

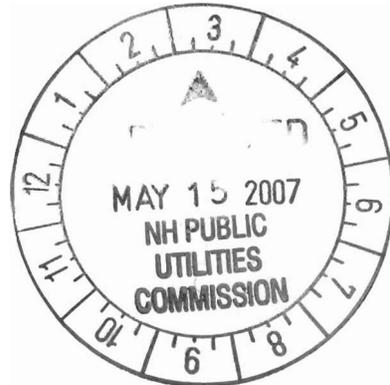
nationalgrid

Alexandra E. Blackmore
Senior Attorney

May 15, 2007

VIA HAND DELIVERY & ELECTRONIC MAIL

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



Re: DG 06-107; Joint Petition of National Grid plc and KeySpan Corporation for Approval of Merger and Other Regulatory Approvals

Dear Ms. Howland:

Enclosed please find seven (7) copies of the comprehensive settlement agreement ("Settlement") among National Grid plc and its indirect subsidiary Granite State Electric Company, KeySpan Corporation and its subsidiary EnergyNorth Natural Gas, Inc., Staff of the New Hampshire Public Utilities Commission, and the Office of Consumer Advocate. Also enclosed are seven (7) copies of the Joint Testimony of Ronald T. Gerwadowski and Michael D. Laflamme in support of the Settlement and seven (7) copies of a brief Explanatory Statement in support of the Settlement which highlights key aspects of the Settlement.

Thank you very much for your time and attention to this filing. Please do not hesitate to contact me at (508) 389-3243 with any questions.

Very truly yours,

Alexandra E. Blackmore

Alexandra E. Blackmore

Enclosures
cc: Service List

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

**RE: JOINT PETITION OF)
NATIONAL GRID PLC AND)
KEYSPAN CORPORATION)
FOR APPROVAL OF)
MERGER AND OTHER)
REGULATORY APPROVALS)**

DOCKET NO. DG 06-107

EXPLANATORY STATEMENT

This Explanatory Statement is submitted in support of the comprehensive settlement agreement (“Settlement”) among National Grid plc and its indirect subsidiary Granite State Electric Company (“Granite State”), KeySpan Corporation and its subsidiary EnergyNorth Natural Gas, Inc. (“EnergyNorth”), Staff of the New Hampshire Public Utilities Commission, and the Office of Consumer Advocate (together, the “Settling Parties and Staff”)¹. The Settling Parties and Staff conducted extensive discovery and held numerous technical sessions over several months. A detailed procedural history of the above-captioned proceeding is set forth in the Settlement. (Settlement pp. 1-6).

Overview

The Settlement is intended to resolve all issues in the above-captioned proceeding and constitutes the Settling Parties and Staffs’ recommendation to the Commission for approval of:

- (1) The merger transaction between National Grid plc and KeySpan Corporation along with other specified conditions (the “Merger”);
- (2) A multi-year rate plan for Granite State that includes a rate reduction of \$2.2 million and limitations on rate adjustments for a period of up to five and a half years; commitments to improve reliability and maintain quality customer service; and
- (3) A rate agreement for EnergyNorth that, among other things, includes a commitment to maintain current rates for a period of one year following the closing of the Merger; procedures for rate treatment and sharing of Merger synergy savings in future ratemaking proceedings; a plan that allows for the acceleration of EnergyNorth’s replacement of cast iron and bare steel pipe; and certain commitments relating to customer service and other operational matters.

The Settling Parties and Staff believe that the Merger, pursuant to the terms set forth in the Settlement, meets the statutory standards for the Commission’s approval in that it “will not have an

¹ The parties to the Settlement include all intervenors in this proceeding with the exception of The United Steelworkers of America, Local 12012-3 and the Utility Workers Union of America, AFL-CIO.

adverse effect on rates, terms, service or operation of the public utility within the state” pursuant to RSA 369:8, II(b)(1), and is “lawful, proper and in the public interest” as required by RSA 374:33. As more fully described in the Settlement and the accompanying explanatory testimony, benefits to customers of Granite State and EnergyNorth as a result of the Settlement include but are not limited to:

Key Electric Delivery Benefits

- A \$2.2 million distribution rate reduction for electric customers that will be provided in two phases. The first effective for usage on and after the later of July 1, 2007 or 30 days following Commission approval of the Merger and the second for usage on and after January 1, 2008. Once the two phases are implemented, it will equate to a distribution rate decrease of about 9%. This will reduce the total monthly bill of a typical 500 kWh residential customer by about 2.6%;
- A five-year electric distribution rate plan that limits future electric distribution rate increases;
- The exclusion of Merger acquisition costs from the Merger or any prior mergers from Granite State’s distribution cost of service or earnings sharing mechanism;
- Deferral and 10 year amortization of costs to achieve (“CTA”) the Merger savings;
- The use of an imputed capital structure and cost rates as follows:

Debt	50%	7.54%	=	3.77%
Equity	50%	9.67%	=	<u>4.84%</u>
				<u>8.61%</u> overall cost of capital;
- A sharing mechanism that provides an incentive for the company to maximize merger-related savings by allowing the company to retain savings up to a specified earnings threshold and share the balance above the threshold equally with customers during the five year plan;
- A reliability enhancement plan and vegetation management plan that call for the company to implement an aggressive program to improve its infrastructure to enhance reliability, with modest rate adjustments for investments in the system under the plan;
- The establishment of a Storm Contingency Fund intended to mitigate the potential economic impacts of major storms affecting Granite State’s customers and service territory; and
- Customer service commitments with respect to call answering standards.

Key Gas Delivery Benefits

- A distribution delivery rate agreement that delays any gas distribution rate increases for a period of one year after the closing of the Merger;
- The exclusion of Merger acquisition costs from the Merger or any prior mergers in any subsequent rate case following the Merger;
- A Merger savings credit of over \$600,000 annually for gas delivery customers that would be used to mitigate any rate adjustments that may be allowed in EnergyNorth's first rate case to be filed within six months following the closing of the Merger;
- The use of an imputed capital structure consisting of 50% equity and 50% debt;
- Deferral and 10 year amortization of costs to achieve ("CTA") the Merger savings;
- A sharing mechanism that provides an incentive for the company to maximize Merger-related savings by allowing the company to retain 50% of any proven Merger savings for a period of up to 10 years following the merger, with the other 50% credited to customers;
- A cast iron and bare steel pipe replacement plan that calls for implementation of an aggressive program to increase the pace of replacing aging infrastructure, with modest rate adjustments for investments in the system under the plan;
- A commitment to improve response time to emergency calls when customers report potential gas leaks;
- A commitment for economic equivalence of benefits to New Hampshire gas customers affected by the Merger to those of the New York gas customers affected by the Merger;
- Customer service commitments with respect to call answering standards; and
- A number of other operating commitments as more fully described in the Settlement.

Conclusion

The Settling Parties and Staff believe that the Settlement provides a reasonable resolution of all issues in the above-captioned proceeding and provides real benefits to customers of Granite State and EnergyNorth. The Commission should approve the terms of the Settlement and find that the 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" pursuant to RSA 369:8, II(b)(1), and is "lawful, proper and in the public interest" as required by RSA 374:33.

Direct Testimony of
Ronald T. Gerwatowski
and
Michael D. Laflamme

Table of Contents

I.	INTRODUCTION AND QUALIFICATIONS	1
II.	PURPOSE OF TESTIMONY	4
III.	MAIN SETTLEMENT AGREEMENT AND OVERVIEW	5
IV.	RATE PLAN SETTLEMENT FOR GRANITE STATE	8
V.	RATE PLAN SETTLEMENT FOR ENERGYNORTH	22
VI.	COMPLIANCE WITH ALTERNATIVE FORM OF REGULATION PROVISIONS.....	34
VII.	CONCLUSION	42

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. Mr. Gerwatowski would you please state your full name and business address?**

3 A. My name is Ronald T. Gerwatowski, and my business address is 55 Bearfoot Road,
4 Northborough, Massachusetts, 01532.

5
6 **Q. Mr. Gerwatowski, by whom are you employed and in what position?**

7 A. I am Vice President of Distribution Regulatory Services for Granite State Electric
8 Company, doing business as National Grid (“Granite State” or the “Company”). In my
9 capacity as Vice President, I am responsible for the Company’s distribution rates and
10 regulatory support group, which we refer to as the Distribution Regulatory Services
11 Department. This Department, for which I have supervisory responsibility, provides rate-
12 related support not only to New Hampshire, but also to the other National Grid retail
13 distribution companies in Massachusetts and Rhode Island, of which I also am Vice
14 President.

15
16 **Q. Mr. Gerwatowski, please describe your educational background.**

17 A. I graduated from Westfield State College in 1978. I also attended the University of
18 Puerto Rico for one year in 1976-77. I received a Masters of Education degree from
19 Fitchburg State College in 1982. I then went to law school and received a Juris Doctor,
20 magna cum laude, from Boston College Law School in 1985, where I served on the Law
21 Review.

22
23 **Q. Mr. Gerwatowski, please describe your professional experience.**

1 A. Before going to law school, I was a public school teacher in the Springfield,
2 Massachusetts school system. After graduating from law school, I was an associate at the
3 Boston law firm of Testa, Hurwitz & Thibealt in 1985 and 1986. I left the firm and
4 joined the legal department of New England Electric System (“NEES”) in 1987, the
5 predecessor to National Grid USA. In 1990, I was regulatory counsel for The
6 Narragansett Electric Company, where I practiced before the Rhode Island Public
7 Utilities Commission until mid-1994. At that time, I returned to the corporate
8 headquarters for NEES and worked in the legal department on fuel-related regulatory
9 matters pertaining to the generation plants that were owned by NEES at the time. In
10 1998, after industry restructuring in Rhode Island, I returned to The Narragansett Electric
11 Company as General Counsel and continued in that position until the spring of 2002. I
12 then became General Counsel of Niagara Mohawk Power Corporation in Syracuse, New
13 York, after National Grid USA acquired Niagara Mohawk. I served in that capacity until
14 May 1, 2005, when I took my current position as Vice President of Distribution
15 Regulatory Services in New England.

16

17 **Q. Mr. Gerwatowski, have you previously testified before the Commission?**

18 A. No.

19

20 **Q. Mr Laflamme, Please state your full name and business address.**

21 A. My name is Michael D. Laflamme. My business address is 55 Bearfoot Road,
22 Northboro, Massachusetts 01532.

1 **Q. Mr Laflamme, by whom are you employed and in what position?**

2 A. I am Manager of Regulatory Support for National Grid USA Service Company Inc.
3 National Grid USA Service Company provides engineering, financial, administrative and
4
5 other technical support to subsidiary companies of National Grid USA. My current
6 duties include revenue requirements analysis for National Grid USA's regulated
7 businesses in New England, including Granite State.

8
9 **Q. Mr. Laflamme, please provide a brief summary of your educational background.**

10 A. In 1981 I earned a Bachelor of Science degree in Business Administration, emphasis in
11 Accounting, from Bryant College in Smithfield, Rhode Island.

12

13 **Q. Mr. Laflamme, what is your professional background?**

14 A. From 1981 through April 2000 I was employed by various subsidiary companies of
15 Eastern Utilities Associates ("EUA"), including EUA Service Corporation ("EUASC")
16 which provided various accounting, financial, engineering, planning, data processing and
17 other services to all EUA System companies. I joined EUA's accounting department in
18 1981 and transferred to the revenue requirements section of EUASC's Rate Department
19 in 1985. I held progressively more responsible positions in revenue requirements prior to
20 transferring to the Treasury Services department of EUASC in 1988. I was promoted to
21 the position of Manager of Treasury Services in 1991. The EUA System was acquired by

1 National Grid USA in early 2000, at which time I joined the National Grid USA Service
2 Company.

3 **Q. Mr. Laflamme, have you previously testified before a regulatory commission?**

4 A. Yes, I have testified in proceedings before the New Hampshire Public Utilities
5 Commission (“NHPUC” or the “Commission”), the Massachusetts Department of
6 Telecommunications and Energy and the Rhode Island Public Utilities Commission. I
7 have also provided primary support for revenue requirements witnesses in proceedings
8 before the Federal Energy Regulatory Commission.

9

10 **II. PURPOSE OF TESTIMONY**

11 **Q. What is the purpose of this testimony?**

12 A. This testimony is intended to be explanatory testimony supporting a comprehensive
13 settlement agreement achieved in NHPUC Docket No. DG 06-107, the Joint Petition of
14 National Grid plc and KeySpan Corporation for Approvals of Merger and Other
15 Regulatory Approvals, executed on May 1, 2007 by and among National Grid, KeySpan,
16 the Staff of the NHPUC and the Office of Consumer Advocate (“Settlement
17 Agreement”). In addition, the testimony will set forth the reasons why the Granite State
18 Rate Plan that is a part of the Settlement Agreement meets the Commission’s
19 requirements for a permissible form of alternative regulation.

20

21 **Q. How is the testimony organized?**

1 A. It begins with an overview of the Settlement Agreement on The Merger Transaction
2 Between National Grid and KeySpan (“Main Settlement Agreement”) and the two
3 attached rate agreements. Then the testimony describes the features of each of the rate-
4 related agreements applicable to Granite State and EnergyNorth Natural Gas, Inc
5 (“EnergyNorth” or the “Company”). Finally, the testimony addresses the Granite State
6 Rate Plan in the context of the Commission’s regulations on alternative regulation.

7

8 **III. MAIN SETTLEMENT AGREEMENT AND OVERVIEW**

9 **Q. Can you please summarize the overall settlement?**

10 A. Yes. The Settlement Agreement is essentially comprised of three main components.
11 First, is the Main Settlement Agreement that addresses the approvals being sought for the
12 Merger Transaction Between National Grid and KeySpan (the “Merger”) to go forward
13 under New Hampshire law. It also includes self-explanatory provisions relating to the
14 operation of the National Grid money pool, service company allocations, designation of
15 fiscal year, and dividend policy for EnergyNorth post-Merger. In addition, it addresses
16 post-Merger reporting requirements.

