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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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

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-____**

<u>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</u>

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:

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[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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DIRECT TESTIMONY

OF

WILLIAM T. SHERRY

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I. Introduction and Qualifications

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

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

Q. Please describe your educational background and professional experience.

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

During 1998, I became a Vice President of Massachusetts Electric Company with overall responsibility for that company's operations in southeastern Massachusetts. In 2000, I became Executive Vice President of Granite State Electric, with overall responsibility for the company's legislative, regulatory and business affairs in New Hampshire. In addition, I am also a Vice President of National Grid USA Service Company, the corporate administrative services company of National Grid in the United States. I am National Grid's senior officer in New Hampshire.

Q. Have you testified before this Commission in the past?

A. Yes. I have previously testified before the New Hampshire Public Utilities Commission ("Commission") in various dockets in 1996, 1997, 2000, 2001, and 2005.

II. <u>Purpose of Testimony</u>

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to: (i) introduce the Joint Petitioners' other witnesses in this proceeding; (ii) summarize the benefits of the Transaction for electric and gas delivery customers in New Hampshire; and (iii) discuss aspects of ongoing operations after the Transaction is closed.

III. <u>Introduction of Other Witnesses in Support of the Petition</u>

Q. Would you please identify the other witnesses presented by the petitioners in this case?

A. Yes. In addition to my testimony, the Joint Petition regarding the merger of KeySpan Corporation ("KeySpan") and its operating subsidiary in New Hampshire, EnergyNorth Natural Gas Co. Inc. ("EnergyNorth") into National Grid ("Transaction") is supported by the testimony of Joseph F. Bodanza, Senior Vice President of KeySpan, who provides the background on the KeySpan companies and discusses the current earnings of EnergyNorth under delivery rates that were last established by the Commission in 1993. He also focuses 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. <u>Summary of the Benefits for New Hampshire Customers as a Result of the Transaction</u>

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.

Synergy Savings. The primary benefits stem from the synergy savings associated with the Transaction. In their joint testimony, Mr. Hoffman and Mr. Levin estimate that the combination of KeySpan and National Grid will save about $200 million per year. The detailed plans to achieve these savings are now being formulated by an integration team composed of executives and managers from both KeySpan and National Grid. Mr. Cochrane then estimates how the synergy savings will affect New Hampshire. He projects that EnergyNorth will realize over $12.8 million in net synergy savings in the ten years following the Transaction. In addition, Granite State Electric and New England Power Company ("NEP") will also realize savings that will be reflected on the electric side of the business. As Mr. Cochrane explains, he estimates that the allocation of net synergy savings to Granite State Electric over the next ten years will total $6.7 million for its distribution business, and to NEP the allocation will total $56.9 million for its transmission business, of which Granite State Electric, and ultimately its customers, will realize about 2.8 percent (on average), or approximately $1.6 million.

Gas Supply Savings. In addition to New Hampshire's estimated synergy savings identified by Mr. Cochrane, Mr. Bodanza identifies savings in gas supply costs that will benefit EnergyNorth's customers through lower charges in their Cost of Gas Clause.

Avoided Costs and Investments. Efforts to produce savings and efficiency gains will not end with the integration process. After the Transaction, the combined organization will be able to avoid investments in what would otherwise be redundant information systems, customer inquiry systems, billing systems, and other functions. The avoided future 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.

<u>Increased Resources and Expertise of the Combined System</u>. 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.

Maintain EnergyNorth's Financial Integrity. Mr. Cochrane describes the commitments that we are making to assure that the acquisition will not adversely affect EnergyNorth's financial integrity, and to provide EnergyNorth with broad access to low-cost capital through the regulated National Grid money pool. These commitments are designed to assure that EnergyNorth is always in a position to raise the capital necessary to discharge its public service obligations.

Increased Commitment to New Hampshire. Following the Transaction, National Grid's New Hampshire operations through EnergyNorth and Granite State Electric will serve approximately 125,000 New Hampshire customers (roughly 41,000 electric delivery service customers and 84,000 gas delivery service customers), creating the second largest footprint in New Hampshire of a public utility as measured by number of customers. This is a significant increase in National Grid's presence in New Hampshire. By working closely together, EnergyNorth and Granite State Electric will be able to increase the impact of both companies' 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.

Q. What do you conclude from this summary?

A. We believe that the Transaction will benefit EnergyNorth's and Granite State Electric's customers going forward. We will be able to operate our business more efficiently, respond to customers' requirements more effectively, and address the pressing policy 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. <u>KeySpan Holding Company and Operations</u>

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. <u>EnergyNorth's Operations and Financial Performance</u>

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. <u>See</u> 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.

