planted with 40 different species in the Spring of 2006.

Greening Australia has been contracted to National Grid Australia to undertake this work. They have more than 20 years' experience with replanting and rehabilitation works. National Grid Australia is keen to build good working relationships with farmers and landowners alike.

Group awarded top grade for apprentice scheme

National Grid has been ranked among the top 10% of UK employers for its engineering apprenticeship scheme. The Company has been awarded Grade 1 – one of the few UK energy organisations to achieve the top mark – for outstanding leadership and management of its scheme by the Adult Learning Inspectorate, the Government body that monitors the standards of industry education and training. The grade recognises National Grid's standards in a range of areas, including attraction and recruitment, learning plans for apprentices and contractual requirements set out by the Learning and Skills Council.

National Grid's apprentices are on a three-year scheme and receive practical on- and off-the-job training through our training centre at Eakring. They are trained in emergency and maintenance operations and in a range of electricity and gas roles, from electrical craftsperson to technician.

Inclusion and diversity

'Women in Networks' is a network for women in the UK and the US that provides an opportunity to come together for employees who share a common interest in making National Grid a great place to work. Its aim is to allow employees to share and explore some of the issues affecting women in the workplace.

Women in Networks was launched on 29 November 2005 with a live cross-Atlantic link. The UK event took place at the Heritage Motor Museum in Warwick, attended by about 200 people. The US held events at four locations – Buffalo, Albany, Syracuse and Westborough – at the same time for a similar number of people. Deputy Group Chief Executive Steve Holliday launched the UK event and Mike Jesanis, Chief Executive of National Grid in the US, did the same in the US via a link to the four American locations.

Electric and magnetic fields

Electric and magnetic fields (EMFs) can be generated from a wide variety of sources, including our distribution and transmission power lines and wireless infrastructure. National Grid recognises that there is some scientific evidence suggesting that certain adverse health effects are linked to EMFs.

We take these issues very seriously and continually assess the scientific evidence in this area, determine any implications for the way in which we conduct our business, and explain to society what the science is telling us.

In all our operations, as a minimum we comply with EMF regulations, guidelines or practices in force where we operate.

Responding to national emergencies

In the US, National Grid sends crews whenever possible to assist other utilities that have been hit hard by major storms that cause large-scale power outages. In Autumn 2005, National Grid sent crews to Florida in the wake of Hurricane Wilma to help restore power to 1.1 million customers. It marked the fifth time in a 13-month period that National Grid crews were dispatched to Florida and the Gulf Coast.

Nearly 550 National Grid workers logged tens of thousands of hours in those efforts. The Edison Electric Institute recognised National Grid with an Emergency Assistance Award for its contributions following Hurricane Wilma.

Energy delivery and climate change

Our Framework for Responsible Business includes a commitment to make a contribution to minimising climate change. The Board agreed our long-term strategy, mapping out how we will achieve this as well as contributing to the UK Government's long-term emission reduction targets.

During 2005/06, our direct and indirect emissions of greenhouse gases amounted to some 10.2 million tonnes CO_2 equivalent, the same as 2004/05 if the sold networks are excluded.

Compared with our verified baseline, we have already reduced our climate change impact in the UK by 14% – achieving both the Kyoto 12.5% obligation in the UK and what would have been an 8% Kyoto obligation in the US ahead of time.

National Grid continues its leadership in the US in the area of energy efficiency. The Company's cumulative investment in energy efficiency programmes has topped $1 billion, participating customers having saved $2.1 billion.

Administrative staff retraining in UK gas distribution

Two of our female administrative staff recently took up new roles as emergency gas engineers. They help to provide 24-hour cover for the country's domestic gas infrastructure and their duties include attending emergency gas leaks reported in people's homes.

The moves followed the closure of the Bolton office (as part of the rationalisation of office premises under the Way Ahead programme, see page 15) and the centralisation of many administrative roles to Hinckley and Northampton. The two assistants have been equipped with the required personal protection equipment and vehicles and are studying for the required qualification – SNVQ Core Gas Safety.

Board of Directors

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01 Sir John Parker
Chairman
(appointed October 2002) (Age 64) N (ch)
Sir John Parker became Chairman of the Group following the merger of National Grid Group plc and Lattice Group plc. He had been Chairman of Lattice Group plc since its demerger from BG Group plc in 2000. He had previously been a Non-executive Director of BG plc from 1997. Sir John's career has encompassed the engineering, shipbuilding and defence industries. He is Chairman of the Peninsular & Oriental Steam Navigation Company, a Non-executive Director of Carnival plc and Carnival Corporation, Inc. and Senior Non-executive Director of the Court of the Bank of England. Sir John is a former Chairman of RMC Group plc, a former Chairman and Chief Executive of Harland & Wolff plc and Babcock International Group PLC and a former Non-executive Director of Brambles Industries plc, GKN plc and British Coal Corporation. He is a Fellow of the Royal Academy of Engineering.

02 Roger Urwin
Group Chief Executive
(appointed November 1995) (Age 60)
E (ch), F
Roger Urwin became Group Chief Executive in October 2002 following the merger of National Grid Group plc and Lattice Group plc. Prior to the merger he had been appointed Group Chief Executive of National Grid Group plc in April 2001, where he played a key role in establishing the Company's international strategy and its successful expansion into the US. He joined the Group in 1995, initially as CEO of the Company's UK transmission business. Previously, Roger was Managing Director and Chief Executive of London Electricity from 1990 to 1995. He is also a Non-executive Director of Utilico Investment Trust plc and a Fellow of the Royal Academy of Engineering. He has announced his intention to retire from National Grid at the end of 2006.

03 Steve Holliday
Deputy Group Chief Executive
(appointed March 2001) (Age 49) E
Steve Holliday joined National Grid Group plc as Group Director, UK and Europe in March 2001. Immediately following the merger of National Grid Group plc and Lattice Group plc in October 2002, he was responsible for the Group's electricity and gas transmission businesses. He was appointed as Group Director responsible for UK Gas Distribution and Business Services in April 2003. He was formerly an Executive Director of British Borneo Oil and Gas. Previously, he spent 19 years with the Exxon Group, where he held senior positions in the international gas business and managed major operational areas such as refining and shipping. Steve's international experience includes a four-year spell in the US. He has also developed business opportunities in countries as diverse as China, Australia, Japan, Brazil and the former Soviet Union. He is a Non-executive Director of Marks and Spencer Group plc. Following the announcement of Roger Urwin's retirement he was appointed Group Chief Executive designate, becoming Deputy Group Chief Executive on 1 April 2006.

04 Steve Lucas
Group Finance Director
(appointed October 2002) (Age 52) E, F
Steve Lucas joined the Board following the merger of National Grid Group plc and Lattice Group plc in October 2002. He had been Executive Director, Finance of Lattice Group plc since its demerger from BG Group plc in 2000. Previously, he was Treasurer of BG Group plc having joined British Gas plc in 1994. A Chartered Accountant, he worked in private practice in the City of London until 1983. He then joined Shell International Petroleum Company, occupying a number of finance management positions and treasury roles, including seven years in Africa and the Far East. Steve is also a Non-executive Director of Compass Group PLC.

Committee membership

A	Audit
E	Executive
F	Finance
N	Nominations
R	Remuneration
R&R	Risk & Responsibility
(ch)	denotes Committee chairman

05 Nick Winser
Group Director
(appointed April 2003) (Age 45) E
Nick Winser joined the Board in April 2003 as Group Director responsible for UK and US Transmission operations. He was previously Chief Operating Officer of US Transmission for National Grid Transco plc. He joined National Grid Company plc in 1993, becoming Director of Engineering in 2001. Prior to this, he had been with Powergen since 1991 as principal negotiator on commercial matters, having joined the Central Electricity Generating Board in 1983 where he served in a variety of technical engineering roles.