17

18 **Q. What are the other two main components?**

19 A. The other two components are Exhibits 1 and 2 to the Main Settlement Agreement.
20 These comprise a Rate Plan Settlement for Granite State (“Granite State Rate Plan”), and
21 an EnergyNorth Merger Rate Agreement (“EnergyNorth Merger Rate Agreement”).
22 The Granite State Rate Plan includes a rate reduction of \$2.2 million and limitations on

1 rate adjustments for a period of up to five and a half years. It also contains commitments
2 to improve reliability and maintain quality customer service. This will be described in
3 greater detail later in the testimony below.
4

5 **Q. What about the EnergyNorth Rate Agreement?**

6 A. As stated in the Main Settlement Agreement, the EnergyNorth Rate Agreement, among
7 other things, includes a stay out period of one year during which the Company will not
8 change its distribution rates; procedures for rate treatment and sharing of Merger synergy
9 savings in future ratemaking proceedings for the Company; a plan that allows for the
10 acceleration of the Company's replacement of cast iron and bare steel pipe in the
11 Company's system; and certain commitments relating to customer service and other
12 operational matters. This agreement also will be described below in greater detail.
13

14 **Q. Can you please summarize the benefits of the Settlement Agreement?**

15 A. Yes. There are a number of benefits arising out of the Settlement Agreement. Regarding
16 the Granite State Rate Plan, the main benefits are:

- 17 • A \$2.2 million distribution rate reduction for electric customers that will be
18 provided in two phases. The first effective for usage on and after the later of July
19 1, 2007 or 30 days following Commission approval of the Merger and the second
20 for usage on and after January 1, 2008. Once the two phases are implemented, it
21 will equate to a distribution rate decrease of about 9%. This will reduce the total
22 monthly bill of a typical 500 kWh residential customer by about 2.6%;
- 23 • A five-year electric distribution rate plan that limits future electric distribution
24 rate increases;
- 25 • The exclusion of Merger acquisition costs from the Merger or any prior mergers
26 from Granite State's distribution cost of service or earnings sharing mechanism;
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- Deferral and 10 year amortization of costs to achieve (“CTA”) the Merger savings;
 - The use of an imputed capital structure and cost rates as follows:

Debt	50%	7.54%	= 3.77%
Equity	50%	9.67%	= 4.84%
		<u>8.61%</u>	overall cost of capital;
 - A sharing mechanism that provides an incentive for the company to maximize Merger-related savings by allowing the company to retain savings up to a specified earnings threshold and share the balance above the threshold equally with customers during the five year plan;
 - A reliability enhancement plan and vegetation management plan that call for the company to implement an aggressive program to improve its infrastructure to enhance reliability, with modest rate adjustments for investments in the system under the plan;
 - The establishment of a Storm Contingency Fund intended to mitigate the potential economic impacts of major storms affecting Granite State’s customers and service territory; and
 - Customer service commitments with respect to call answering standards.

26 **Q. What are the benefits arising from the EnergyNorth Rate Agreement?**

27

28 A. The main benefits are:

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- A distribution delivery rate agreement that delays any gas distribution rate increases for a period of one year after the closing of the Merger;
 - The exclusion of Merger acquisition costs from the Merger or any prior mergers in any subsequent rate case following the Merger;
 - A Merger savings credit of over \$600,000 annually for gas delivery customers that would be used to mitigate any rate adjustments that may be allowed in EnergyNorth’s first rate case to be filed within six months following the closing of the Merger;
 - The use of an imputed capital structure consisting of 50% equity and 50% debt;
 - Deferral and 10 year amortization of costs to achieve (“CTA”) the Merger savings;

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- A sharing mechanism that provides an incentive for the company to maximize Merger-related savings by allowing the company to retain 50% of any proven Merger savings for a period of up to 10 years following the merger, with the other 50% credited to customers;
- A cast iron and bare steel pipe replacement plan that calls for implementation of an aggressive program to increase the pace of replacing aging infrastructure, with modest rate adjustments for investments in the system under the plan;
- A commitment to improve response time to emergency calls when customers report potential gas leaks;
- A commitment for economic equivalence of benefits to New Hampshire gas customers affected by the Merger to those of the New York gas customers affected by the Merger;
- Customer service commitments with respect to call answering standards; and
- A number of other operating commitments as more fully described in the Settlement Agreement.

Q. Given these benefits, do you believe the Merger satisfies the applicable statutory standards pursuant to RSA 369:8, II(b)(1) and RSA 374:33 for approval by the Commission?

A. Yes. The Merger will not have an adverse effect on the rates, terms, service or operation of either Granite State or EnergyNorth as required by RSA 369:8, II(b)(1). To the contrary, if the Commission approves the Merger and Settlement Agreement, Granite State and EnergyNorth customers will benefit. Thus, we believe that the Merger is lawful, proper and in the public interest as required by RSA 374:33.

IV. RATE PLAN SETTLEMENT FOR GRANITE STATE

Q. Would you please describe the major features of the Granite State Rate Plan?

1 A. Yes, the Granite State Rate Plan, Exhibit 1 of the Main Settlement Agreement, contains
2 the following subsections which we will be discussed individually:

- 3 1. Rate Reduction and Rate Design
- 4 2. Distribution Rate Plan
- 5 3. Exclusion of Merger Acquisition Costs from Rates; Amortization of Costs to
6 Achieve; Imputed Capital Structure
- 7
- 8 4. Earnings Reports and Shared Earnings Mechanism
- 9 5. Storm Contingency Fund
- 10 6. Reliability Enhancement Program
- 11 7. Customer Service Commitment
- 12 8. Other Provisions

13
14 **Q. Would you please summarize the terms of Section 1, Rate Reduction and Rate**
15 **Design?**

16 A. As indicated in the Granite State Rate Plan, the Company will implement base
17 distribution rate reductions totaling \$2.2 million in two phases. The first \$1.1 million
18 decrease would be effective for usage on and after the later of July 1, 2007 or thirty days
19 following the Commission's approval of the National Grid/KeySpan Merger. The
20 second \$1.1 million base rate reduction would be effective for usage on and after January
21 1, 2008. The first phase decrease would be implemented by reducing all of the
22 Company's existing base distribution charges by 4.53%. The second phase decrease
23 would be accomplished by reducing the resulting first phase distribution charges by an
24 additional 4.75%. The proposed base distribution rates resulting from both the first and

1 second phase decreases are shown in Exhibit GSE-3 of the Granite State Rate Plan.
2 Granite State will implement the first phase of the base distribution rate reduction by
3 reducing the distribution rates currently in effect by \$1.1 million calculated as shown on
4 Exhibit GSE-1 (“First Phase Reduction”). Granite State will adjust its distribution rates
5 on an equal percentage basis among rate classes and rate design elements as shown on
6 Exhibit GSE-3A. Bill impacts are included in Exhibit GSE-4.
7

8 **Q. How was the total Rate Reduction amount of \$2.2 million derived?**

9 A. The rate reduction was the product of settlement negotiations. However, the Company’s
10 actual operating results for 2006, as adjusted for certain issues including an imputed
11 capital structure, formed the basis for the agreed upon amount. Thus, while we did not
12 develop a formal cost of service that was litigated, the starting point for the rate
13 settlement was cost based.
14

15 **Q. What are the major components of Section 2, Distribution Rate Plan?**

16 A. The Distribution Rate Plan covers the period beginning January 1, 2008 through
17 December 31, 2012 (the “Rate Plan Period”) even though the initial phase base
18 distribution rate reduction would precede January 1, 2008. With only a few exceptions,
19 the Company’s base distribution rates will not change for the duration of the Rate Plan
20 Period. The exceptions are changes relating to: (1) the second phase base distribution
21 rate reduction, (2) the annual Reliability Enhancement Program, (3) exogenous events,
22 and (4) the Storm Contingency Fund. The Settling Parties and Staff have also agreed not

1 to file a complaint to change the Company's base distribution rates, other than provided
2 for with respect to exogenous events, for the duration of the Rate Plan Period.

3
4 **Q. Could you elaborate on the exogenous events provisions?**

5 A. Yes. The settlement recognizes that Granite State's costs could be impacted, either
6 upward or downward, by certain events outside the control of the Company.

7 Consequently, the Granite State Rate Plan includes exogenous event provisions which
8 would allow for base distribution rate changes, either increases or decreases, during the
9 Rate Plan Period for certain events. The exogenous events include the following five
10 categories, as more fully described in the Granite State Rate Plan.

- 11 1. State Initiated Cost Change
- 12 2. Federally Initiated Cost Change
- 13 3. Regulatory Cost Reallocation
- 14 4. Excessive Inflation
- 15 5. Externally Imposed Accounting Rule

16 With the exception of the Excessive Inflation category, if any of these exogenous events
17 causes a change in the Company's annual revenue requirement by more than \$100,000 in
18 any calendar year of the Rate Plan Period, Granite State will adjust its distribution rates
19 accordingly. The exogenous event threshold of \$100,000 is a per-event threshold and
20 also represents a cumulative effect. In other words, if a single exogenous event does not
21 effect the Company's revenue requirement in a single year but its cumulative effect
22 causes a change in the Company's annual revenue requirement to exceed the \$100,000

1 threshold in a subsequent year, an exogenous event rate adjustment would be made for
2 that subsequent year impact. The Excessive Inflation exogenous event is measured on a
3 cumulative basis. If the average rate of inflation for either the first three or four years of
4 the Rate Plan period exceeds 4%, Granite State would be allowed a rate adjustment equal
5 to the incremental average inflation rate above 4% times actual Operation and
6 Maintenance expenses (“O&M”), excluding actual Vegetation Management Plan and
7 Reliability Enhancement Plan O&M, for the last year of the averaging period.
8 The Company must file exogenous event rate adjustment requests by December 31st of
9 the year in which an exogenous event occurs and accumulate all exogenous events
10 impacts in a single filing. If the Company believes no exogenous events have occurred, it
11 will file a Certification with the Commission indicating such by February 1 of the
12 subsequent calendar year. If any Party or the Staff believes an exogenous event has
13 occurred that should result in a rate decrease, that party may file with the Commission to
14 open a proceeding to investigate the matter. The exogenous event rate adjustments, if
15 any, would be implemented for usage on and after April 1 of the calendar year
16 immediately following the calendar year in which the exogenous event occurred. The
17 adjustments will be recovered or credited through a uniform and fully reconciling
18 kilowatt-hour surcharge or refund. Interest, at the customer deposit rate, will accrue on
19 accumulated exogenous event impacts when the cumulative amount exceeds \$150,000 or
20 if the rate adjustment is suspended beyond April 1 even if the cumulative amount is less
21 than \$150,000.

1 Finally, no exogenous event rate increase adjustment will be allowed if the Company's
2 average return on equity ("ROE") for the cumulative period commencing January 1, 2008
3 through the calendar quarter immediately preceding the date of filing for the exogenous
4 event adjustment exceeds 11%. Subsequent exogenous event adjustments would be
5 permitted only if the average ROE drops below 11% and only on a prospective basis.
6 Other than the rate adjustments for exogenous events that occurred during the Rate Plan
7 Period, no additional exogenous event rate adjustments will be permitted after the Rate
8 Plan Period and the Company's distribution rates will be subject to traditional cost of
9 service principles.

10
11 **Q. Are there other provisions included in Section 2, Distribution Rate Plan?**

12 A. Yes there are. During the Rate Plan Period, Granite State is not precluded from
13 proposing to adjust other fees, including without limitation, line extension policies and
14 other charges under its tariff that are subject to Commission approval or proposing new
15 services for customers or non-regulated power producers for fees, provided any such fees
16 are approved by the Commission. The change in revenue due to these adjusted fees or
17 new services would be included in the Company's regulated earnings unless determined
18 otherwise by the Commission. Granite State may also request Commission consideration
19 for changes to the provisions of its terms and conditions, revenue neutral rate design
20 changes and termination of grandfathered interruptible credits which no longer have any
21 cost-basis support. Also, during the Rate Plan Period, Granite State is permitted to seek
22 special relief if a catastrophic event threatens the financial integrity of the Company.

1 Granite State maintains the burden of proving the gravity of the event on its financial
2 integrity. Finally, the Distribution Rate Plan affects distribution rates only and does not
3 affect the operation of Granite State's other adjustment rate provisions including Default
4 Service Adjustment Provisions, Default Service Cost Reclassification Adjustment
5 Provisions, Transmission Service Cost Adjustment Provisions and Stranded Cost
6 Adjustment Provisions.

7
8 **Q. Would you please turn to Section 3, Exclusion of Merger Acquisition Costs from**
9 **Rates; Amortization of Costs to Achieve; Imputed Capital Structure?**

10 A. Granite State has agreed to exclude from its cost of service, for current and future
11 ratemaking purposes, acquisition premiums associated with the National Grid/KeySpan
12 Merger, or any prior mergers. This exclusion also applies to the Company's regulated
13 earnings calculation.