"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)

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

Table of Contents

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.

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 Before Cost to Achieve	41,041	88,167	139,107	149,387	159,912	170,687	181,717	193,008	204,568	216,403	**1,543,997**
Personnel Savings % Total Savings	33%	48%	52%	50%	48%	46%	45%	44%	42%	41%	45%

10-Year Savings Summary

Personnel Savings Summary
in $000

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
A&G Personnel											
% 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Customer Related Personnel											
% 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
T&D Personnel											
% 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

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Total
Other Personnel											
% 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

		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%	
	Ongoing Savings											
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.

Joint Senior Management Steering Committee

Integration Project Management Team

- Project management
- Metrics - savings, cost, and budget summaries
- Timetable and milestones
- Integration progress oversight

Cut-Across Initiatives

Information Technology
- Systems integration
- Resource management
- Infrastructure integration
- Strategic spending and development
- Cut-over strategy

Communications (Employee and External)
- Content and message planning
- Delivery or roll-out planning
- Execution
- Corporate Identity

Regulatory
- Regulatory strategy integration and coordination
- Corporate Identity

Organization, Staffing & Culture
- HR programs strategy
- Benefits and compensation design
- Re-staffing process
- Organizational integration
- Labor strategy
- Cultural integration

Legal
- Legal and regulatory compliance
- Standards of conduct and ethics
- Records management policies

Finance
- Service company allocations
- Internal and external reporting
- Budget and cost management integration

Facilities Planning
- Day One facilities
- Facility consolidation and closure
- Re-stacking buildings

Internal Audit
- Project oversight and compliance
- Risk management and assurance
- Process review (as appropriate)

Functional Integration

Examples of High-Impact Issues

Customer Service Team
- Call centers
- Meter reading standard
- Billing
- Customer Information System
- Products & services
- Marketing
- Account management
- Energy efficiency

T&D Operations Team
- Centralized support services
- Engineering, planning, design and construction
- Standards
- Environmental & safety policies
- Telecomm
- Transmission
- Training

Gas Operations Team
- Gas Distribution planning & ops
- Engineering and design
- Construction & maintenance
- Region/district mgmt.
- Gas Storage management
- Training

Generation & Energy Supply Team
- Integration of electric (and gas) supply planning and procurement
- Gas transportation
- Gas storage
- etc.

Shared Services Team
- SCM integration
- Process integration
- Vendor strategy
- Contractual commitments
- Inventory management
- Fleet
- Facilities
- Security

Finance & Accounting Team
- Integration of accounting, financial budgeting, forecasting, cash manage-ment, etc.

Information Technology Team
- IT integration
  - Data center
  - Data network
- Help desk

Human Resources Team
- HR policies, programs and process
- Employee relations

Corporate Services Team
- Legal
- Internal Audit
- Investor relations
- Corporate secretary
- Ethics & compliance
- Records Retention
- Communications coordination
  - External
  - Employee

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

Integration Planning				Implementation Planning		Implementation
Task 1: Set Baseline	***Task 2:*** Understand and Evaluate National Grid and KeySpan Policies and Processes	***Task 3:*** Develop Recommended Approach; Identify Synergies (and Additional Savings)	***Task 4:*** Design the Organization Structure	***Task 5:*** Develop Individual Functional Implementation Plans	***Task 6:*** Establish Priorities and Create an Overall Implementation Plan	***Task 7:*** Implement and Monitor Progress
Apr – May 2006	**Apr - Jun 2006**	**Jul - Sep 2006**	**Jul - Sep 2006**	**Oct 2006**	**Oct-Nov 2007**	**Jan 2007 →**

Deliverables

Task 1:
- Baseline staffing and costs
- "Clean Room" evaluation of current initiatives (stop/go)
- Day One requirements

Task 2:
- Improvement opportunities
- Identify
  - Similarities and differences
  - Strengths and weaknesses

Tasks 1–2:
- Early decisions and integration direction

Task 3:
- Work practice and policy changes
- Process designs
- Systems changes
- Integration plan
- Savings

Task 4:
- Staffing levels
- Organization structure
- Key performance metrics
- Post-merger budgets

Task 5:
- Functional or team implementation plans
- Day-1 initiatives readiness

Task 6:
- Overall (prioritized and integrated) implementation plan
- Day-1 vs. post-merger initiatives