06 Mike Jesanis
Group Director
(appointed July 2004) (Age 49) E
Mike Jesanis joined the Board in July 2004, becoming Group Director responsible for US Distribution. He became President of National Grid USA in November 2003, having been its Chief Operating Officer and responsible for day-to-day operations since January 2001. He was Chief Financial Officer of National Grid USA and New England Electric System (NEES) between March 1998 and January 2001, having joined NEES in July 1983. Mike is also Chairman of the Board of Trustees of Becker College (Worcester, Massachusetts) and a member of the Board of Trustees of Clarkson University (Potsdam, New York). He is a Director of the Massachusetts Taxpayers Foundation, Jobs for Massachusetts, Inc. and of the Boston Chamber of Commerce.

07 Edward Astle
Group Director
(appointed September 2001) (Age 52) E
Edward Astle joined the Board as Group Director, Telecommunications in September 2001 and is now Group Director responsible for Non-regulated Business and leads the Group's Business Development. He was Managing Director of BICC Communications from 1997 to 1999, and between 1989 and 1997 he held a variety of positions with Cable & Wireless. He was Regional Director Europe, CEO of its global networks and marine divisions, and in 1995 joined the Cable & Wireless board as Executive Director Global Businesses.

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08 Ken Harvey
Non-executive Director and
Senior Independent Director
(appointed October 2002) (Age 65)
N, R, R&R
Ken Harvey joined the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He was appointed Senior Independent Director in October 2004. He is Chairman of Pennon Group plc. A Chartered Engineer, Ken is a former Chairman and Chief Executive of Norweb plc, and a former Chairman of Comax Holdings Ltd, The Intercare Group plc and Beaufort International Group plc.

09 John Allan
Non-executive Director
(appointed May 2005) (Age 57)
A, R (ch)
John Allan was appointed to the Board in May 2005. He is a member of the Management Board of Deutsche Post, having been appointed following its acquisition of Exel plc in December 2005 where he had been Chief Executive since September 1994. John started his career in marketing, at Lever Brothers, moving to Bristol-Myers Company Limited and then Fine Fare Limited. He joined BET plc in 1985 and was appointed to the board in 1987. He is a member of the CBI's Presidents' Committee, the International Advisory Council of the Singapore Economic Development Board and the University of Edinburgh Campaign Board. John was previously a Non-executive Director of PHS Group plc, Wolseley plc, Hamleys plc and Connell plc.

10 John Grant
Non-executive Director
(appointed November 1995) (Age 60)
A, N, R
John Grant was appointed a Director of the Group in November 1995. He is Chairman of Torotrak plc and Hasgo Group Limited and a Non-executive Director of Corac Group Plc, and The Royal Automobile Club Limited. He was Chief Executive of Ascot Plc from 1997 to 2000 and Finance Director of Lucas Industries plc from 1992 to 1996. He previously held a number of senior executive positions during 25 years with Ford Motor Company. John will retire from National Grid with effect from the close of the 2006 Annual General Meeting.

11 Paul Joskow
Non-executive Director
(appointed March 2000) (Age 58)
F (ch), N
Paul Joskow was appointed a Director of the Group in March 2000 following the acquisition of New England Electric System (NEES). He served as a Director of NEES between 1987 and its acquisition. He is a Professor of Economics and Management at the Massachusetts Institute of Technology (MIT), a Director of the MIT Center for Energy and Environmental Policy Research, a Research Associate of the US National Bureau of Economic Research and a Fellow of the Econometric Society and of the American Academy of Arts and Sciences. Paul is also an independent Trustee of the Putnam Mutual Funds and an independent Non-executive Director of TransCanada.

12 Stephen Pettit
Non-executive Director
(appointed October 2002) (Age 55)
F, R, R&R (ch)
Stephen Pettit was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in 2001. He is a Non-executive Director of National Air Traffic Services, Halma plc and is Chairman of ROK Property Solutions plc. Stephen is also a member of BT plc's Equality of Access Board. He is a former Executive Director of Cable & Wireless plc. Before joining Cable & Wireless, he was Chief Executive, Petrochemicals at British Petroleum. Stephen was previously a Non-executive Director of KBC Advanced Technologies plc and Norwood Systems Limited.

13 Maria Richter
Non-executive Director
(appointed October 2003) (Age 51)
A, F, R&R
Maria Richter was appointed to the Board in October 2003. Maria worked for Morgan Stanley between 1993 and 2002, most recently as Managing Director of its Corporate Finance Retail Group. Prior to this, she was Managing Director of Investment Banking in the Southern Cone of Latin America, and Executive Director and Head of Independent Power and Structured Finance Business. Previous appointments include Vice President of Independent Power Group for Salomon Brothers, and Vice President of Prudential Capital Corporation and Power Funding Associates. Maria is a Director of Pro Mujer International, an international microfinance organisation, and was, until April 2006, a Director of the Western Electricity Co-ordinating Council.

14 George Rose
Non-executive Director
(appointed October 2002) (Age 54)
A (ch), N, R
George Rose was appointed to the Board following the merger of National Grid Group plc and Lattice Group plc, having been appointed to the Lattice Group plc board in September 2000. He has been Finance Director of BAE Systems plc (formerly British Aerospace plc) since 1998, having joined the company in 1992. He is a member of the shareholder committee of Airbus SAS and is also a Non-executive Director of SAAB AB and a member of the Financial Reporting Review Panel. George is also a former Non-executive Director of Orange plc.

* Helen Mahy
Group Company Secretary
and General Counsel
(appointed October 2002) (Age 45) E
Helen Mahy was appointed as Group Company Secretary following the merger of National Grid Group plc and Lattice Group plc, having been Company Secretary at Lattice Group plc since March 2002. She was additionally appointed as General Counsel from October 2003. Previously, she was Group General Counsel and Company Secretary at Babcock International Group PLC. Helen was appointed a Non-executive Director of Aga Foodservice Group plc in March 2003. She is a barrister, member of the Bar Council and an Associate of the Chartered Insurance Institute.

Summary Operating and Financial Review

Financial performance

Years ended 31 March	2006 £m	2005 £m
Group revenue	**9,193**	7,382
Other operating income	**80**	70
Operating costs excluding exceptional items and remeasurements	**(6,746)**	(5,009)
Adjusted operating profit	**2,527**	2,443
Exceptional items and remeasurements	**(88)**	(301)
Total operating profit	**2,439**	2,142
Net finance costs excluding exceptional items and remeasurements	**(606)**	(706)
Exceptional items and remeasurements	**(57)**	–
Share of post-tax results of joint ventures	**3**	3
Profit before taxation	**1,779**	1,439
Taxation	**(562)**	(319)
Profit from continuing operations	**1,217**	1,120
Profit from discontinued operations	**2,633**	304
Profit for the year	**3,850**	1,424

The results for 2005/06 have been prepared in accordance with International Financial Reporting Standards (IFRS) for the first time this year, and so the comparative results for 2004/05 are different from the results reported last year under UK GAAP. As permitted, the comparatives were not changed on the adoption of new accounting policies on accounting for financial instruments in accordance with IAS 39 on 1 April 2005.