14
15 Because costs to achieve Merger savings ("CTA") are one time costs needed to realize
16 more permanent Merger related costs savings, the Settling Parties and Staff also agreed
17 that it is appropriate to defer and amortize CTAs to better match the cost occurrence and
18 resulting cost savings. Consequently, Granite State will defer actual CTAs and amortize
19 them to expense, with return, over a period of 10 years commencing January 1, 2008.
20 Granite State's estimated share of total CTA amounts to \$2,031,313 and results in an
21 estimated annual amortization, with return, totaling \$262,591. This estimate will be used
22 as the initial annual amortization amount. The Company will separately track, record and

1 report annually to the Commission by May 1 for the previous calendar year actual CTA
2 incurred to date and the annual amortization amount will be adjusted accordingly. The
3 CTA amortization will be included in the Company's regulated earnings calculations.
4

5 Finally, the Settling Parties and Staff agreed to the use of an imputed capital structure
6 during the Rate Plan Period consisting of 50% equity and 50% debt. The allowed ROE
7 equals 9.67% and the debt rate is set at 7.54%, equal to the Company's actual long term
8 debt rate for calendar year 2006. The resulting overall after-tax cost of capital equals
9 8.61%.
10

11 **Q. Would you discuss the provisions contained in Section 4, Earnings Reports and**
12 **Shared Earnings Mechanism?**

13 A. Yes. During the Rate Plan Period, Granite State will be subject to earnings sharing
14 provisions based on its average ROE over the five year Rate Plan Period. Granite State
15 will be required to file interim accumulated earnings reports with the Commission by
16 May 1st of each of the years 2009, 2010, 2011 and 2012 depicting results for the
17 preceding calendar year. These reports will include a calculation of the Company's
18 regulated earnings and ROE on an annual as well as cumulative basis. By May 1, 2013
19 Granite State will file its Final Accumulated Earnings Report which will calculate the
20 Company's regulated earnings and average ROE for the full term of the Rate Plan Period.
21 This Final Accumulated Earnings Report will determine the amount of any customer
22 share of the shared earnings mechanism. For purposes of calculating return and income

1 taxes in these annual earnings reports, Granite State will use the imputed capital structure
2 and associated costs of capital discussed earlier, unless Granite State's actual average
3 common equity ratio falls below 50% for any year of the Rate Plan Period. In that event,
4 any party may contend that the use of the average actual capital structure for the five year
5 period in the Final Accumulated Earnings Report is more reasonable than the use of the
6 imputed capital structure.

7
8 **Q. Please summarize the Shared Earnings Mechanism.**

9 A. As indicated earlier, the Company's allowed ROE is set at 9.67%. As an incentive to
10 maximize efficiencies and synergy savings from the Merger, Granite State will be
11 allowed to retain 100% of earnings in excess of its allowed ROE up to a maximum of
12 1.33% above the allowed ROE (the "Sharing Threshold"). All earnings in excess of the
13 Sharing Threshold will be shared equally between customers and the Company. There
14 are no rate adjustment provisions if the Company earns below its allowed ROE. The
15 customer share of the Earnings Sharing Mechanism as determined in the Final
16 Accumulated Earnings Report will be refunded or credited to customer in a manner to be
17 determined by the Commission.

18
19 **Q. How will Section 5, the Storm Contingency Fund, operate?**

20 A. The Storm Contingency Fund will operate similar to another storm fund approved by the
21 Commission for Public Service Company of New Hampshire, first approved in Docket
22 DE 99-099. Granite State will credit the fund in the amount of \$10,000 per month or

1 \$120,000 annually. Total O&M costs of qualifying “major” storms will be charged to the
2 fund. As indicated in Exhibit GSE-7 of the Granite State Rate Plan, the NHPUC
3 definition of “major” storms will be used to qualify storms. For Granite State this is
4 defined as a severe weather event or events causing 30 concurrent troubles and 15% of
5 customers interrupted, or 45 concurrent troubles. Troubles are defined as interruption
6 events occurring on either primary or secondary lines. The fund balance, whether
7 positive or negative, will accrue interest at a rate equal to the Company’s customer
8 deposit rate. Granite State will also be required to file a Storm Fund Report with the
9 Commission by April 1st of the subsequent calendar year detailing the credits to the fund
10 along with details of any qualifying storm costs that were charged to the fund during the
11 preceding calendar year. The Settling Parties and Staff have agreed to evaluate the
12 adequacy of the fund and its funding level after two years from the effective date of the
13 Settlement Agreement. If the Company believes there is a significant deficiency in the
14 balance it may request the Commission to approve an increase in the funding level,
15 including a corresponding adjustment to distribution rates. The Company has the burden
16 of showing the inadequacy of the funding level.

17
18 **Q. Please explain the Reliability Enhancement Program included in Section 6.**

19 A. The Company has committed to undertake a Reliability Enhancement Program, as
20 detailed in Exhibit GSE-8 of the Granite State Rate Plan, consisting of a Reliability
21 Enhancement Program Plan (“REP”) and Vegetation Management Plan (“VMP”). The
22 REP and VMP are intended to provide customers the benefits of improved reliability.

1 Activities to be included in the REP and VMP are listed in Exhibit GSE-8. The REP and
2 VMP include both Capital and operation and maintenance expense (“O&M”) spending.
3 Annually by February 15th, commencing February 15, 2008, the Company will provide
4 its REP and VMP for the subsequent fiscal year, the twelve month period ending March
5 31st, to the Settling Parties and Staff for their review. The Company will meet with the
6 Settling Parties and Staff in technical sessions to discuss the Plans, obtain comments, and
7 answer any questions regarding the plans to be implemented for the subsequent fiscal
8 year. Following the Settling Parties and Staffs’ review, the Company will take all
9 reasonable steps to carry out the plans. By May 15th, commencing with May 15, 2008,
10 the Company will provide a reconciliation filing for both its REP and VMP detailing the
11 actual amounts spent on the plans in the prior fiscal year. This planning and reporting
12 schedule will be repeated for each subsequent fiscal year ending March 31st.

13
14 **Q. You mentioned moderate rate adjustments. Would you please explain?**

15 A. Yes. As we indicated, the plans will consist of both capital and O&M spending amounts.
16 The REP will include both capital and O&M spending while the VMP will include only
17 O&M expenditures. Each year, the Company will include in its February 15th planning
18 report to the Settling Parties and Staff a discreet list of incremental REP capital activities
19 it wishes to undertake for the ensuing fiscal year. Following the completion of the fiscal
20 year, by May 15th the Company will file a reconciliation report. The filing will include
21 actual amounts spent on the REP and VMP O&M activities as well as the capital
22 amounts invested in accordance with implementing the REP. Upon review and approval

1 of the Commission, each July 1st, commencing July 1, 2008, the Company will adjust its
2 delivery rates. The rate adjustment for the REP capital investment allowance will include
3 an adjustment equal to the revenue requirement for the actual incremental capital
4 investments made pursuant to the previous year's REP capital component. In addition to
5 the incremental REP capital spending plans, a base level of REP and VMP O&M
6 spending is assumed to be covered in the Company's base distribution rates. In an effort
7 to more aggressively deliver reliability enhancement benefits to customers, the initial
8 year of the Rate Plan Period, FY 2008, assumes a REP capital spending target of
9 \$950,000 and a combined REP and VMP base O&M spending level of \$1,950,000
10 consisting of \$450,000 on REP O&M and \$1,500,000 on VMP. By May 15, 2008 the
11 company will submit its reconciliation report along with the proposed July 1, 2008 rate
12 adjustment. Assuming the actual REP capital expenditures for FY 2008 equal \$950,000,
13 the REP Capital Investment Allowance is estimated to be approximately \$170,000 as
14 illustrated on Exhibit GSE-8, Attachment 1. In addition, if the Company incurs less than
15 \$1,950,000 on REP O&M and VMP activities for FY 2008, the difference would be
16 credited to the following year's REP O&M and VMP budget. If, however, the Company
17 incurs more than \$1,950,000 on REP O&M and VMP activities, no incremental rate
18 adjustment will be allowed on July 1, 2008. For FY 2009 through FY 2012 of the Rate
19 Plan Period, preliminary REP capital investments targets of \$500,000 annually have been
20 established which would result in estimated base delivery rate adjustments amounting to
21 approximately \$80,000 each July 1st commencing 2009 through 2013. The base level of
22 O&M spending for the FY 2009 through FY 2012 period aggregates \$1,360,000. For

1 these years, to the extent the Company incurs less than \$1,360,000 on REP O&M and
2 VMP activities for the given fiscal year, the difference would be credited to customers
3 either through a refund commencing on July 1 or credited to the following year's REP
4 O&M and VMP budget, at the Commission's discretion. Finally, the REP and VMP
5 provides that to the extent the February 15th plan submitted for review prior to the fiscal
6 year includes a budget higher than the base level O&M budget and the staff concurs that
7 such additional spending is appropriate for the prospective fiscal year, the incremental
8 expense actually incurred above the base level O&M budget amount will be included in
9 rates, subject to Commission approval, through a uniform adjustment factor on a per
10 kilowatt-hour basis and recovered over a twelve month period, commencing on July 1st.

11
12 **Q. Would you briefly describe the provisions contained in Section 7, Customer Service**
13 **Commitments?**

14 A. As more fully described in the Granite State Rate Plan, the Company has agreed to
15 customer service commitments with respect to call answering performance, customer
16 satisfaction survey results and reporting. As a result of the challenges and complexities
17 associated with converting the Company's customer information system, for a period of
18 at least six months from the first calendar month in which the new customer information
19 system is implemented, the transition to the new system is likely to slow call answering
20 time. For that period (the "Transition Period"), the Settling Parties and Staff have agreed
21 to segregate the measurement of call answering statistics for the Transition Period from
22 those pre- and post-transition period. For the pre- and post-transition periods, the

1 Company agrees to meet or exceed a service level of answering 80% of calls within 20
2 seconds. For the Transition Period, the Company will meet or exceed a service level of
3 no less than 80% of calls answered within 30 seconds, with the understanding that the
4 Company will be required to provide an explanation if it is unable to achieve this
5 performance in any month during the Transition Period. In the sixth month of the
6 Transition Period, the customer information system conversion and its impact on service
7 will be reviewed. To the extent that transition difficulties relating to the conversion are
8 continuing, the Company may seek an extension of the Transition Period for good cause
9 shown. With respect to the Customer Satisfaction survey, Granite State agrees to
10 maintain a residential customer satisfaction rating of no less than 88% based on a
11 statistically valid annual residential customer survey. Finally, the Company will also
12 provide reports of call answering results at least every six months and will meet with the
13 Settling Parties and Staff to review its customer service commitment performance. If any
14 of the Settling Parties and Staff is not satisfied with the Company's performance after the
15 Merger closes, they may request the Commission to open an investigation to review the
16 Company's customer service which may include establishing service quality performance
17 standards with financial penalties associated with future performance, together with
18 consideration of offsets and incentives.

19
20 **Q. Would you now move on to Section 8, Other Provisions?**

21 A. Section 8 indicates which provisions remain in effect after the Rate Plan Period and
22 addresses the issue of potential back-up service charges. The terms of the earnings

1 sharing provisions of Section 4, the Storm Contingency Fund in Section 5, and the REP
2 and VMP referred to in Section 6 will remain in effect until the conclusion of the
3 Company's first distribution rate proceeding or the effective date of temporary rates
4 (whichever is earlier), whether initiated by the Company, any of the parties, or the
5 Commission. After the Rate Plan Period and until such time, the sharing of earnings
6 above 11% pursuant to Section 4 will be performed on an annual basis and any customer
7 share of shared earnings will be refunded or credited to customers annually as determined
8 by the Commission. In recognition of the potential for increased customer installation of
9 on-site non-emergency generation the Company reserves the right to propose Back-Up
10 Service charges for Commission review and approval at such time in the future as may be
11 appropriate.

12
13 **V. RATE PLAN SETTLEMENT FOR ENERGYNORTH**

14 **Q. Would you please describe the major features of the EnergyNorth Merger Rate**
15 **Agreement?**

16 **A** Yes, the EnergyNorth Merger Rate Agreement, Exhibit 2 of the Main Settlement
17 Agreement addresses rate issues over a ten year period. It includes provisions for an
18 equitable 50/50 sharing of net synergy savings expected to be produced by the Merger
19 between customers and the Company and contains the following subsections which we
20 will be discussed individually:

- 21 1. First Rate Case and One-Year Rate Freeze
- 22 2. Synergy Savings Allowance

- 1 3. Amortization of Costs to Achieve
- 2 4. Comparison to Merger Benefits in New York
- 3 5. Cast Iron/Bare Steel Replacement Program
- 4 6. Call Answering Time
- 5 7. Operating Commitments and Annual Report

6

7 **Q. Please describe the provisions of Section 1, First Rate Case and One-Year Rate**
8 **Freeze.**

9 A. Based on recent financial performance, EnergyNorth has not been earning its allowed
10 rate of return. Pursuant to the provisions of Section 1 of the EnergyNorth Merger Rate
11 Agreement Settlement, EnergyNorth agrees to make its first rate case filing no later than
12 six months from the closing of the Merger, to change distribution delivery rates (“First
13 Rate Case”) and will request temporary rates to be implemented no earlier than twelve
14 months from the closing of the Merger. Thus, customers will see no change in
15 distribution delivery rates for a period of at least one year from the closing of the Merger.
16 In order to calculate a pre-Merger, stand alone, cost of service, for purposes of this First
17 Rate Case, the Company will use a test year based on the twelve month period ending
18 with the quarter immediately preceding the closing date of the Merger. With a few
19 exceptions, this is designed to essentially establish rates based on the cost incurrence
20 prior to the Merger. Because of the effect of the Merger announcement on the
21 Company’s costs during this test year period, however, the Company will be allowed to
22 make a normalizing adjustment to test year amounts for the effects of employee attrition

1 caused by the Merger announcement during the test period. EnergyNorth will submit an
2 updated depreciation study and the Settling Parties and Staff have agreed to the use of a
3 capital structure composed of fifty percent equity and fifty percent debt with interest on
4 the debt component determined by using the average rate of borrowings by the Company.
5 The ROE to be used will be determined in the case. However, if the Company's actual
6 average common equity ratio falls below 50%, any party may contend that the use of the
7 average actual capital structure is more reasonable than the use of the imputed capital
8 structure. Because the Company is required to perform a market valuation of the assets
9 in its pension and OPEB plans as of the closing date of the Merger and fair value the
10 assets in each plan, the Company will defer the recognition of any unrecognized gains or
11 losses resulting from such valuation to a regulatory liability or asset, respectively. The
12 resulting regulatory liability or asset will be amortized to expense over a period equal to
13 the average estimated remaining service lives of the employees in the plan. Finally, the
14 Company will not be permitted recovery of the acquisition premium from the Merger (or
15 any prior mergers) in the First Rate Case or any other subsequent rate case.