Task 7:
- Implementation
- Progress updates

DIRECT TESTIMONY

OF

JOHN C. COCHRANE

Table of Contents

I. Introduction and Qualifications

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

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

Q. Please describe your educational background and professional experience.

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

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

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

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

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. <u>**Benefits of the Transaction for Customers**</u>

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 least 2008, or fifteen years. As I explain, we are requesting Commission authorization to defer the costs to achieve and amortize them on a straight line basis over twenty years from the close of the Transaction to facilitate this rate freeze. Second, when a delivery rate filing is ultimately made, we propose to share with customers 50 percent of the net synergy savings produced by the Transaction. EnergyNorth would receive an allowance in the cost of service for its fifty percent share and would not seek recovery of any acquisition premium associated with the Transaction. We propose to continue this allowance for twenty years after closing of the Transaction. An illustration of the twenty year amortization of costs to achieve and the allocation of net synergy savings between customers and EnergyNorth is included in Schedule JGC-2.

Q. Would you explain the request to defer and amortize the costs to achieve allocated to EnergyNorth equally over twenty years following the Transaction?

A. Yes. As I have mentioned, the expenditures associated with the costs to achieve the synergy savings do not match the timing of when synergy savings are realized. The costs to achieve are front-loaded and will be incurred in the earlier years after the Transaction closes; in contrast, the synergy savings are back-loaded and will be realized in later years. As shown on Schedule JGC-1, page 1, this mismatch actually increases our estimated costs during the first year following the Transaction, as National Grid spends the money to complete the integration, but the savings are not fully realized. To better match the costs and the benefits, and to facilitate the proposal to freeze EnergyNorth's delivery rates for at least twelve months after the Transaction, National Grid is requesting the Commission to 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.

receive their share of synergies through an allowance in their delivery rates, and EnergyNorth would be allowed to retain a portion of the synergy savings to recover the costs of the transaction.

We would propose that this sharing arrangement continue for twenty years following the close of the Transaction to provide EnergyNorth with the opportunity to recover its allocated costs of the Transaction. As part of the proposal, EnergyNorth would waive all rights to request recovery of the acquisition premium associated with the Transaction.

Q. How will you assure that the acquisition premium does not affect EnergyNorth's delivery rates or cost of service?

A. The $42 per share consideration acquisition premium, together with other costs associated with this Transaction, includes a premium over the net book value of EnergyNorth's assets devoted to public service. Following the Transaction, an independent appraisal will be completed that establishes the fair value of all of KeySpan's assets. This fair value study will be used to restate the value of the assets of the acquired companies and to allocate goodwill among KeySpan's subsidiaries. Under Financial Accounting Standards Board ("FASB") Statement 141, the goodwill is pushed down to the subsidiaries. Despite this goodwill adjustment, EnergyNorth will continue to value its rate base on the original depreciated cost of the assets devoted to public service. Moreover, because the goodwill is reflected as equity on EnergyNorth's books, we will establish a hypothetical capital structure for EnergyNorth that is based on the capital structure of other similar companies 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 redundant systems that would otherwise have to be made by National Grid and KeySpan absent the Transaction. These savings will be ongoing following the Transaction, but are not quantified in the Mercer analysis.

Q. What other benefits of the Transaction would you like to address?

A. There are two. First, the Transaction will maintain EnergyNorth's financial integrity. Following the Transaction, the goodwill will be reflected on EnergyNorth's books as equity. EnergyNorth will have no Transaction-related debt on its balance sheet, and none of EnergyNorth's assets will be pledged to secure those who are lending funds to National Grid plc, National Grid USA or to any other National Grid holding company in connection with the Transaction. As a result, EnergyNorth's existing creditors and financial integrity will not be adversely affected by the Transaction. Second, EnergyNorth will have broader access to capital markets. Specifically, we are proposing to include both National Grid's and KeySpan's regulated subsidiaries and service companies in a regulated money pool that will also include National Grid USA as lender. Under this approach, which has already been adopted by KeySpan, the regulated and service companies may borrow and lend from the pool, and National Grid USA, with broader access to financial markets, can lend to the pool. At the same time, the regulated companies have immediate access to low-cost capital raised directly through National Grid USA or indirectly from the international financing sources of National Grid group that are in turn loaned to National Grid USA for use in the regulated money pool. Finally, the regulated money pool precludes any cross-subsidies with unregulated subsidiaries, which participate in a separate unregulated money pool.

VI. <u>Other Requested Regulatory Approvals</u>

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

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

In addition, we are seeking two approvals that are focused on EnergyNorth. First, we are proposing to change EnergyNorth's fiscal year to the year-ended March 31 to match the 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.

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

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)