Revenue, operating costs and operating profit

The movements in the year in revenue and other operating income, operating costs and operating profit can be summarised as follows:

	Revenue and other operating income £m	Operating costs £m	Operating profit £m
2004/05 results	7,452	(5,310)	2,142
Add back 2004/05 exceptional items and remeasurements	–	301	301
2004/05 adjusted results	7,452	(5,009)	2,443
Exchange on US operations	169	(125)	44
2004/05 constant currency results	7,621	(5,134)	2,487
UK electricity and gas transmission	715	(730)	(15)
US electricity transmission	13	(18)	(5)
UK gas distribution	113	(54)	59
US electricity and gas distribution	488	(516)	(28)
US stranded cost recoveries	84	(81)	3
Wireless infrastructure	114	(81)	33
Other activities	(26)	19	(7)
Sales between businesses	151	(151)	–
2005/06 adjusted results	9,273	(6,746)	2,527
2005/06 exceptional items and remeasurements	–	(88)	(88)
2005/06 results	9,273	(6,834)	2,439

Adjusted operating profit was up £40 million on a constant currency basis. This was driven by favourable results from UK capacity auctions in liquefied natural gas (LNG) storage and the French Interconnector, a continued focus on efficiencies, particularly in UK gas distribution, sustained volume growth in the US and a full-year contribution from the enlarged and growing wireless infrastructure business.

These factors more than offset an increase in depreciation charges in UK electricity and gas transmission, lower system operator incentive profits, also in UK electricity and gas transmission, and the timing of the recovery of certain pass-through costs in the US.

Net operating exceptional charges of £39 million for 2005/06 consisted of £60 million of restructuring costs, primarily cost-reduction programmes in UK gas distribution, and £21 million of gains relating to the disposals of joint venture investments. This compared with charges of £263 million in 2004/05, comprising £121 million in restructuring costs, £41 million in exceptional pension charges in the US and £101 million of increases in environmental provisions.

Operating remeasurements of £49 million (2004/05: £38 million) relate to changes in the value of commodity contracts in the US carried in the balance sheet at fair value arising from movements in energy prices.

Net finance costs

Excluding exceptional items and remeasurements, net finance costs have reduced by £100 million. This was principally as a consequence of lower levels of debt following the gas network sales.

Financial exceptional items and remeasurements comprised £49 million in debt redemption costs and B share issue costs, and net losses on derivative financial instruments and the financial element of commodity contract revaluations of £8 million.

Profit before taxation

The items described above have combined to deliver an 11% improvement in adjusted profit before tax from £1,740 million to £1,924 million and a 24% increase in profit before tax from £1,439 million to £1,779 million.

Taxation

Excluding the effect of net tax credits on exceptional items and remeasurements, the effective tax rate for 2005/06 and 2004/05 was 31% and 25% respectively, compared with a standard UK corporation tax rate of 30% for both years.

Earnings per share from continuing operations

After reflecting the impact of the share consolidation in August 2005, adjusted earnings per share from continuing operations are up 10% from 42.3p to 46.7p.

Earnings per share from continuing operations increased from 36.3p to 42.8p.

Discontinued operations
Discontinued operations primarily comprise the four regional gas distribution networks we sold on 1 June 2005 and include gains on the sales of £2,605 million.

Discontinued revenues, operating costs before exceptional items and adjusted operating profit from these networks were £168 million, £107 million and £61 million respectively in 2005/06, substantially lower than the respective results for 2004/05 of £1,102 million, £592 million and £510 million, as they relate to a two-month period rather than a full year. In addition, revenue for those two months is proportionally lower due to seasonality. An exceptional charge of £15 million in 2005/06 arose from the payment of a fine relating to one of the sold networks.

Dividends
The proposed total ordinary dividend for 2005/06 amounts to £709 million or 26.1 pence per ordinary share. This represents an increase of 10% over the previous year's ordinary dividend per share of 23.7 pence (£731 million). The above amounts exclude the return of £2 billion to shareholders through the B share scheme.

The final dividend proposed to shareholders for 2005/06 of 15.9 pence per share, amounting to £433 million, will be reported in the financial statements for the year ending 31 March 2007.

Dividend policy
The Board has confirmed that its dividend policy, which is to aim to increase dividends per ordinary share, expressed in sterling, by 7% nominal in each financial year to 31 March 2008, remains its policy.

Cash flow
Cash generated from continuing operations was £3,131 million in 2005/06 compared with £2,911 million in 2004/05. This includes cash outflows relating to exceptional items of £118 million and £120 million respectively. After reflecting cash flows relating to discontinued operations and tax paid, net cash inflow from operating activities was £2,971 million compared with £3,308 million in 2004/05.

Cash outflows from continuing operations investing activities fell from £2,652 million in 2004/05 to £1,713 million in 2005/06 as 2004/05 included £1,122 million in respect of the acquisition of the UK operations of Crown Castle International Corp. (£1,109 million) and a US telecommunications tower operation (£13 million). Cash flows relating to discontinued operations included £5,750 million of disposal proceeds and £115 million of cash outflows from investing activities, compared with £323 million in 2004/05.

Net cash used in financing activities of £5,712 million in 2005/06 (compared with £325 million in 2004/05) included £1,957 million in respect of the £2 billion return of value to shareholders.

Net debt and gearing
Net debt decreased by £2.7 billion from £13.6 billion at 31 March 2005 to £10.9 billion at 31 March 2006, primarily as a result of debt repayments following the disposals of the four regional gas networks for £5.8 billion, partially offset by the £2 billion return of value to shareholders and an increase of £0.4 billion relating to the adoption of IAS 39 on financial instruments.

Treasury policy
The funding and treasury risk management of the Group is carried out by a central department operating under policies and guidelines approved by the Board. The Finance Committee, a committee of the Board, is responsible for regular review and monitoring of treasury activity and for approval of specific transactions, the authority for which may be delegated. The Group has a Treasury function that raises all the funding for the Group and manages interest rate and foreign exchange rate risk.

The Group has separate financing programmes for each of the main Group companies. The Finance Committee of the Board and the Finance Committee of the appropriate Group undertaking approve all funding programmes.

The Treasury function is not operated as a profit centre. Debt and treasury positions are managed in a non-speculative manner, such that all transactions in financial instruments or products are matched to an underlying current or anticipated business requirement. The use of derivative financial instruments is controlled by policy guidelines set by the Board. Derivatives entered into in respect of gas and electricity commodities are used in support of the business's operational requirements.

Going concern
Having made enquiries, the Directors consider that the Company and the Group have adequate resources to continue in business for the foreseeable future and that it is therefore appropriate to adopt the going concern basis in preparing the accounts.

US GAAP
The accounts have been prepared in accordance with IFRS, which differs in certain significant respects from US GAAP.

Net income for 2005/06 under US GAAP was £1,307 million compared with £1,304 million in 2004/05. This compared with the profit for the year under IFRS for 2005/06 and 2004/05 of £3,850 million and £1,424 million respectively.

Equity shareholders' funds under US GAAP at 31 March 2006 and 31 March 2005 were £9,747 million and £10,591 million respectively, compared with corresponding numbers under IFRS of £3,482 million and £2,111 million.

The principal adjustments from net income and equity shareholders' funds under IFRS to their equivalents under US GAAP mainly relate to adjustments arising from differences in accounting for regulatory assets in our US operations, the treatment of the business combination with Lattice Group plc as an acquisition instead of as a merger, accounting for pension scheme arrangements, derivative financial instruments and hedge accounting.

Summary Corporate Governance

The Board is committed to good governance. This commitment is based on compliance with the Combined Code and both established and emerging best practice. Documents relating to National Grid's governance (eg Board Committee terms of reference, codes of conduct and position statements) can be found on the Group website at www.nationalgrid.com/corporate/about+us.

The Board of National Grid currently consists of 14 Directors, comprising the Chairman, six Executive Directors and seven Non-executive Directors (including the Senior Independent Director).