16 As mentioned earlier, the EnergyNorth Merger Rate Agreement Settlement provides for a
17 50/50 sharing of net synergy savings expected to be produced by the Merger between
18 customers and the Company. While all of the expected annual savings are not expected
19 to be achieved for several years, EnergyNorth will provide customers their 50% share of
20 the net synergy savings, or \$619,000 annually, immediately. Because the First Rate Case
21 proformed test year cost of service will not include any synergy savings, the customer
22 share of \$619,000 will be deducted from the proformed test year cost of service in order

1 to provide customers with the immediate benefit. The net synergy savings amount is
2 based on EnergyNorth's estimated share of steady state Merger savings of \$200 million
3 annually less the ten-year amortization of its share of one-time CTA of \$400 million.
4 The total annual net synergy savings produced by that calculation equals approximately
5 \$1,238,000, 50% of which will be credited immediately to customers in the First Rate
6 Case.

7
8 **Q. Would you now summarize the Synergy Savings Allowance of Section 2?**

9 A. Section 2 describes the method of valuing EnergyNorth's share of net synergy savings
10 ("Savings Allowance") as well as limitations on including the Savings Allowance in rate
11 cases subsequent to the First Rate case. The Company is required to perform a savings
12 proof within five years of the closing of the Merger to establish the Savings Allowance
13 for the balance of the ten year period. The savings proof will occur in the second rate
14 case filed by the Company within the first five years after the closing of the Merger or
15 alternatively, if a second rate is not filed, in a separately filed savings proof and Savings
16 Allowance demonstration no sooner than four years and six months and no later than five
17 years after the closing of the Merger. It is expected that essentially all of the Merger
18 synergy savings for EnergyNorth will be administrative in nature. Consequently, the
19 Savings Allowance will be measured based on EnergyNorth's administrative and general
20 expenses charged to FERC "900 accounts". As shown in Exhibit EN-1, EnergyNorth
21 will compare its actual FERC "900 accounts" expense for the measurement year to actual
22 calendar year 2005 FERC "900 accounts" expense as escalated for inflation. The

1 Savings Allowance will be allowed as a recoverable expense in the next EnergyNorth
2 initiated cost of service rate case filing, subsequent to the First Rate Case, occurring
3 within the ten year rate plan period of the EnergyNorth Merger Rate Agreement,
4 (“Second Rate Case”). However, the Company will be allowed to add back the Savings
5 Allowance to its cost of service in any cost of service rate case not initiated by the
6 Company if such rate case precedes a third Company initiated rate case filing. The
7 Company will forfeit its ability to add back the Savings Allowance if it files a third rate
8 case within the ten year rate plan period. After the ten year rate agreement, no Savings
9 Allowance will be permitted in the Company’s cost of service and the Company will be
10 subject to an annual earnings sharing mechanism until the time of the Company’s next
11 base distribution rate change. For purposes of the earnings sharing mechanism,
12 EnergyNorth will use the Commission-approved imputed or actual capital structure and
13 cost of capital determined using the last Commission-approved return on equity and
14 updated cost of debt in effect at that time. Annual earnings over the Company’s last
15 approved ROE will be shared 50% for customers and 50% for the Company.

16
17 **Q Please explain Section 3, Amortization of Costs to Achieve.**

18 A. The provisions of this section are similar to those described earlier for Granite State.
19 EnergyNorth will defer actual CTAs and amortize them to expense, with return, over a
20 period of 10 years commencing with the effective date of rates from the First Rate Case.
21 EnergyNorth’s estimated annual amortization, with return, totals \$409,203. This estimate
22 will be used as the initial annual amortization amount. The Company will separately

1 track, record and report annually to the Commission by May 1 for the previous calendar
2 year actual CTA incurred to date and the annual amortization amount will be adjusted
3 accordingly.

4
5 **Q. Would you please summarize the Comparison to Merger benefits in New York,**
6 **Section 4?**

7 A. The Merger also requires the approval of The New York Public Service Commission. As
8 such, the Company has agreed to include with the filing of the First Rate Case, a
9 comparison of economic benefits of the Merger accruing to affected New Hampshire gas
10 delivery customers of EnergyNorth (“New Hampshire Customers”) to those being
11 realized by affected New York gas delivery customers of KeySpan Energy Delivery-LI
12 and KeySpan Energy Delivery- NY (“New York Customers”) pursuant to a settlement or
13 litigated outcome of the Merger petition in New York. The economic analysis will
14 compare the net present value of the New Hampshire Customers’ share of net synergies
15 pursuant to this agreement to the net present value of New York Customers’ share of net
16 synergy savings produced by applying the customer share of net synergy savings
17 established in New York. Because EnergyNorth has committed to delay the
18 implementation of required rate relief for one year from the closing of the Merger, in
19 contrast to the immediate rate increases expected to be implemented by the New York
20 companies, the comparison will include an economic valuation of the avoided rate
21 increase ultimately determined by the Commission in New Hampshire for EnergyNorth.
22 If it is determined that the total economic benefits were greater for the New York

1 Customers, on a proportional basis, the Company will be required to provide additional
2 credits to EnergyNorth customers in its First Rate Case filing to provide an equivalent
3 economic benefit.

4
5 **Q. How will the Cast Iron/Bare Steel Replacement Program, Section 5, Operate?**

6 A. The Settling Parties and Staff were in agreement that a program to accelerate the
7 replacement of EnergyNorth's cast iron and bare steel ("CIBS") pipe was appropriate, as
8 more fully described in Exhibit EN-3. Similar to Granite State's REP and REP Capital
9 Investment Allowance, EnergyNorth will commit to invest incremental capital to
10 accelerate the replacement of its CIBS. An annual base level of CIBS replacement of
11 \$500,000, excluding replacement of cast iron and bare steel pipes required in public
12 works projects and/or carried out pursuant to the main encroachment policy in effect on
13 January 1, 2007, was established. The CIBS replacement plan commences April 1, 2008
14 (FY 2009). By January 15, 2008, and annually thereafter, EnergyNorth will provide a
15 copy of its CIBS replacement plan for the upcoming fiscal year to the Settling Parties and
16 Staff for their review and comment. The Company will meet with the Settling Parties
17 and Staff in technical sessions to discuss the Plans, obtain comments, and answer any
18 questions on the Plan to be implemented for the subsequent fiscal year. An updated and
19 finalized CIBS replacement plan will be provided to the Settling Parties and Staff by May
20 1st upon completion of the Company's winter frost patrols in early April. It is
21 recognized that events may require reprioritization of activities during the plan year, such

1 changes deemed appropriate by the Company will be communicated to the Settling
2 Parties and Staff for review and discussion.

3
4 **Q. Will there be a rate adjustment each year?**

5 A. Yes. Again, similar to the Granite State REP Capital Investment Allowance,
6 EnergyNorth would be permitted a CIBS Capital Investment Allowance. Annually, On
7 May 15, EnergyNorth will file a report with the Commission detailing the actual amount
8 of capital investments made in accordance with implementing the CIBS Plan during the
9 prior fiscal year and the associated incremental revenue requirement associated with the
10 capital investments in excess of the CIBS base level of \$500,000. Provided that the
11 investments were made in accordance with the CIBS Plan accepted by the Settling
12 Parties and Staff, the Company will be allowed a permanent increase in its base delivery
13 rates to recover the incremental annual revenue requirement effective July 1 for the
14 preceding fiscal year's incremental investment as illustrated on Exhibit EN-3 Attachment
15 A. This permanent base delivery rate adjustment will first take effect for usage on and
16 after July 1, 2009 and annually on July 1 thereafter.

17
18 **Q. Please summarize the commitments included in Section 6, Call Answering Time.**

19 A. EnergyNorth has agreed to answering 80% of calls within 30 seconds by the end of the
20 first full calendar year following the closing of the Merger and to maintain that
21 performance standard until its customer information system is consolidated with the rest
22 of National Grid. If EnergyNorth believes the costs or other consequences incurred to

1 achieve this standard would be imprudent and the Settling Parties and Staff concur, a new
2 call answering standard may be negotiated in good faith, taking into account the needs of
3 customers. In any event, once EnergyNorth's customer information system is
4 consolidated with the rest of National Grid, the Settling Parties and Staff have agreed to
5 negotiate in good faith service quality standards pertaining to customer service. The
6 Company will provide monthly reports of call answering results to the Settling Parties
7 and Staff and meet with them at least every 6 months to review its customer service
8 commitment performance. Finally, the company will provide annual call answering
9 performance reports. If the Settling Parties and Staff believe customer service is being
10 materially compromised by poor performance, they may petition the Commission to
11 investigate the Company's service quality performance which may include establishing
12 service quality performance standards with financial penalties associated with future
13 performance, together with consideration of offsets and incentives.

14
15 **Q. Would you discuss briefly the Operating Commitments and Annual Report**
16 **provisions contained in Section 7?**

17 A. Yes. In summary, and as more fully explained in Section 7 of the EnergyNorth Merger
18 Rate Agreement, the Company has made commitments surrounding the following:

19 A. Ownership of System

20 B. Cast Iron Encroachment Policy

21 C. Critical Valves

22 D. Annual Operating Report for Items 5, 7, 8 and 14 below

1 E. Aldyl A Pipe

2 F. Contact Information

3 G. Outside Contractor Activities

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

5 I. Marking of Underground Facilities

6 J. Operator Qualification (OQ) Plan Compliance

7 K. Location of Operation Centers

8 L. Peak Shaving Facilities

9 M. Internet Access to Operations Manuals and Procedures

10 N. Emergency Response Time

11
12 **Q. Is there anything you would like to add related to these commitments?**

13 A. Yes. We believe that most of the commitments above are self explanatory and require no
14 further discussion here. We would, however, like to take a moment to discuss two of
15 them.

16
17 **Q. What is the first one you would like to discuss?**

18 A. The commitment relating to the marking of underground facilities. Specifically, the
19 Company has committed that for at least two years from the date of the Merger, it will
20 continue to use Company employees to mark underground facilities. Even more
21 important, the Company is committing that if at any time after the two years it decides to
22 use outside contractors, it must notify the Settling Parties and Staff at least six months in

1 advance. If the Staff has any concerns about this proposal, the Settling Parties and Staff
2 may request the Commission to review the matter. During the pendency of the
3 investigation, the Company may not use outside contractors. Thus, if the Settling Parties
4 and Staff determine that there are safety, service quality, or reliability reasons why the
5 Company should not be permitted to use outside contractors, they have the ability to refer
6 the matter to the Commission. Only if the Company can meet the burden of showing that
7 it would not result in a degradation to service quality, safety, and reliability could the
8 Company implement the proposed change.

9
10 **Q. What is the other commitment you wish to address?**

11 A. The Emergency Response Time commitments and potential Company incentive included
12 in Item N. Commencing with calendar year 2008, the Company has agreed to the annual
13 average emergency response time standards set forth in Exhibit EN-4 of the EnergyNorth
14 Merger Rate Agreement. The Company will report on its performance against these
15 annual average targets for the year. If the Company misses the targets, it must provide
16 an explanation to the Settling Parties and Staff. If the Settling Parties and Staff are not
17 satisfied with the explanation and believe safety is being materially compromised by the
18 Company's poor performance, they may petition the Commission to investigate the
19 Company's Emergency Response Time which may include establishing service quality
20 performance standards with financial penalties associated with future performance,
21 together with consideration of offsets and incentives. Recognizing that there are
22 incremental costs in achieving these emergency response time standards and to provide

1 an incentive to the Company to achieve compliance with the average annual standards
2 earlier than for the twelve months ended December 31, 2008, the Settling Parties and
3 Staff have agreed to allow the Company to earn an incentive for early compliance with
4 the standards.

5
6 If the Company achieves the annual average standards for the twelve month period
7 ending August 31, 2008 and maintains compliance in each subsequent rolling twelve
8 month period through December 31, 2008, it will be allowed an incentive of \$600,000.
9 The incentive is reduced by \$50,000 for each subsequent rolling twelve month period if
10 continued compliance is not maintained. If compliance is missed in an interim twelve
11 month period, the maximum incentive the Company could earn would be measured by
12 the incentive for the subsequent twelve month period for which continued compliance
13 through December 31, 2008 is maintained. The incentives for continued compliance
14 beginning with the twelve month period ending September 30, October 31, November 30
15 and December 31, 2008 are \$550,000, \$500,000, \$450,000 and \$400,000, respectively.
16 For example if the Company achieves compliance with the annual average standards for
17 the twelve month periods ending August 31, September 30 and October, 31, 2008, then
18 misses the standards for the twelve months ended November 30, 2008 and regains
19 compliance for the twelve month period ended December 31, 2008, the earned incentive
20 would be \$400,000. No incentive would be earned if the Company misses the standards
21 for the twelve month period ended December 31, 2008. Any incentive earned will be
22 deferred and recovered in rates established in the First Rate Case or in the Company's

1 next local distribution adjustment charge rate change, whichever is earlier. The
2 Company will be allowed to include the full costs of complying with these standards in
3 its First Rate Case cost of service. If an extraordinary event beyond the Company's
4 control occurs, to which the Company appropriately responds and the response to such
5 circumstances and events causes the Company to miss its performance measures for
6 emergency response during the measurement periods, the Company reserves its right to
7 request exclusion of the response calls received during the event from the calculation of
8 the measures. The Company's request must prove the extraordinary nature of the event
9 and the appropriateness of its response and the Settling Parties and Staff may take any
10 position they deem appropriate. If such an event were to occur, the Company agrees to
11 meet with the Settling Parties and Staff before making any filing.

12
13 **VI. COMPLIANCE WITH ALTERNATIVE FORM OF REGULATION**
14 **PROVISIONS**

15
16 **Q. Does the Granite State Rate Plan constitute an “alternative form of regulation”,**
17 **within the meaning of Commission regulations?**

18 A. The answer to this question may largely be a legal question and could be debated. To
19 obviate the need for that debate, we will show that the Granite State Rate Plan meets all
20 the requirements under the Commission's regulation for approval of an alternative form
21 of regulation. But, in fact, looking at the definition in the Commission's regulations, we
22 do not believe that the plan itself necessarily fits the definition in all respects.

23
24 **Q. Why?**

1 A. The definition states that an alternative form of regulation is a method of utility rate
2 regulation “other than methods which are based upon cost of service, rate base and rate of
3 return.” We believe that every rate-related component of the plan has its basis in cost of
4 service ratemaking. As explained earlier, the starting point for the rates is our 2006 cost
5 experience. Even the special adjustment provisions associated with the REP and VMP
6 are cost of service based. The only components that veer away from traditional
7 ratemaking are the earnings sharing mechanism and the five year nature of the plan that
8 permits exogenous event adjustments. But even the sharing mechanism is based on a
9 cost of service calculation and the exogenous events triggers are tied to revenue
10 requirement impacts based upon cost of service analysis. Thus, while the plan is
11 different than a fully litigated cost of service case, it may be more akin to a cost of
12 service rate case settlement than alternative regulation.

13
14 **Q. Assuming the Granite State Rate Plan was deemed to be a form of alternative**
15 **regulation, does the plan meet the requirements of the regulations?**

16 A. Yes. We believe that it does and we can show this by addressing each section of the
17 Commission’s regulations on alternative forms of regulation.

18
19 **Q. Please refer to section 206.05 of the regulations and walk through each of**
20 **subparagraphs (a) through (f), as they may apply to the Granite State Rate Plan.**

21 A. Certainly. First, subparagraph (a) requests that the company identify the “form of
22 regulation it seeks.” In this case, the form of regulation is essentially modified cost of

1 service ratemaking. The modifications relate to the limitations on rate changes,
2 exogenous event provisions, the changes that would be permitted under the REP and
3 VMP, and the earnings sharing mechanism.
4

5 **Q. What about subparagraph (b), relating to what part of the business the plan affects?**

6 A. Subparagraph (b) requires the company to indicate whether the plan applies to its entire
7 operations or portions of its service or operations. In this case, the plan applies to
8 Granite State's electric distribution operations. However, it is important to point out that
9 the plan does not affect current rules relating to default service, stranded cost recovery,
10 transmission cost recovery, and matters pertaining to the systems benefit charge.
11

12 **Q. To respond to subparagraph (c), what is the term of the plan?**

13 A. Assuming the Merger closes, the term of the Rate Plan Period is for up to 5 ½ years,
14 ending December 31, 2012. However, there are components of the plan that continue
15 after 2012, including amortization of CTA which lasts through 2017. In addition, until
16 the first base distribution rate change occurring after 2012 arising out of a rate case for a
17 period after the rate plan, the REP and VMP and the earnings sharing mechanism remain
18 in place.

19 **Q. What about the form of regulation that will apply after the Granite State Rate Plan
20 expires, as indicated in subparagraph (d)?**

21 A. Rate regulation of Granite State reverts to a traditional cost of service ratemaking after
22 the Rate Plan Period.

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Q. What about subparagraph (e), which asks how the rates charged under the alternative form of regulation would compare to rates that would be charged under methods which are based upon cost of service, rate base and rate of return, if the utility were to file a rate case concurrently?

A. We believe that the rates that will be in effect after the second rate reduction occurring on January 1, 2008 represent a settled cost of service rather than a fully litigated cost of service. As explained earlier, the starting point for the rates negotiated under this plan were based on adjusted calendar year 2006 operating results that were deemed to approximate the rate year revenue requirements of a cost of service rate case. While a fully litigated case might change this up or down by some amount, we are in the range of the result of such a case. For the remainder of the period, the rates will only be adjusted for specified costs attributable to the REP and VMP, exogenous events or changes in funding levels for the Storm Contingency Fund if deemed appropriate by the Commission. Thus, the plan is consistent with underlying cost of service ratemaking methodologies throughout the period.

Q. What about subparagraph (f), requesting additional information?

A. We believe it is fair to say that the balance of this testimony addresses the other areas that the negotiated Granite State Rate Plan affects. Thus, the testimony as a whole addresses this request.

1 **Q. Please turn to the Commission’s regulations in Puc 206.06. In that part,**
2 **subparagraph (a) requires a petition to be filed. How does this plan comply?**

3 A. The Company has actually filed a settlement in lieu of a petition. We believe the
4 settlement and this testimony stands in place of the formal petition to meet the
5 requirement.

6

7 **Q. Subparagraph (b) requests a description of the effects, if any, on several areas. Can**
8 **you address the first area under subsection (1), referenced as the effect on**
9 **“competition?”**

10 A. Yes. In this case, there is no impact on competition. It would appear that this section
11 was intended to address regulated entities that have competitors, such as the
12 telecommunications industry. In the case of Granite State, it is not in competition for its
13 distribution delivery service. Moreover, the only part of its business that has
14 competitors offering service is commodity service and this rate plan has no effect on
15 default service regulation.

16

17 **Q. Subsection (2) refers to the effect, if any, on the safety, adequacy and reliability of**
18 **public service. Can you respond to this?**

19 A. Yes. With respect to safety, there is no impact. The Company will continue to conduct
20 its business as usual and remains fully regulated by the Commission with respect to
21 safety issues. With respect to adequacy and reliability, the same can be said, except that
22 the plan calls for enhancements to reliability. Specifically, we believe the REP and

1 VMP will provide a very positive mechanism that will allow the Company to improve
2 reliability over the course of the Rate Plan.

3
4 **Q. Subsection (3) refers to the traditional regulatory balance which does not unfairly**
5 **benefit or disadvantage utility consumers, utility investors and other stakeholders.**
6 **Can you respond to this?**

7 A. Yes. We believe the Granite State Rate Plan strikes a very good balance and aligns the
8 interests of all stakeholders. Customers are provided with the benefit of immediate rate
9 relief, while the Company, through the Sharing Threshold, is given the proper economic
10 signals to operate efficiently and to maximize the achievement of synergy savings from
11 the Merger. This benefit alignment also exists to the extent the Company is successful
12 in achieving Merger savings and efficiencies greater than anticipated and contributing to
13 the Company's earnings growing above the Sharing Threshold of an average 11% ROE.
14 In such an event, customers and the Company will enjoy an equitable 50/50 sharing of
15 incremental earnings. The Granite State Rate Plan also brings rate stability to the
16 distribution component of customer bills, by limiting rate changes to those specified in
17 the plan.

18
19 **Q. Subsection (4) refers to administrative efficiency in the regulatory process, how does**
20 **the plan affect this component?**

21 A. We believe that the negotiation of this rate plan represents a very efficient result and the
22 mechanisms built in allow for fairly straightforward regulatory review and activity

1 through the five year period. While the REP and VMP will generate some annual
2 reviews, it is set up in an efficient manner that allows the Settling Parties and Staff to
3 interact both informally and formally with the Company each year, with the common
4 goal of enhancing reliability.

5
6 **Q. Subsection (5) relates to economic development. Does the plan relate to this
7 subject?**

8 A. Only in an indirect way does the Granite State Rate Plan relate to this issue. That is,
9 there is a distribution rate reduction, followed by limits on increases over the five years.
10 To the extent this helps stabilize the cost to businesses, it may help economic
11 development.

12
13 **Q. Subsection (6) relates to access to basic utility service to residents. Is this subject
14 implicated?**

15 A. No. This subject is not affected by the Granite State Rate Plan. There is no change to
16 any service requirements for customers.

17
18 **Q. Subsection (7) refers to innovation of services. Is this subject implicated?**

19 A. Not directly. However, the plan does provide an incentive for the company to maximize
20 efficiencies from the Merger.

21

1 **Q. Subsection (8) refers to infrastructure improvements. Is this subject impacted by**
2 **the Rate Plan?**

3 A. Yes, in a very positive way. One of the key components of the Granite State Rate Plan is
4 the REP and VMP. This allows the Company to move forward with a program to
5 improve reliability, including capital investments.

6

7 **Q. The final subsection (9) refers to environmental safeguards and incentives. What**
8 **about this section?**

9 A. We do not believe this subject is implicated. Regulation by the Commission and other
10 environmental agencies over the company remains unchanged by the rate plan on the
11 subject of environmental issues.

12

13 **Q. Part 206.07 of the Commission's regulations sets forth the standards for approval.**
14 **Can you please explain why the Company believes the Granite State Rate Plan**
15 **meets this standard?**

16 A. Yes. The first standard requires that rates are not unduly discriminatory and are at a
17 level that allows those to whom a service is being marketed to obtain such service. In
18 the case of the Granite State Rate Plan, the company's current rate classifications remain
19 unchanged and the proposed rate reduction is being allocated on an equal basis, as shown
20 in Exhibit GSE-3A and GSE-3B. Further, all customers remain able to obtain service
21 without change to current requirements.

22

1 **Q. As referenced in subparagraph (2), does the Granite State Rate Plan provide the**
2 **company with the opportunity to realize a return on its investment which falls**
3 **within a range that is neither confiscatory nor unduly profitable and that reflects**
4 **the utility's investment risk?**

5 A. Yes. The starting point for the rates is based on 2006 operating results, and a ROE of
6 9.67%. While the Company may have taken the position that the ROE should have been
7 higher, we recognized that this was the ROE allowed by the Commission in other recent
8 utility cases. Thus, we accepted the compromise of settling on this return. As discussed
9 earlier, to the extent that the Company operates very efficiently and achieves substantial
10 synergy savings from the Merger, the Granite State Rate Plan has in place an earnings
11 sharing mechanism that provides for an equitable sharing of earnings over a sharing
12 threshold of 11% between customers and the Company. Thus, there is a safeguard built
13 in to assure that the plan does not become "unduly profitable."

14
15 **Q. The final standard requires that the plan serve the public interest in light of the**
16 **considerations described in Puc 206.06(b)(1) through (9). Is this standard met?**

17 A. Yes. Based on a review of the preceding point by point explanations of how the plan
18 affects these criteria, it is fair to say that the Granite State Rate Plan is in the public
19 interest, results in just and reasonable rates and provides the Company with the
20 opportunity to realize a reasonable return on its investment.

21
22 **VII. CONCLUSION**

1 **Q. Does that conclude your testimony?**

2 **A. Yes it does.**

National Grid/Keyspan Corporation
Merger

Docket No. DG 06-107

Merger Settlement Agreement

May 15, 2007

Submitted by:

nationalgrid

STATE OF NEW HAMPSHIRE
BEFORE THE
PUBLIC UTILITIES COMMISSION

Docket No. DG 06-107

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

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

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

Summary

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

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

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

I. Background

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

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

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

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

II. Procedural History

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

2. On August 18, 2006, the Office of Consumer Advocate (“OCA”) filed a notice of intent to participate in the docket on behalf of residential utility consumers pursuant to RSA 363:28, II.

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

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

III. Parties and Scope of Agreement

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

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

IV. General Provisions of Settlement

1. Merger Approval

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

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

2. Other Approvals Necessary for Implementing the Merger

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

- ii. Service Company Allocation. The Settling Parties and Staff agree that National Grid may consolidate the service companies of National Grid and KeySpan, and National Grid and affiliates may adopt KeySpan’s formula for allocating service company costs that are not otherwise directly charged from the service company, to become effective upon receipt of all required regulatory approvals and when systems are in place to implement the billing

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

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

3. Reporting Requirements and Access to Data

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

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

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

- vi. The Joint Petitioners shall provide the Commission with a copy of the proposed cost allocation methodology related to any service company or service companies owned by National Grid 30 days in advance of any change to service company allocations that affect service company billings to EnergyNorth or Granite State.

- vii. The Joint Petitioners shall comply with the Commission's rules for Affiliate Transactions set forth in N.H. Code of Administrative Rules Puc 2100 and to comply with the provisions of RSA 366:3 governing the filing of affiliate contracts with the Commission.

- viii. At the time of the filing of the new service company cost allocation methodology with the Commission, the Joint Petitioners shall provide the Commission with a Cost Impact Statement summarizing the direct and indirect service company cost allocations for National Grid transmission and distribution operations, using the existing allocation methodology as well as the new cost allocation methodology proposed by the Company.

V. Settlement of Rates

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

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

VI. Acceptance of the Settlement and Other General Provisions

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

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

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

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

Date: April 30, 2007

By: Alexandra E. Blackmore
Alexandra E. Blackmore

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

Date:

By: _____
Thomas O'Neill

Date:

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

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

Date: May 1, 2007

By: Edward N. Damon
Edward N. Damon

OFFICE OF CONSUMER ADVOCATE
By its Attorney

Date: 5/1/07

By: Meredith A. Hatfield
Meredith A. Hatfield

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

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

Date:

By: _____
Alexandra E. Blackmore

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

Date: May 1, 2007

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

Date: May 1, 2007

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

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

Date:

By: _____
Edward N. Damon

OFFICE OF CONSUMER ADVOCATE
By its Attorney

Date:

By: _____
Meredith A. Hatfield

Exhibit 1

Granite State Rate Plan

TABLE OF CONTENTS

1.	Rate Reduction and Rate Design	2
2.	Distribution Rate Plan	
	A. Rate Plan Period.....	3
	B. Exogenous Events.....	3
	C. Procedure for Adjusting Rates for Exogenous Events.....	7
	D. Traditional Cost of Service Ratemaking After the Rate Plan Period.....	9
	E. Non-rate Charges Not Limited by Settlement	9
	F. Transmission, Stranded Cost, and Commodity Service Rates.....	11
	G. Catastrophic Financial Events.....	11
3.	Exclusion of Merger Acquisition Costs from Rates; Amortization of Costs to Achieve; Imputed Capital Structure	
	A. Exclusion.....	11
	B. Amortization of Costs to Achieve.....	12
	C. Imputed Capital Structure	12
4.	Earnings Reports and Shared Earnings Mechanism	
	A. Earnings Reports.....	13
	B. Shared Earnings Mechanism.....	14
5.	Storm Contingency Fund	15
6.	Reliability Enhancement Program	15
7.	Customer Service Commitment	
	A. Call Answering - Pre-CSS Conversion.....	16
	B. Call Answering - CSS Transition Period	16
	C. Call Answering - Post Transition Period	16
	D. Definition of Call Answered and Performance Measurement.....	17
	E. Customer Satisfaction Survey.....	17
	F. Monthly Reports and Meetings with Consumer Staff and OCA	18
	G. Referral to Commission	18
8.	Other Provisions	
	A. Terms Remaining in Effect After Rate Plan Period.....	18
	B. Back-up Service Charges.....	19

RATE PLAN SETTLEMENT FOR GRANITE STATE

This settlement agreement establishes distribution rates for Granite State Electric Company (“Granite State” or “Company”) for the period beginning July 1, 2007 or thirty (30) days following the Commission’s approval of the acquisition of KeySpan by National Grid plc (“Merger”), whichever is later (“Effective Date”). Upon the closing of the Merger, Granite State’s distribution rates will be subject to the provisions of a distribution rate plan beginning January 1, 2008 through December 31, 2012 (“Rate Plan Period”), as set forth herein, which limits distribution rate changes for that period.