The effectiveness of the Board, the Board Committees and each individual Director is vital to the overall success of the Group. The Board has a well established process to evaluate performance, which consists of questionnaires sent to each Director and certain Board Committee attendees and one-to-one meetings between the Chairman and each Director. The questionnaires consider the operation and performance of the Board and Board Committees and the performance of the Chairman and Committee chairmen, and the one-to-one meetings include discussions of individual performance and any knowledge gaps requiring training. The Non-executive Directors also meet separately under the chairmanship of the Senior Independent Director to consider the performance of the Chairman and to provide him with feedback.

During the year, the Group Chief Executive and Group Finance Director held regular meetings with institutional investors, fund managers and analysts to discuss information made public by the Group. In addition, the Chairman reminds major shareholders, in writing, of his availability (along with that of the Senior Independent Director or Non-executive Directors where required) should there be issues that shareholders wish to raise. To ensure that the Board is effectively informed of shareholder views, it receives bi-annual feedback from the Company's brokers supplemented by the Group Head of Investor Relations. This ensures that all Board members, including the Non-executive Directors, are aware of the current views of major shareholders and of any outstanding issues they may have.

The principal method of communicating with the majority of shareholders is through the Annual Review. Shareholders may also attend the Company's Annual General Meeting where they have the opportunity to question Directors on any issues relating to the management of the Company. The Group also runs a very successful Shareholder Networking Programme, which allows a small number of shareholders to visit operational sites and meet senior managers, Directors and the Chairman. More details of the Shareholder Networking Programme are on page 29.

Corporate governance practices: differences from New York Stock Exchange (NYSE) listing standards. A statement in respect of the differences between the Group's governance practices and those required by the NYSE can be found on the Group website at www.nationalgrid.com/corporate/about+us.

Summary Directors' Remuneration Report

We are pleased to present the Directors' Remuneration Report for 2005/06. Our policy of relating pay to the performance of the Group continues to be a strong principle underlying the Remuneration Committee's consideration of executive remuneration.

Last year we thoroughly reviewed our remuneration policies. As a result, we have established revised performance criteria for the Performance Share Plan (our long-term incentive plan) and introduced a Deferred Share Plan as part of the annual bonus plan. We no longer operate the Share Matching Plan. We believe this reflects best practice and aligns executive incentive plans as closely as possible with the Group's strategic objectives and our shareholders' interests generally.

Our main focus in 2005/06 has been to review pension arrangements to take account of UK legislative changes effective from April 2006. The modifications to pension provision are outlined below.

Overall, we believe that salary levels and the mix between fixed and variable compensation are appropriate and we will continue to review the remuneration package to ensure it remains so.

We are confident that our approach continues to align Executive Directors' remuneration with the interests of shareholders generally, while maintaining the motivation and engagement of the team leading the Group.

Joint statement from chairmen, Remuneration Committee

John Grant	**John Allan**
(1 April 2005 to 28 February 2006)	(From 1 March 2006)

Role of Remuneration Committee and its terms of reference

The Remuneration Committee is responsible for developing Group policy on the Executive Directors' remuneration and that of other senior employees of the Group, and provides direction over the operation of the Group's share plans. The Remuneration Committee operates within terms of reference agreed by the Board, which are available on the Group's website or on request from the Group. The Board has accepted all the recommendations made by the Remuneration Committee during the year.

Remuneration policy

The Remuneration Committee determines remuneration policies and practices with the aim of attracting, motivating and retaining high calibre Executive Directors and other senior employees to deliver value for shareholders and high levels of customer service, safety and reliability in an efficient and responsible manner. The Remuneration Committee sets remuneration policies and practices in line with best practice in the markets in which the Group operates. Remuneration policies are framed around the following key principles:

- total rewards should be set at levels that are competitive in the relevant market;

- a significant proportion of the Executive Directors' total rewards will be performance based. These will be earned through the achievement of demanding targets for short-term business performance and personal performance, and long-term shareholder value creation; and
- incentive plans, performance measures and targets should be structured to operate soundly throughout the business cycle. They should be prudent and aligned as closely as possible with shareholders' interests.

Executive Directors' remuneration

Remuneration packages for Executive Directors consist of salary, the annual bonus including the Deferred Share Plan, the Performance Share Plan (long-term incentive), all-employee share plans, pension contributions and non-cash benefits.

Salary

Salaries are reviewed annually and targeted broadly at the median position against the relevant market. In determining the relevant market, the Remuneration Committee takes account of the regulated nature of the majority of the Group's operating activities along with the size, complexity and international scope of the business. In setting individual salary levels, the Remuneration Committee takes into account business performance, the individual's experience in the role and salary practices prevailing for other employees in the Group.

Annual bonus including the Deferred Share Plan

Annual bonuses are based on achievement of a combination of demanding Group, individual and, where applicable, divisional targets. The principal measures of Group performance are adjusted earnings per share (EPS) and cash flow; the main divisional measures are divisional operating profit and divisional cash flow. Individual targets are set in relation to key operating and strategic objectives and include overriding measures of safety and customer service performance. The Remuneration Committee may use its discretion to reduce payments to take account of significant safety or service standard incidents, or increase them in the event of exceptional value creation.

In 2005/06, all Executive Directors participated in the annual bonus arrangements with a maximum bonus opportunity of 100% of base salary. One half of any bonus earned is automatically deferred into National Grid shares (ADSs for the US-based Executive Director) through the Deferred Share Plan. The shares (or ADSs) are held in trust for three years before release. During this time they are not owned by the Executive Directors and therefore no dividends are paid. The Remuneration Committee may, at the time of release of the shares, use its discretion to pay a cash amount equivalent to the value of the dividends that would have accumulated on the deferred shares.

The Remuneration Committee believes that requiring Executive Directors to invest a substantial amount of their bonus in National Grid shares ensures that Executive Directors share a significant level of personal risk with the Group's shareholders.

In line with US market practice, the US-based Executive Director's bonus is pensionable. Mike Jesanis also participates in the USA Goals Program, a bonus plan covering a large number of US-based employees that can pay up to 5.7% of salary on the achievement of certain earnings and performance targets.

Long-term Incentive

Performance Share Plan (PSP)

Executive Directors receive an award over shares which will vest subject to the achievement of performance conditions set by the Remuneration Committee at the date of grant. The value of shares constituting an award is subject to a maximum, for Executive Directors, of 125% of salary. Awards were made at the maximum percentage to Executive Directors in the year 2005/06. Shares vest after three years, subject to the satisfaction of the relevant performance criteria. Vested shares must then be held for a further year (the retention period) after which they are released. During the retention period, the Remuneration Committee has discretion to pay an amount, equivalent in cash or shares, to the dividend which would have been paid on the vested shares.

Awards made in June 2003 and June 2004 were based on the Group's Total Shareholder Return (TSR) performance over a three-year period relative to the TSR performance of a group of comparator companies which included companies in the energy distribution sector including UK and international utilities. The performance condition for the June 2005 award was amended, following consultation with our major shareholders, so that 50% of any award is based on the Group's TSR performance when compared to the FTSE 100 (as at 27 June 2005) and 50% is based on the annualised growth of the Group's EPS.

In calculating TSR for the 2005 award, it is assumed that all dividends are reinvested. No shares will be released under the TSR part of the award if the Group's TSR over the three-year performance period, when ranked against that of the FTSE 100 comparator group, falls below the median. For TSR at the median, 30% of those shares will be released; 100% will be released for upper target performance where National Grid's TSR performance is 7.5% above that of the median company in the FTSE 100.

The EPS measure is calculated by reference to National Grid's real EPS growth. Where annualised EPS growth exceeds RPI (the general index of retail prices for all items) by 3% (threshold performance), 30% will be released; 100% where EPS growth exceeds RPI growth by 6%. For performance for either target between threshold and upper target, the number of shares released is calculated on a straight-line basis.