The rate reduction in Section 1, along with the provisions of Sections 5, 6, and 7 are contingent upon the approval of the Merger by the Commission, but are not contingent upon the closing of the Merger. All other commitments and rate-related agreements herein are contingent upon the closing of the Merger.

1. Rate Reduction and Rate Design

Granite State will implement a base distribution rate reduction of \$2.2 million, in two phases, as set forth below. For usage on and after the Effective Date, Granite State shall implement the first phase of the base distribution rate reduction by reducing the distribution rates currently in effect by \$1.1 million calculated as shown on Exhibit GSE-1 (“First Phase Reduction”). Granite State shall adjust its distribution rates on an equal percentage basis among rate classes and rate design elements as shown on Exhibit GSE-3A. Bill impacts are included in Exhibit GSE-4.

The second phase of the base distribution rate reduction will be implemented for usage on and after January 1, 2008, by reducing the distribution rates by the second \$1.1 million, calculated as also shown in Exhibit GSE-1 (“Second Phase Reduction”). For the Second Phase Reduction, distribution rates shall be adjusted on the same basis as the First Phase Reduction, as shown on Exhibit GSE-3B. The Company will make a compliance filing for the Second Phase Reduction at the time of its year end reconciliation filing for its Transmission Service Cost Adjustment and Stranded Cost Adjustment reconciliation accounts.

2. Distribution Rate Plan

(A) Rate Plan Period

Subject to (i) any distribution rate changes approved by the Commission to support the annual Reliability Enhancement Plan (“REP”) set forth in Section 6 below, (ii) the Second Phase Reduction, (iii) exogenous events defined below that occur during the Rate Plan Period (“Exogenous Events”), and (iv) adjustments (if any) to the Storm Contingency Fund in Section 5, the distribution component of Granite State’s rates shall be frozen from the Effective date through the end of the Rate Plan Period. During the Rate Plan Period, none of the Settling Parties or Staff shall file a complaint to change Granite State’s distribution rates, except as provided in this agreement for Exogenous Events.

(B) Exogenous Events

During the Rate Plan Period, the Company will adjust distribution rates (upward or downward) resulting from any of the Exogenous Events, as set forth below (to the extent

the revenue impact is not otherwise captured through another rate mechanism that has been approved by the Commission).

- (1) State Initiated Cost Change: Granite State shall adjust its distribution rates (upward or downward) if the occurrence of a “State Initiated Cost Change”, as defined below, causes (in the aggregate) a change in Granite State’s annual revenue requirement by more than \$100,000 in any calendar year during the Rate Plan Period. For purposes of this settlement agreement, the term “State Initiated Cost Change” shall mean:
 - (i) the enactment or promulgation of any new or amended state or local tax laws, regulations, or precedents governing income, revenue, sales, franchise, or property or any new or amended state or locally imposed fees (but excluding the effects of annual changes in municipal, county and state property tax rates and revaluations); and
 - (ii) the elimination of any existing state or local tax or fee obligations; and any state legislative or state regulatory mandates which impose new obligations, duties or undertakings, or remove existing obligations, duties or undertakings which individually decrease or increase Granite State’s costs, revenue, or revenue requirement.
- (2) Federally Initiated Cost Change: Granite State shall adjust its distribution rates (upward or downward) if the occurrence of a “Federally Initiated Cost Change”, as defined below, causes (in the aggregate) a change in Granite State’s annual revenue requirement by more than \$100,000 in any

calendar year during the Rate Plan Period. For purposes of this settlement agreement, the term “Federally Initiated Cost Change” shall mean:

(i) any externally imposed changes in the federal tax rates, laws, regulations, or precedents governing income, revenue, or sales taxes or any changes in federally imposed fees; and

(ii) any federal legislative or federal regulatory mandates which impose new obligations, duties or undertakings, or remove existing obligations, duties, or undertakings which individually decrease or increase Granite State’s costs, revenue or revenue requirement.

- (3) Regulatory Cost Reallocation: The distribution rates reflected in this settlement agreement during the Rate Plan Period are based on the separation of costs among supply, transmission, and distribution functions in place on the date of the settlement. If a “Regulatory Cost Reallocation”, as defined below, causes a change in Granite State’s annual revenue requirement by more than \$100,000 in any calendar year during the Rate Plan Period, Granite State will make an appropriate adjustment to its distribution rates to reflect such change or allocation. For purposes of this Settlement, the term “Regulatory Cost Reallocation” shall mean the reassignment of costs and/or revenues now allocated to generation (i.e., stranded costs), transmission, or distribution functions to or away from the distribution function by the Commission, FERC, NEPOOL, the ISO or any other official agency having authority over such matters.

- (4) Excessive Inflation: If the average rate of inflation from January 1, 2008 through December 31, 2010, measured by annual changes in the “Gross Domestic Product Implicit Price Deflator” (“GDPIPD”), exceeds 4%; or such average annual rate of inflation from January 1, 2008 through December 31, 2011 exceeds 4%, Granite State will be allowed, pursuant to the procedure below, an increase in its distribution revenues in years 2011 and/or 2012, respectively, equal to the amount by which such average inflation rate exceeds 4%. The incremental inflation amount shall be applied to actual O&M expenses in calendar year 2010 and/or 2011, respectively. The REP and VM Plan O&M reconciliations (as contemplated in GSE-8) will be excluded from the inflation adjustment. Attached as Exhibit GSE-5 is an illustration of how an inflation adjustment would be calculated.
- (5) Externally Imposed Accounting Rule: Granite State shall adjust its distribution rates (upward or downward) if the occurrence of an Externally Imposed Accounting Rule causes (in the aggregate) a change in Granite State’s annual revenue requirement by more than \$100,000 in any calendar year during the Rate Plan Period. For purposes of this settlement agreement, an Externally Imposed Accounting Rule shall be deemed to have occurred if the Financial Accounting Standards Board or the Securities and Exchange Commission adopts a rule that requires utilities to

use a new accounting rule that is not being utilized by the Company as of the effective date of this Rate Plan.

(C) Procedure for Adjusting Rates for Exogenous Events

- (1) Procedure: If Granite State incurs any changes in costs, avoided costs, revenue, or revenue requirement in excess of the thresholds set forth in the prior section in connection with any of the Exogenous Events that have occurred during the Rate Plan Period, Granite State shall file for adjustments no later than December 31 of the year in which the amounts are incurred. If Granite State has not made a filing, the Commission Staff and other parties have a right to make a filing on their own to open a proceeding if the Commission Staff or other parties believe an Exogenous Event has occurred that should result in a rate decrease. Any adjustments shall be subject to review by the Commission, and after a public hearing and approval by the Commission: (1) shall be implemented for usage on and after April 1 of the following year (unless suspended by the Commission); (2) shall be allocated among Granite State's rate classes based on kilowatt-hour deliveries during the year in which the amounts were accrued; and (3) shall be collected through a uniform and fully reconciling surcharge or refund factor applied to all kilowatt-hours billed under Granite State's retail distribution rates. Any such filings are limited to once per calendar year, provided that any costs incurred or avoided

from such Exogenous Events shall be deferred for consolidation in the single filing. However, when accumulated deferred costs incurred or avoided from such Exogenous Events in any calendar year shall reach \$150,000, the total cost/credit shall accrue interest at the customer deposit rate from such time until reflected in rates. In instances where the total accrued cost/credit is less than \$150,000 and the effective date of the adjustment is suspended beyond April 1, the Company shall accrue interest at the customer deposit rate for the accumulated accrued amount (even though less than \$150,000) from April 1 until such time as the accumulated accrued amount is reflected in rates. In any proceeding under this subsection, the party claiming that there should be a rate modification resulting from the occurrence of an Exogenous Event shall carry the burden of proving the occurrence and the cost impact. The Company will file a certification with the Commission by February 1 of each year during the Rate Plan Period for the preceding calendar year, with copies to the Parties, certifying that, to the best of the Company's knowledge and belief, there have been no occurrences of Exogenous Events except as identified in the certification.

- (2) Earnings Limit: If and when the Company makes a filing seeking an adjustment that increases the rates under this section, if the average intrastate return on equity of the Company, calculated using the same methodology, as set forth below in Section 4.B, for the time period from

January 1, 2008 to the end of the last quarter prior to the date of the filing for such adjustment, exceeds 11%, the Company will not be permitted to make a rate adjustment until the average return has dropped below 11%. If and when the average return drops below 11%, the Company may only recover costs on a prospective basis.

(D) Traditional Cost of Service Rate Making After Rate Plan Period

After the Rate Plan Period, no special adjustments to distribution rates for Exogenous Events, as described in this Section, shall be permitted¹ and distribution rate changes may occur under traditional cost of service (“COS”) principles, consistent with New Hampshire Law (other than rate changes governed by Commission-approved reconciliation adjustment provisions and annual REP-related changes). As such, the Company is permitted to file a COS rate case to change distribution rates effective January 2013², if the Company believes it has or will have a revenue deficiency for the applicable pro forma test year. The Staff and OCA also have the right to file a complaint with the Commission requesting that the Commission require a COS review to reduce distribution rates beginning in January 2013 if the Parties believe that the Company has or will have a revenue excess.

(E) Non-rate Charges Not Limited by Settlement

¹ Any Exogenous Event adjustments made during the Rate Plan Period will remain in rates through the effective date of the new rates determined in the Company’s first distribution rate proceeding. However, no future adjustments will be permitted after the Rate Plan Period.

² A filing may be made in 2012 to change rates for effect after December 31, 2013.

- (1) Other Fees and New Services: The distribution rate freeze set forth in this Section shall not preclude Granite State from proposing to adjust fees, including without limitation, line extension policies and other charges under its tariff that are subject to Commission approval. In addition, this settlement agreement does not preclude Granite State from proposing new services for customers or nonregulated power producers for fees, provided any such fees are approved by the Commission. All changes in revenue resulting from any adjustments in such fees and implementation of new fees shall be reflected above the line in the calculation of Granite State's annual earnings reports (subject to provisions of Section 4 below) unless the Commission otherwise approves.
- (2) Terms and Conditions: Nothing in this Settlement shall preclude Granite State from proposing changes to the provisions of its terms and conditions for customers and nonregulated power suppliers or the non-rate related provisions of its rate schedules, tariffs, and formulae for line extensions.
- (3) Revenue Neutral Rate Design Changes: Nothing in this settlement shall preclude the Commission's consideration of a request with the Commission to make distribution rate design changes that are revenue neutral to the Company.
- (4) Interruptible Credits. Nothing in this settlement shall preclude the Commission's consideration of a request with the Commission to

terminate interruptible credits tariff provisions that have been grandfathered and no longer have any cost-basis support.

(F) Transmission, Stranded Cost, and Commodity Service Rates

This settlement is intended to affect distribution rates only. The terms of this settlement shall not affect the operation of the Company's:

Default Service Adjustment Provision

Default Service Cost Reclassification Adjustment Provision

Transmission Service Cost Adjustment Provision

Stranded Cost Adjustment Provision

(G) Catastrophic Financial Events

If a catastrophic event or events were to occur during the Rate Plan Period which materially and substantially impacts the financial integrity of the Company, the Company would have the right to seek special relief to preserve its financial integrity. However, the Company would bear the burden of proving that the financial integrity of the Company would be imperiled as a result of the catastrophic event or events absent relief, and the other Settling Parties reserve their rights to oppose the request for any reason.

3. Exclusion of Merger Acquisition Costs from Rates; Amortization of Costs to Achieve; Imputed Capital Structure

(A) Exclusion

For purposes of cost of service and ratemaking, acquisition premiums from the Merger (and any prior mergers) shall be excluded from the distribution cost of service used to develop Granite State's distribution rates and the earnings sharing provisions set forth in Section 4 below or in any future ratemaking mechanism.

(B) Amortization of Costs to Achieve

Granite State shall be allowed to amortize the prudently incurred costs to achieve (CTA) the merger savings allocated to it with a return at the Company's pre-tax weighted average cost of capital, using the Commission-approved imputed or actual capital structure in effect for each year and rates set forth in subsection (C) below, for a period of ten years from January 1, 2008. CTA are defined as the costs prudently incurred (i) to meet the legal, regulatory, and accounting/auditing requirements for completing the merger and (ii) to combine the companies and realize potential merger savings. CTA are costs that would not have been incurred without the merger. They include personnel costs (including internal labor costs charged directly to the merger-related activities described above and early retirement and severance costs, but excluding costs associated with supplemental executive retirement plans such as golden parachutes), IT integration costs, integration process support costs (including consultant support), facilities consolidation costs, costs associated with combining functions, merger-related consultant costs, insurance tail coverage costs, and transaction costs. The Company will record \$262,591 of annual CTA amortization based on an initial estimate of \$2,031,313 of total

CTA. See Exhibit GSE-2. The Company will separately track, record, and report annually to the Commission by May 1 for the previous calendar year the CTA actually incurred. This annual amortization amount then will be adjusted to reconcile to CTA actually incurred.

(C) Imputed Capital Structure

Granite State shall use an imputed capital structure for ratemaking purposes until the end of the Rate Plan Period or as adjusted by the Commission in a subsequent proceeding, whichever occurs later. Until the Commission issues an order establishing new rates following the term of this Rate Plan or the effective date of temporary rates (whichever is earlier), the Company shall use the imputed capital structure and associated cost rates shown below to calculate its return and income taxes for ratemaking purposes, including:

(i) earnings reports under Section 4, and (ii) triggers for Exogenous Events under Section

2. The imputed capital structure and costs shall be as follows:

Debt	50%	7.54%	=	3.77%
Equity	50%	9.67%	=	<u>4.84%</u>
				8.61% overall cost of capital

All Settling Parties and Staff reserve their rights to take any position regarding what the appropriate capital structure and cost rates should be in any case establishing distribution rates after the Rate Plan Period.

4. Earnings Reports and Shared Earnings Mechanism

(A) Earnings Reports

The Company will be required to file annual earnings reports with the Commission by May 1 of each year during the Rate Plan Period, with the first such report to be submitted by May 1, 2009. Copies also will be filed with all Parties. The final determination of whether the Company has exceeded its Allowed Rate of Return on equity (as defined below for purposes of the Earnings Sharing Mechanism) will be made at the end of the Rate Plan Period in a Final Accumulated Earnings Report, but annual calculations of interim accumulated earnings shall also be performed in Interim Accumulated Earnings Reports. Specifically, by May 1 of each year from 2009 through 2012, Granite State shall file an Interim Accumulated Earnings Report with the Commission which calculates cumulative average return on equity for the period commencing January 1, 2008 and ending December 31 of the year preceding the May 1 filing. On May 1, 2013, Granite State shall file the Final Accumulated Earnings Report that determines the actual cumulative average return on equity for the entire Rate Plan Period from January 1, 2008 through December 31, 2012. For purposes of calculating return and income taxes, Granite State shall use the imputed capital structure and associated costs of capital set forth in subsection 3(C) above; provided, however, if Granite State's actual average common equity ratio falls below 50% for any of the five years during the Rate Plan Period, any party may contend that the use of the average actual capital structure for the five year period in the Final Accumulated Earnings Report is more reasonable than the use of the imputed capital structure.³

³ The Company will use a five quarter average for determining rate base and equity in the earnings calculation for earnings reports during and after the Rate Plan Period.

(B) Shared Earnings Mechanism

The Company's allowed rate of return on common equity shall be 9.67% ("Allowed Rate of Return"). Granite State shall be entitled to retain 100% of the earnings that exceed the Allowed Rate of Return up to a maximum of 1.33% over the Allowed Rate of Return ("Sharing Threshold"). This allowance will provide Granite State the incentive to maximize efficiency and synergy savings from the merger. Results will be adjusted to reflect established Commission ratemaking principles and will include the amortization of CTA. However, there will be no adjustments to actual results to recognize or annualize known and measurable changes. The return on common equity will be calculated by dividing the net income available for common equity by the common equity applicable to rate base. The common equity applicable to rate base shall be calculated by multiplying the common equity ratio required by this subsection by rate base. Any accumulated earnings as calculated in the Final Accumulated Earnings Report over the Company's earnings Sharing Threshold shall be shared 50% for customers and 50% for the Company. Any customer share of such earnings sharing shall be returned or credited to customers in a manner determined by the Commission. Exhibit GSE-6 provides an illustration of the earnings calculation methodology.

5. Storm Contingency Fund

The Parties agree that Granite State shall establish a Storm Contingency Fund with an annual funding level of \$120,000. The Storm Contingency Fund provisions are set forth in Exhibit GSE-7. Each month the Company will credit the Storm Contingency Fund in the amount of \$10,000. After two years from the Effective Date of this Agreement, the

Settling Parties and Staff agree to evaluate the funding level of the fund to determine its adequacy. If there is a significant negative balance, the Company may request the Commission to approve an increase in the funding level, including a corresponding adjustment to distribution rates. The Company has the burden of showing the inadequacy of the funding level.

6. Reliability Enhancement Program

The Settling Parties and Staff agree to the implementation of the Reliability Enhancement Program and Vegetation Management Plan procedures set forth in Exhibit GSE-8.

7. Customer Service Commitments

The Company agrees to comply with the following customer service commitments:

(A) Call Answering -- Pre-CSS Conversion

Prior to the Company converting to its new CSS customer information system, which is scheduled for November 2007, the Company agrees to meet or exceed a service level of answering 80% of calls within 20 seconds.

(B) Call Answering -- CSS Transition Period

For a period of at least six months from the first calendar month in which the new CSS system is implemented, the transition to the new system is likely to slow call answering time. For that period (“Transition Period”), the Company will meet or exceed a service

level of no less than 80% of calls answered within 30 seconds, with the understanding that the Company will be required to provide an explanation to Staff, with a copy to OCA, if performance in any month drops below this level of service during the Transition Period. In the sixth month of the Transition Period, the Company will meet with Staff and OCA to review the status of the CSS project and its impact on service. To the extent that transition difficulties relating to the conversion are continuing, the Company may seek an extension of the Transition Period from Staff and OCA, for good cause shown.

(C) Call Answering -- Post Transition Period

After the end of the Transition Period, the Company and Staff, and OCA agree to negotiate in good faith a new call answering standard, taking into account the operation of the CSS system and the needs of customers, the resolution of which shall be filed with the Commission for approval. To the extent that the Company, OCA, and Staff cannot reach agreement, the matter shall be referred to the Commission for resolution. Prior to the establishment of any new standards, the Company agrees to meet or exceed a call answering standard of answering 80% of calls within 20 seconds.

(D) Definition of Call Answered and Performance Measurement

For purposes of this Section, the timing of a call answered is measured from when the call leaves the automatic menu system and enters the queue to be “live answered” by a customer service representative. However, a call that never leaves the automatic menu system is included in the number of calls for purposes of the monthly and annual reported

results. The Company will file an annual report of its results to determine whether it has met the standards. Whether the Company is determined to be in compliance with the standards set forth in this section is determined on a 12 month reporting basis, aggregating all the calls for the 12 month period, except for the Pre-CSS and CSS Transition Periods, which are measured by the length of the respective period.

(E) Customer Satisfaction Survey

The Company agrees to conduct a statistically valid annual residential customer satisfaction survey and report the results to the Commission. Using the results from the survey as a measure, the Company agrees to maintain its residential customer satisfaction rating at no less than 88%. The Company will select a sample size that yields an error rate of plus or minus 2.5%.

(F) Monthly Reports and Meetings with Staff and OCA

The Company shall provide monthly reports of call answering results. At least every 6 months, the Company will meet with Staff and OCA to review its customer service commitment performance.

(G) Referral to Commission

Notwithstanding the foregoing, if the Staff or OCA is not satisfied with the performance of the Company at any time after the close of the Merger and believe customer service is being materially compromised by poor performance, Staff or OCA may request the

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

8. Other Provisions

(A) Terms Remaining in Effect After Rate Plan Period

At the end of the Rate Plan Period, the terms of the earnings sharing provisions of Section 4 to this agreement, the Storm Contingency Fund in Section 5, and the REP/VMP referred to in Section 6 and included in Exhibit GSE-8 shall remain in effect until the conclusion of the Company's first distribution rate proceeding or the effective date of temporary rates (whichever is earlier), whether initiated by the Company, any of the parties, or the Commission. Until such time, the sharing of earnings above 11% pursuant to Section 4 shall be performed on an annual basis.

(B) Back-Up Service Charges

The Company reserves the right to propose Back-Up Service charges applicable to customers installing on-site non-emergency generation for Commission review and approval at such time in the future as may be appropriate.

Exhibit GSE-1

Rate Reduction Calculation

Granite State Electric Company
Rate Settlement
Calculation of Percentage Reduction to Current Distribution Base Rates

	First Phase Reduction Effective <u>Date*</u> (a)	Second Phase Reduction Effective <u>January 1, 2008</u> (b)
(1) Distribution Base Rate Reduction	(\$1,100,000)	(\$1,100,000)
(2) Forecasted Calendar Year 2008 Distribution Revenues	24,271,223	23,158,316
(3) Percentage Reduction to Distribution Base Rates	-4.53%	-4.75%

* Effective Date is defined as July 1, 2007 or thirty (30) days following the Commission's approval of the acquisition of KeySpan by National Grid plc, whichever is later.

- (1) Per Settlement Agreement
- (2) Per Company forecast
- (3) Line (1) ÷ Line (2)

Exhibit GSE-2

Amortization of CTA

**Granite State Electric Company
Calculation of Levelized Net Synergies**

Granite State Electric
Docket No. DG 06-107
Exhibit GSE-2

			<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>Total</u>
<u>Levelized CTA</u>														
1	NEG CTA	<u>CTA NPV</u>	133,667	53,133	52,092	23,545	25,247	20,732	16,079	7,362	7,571	7,814	0	347,242
2	NPV	11.91% 254,589												
3	Levelized		44,888	44,888	44,888	44,888	44,888	44,888	44,888	44,888	44,888	44,888	0	
4														
5	KeySpan CTA	<u>CTA NPV</u>		648,264	257,689	252,636	114,192	122,444	100,549	77,980	35,706	36,716	37,895	1,684,071
6	NPV	11.91% 1,234,719												
7	Levelized			217,702	217,702	217,702	217,702	217,702	217,702	217,702	217,702	217,702	217,702	2,031,313
8														
9	Total Levelized CTA		44,888	262,591	262,591	262,591	262,591	262,591	262,591	262,591	262,591	262,591	217,702	
10														
11														
12														
13														
14														
15	<u>Imputed Capital Structure</u>	<u>Ratio</u>		<u>Weighted</u>										
16	Long Term Debt	50.00%	<u>Rate</u>	7.54%	<u>Rate</u>	3.77%	<u>Pre Tax</u>	3.77%						
17														
18	Common Equity	50.00%	9.67%	4.84%	8.14%									
19														
20		<u>100.00%</u>		8.61%	11.91%									

* Actual 2006 LTD Rate

Exhibit GSE-3

Rate Design

Granite State Electric Company
Proposed Distribution Rates - First Phase Reduction
Resulting from Settlement Agreement

<u>Rate Class and Distribution Energy Component</u>	<u>Current Base Distribution Charges</u> (a)	<u>First Phase Proposed Distribution % Reduction</u> (b)	<u>Proposed Base Distribution Charges</u> (c)	<u>Current Business Profits Surcharge</u> (d)	<u>Current Default Service Cost Reclassification Distribution Credit</u> (e)	<u>Proposed Total Distribution Charges</u> (f)
D						
Customer Charge	\$4.72	-4.53%	\$4.50			\$4.50
1st 250 kWh	\$0.01773	-4.53%	\$0.01692	\$0.00057	(\$0.00017)	\$0.01732
Excess 250 kWh	\$0.04615	-4.53%	\$0.04405	\$0.00057	(\$0.00017)	\$0.04445
Off Peak kWh	\$0.01695	-4.53%	\$0.01618	\$0.00057	(\$0.00017)	\$0.01658
Farm kWh	\$0.02755	-4.53%	\$0.02630	\$0.00057	(\$0.00017)	\$0.02670
D-6 kWh	\$0.01773	-4.53%	\$0.01692	\$0.00057	(\$0.00017)	\$0.01732
Interruptible Credit IC-1	(\$5.25)	-4.53%	(\$5.01)			(\$5.01)
Interruptible Credit IC-2	(\$7.00)	-4.53%	(\$6.68)			(\$6.68)
D-10						
Customer Charge	\$8.09	-4.53%	\$7.72			\$7.72
On Peak kWh	\$0.05121	-4.53%	\$0.04889	\$0.00057	(\$0.00008)	\$0.04938
Off Peak kWh	\$0.00000	-4.53%	\$0.00000	\$0.00057	(\$0.00008)	\$0.00049
G-1						
Customer Charge	\$100.34	-4.53%	\$95.79			\$95.79
Demand Charge	\$4.39	-4.53%	\$4.19			\$4.19
On Peak kWh	\$0.00146	-4.53%	\$0.00139	\$0.00057	\$0.00000	\$0.00196
Off Peak kWh	\$0.00000	-4.53%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
Credit for High Voltage Delivery > 2.4 kv	(\$0.30)	-4.53%	(\$0.28)			(\$0.28)
G-2						
Customer Charge	\$26.87	-4.53%	\$25.65			\$25.65
Demand Charge	\$4.86	-4.53%	\$4.63			\$4.63
All kWh	\$0.00035	-4.53%	\$0.00033	\$0.00057	\$0.00000	\$0.00090
Credit for High Voltage Delivery > 2.4 kv	(\$0.30)	-4.53%	(\$0.28)			(\$0.28)
G-3						
Customer Charge	\$5.95	-4.53%	\$5.68			\$5.68
All kWh	\$0.03321	-4.53%	\$0.03170	\$0.00057	(\$0.00017)	\$0.03210
Minimum Charge > 25 kVA	\$1.77	-4.53%	\$1.68			\$1.68
M						
All kWh	\$0.00000	-4.53%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
T						
Customer Charge	\$6.09	-4.53%	\$5.81			\$5.81
All kWh	\$0.02171	-4.53%	\$0.02072	\$0.00057	(\$0.00007)	\$0.02122
Interruptible Credit IC-1	(\$5.25)	-4.53%	(\$5.01)			(\$5.01)
Interruptible Credit IC-2	(\$7.00)	-4.53%	(\$6.68)			(\$6.68)
V						
Minimum Charge	\$6.36	-4.53%	\$6.07			\$6.07
All kWh	\$0.03063	-4.53%	\$0.02924	\$0.00057	(\$0.00009)	\$0.02972

- (a) Per currently effective tariffs
- (b) Exhibit GSE-1, Column (a) Line (3)
- (c) Column (a) x (1 + Column (b))
- (d) Distribution Energy Charges include a Business Profits Tax Surcharge of \$0.00057 per kWh for usage on and after 8/1/01
- (e) Per Default Service Cost Reclassification Adjustment Provision
- (f) Column (c) + Column (d) + Column (e)