No re-testing of performance is permitted for any of the PSP awards that do not vest after the three-year performance period. If the Remuneration Committee considers, in its absolute discretion, the underlying financial performance of the Group does not justify the vesting of awards, it can declare that some or all of the award lapses.

All-employee share plans

- Sharesave: Employees resident in the UK, including Executive Directors, are eligible to participate in HM Revenue and Customs approved all-employee Sharesave schemes.
- Share Incentive Plan (SIP): UK-based Executive Directors are eligible to participate in the SIP.
- US Incentive Thrift Plan: The US-based Executive Director is eligible to participate in the Thrift Plan, a tax-advantaged savings plan (commonly referred to as a 401(k) plan) provided for employees of National Grid's US companies.

Pensions

Current UK-based Executive Directors are provided with final salary pension benefits. The pension provisions for the UK-based Executive Directors are designed to provide a pension of one thirtieth of final salary at age 60 for each year of service subject to a maximum of two thirds of final salary, including any pension rights earned in previous employment. Within the pension schemes, the pensionable salary is normally the base salary in the 12 months prior to leaving the Company. Life assurance provision of four times pensionable salary and a spouse's pension equal to two thirds of the Executive Director's pension are provided on death.

UK-based Executive Directors who joined the Company after 31 May 1989 have been able to participate in an unfunded scheme in respect of those benefits earned on pay above the HM Revenue and Customs Earnings Cap. An appropriate provision in respect of the unfunded scheme has been made in the Company's balance sheet.

In response to the new pensions taxation legislation which came into force on 6 April 2006 (A Day), the Remuneration Committee ensured the pension policy post A Day did not provide the Executive Directors with additional benefit accrual as a result of the change in pensions taxation. The current UK-based Executive Directors have elected to participate in the unfunded scheme in respect of any benefits in excess of the Lifetime Allowance or their Personal Lifetime Allowance. These Executive Directors are able to cease accrual in the pension schemes and take a 30% cash allowance in lieu of pension if they so wish in the future. These choices are in line with those offered to current senior employees in the Company, except the cash allowance varies depending upon organisational grade.

Mike Jesanis participates in a qualified pension plan and an executive supplemental retirement plan provided through National Grid's US companies. These plans are non-contributory defined benefit arrangements. Benefits are calculated using a formula based on years of service and highest average compensation over five consecutive years. In line with many US plans, the calculation of benefits under the arrangements takes into account salary, bonuses and incentive share awards (the Deferred Share Plan) but not share options or the PSP awards. The normal retirement age under the qualified pension plan is 65.

Non-cash benefits

The Group provides competitive benefits to Executive Directors, such as a fully expensed car or a cash alternative in lieu of car and fuel, use of a driver when required, private medical insurance and life assurance. UK-based Executive Directors with fewer than five years' continuous service, who were previously Executive Directors of National Grid Group plc, are provided with long-term ill-health insurance. Business expenses incurred are reimbursed in such a way as to give rise to no benefit to the Director.

Flexible Benefits Plan

Additional benefits (eg healthcare and insurance products) may be purchased under the Flexible Benefits Plan (the Plan). In the UK, the Plan operates by way of salary sacrifice; the participants' salaries are reduced by the monetary value used to purchase benefits under the Plan. One Executive Director, Steve Lucas, participates in this Plan and details of the impact on his salary are shown in Table 1.

A similar plan is offered to US-based employees. However, it is not a salary sacrifice plan and therefore does not affect salary values. Mike Jesanis participates in this plan.

Share ownership guidelines

Executive Directors are encouraged to build up and retain a shareholding of at least 100% of annual salary.

Executive Directors' service contracts

Service contracts for all Executive Directors provide for one year's notice by either party. The Remuneration Committee operates a policy of mitigation of losses in the event of an Executive Director's employment being terminated by the Group. If this occurs, the departing Executive Director would be expected to mitigate any losses incurred as a result of the termination. Therefore, entitlement to the payment of 12 months' remuneration on early termination is not automatic, but based on the circumstances of the termination.

Non-executive Directors' remuneration

Non-executive Directors' fees are determined by the Executive Directors. Non-executive Directors' remuneration comprises an annual fee (£35,000) and a fee for each Board meeting attended (£1,500) with a higher fee for meetings held outside the Non-executive Director's country of residence (£3,000). An additional fee is payable for chairmanship of a Board Committee and for holding the position of Senior Independent Director (£12,500). The Audit Committee chairman receives a chairmanship fee of £15,000 to recognise the additional responsibilities commensurate with this role. The Chairman is covered by the Company's personal accident and private medical insurance

schemes and the Company provides him with life assurance cover, a car (with driver when appropriate) and fuel expenses. Non-executive Directors do not participate in the annual bonus plan or in any long-term incentive scheme, nor do they receive any pension benefits from the Group.

Non-executive Directors' letters of appointment

The Chairman's letter of appointment provides for a period of six months' notice to give the Group reasonable security with regard to his service. The terms of engagement of Non-executive Directors other than the Chairman are also set out in letters of appointment. For all Non-executive Directors, their initial appointment and any subsequent reappointment is subject to election by shareholders.

Directors' emoluments

The aggregate amount of emoluments paid to or receivable by Directors in respect of qualifying services in the year to 31 March 2006 was £6,534,000.

Table 1: Executive Directors

	Year ended 31 March 2006					Year ended 31 March 2005
	Salary £000s	Annual bonus £000s	Benefits in kind (cash) (i) £000s	Benefits in kind (non-cash) £000s	Total £000s	Total £000s
R Urwin (ii) (iii)	765	734	–	19	1,518	1,125
S Holliday (ii) (iv) (v)	425	425	–	20	870	660
S Lucas (ii) (vi) (vii) (viii)	417	407	–	24	848	648
N Winser (ii) (ix)	385	366	–	20	771	531
M Jesanis (ii) (x) (xi) (xii)	469	385	7	13	874	446
E Astle (ii) (xiii)	400	336	12	11	759	622
Total	**2,861**	**2,653**	**19**	**107**	**5,640**	**4,032**

(i) Benefits in kind comprise benefits such as a fully expensed car, driver, private medical insurance and life assurance.
(ii) Each of the Executive Directors is accruing retirement benefits under a defined benefit pension arrangement. No Executive Director except Mike Jesanis participates in any money purchase pension arrangement through the Group (see (xii) below).
(iii) Roger Urwin exercised four Share Match awards over 17,425 shares. The market price at the date of exercise was 528p and he was required to pay 100p per award. He also received £15,704 in respect of a cash payment in lieu of dividends on exercise of these Share Match awards.
(iv) Steve Holliday's salary was increased to £600,000 on 1 April 2006, on appointment to Deputy Group Chief Executive.
(v) The total for 2005 for Steve Holliday includes, as disclosed last year, an additional ex gratia bonus of £80,000 paid on completion of the sales of four of the UK gas distribution networks.
(vi) Steve Lucas participates in the Flexible Benefits Plan which operates by way of salary sacrifice, therefore his salary is reduced by the value of the benefits he has purchased. The value of these benefits (£3,050) is included in the benefits in kind (non-cash) figure.
(vii) Steve Lucas exercised a Sharesave option granted at 350p over 2,700 shares. The market price at the date of exercise was 603p.
(viii) In November 2005 101,057 shares, at a market price of 511.53p were automatically released at no cost to Steve Lucas under the Lattice Long Term Incentive Scheme.
(ix) Nick Winser exercised a Share Match award over 2,509 shares. The market price at the date of exercise was 598p and he was required to pay 100p in total. He also received £1,976 in respect of a cash payment in lieu of dividends on exercise of the Share Match award. Nick Winser also exercised Executive Share Option awards as follows: 10,633 shares with an exercise price of 375.75p and market price on exercise of 610.5p; 47,236 shares with an exercise price of 455.25p and market price on exercise of 610.5p; and 37,383 shares with an exercise price of 481.5p and market price on exercise of 598p.
(x) Mike Jesanis's values use an exchange rate averaged over the year 1 April 2005 to 31 March 2006, of US$1.79:£1. The exchange rate for the previous year was US$1.87:£1.
(xi) Mike Jesanis's bonus includes a payment worth £4,787 in respect of his participation in the USA Goals Program (described on page 23).
(xii) The Group made contributions in the US worth £6,058 to a money purchase pension arrangement in respect of Mike Jesanis's Thrift Plan participation. The exchange rate used, as at 31 March 2006, was US$1.74:£1.
(xiii) Edward Astle exercised an Executive Share Option over 74,841 shares with an exercise price of 434.25p and market price on exercise of 594.5p. He also exercised a Sharesave option granted at 397p over 2,392 shares. The market price at the date of exercise was 527p.

Table 2: Non-executive Directors

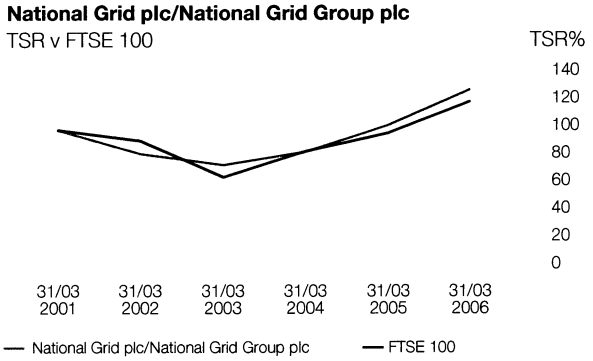
	Year ended 31 March 2006			Year ended 31 March 2005
	Fees £000s	Other emoluments £000s	Total £000s	Total £000s
Sir J Parker (i)	400	45	445	406
K Harvey	67	–	67	58
J Allan (ii)	45	–	45	–
J Grant	67	–	67	65
P Joskow	74	–	74	73
S Pettit	68	–	68	58
M Richter	61	–	61	66
G Rose	67	–	67	61
Total	**849**	**45**	**894**	**787**

(i) Sir John Parker's other emoluments comprise benefits in kind such as a fully expensed car, driver, private medical insurance and life assurance.
(ii) John Allan's appointment to the Board was effective from 1 May 2005 and he became chairman of the Remuneration Committee on 1 March 2006.

Performance graph

The graph below represents the comparative TSR performance of the Group from 31 March 2001 to 31 March 2006. For the period before the merger of National Grid Group plc and Lattice Group plc, the TSR shown is that of National Grid Group plc.

National Grid plc/National Grid Group plc



Source: Datastream

This graph represents the Group's performance against the performance of the FTSE 100 index, which is considered suitable for this purpose as it is a broad equity market index of which National Grid is a constituent. This graph has been produced in accordance with the requirements of Schedule 7A to the Companies Act 1985.

In drawing this graph it has been assumed that all dividends have been reinvested. The TSR level shown at 31 March each year is the average of the closing daily TSR levels for the 30-day period up to and including that date.

Summary Group Income Statement

for the years ended 31 March

Other operating income
Other operating income represents income on disposal of property, plant and equipment, principally properties disposed of by the Group's property management business.

Exceptional items and remeasurements
Material non-recurring items and certain remeasurement gains or losses arising from movements in the carrying value of commodity contracts and financial instruments.

Profit for the year from discontinued operations
The profit on disposal and results of four UK gas distribution networks sold on 1 June 2005 and Citelec, an Argentinian joint venture, sold in August 2004.

Earnings per share
Basic – profit attributable to equity shareholders divided by the weighted average number of ordinary shares in issue during the year.

Diluted – as per the basic calculation but assuming that new ordinary shares have been issued on the exercise of share options that have been granted.

Dividends per ordinary share
Paid during the year – represents cash paid to shareholders during the year ended 31 March.

Approved or proposed to be paid – represents the interim dividend paid and final dividend proposed in respect of the year ended 31 March.

	2006 £m	2005 (i) £m
Group revenue	**9,193**	7,382
Other operating income	**80**	70
Operating costs	**(6,834)**	(5,310)
Operating profit		
– Before exceptional items and remeasurements	**2,527**	2,443
– Exceptional items and remeasurements	**(88)**	(301)
Total operating profit	**2,439**	2,142
Interest income and similar income	**1,038**	946
Interest expense and other finance costs		
– Before exceptional items and remeasurements	**(1,644)**	(1,652)
– Exceptional items and remeasurements	**(57)**	–
	(1,701)	(1,652)
Share of post-tax results of joint ventures	**3**	3
Profit before taxation		
– Before exceptional items and remeasurements	**1,924**	1,740
– Exceptional items and remeasurements	**(145)**	(301)
Total profit before taxation	**1,779**	1,439
Taxation		
– Before exceptional items and remeasurements	**(597)**	(437)
– Exceptional items and remeasurements	**35**	118
Total taxation	**(562)**	(319)
Profit from continuing operations after taxation		
– Before exceptional items and remeasurements	**1,327**	1,303
– Exceptional items and remeasurements	**(110)**	(183)
Profit for the year from continuing operations	**1,217**	1,120
Profit for the year from discontinued operations		
– Before exceptional items	**43**	352
– Exceptional items	**2,590**	(48)
	2,633	304
Profit for the year	**3,850**	1,424
Attributable to:		
– Equity shareholders of parent company	**3,848**	1,424
– Minority interests	**2**	–
	3,850	1,424
Earnings per share from continuing operations		
– Basic	**42.8p**	36.3p
– Diluted	**42.6p**	36.2p
Earnings per share		
– Basic	**135.6p**	46.2p
– Diluted	**135.0p**	46.0p
Dividends per ordinary share: paid during the year	**25.4p**	20.4p
Dividends per ordinary share: approved or proposed to be paid	**26.1p**	23.7p

(i) Refer to Basis of Preparation and Accounting Policies on page 28 for the basis of preparation of comparatives under International Financial Reporting Standards.

Summary Group Balance Sheet

at 31 March

Total assets
Includes goodwill and other intangible assets, property, plant and equipment, investment in joint ventures, inventories, trade and other receivables, deferred tax assets, financial investments, derivative financial assets, cash and cash equivalents.

Total liabilities
Includes borrowings and overdrafts, derivative financial liabilities, trade and other payables, tax liabilities, provisions and pensions and other post-retirement benefit obligations.

Minority interests
Minority shareholders in certain of the Group's subsidiary undertakings.

	2006 £m	2005 (i) £m
Non-current assets	**22,106**	25,596
Current assets	**3,818**	1,964
Total assets	**25,924**	27,560
Current liabilities	**(5,683)**	(5,974)
Non-current liabilities	**(16,748)**	(19,465)
Total liabilities	**(22,431)**	(25,439)
Net assets	**3,493**	2,121
Equity		
Total shareholders' equity	**3,482**	2,111
Minority interests	**11**	10
Total equity	**3,493**	2,121

(i) Refer to Basis of Preparation and Accounting Policies on page 28 for the basis of preparation of comparatives under International Financial Reporting Standards.

This Summary Financial Statement was approved by the Board of Directors on 17 May 2006 and was signed on its behalf by:

Sir John Parker Chairman

Steve Lucas Group Finance Director

Note to Summary Financial Statement

Difference between IFRS and US accounting principles

The Group prepares its accounts in accordance with IFRS, which differs in certain respects from US GAAP. The significant adjustments necessary to restate net income and equity shareholders' funds in accordance with US GAAP are set out below:

Net income	2006 £m	2005 £m
Profit for the year attributable to equity shareholders under IFRS	**3,848**	1,424
Adjustments to conform with US GAAP		
Depreciation of property, plant and equipment	**(127)**	(233)
US regulatory accounting	**(269)**	(246)
Pensions and other post-retirement benefits	**(56)**	2
Financial instruments	**(130)**	254
Severance costs	**(63)**	62
Revenue recognition	**(48)**	13
Amortisation of intangibles	**(2)**	(2)
Interest on discounted provisions	**(14)**	–
Deferred taxation	**208**	28
Discontinued operations	**(2,037)**	–
Other	**(3)**	2
Total US GAAP adjustments	**(2,541)**	(120)
Net income under US GAAP	**1,307**	1,304
Basic earnings per share	**48.2p**	48.2p
Diluted earnings per share	**48.0p**	47.9p

Total shareholders' equity	2006 £m	2005 £m
Total shareholders' equity under IFRS	**3,482**	2,111
Adjustments to conform with US GAAP		
Property, plant and equipment fair value adjustments	**2,162**	3,116
Goodwill	**2,689**	4,027
US regulatory accounting	**2,702**	2,746
Pensions and other post-retirement benefits	**886**	944
Financial instruments	**119**	117
Severance liabilities	**2**	65
Revenue recognition	**(42)**	6
Intangible assets	**28**	30
Provisions	**(154)**	(130)
Non-reversal of impairments	**(39)**	(29)
Deferred taxation	**(2,090)**	(2,441)
Other	**2**	29
Total US GAAP adjustments	**6,265**	8,480
Shareholders' equity under US GAAP	**9,747**	10,591

Basis of Preparation and Accounting Policies

The Summary Financial Statement represents an abridged version of the financial statements in the National Grid Annual Report and Accounts 2005/06, which are prepared on the basis of International Financial Reporting Standards (IFRS) as adopted by the European Union (EU). A reconciliation of net income and equity shareholders' funds from IFRS to US GAAP is shown in the note to the Summary Financial Statement.

Adoption of International Financial Reporting Standards

With effect from 1 April 2005, National Grid plc is required to report its consolidated financial statements in accordance with IFRS. The tables below present the impact of conversion from UK generally accepted accounting principles (UK GAAP) to IFRS on profit for the year ended 31 March 2005 and net assets at 31 March 2005.

For the year ended 31 March 2005	£m
Profit for the year before minority interests under UK GAAP	**907**
IFRS measurement adjustments	
Replacement expenditure	236
Derecognition of regulatory assets	151
Goodwill amortisation	109
Amortisation of intangible assets other than goodwill	(4)
Pensions and other post-retirement benefits	41
Deferred taxation	(11)
Other adjustments	(6)
	516
IFRS presentation adjustments	
Non-equity minority interests	(2)
Share of results of joint ventures	3
	1
Profit for the year under IFRS	**1,424**
Less: profit for the year under IFRS – discontinued operations	(304)
Profit for the year under IFRS – continuing operations	**1,120**

At 31 March 2005	£m
Net assets under UK GAAP	**1,391**
IFRS measurement adjustments	
Replacement expenditure	3,014
Derecognition of regulatory assets	(1,587)
Goodwill	28
Intangible assets other than goodwill	99
Pensions and other post-retirement benefits	(1,149)
Deferred taxation	(95)
Proposed final dividend	469
Other adjustments	(27)
	752
IFRS presentation adjustments	
Non-equity minority interests	(22)
Net assets under IFRS	**2,121**

Amounts shown above are net of any related deferred tax on the underlying IFRS adjustment.

Explanations of the UK GAAP to IFRS adjustments have been provided in the Group's Annual Report and Accounts 2005/06, available on the Group's website on www.nationalgrid.com.

Independent Auditors' Statement to the Members of National Grid plc

We have examined the Summary Financial Statement of National Grid plc, which comprises the Summary Group Income Statement, Summary Group Balance Sheet, Summary Directors' Report and Summary Directors' Remuneration Report.

Respective responsibilities of Directors and Auditors:
The Directors are responsible for preparing the summarised Annual Review in accordance with applicable law. Our responsibility is to report to you our opinion on the consistency of the Summary Financial Statement within the summarised Annual Review with the annual financial statements, the Directors' Report and the Directors' Remuneration Report, and its compliance with the relevant requirements of Section 251 of the United Kingdom Companies Act 1985, and the regulations made thereunder. We also read the other information contained in the summarised Annual Review and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Summary Financial Statement. This statement, including the opinion, has been prepared for, and only for, the Company's members in accordance with Section 251 of the United Kingdom Companies Act 1985, and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this statement is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Basis of opinion:
We conducted our work in accordance with Bulletin 1999/6, 'The auditors' statement on the summary financial statement', issued by the Auditing Practices Board for use in the United Kingdom.

Opinion:
In our opinion the Summary Financial Statement is consistent with the annual financial statements, the Directors' Report and the Directors' Remuneration Report of National Grid plc for the year ended 31 March 2006 and complies with the applicable requirements of Section 251 of the United Kingdom Companies Act 1985 and the regulations made thereunder.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London, 17 May 2006

Independent Verifier's Statement on Corporate Responsibility

National Grid has asked URS Verification Ltd (URSVL) to undertake third party assurance of the corporate responsibility elements of the Annual Report and Accounts 2005/06 and Annual Review 2005/06. Information on the scope of URSVL's assurance activities and its opinion may be found on page 90 of the Annual Report and Accounts 2005/06 and on the Group's website, www.nationalgrid.com/corporate/Our+Responsibility/Assurance.

Belinda Howell, Director
For and on behalf of URS Verification Ltd
London, May 2006

Shareholder Information

Annual Report and Accounts

National Grid shareholders will receive an Annual Review each year unless they have requested the Annual Report and Accounts. If you wish to receive the Annual Report and Accounts, a larger document containing the full accounts and notes to the accounts and more detailed information on the business, you should contact Capita Registrars.

For the assistance of visually impaired shareholders, audio tape, braille and large print versions of the Annual Review are available. If you wish to receive any of these documents, please contact Capita Registrars.

Duplicate accounts

If you received two or more copies of the Annual Review and multiple cheques for each dividend payment, you will have more than one shareholder account.

To receive just one Annual Review and one cheque for each dividend payment, please contact Capita Registrars and ask to amalgamate your accounts.

Dividends

National Grid normally pays dividends twice each year: an interim dividend in January and a final dividend in August.

Choosing to have dividends paid directly into your chosen bank or building society account means that: money will be available on the day of payment; there will be no delay paying cheques into your account; cheques cannot be lost; and a tax voucher is still provided for your records.

Over 530,000 National Grid shareholders already choose to have dividends paid to them directly. To request direct payment of your dividends, please contact Capita Registrars.

Dividend reinvestment plan

A dividend reinvestment plan (DRIP) has now been introduced that will allow participating shareholders to use dividend payments to purchase additional shares in National Grid. The DRIP will begin operation from the payment of the 2005/06 final dividend payment in August 2006. Shareholders wishing to participate should contact Capita Registrars.

Share dealing

A low-cost share dealing service is available from Capita Registrars, allowing you to buy and sell National Grid shares by telephone and online. Trading by telephone or online allows you to know the price of the shares at the time you deal.

For more information, please call 0870 458 4577 (8am – 4.30pm) or visit www.capitadeal.com.

A postal dealing service is also available. For a postal dealing form, please call 0870 162 3116.

These details are provided for information only and any action you take is at your own risk. If you have any doubt as to the action you should take, you are recommended to seek your own financial advice from your stockbroker, bank manager, accountant or other independent financial adviser authorised pursuant to the Financial Services and Markets Act 2000.

Individual Savings Accounts (ISAs)

ISAs for National Grid shares are available from Stocktrade. Options include: National Grid Maxi stocks and shares ISA; and National Grid Mini stocks and shares ISA. Further information may be obtained from the Account Manager:

Stocktrade,
81 George Street, Edinburgh EH2 3ES
Telephone: 0131 240 0443
Website:
www.stocktrade.co.uk/NGT_Sharedealing/sharedealing_main.htm

You may also consolidate other PEPs and ISAs by transferring them to your National Grid account. National Grid cannot advise you on what action, if any, you should take.

ShareGift

If you hold only a few shares and feel that it would be uneconomical or just not worthwhile to sell them, you could consider donating your shares to charity.

ShareGift is an independent registered charity (no. 1052686) that provides a free service for shareholders wishing to give small holdings of shares to benefit charitable causes. There are no capital gains tax implications (ie no gain or loss) on gifts of shares to charity and it is also possible to obtain income tax relief. Since its launch in 1996, ShareGift has been able to give millions of pounds to hundreds of different UK charities.

Further information can be obtained at www.ShareGift.org or from Capita Registrars.

Shareholder Networking

National Grid continues to operate its Shareholder Networking Programme allowing shareholders to learn more about the business by visiting operational sites and meeting Directors, senior managers and staff.

These visits allow us to explain the business to shareholders in person and for shareholders to ask any questions about the Group. This year's visit is planned for early December.

If you would like to take part in this visit, please write to:

Shareholder Networking Organiser,
National Grid House, Warwick Technology Park, Gallows Hill,
Warwick CV34 6DA

Participants will be selected from those applying, with priority given to those who have not previously attended.

Website

More information about National Grid is available on the Group website at www.nationalgrid.com, and includes: current and historical share price information; previous Annual Reports and Accounts; and information about each of the Group businesses.

Capita Registrars

Telephone: 0870 242 2379
(from outside the UK +44 20 7098 1198)

Email: nationalgrid@capitaregistrars.com
Website: www.nationalgrid.com/shareholders

The Bank of New York

Telephone: 1-800-466-7215
(for international calls +1-212-815-3700)

Email: shareowners@bankofny.com
Website: www.adrbny.com

Financial calendar

The following dates have been announced or are indicative of future dates:

7 June 2006	Ordinary shares ex-dividend
9 June 2006	Ordinary share 2005/06 final dividend record date
12 July 2006	DRIP application deadline 2005/06 final dividend
31 July 2006	2006 Annual General Meeting
7 Aug 2006	B share continuing dividend payment date
8 Aug 2006	Further repurchase of B shares as elected
23 Aug 2006	Ordinary share 2005/06 final dividend payment date
16 Nov 2006	2006/07 interim results
29 Nov 2006	Ordinary shares ex-dividend
1 Dec 2006	Ordinary share 2006/07 interim dividend record date
8 Dec 2006	DRIP application deadline 2006/07 interim dividend
24 Jan 2007	Ordinary share 2006/07 interim dividend payment date
May 2007	2006/07 preliminary results
June 2007	Ordinary shares ex-dividend
June 2007	Ordinary share 2006/07 final dividend record date
July 2007	DRIP application deadline 2006/07 final dividend
July 2007	2007 Annual General Meeting
Aug 2007	B share continuing dividend payment date
Aug 2007	Final repurchase of B shares as elected
Aug 2007	Conversion of remaining B shares
Aug 2007	Ordinary shares 2006/07 final dividend payment date

Queries – ordinary shareholders

Any queries from holders of ordinary shares should be directed to Capita Registrars:

National Grid Share Register,
Capita Registrars,
Northern House,
Woodsome Park,
Fenay Bridge,
Huddersfield HD8 0LA

Telephone: 0870 242 2379
(from outside the UK +44 20 7098 1198)
Textphone: 18001 0870 242 2379
Fax: 0870 240 1286
(from outside the UK +44 1484 600 702)
Email: nationalgrid@capitaregistrars.com
Website: www.nationalgrid.com/shareholders

Queries – American Depositary Shares

Any queries from holders of American Depositary Shares should be directed to The Bank of New York:

The Bank of New York,
Shareholders Correspondence,
PO Box 11258,
Church Street Station,
New York NY 10286-1258

Telephone: 1-800-466-7215
(for international calls +1-212-815-3700)
Email: shareowners@bankofny.com
Website: www.adrbny.com

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UK Shareholder enquiries: 0870 242 2379
US Shareholder enquiries: 1-800-466-7215
www.nationalgrid.com

Cautionary Statement

This document contains certain statements that are neither reported financial results nor other historical information. These statements are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Because these forward-looking statements are subject to assumptions, risks and uncertainties, actual future results may differ materially from those expressed in or implied by such statements. Many of these assumptions, risks and uncertainties relate to factors that are beyond our ability to control or estimate precisely, such as delays in obtaining, or adverse conditions contained in, regulatory approvals and contractual consents, including those required to complete the announced US acquisitions when or as planned, unseasonable weather affecting demand for electricity and gas, competition and industry restructuring, changes in economic conditions, currency fluctuations, changes in interest and tax rates, changes in energy market prices, changes in historical weather patterns, changes in laws, regulations or regulatory policies, developments in legal or public policy doctrines, the impact of changes to accounting standards and technological developments. Other factors that could cause actual results to differ materially from those described in this document include the ability to integrate the businesses relating to the announced US acquisitions with the Group and realise the expected synergies from such integration, the availability of new acquisition opportunities and the timing and success of future acquisition opportunities, the impact of the sales of businesses by the Group, the failure for any reason to achieve reductions in costs or to achieve operational efficiencies, the failure to retain key management, the behaviour of UK electricity market participants on system balancing, the timing of amendments in prices to shippers in the UK gas market, the performance of our pension schemes and the regulatory treatment of pension costs, and any adverse consequences arising from outages on or otherwise affecting energy networks, including gas pipelines, which we own or operate. For a more detailed description of some of these assumptions, risks and uncertainties, together with any other risk factors, please see our filings with and submissions to the US Securities and Exchange Commission (and in particular the 'Risk Factors' and 'Operating and Financial Review' sections in our most recent Annual Report on Form 20-F). Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Except as required by law or regulation, National Grid does not undertake any obligation to release publicly any revisions to these forward-looking statements to reflect events or circumstances after the date of this document.

Appendix 7

KEYSPAN CORPORATION
Proposed Accounting Entries
(Millions of Dollars)
Debit/ (Credit)

The proposed accounting entries reflect the purchase accounting on the unappropriated retained earnings and miscellaneous paid-in capital accounts of the KeySpan subsidiary with cost-based regulated rates in New Hampshire, EnergyNorth Natural Gas, Inc.

As the fair market values of the KeySpan companies for purchase accounting purposes are still being determined, the proposed accounting entries assume that the purchase price of the KeySpan companies are at book value. The actual journal entries that will reflect purchase accounting at fair market value will be set forth in the final accounting filing that will be made within six months of the consummation of the merger.

The proposed entries below, using balance sheets dated December 31, 2005, reflect the effects of purchase accounting on the retained earnings accounts, which are eliminated and reclassified to miscellaneous paid-in capital.

FERC Account		EnergyNorth Natural Gas, Inc.
211	Miscellaneous paid-in capital	$ 56
216	Unappropriated retained earnings	$ (54)
216.1	Unappropriated undistributed subsidiary earnings	$ -
219	Accumulated other comprehensive income	$ (2)