Granite State Electric Company
Proposed Distribution Rates - First Phase Reduction
Resulting from Settlement Agreement

	Current Base Distribution Charges (a)	First Phase Proposed Distribution % Reduction (b)	Proposed Base Distribution Charges (c)
Luminaire Charge			
<u>Lamp Code</u>			
003	\$52.74	-4.53%	\$50.35
004	\$64.12	-4.53%	\$61.21
005	\$121.24	-4.53%	\$115.74
006	\$230.01	-4.53%	\$219.59
010	\$72.86	-4.53%	\$69.55
023	\$134.09	-4.53%	\$128.01
024	\$231.51	-4.53%	\$221.02
070	\$54.59	-4.53%	\$52.11
072	\$66.17	-4.53%	\$63.17
074	\$116.16	-4.53%	\$110.89
075	\$151.35	-4.53%	\$144.49
077	\$117.20	-4.53%	\$111.89
078	\$161.78	-4.53%	\$154.45
079	\$76.20	-4.53%	\$72.74
Pole and Accessory Charge			
<u>Pole and Accessory Code</u>			
P	\$64.32	-4.53%	\$61.40
R	\$66.60	-4.53%	\$63.58
C	\$112.92	-4.53%	\$107.80
D	\$118.64	-4.53%	\$113.26
F	\$134.64	-4.53%	\$128.54
T	\$162.24	-4.53%	\$154.89

- (a) Per currently effective tariffs
- (b) Exhibit GSE-1, Column (a) Line (3)
- (c) Column (a) x (1 + Column (b))

Granite State Electric Company
Proposed Distribution Rates Effective January 1, 2008
Resulting from Settlement Agreement

Rate Class and Distribution Energy Component	Effective Base Distribution Charges (a)	Proposed Distribution Reduction (b)	Proposed Base Distribution Charges (c)	Current Business Profits Surcharge (d)	Current Default Service Cost Reclassification Distribution Credit (e)	Proposed Total Distribution Charges (f)
D						
Customer Charge	\$4.50	-4.75%	\$4.28			\$4.28
1st 250 kWh	\$0.01692	-4.75%	\$0.01611	\$0.00057	(\$0.00017)	\$0.01651
Excess 250 kWh	\$0.04405	-4.75%	\$0.04195	\$0.00057	(\$0.00017)	\$0.04235
Off Peak kWh	\$0.01618	-4.75%	\$0.01541	\$0.00057	(\$0.00017)	\$0.01581
Farm kWh	\$0.02630	-4.75%	\$0.02505	\$0.00057	(\$0.00017)	\$0.02545
D-6 kWh	\$0.01692	-4.75%	\$0.01611	\$0.00057	(\$0.00017)	\$0.01651
Interruptible Credit IC-1	(\$5.01)	-4.75%	(\$4.77)			(\$4.77)
Interruptible Credit IC-2	(\$6.68)	-4.75%	(\$6.36)			(\$6.36)
D-10						
Customer Charge	\$7.72	-4.75%	\$7.35			\$7.35
On Peak kWh	\$0.04889	-4.75%	\$0.04656	\$0.00057	(\$0.00008)	\$0.04705
Off Peak kWh	\$0.00000	-4.75%	\$0.00000	\$0.00057	(\$0.00008)	\$0.00049
G-1						
Customer Charge	\$95.79	-4.75%	\$91.23			\$91.23
Demand Charge	\$4.19	-4.75%	\$3.99			\$3.99
On Peak kWh	\$0.00139	-4.75%	\$0.00132	\$0.00057	\$0.00000	\$0.00189
Off Peak kWh	\$0.00000	-4.75%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
Credit for High Voltage Delivery > 2.4 kv	(\$0.28)	-4.75%	(\$0.26)			(\$0.26)
G-2						
Customer Charge	\$25.65	-4.75%	\$24.43			\$24.43
Demand Charge	\$4.63	-4.75%	\$4.41			\$4.41
All kWh	\$0.00033	-4.75%	\$0.00031	\$0.00057	\$0.00000	\$0.00088
Credit for High Voltage Delivery > 2.4 kv	(\$0.28)	-4.75%	(\$0.26)			(\$0.26)
G-3						
Customer Charge	\$5.68	-4.75%	\$5.41			\$5.41
All kWh	\$0.03170	-4.75%	\$0.03019	\$0.00057	(\$0.00017)	\$0.03059
Minimum Charge > 25 kVA	\$1.68	-4.75%	\$1.60			\$1.60
M						
All kWh	\$0.00000	-4.75%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
T						
Customer Charge	\$5.81	-4.75%	\$5.53			\$5.53
All kWh	\$0.02072	-4.75%	\$0.01973	\$0.00057	(\$0.00007)	\$0.02023
Interruptible Credit IC-1	(\$5.01)	-4.75%	(\$4.77)			(\$4.77)
Interruptible Credit IC-2	(\$6.68)	-4.75%	(\$6.36)			(\$6.36)
V						
Minimum Charge	\$6.07	-4.75%	\$5.78			\$5.78
All kWh	\$0.02924	-4.75%	\$0.02785	\$0.00057	(\$0.00009)	\$0.02833

- (a) Per currently effective tariffs
- (b) Exhibit GSE-1, Column (b) Line (3)
- (c) Column (a) x (1 + Column (b))
- (d) Distribution Energy Charges include a Business Profits Tax Surcharge of \$0.00057 per kWh for usage on and after 8/1/01
- (e) Per Default Service Cost Reclassification Adjustment Provision
- (f) Column (c) + Column (d) + Column (e)

Granite State Electric Company
Proposed Distribution Rates
Resulting from Settlement Agreement

	<u>Current Charges</u> (a)	<u>Proposed Distribution Reduction</u>	<u>Proposed Charges</u> (c)
Luminaire Charge			
<u>Lamp Code</u>			
003	\$50.35	-4.75%	\$47.95
004	\$61.21	-4.75%	\$58.30
005	\$115.74	-4.75%	\$110.24
006	\$219.59	-4.75%	\$209.15
010	\$69.55	-4.75%	\$66.24
023	\$128.01	-4.75%	\$121.92
024	\$221.02	-4.75%	\$210.52
070	\$52.11	-4.75%	\$49.63
072	\$63.17	-4.75%	\$60.16
074	\$110.89	-4.75%	\$105.62
075	\$144.49	-4.75%	\$137.62
077	\$111.89	-4.75%	\$106.57
078	\$154.45	-4.75%	\$147.11
079	\$72.74	-4.75%	\$69.28
Pole and Accessory Charge			
<u>Pole and Accessory Code</u>			
P	\$61.40	-4.75%	\$58.48
R	\$63.58	-4.75%	\$60.55
C	\$107.80	-4.75%	\$102.67
D	\$113.26	-4.75%	\$107.88
F	\$128.54	-4.75%	\$122.43
T	\$154.89	-4.75%	\$147.53

- (a) Per currently effective tariffs
- (b) Exhibit GSE-1, Column (b) Line (3)
- (c) Column (a) x (1 + Column (b))

Exhibit GSE-4

Bill Impacts

Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D Default Service Customers
 Without Water Heater Control
 0% Off-Peak

kWh Split
 On-Peak 100.00%
 Off-Peak 0.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly kWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
200	200	0	\$28.90	\$17.55	\$11.35	\$28.51	\$17.55	\$10.96	(\$0.39)	-1.3%
350	350	0	\$49.89	\$30.72	\$19.17	\$49.26	\$30.72	\$18.54	(\$0.63)	-1.3%
500	500	0	\$72.30	\$43.89	\$28.41	\$71.35	\$43.89	\$27.46	(\$0.95)	-1.3%
750	750	0	\$109.63	\$65.83	\$43.80	\$108.16	\$65.83	\$42.33	(\$1.47)	-1.3%
1,000	1,000	0	\$146.95	\$87.77	\$59.18	\$144.96	\$87.77	\$57.19	(\$1.99)	-1.4%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$4.72	\$4.50
Distribution Charge		
1st 250 kWh	kWh x \$0.01813	\$0.01732
excess of 250 kWh	kWh x \$0.04655	\$0.04445
Off Peak kWh	kWh x \$0.01735	\$0.01658
Def. Serv. Adj. Fctr	kWh x \$0.00000	\$0.00000
Transmission Charge	kWh x \$0.00977	\$0.00977
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D Default Service Customers
 With 6 Hour Water Heater Control

kWh Split
 On-Peak 80.00%
 Off-Peak 20.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly KWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
200	160	40	\$23.61	\$17.55	\$6.06	\$23.47	\$17.55	\$5.92	(\$0.14)	-0.6%
350	280	70	\$42.59	\$30.72	\$11.87	\$42.29	\$30.72	\$11.57	(\$0.30)	-0.7%
500	400	100	\$64.13	\$43.89	\$20.24	\$63.56	\$43.89	\$19.67	(\$0.57)	-0.9%
750	600	150	\$99.99	\$65.83	\$34.16	\$98.97	\$65.83	\$33.14	(\$1.02)	-1.0%
1,000	800	200	\$135.86	\$87.77	\$48.09	\$134.38	\$87.77	\$46.61	(\$1.48)	-1.1%

Present Rates

Proposed Rates

Customer Charge		\$4.72		\$4.50
Distribution Charge				
1st 250 kWh	kWh x	\$0.01813		\$0.01732
excess of 250 kWh	kWh x	\$0.04655		\$0.04445
Off Peak kWh	kWh x	\$0.01735		\$0.01658
Def. Serv. Adj. Fctr	kWh x	\$0.00000		\$0.00000
Transmission Charge	kWh x	\$0.00977		\$0.00977
Stranded Cost Charge	kWh x	\$0.00170		\$0.00170
System Benefits Charge	kWh x	\$0.00300		\$0.00300
Electricity Consumption Tax	kWh x	\$0.00055		\$0.00055
Interruptible Credit #1		(\$5.25)		(\$5.01)

Supplier Services

Default Service	kWh x	\$0.08777		\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D Default Service Customers
 With 6 Hour Water Heater Control

kWh Split
 On-Peak 60.00%
 Off-Peak 40.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly KWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
200	120	80	\$21.84	\$17.55	\$4.29	\$21.78	\$17.55	\$4.23	(\$0.06)	-0.3%
350	210	140	\$39.94	\$30.72	\$9.22	\$39.76	\$30.72	\$9.04	(\$0.18)	-0.5%
500	300	200	\$59.46	\$43.89	\$15.57	\$59.10	\$43.89	\$15.21	(\$0.36)	-0.6%
750	450	300	\$93.87	\$65.83	\$28.04	\$93.11	\$65.83	\$27.28	(\$0.76)	-0.8%
1,000	600	400	\$128.27	\$87.77	\$40.50	\$127.13	\$87.77	\$39.36	(\$1.14)	-0.9%

Present Rates

Proposed Rates

Customer Charge		\$4.72	\$4.50
Distribution Charge		\$0.00000	\$0.00000
1st 250 kWh	kWh x	\$0.01813	\$0.01732
excess of 250 kWh	kWh x	\$0.04655	\$0.04445
Off Peak kWh	kWh x	\$0.01735	\$0.01658
Def. Serv. Adj. Fctr	kWh x	\$0.00000	\$0.00000
Transmission Charge	kWh x	\$0.00977	\$0.00977
Stranded Cost Charge	kWh x	\$0.00170	\$0.00170
System Benefits Charge	kWh x	\$0.00300	\$0.00300
Electricity Consumption Tax	kWh x	\$0.00055	\$0.00055
Interruptible Credit #2		(\$7.00)	(\$6.68)

Supplier Services

Default Service	kWh x	\$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D-10 Default Service Customers

kWh Split
 On-Peak 80.00%
 Off-Peak 20.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly KWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
700	560	140	\$108.12	\$61.44	\$46.68	\$106.45	\$61.44	\$45.01	(\$1.67)	-1.5%
1,000	800	200	\$150.98	\$87.77	\$63.21	\$148.75	\$87.77	\$60.98	(\$2.23)	-1.5%
1,300	1,040	260	\$193.85	\$114.10	\$79.75	\$191.07	\$114.10	\$76.97	(\$2.78)	-1.4%
1,600	1,280	320	\$236.72	\$140.43	\$96.29	\$233.38	\$140.43	\$92.95	(\$3.34)	-1.4%
1,900	1,520	380	\$279.58	\$166.76	\$112.82	\$275.69	\$166.76	\$108.93	(\$3.89)	-1.4%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$8.09	\$7.72
Distribution Charge		
On Peak kWh	kWh x \$0.05170	\$0.04938
Off Peak kWh	kWh x \$0.00049	\$0.00049
Def. Serv. Adj. Fctr	kWh x \$0.00000	\$0.00000
Transmission Charge	kWh x \$0.00841	\$0.00841
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D-10 Default Service Customers

kWh Split
 On-Peak 70.00%
 Off-Peak 30.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly KWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
700	490	210	\$104.53	\$61.44	\$43.09	\$103.03	\$61.44	\$41.59	(\$1.50)	-1.4%
1,000	700	300	\$145.86	\$87.77	\$58.09	\$143.87	\$87.77	\$56.10	(\$1.99)	-1.4%
1,300	910	390	\$187.19	\$114.10	\$73.09	\$184.71	\$114.10	\$70.61	(\$2.48)	-1.3%
1,600	1,120	480	\$228.52	\$140.43	\$88.09	\$225.56	\$140.43	\$85.13	(\$2.96)	-1.3%
1,900	1,330	570	\$269.85	\$166.76	\$103.09	\$266.40	\$166.76	\$99.64	(\$3.45)	-1.3%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$8.09	\$7.72
Distribution Charge		
On Peak kWh	kWh x \$0.05170	\$0.04938
Off Peak kWh	kWh x \$0.00049	\$0.00049
Def. Serv. Adj. Fctr	kWh x \$0.00000	\$0.00000
Transmission Charge	kWh x \$0.00841	\$0.00841
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate D-10 Default Service Customers

kWh Split
 On-Peak 60.00%
 Off-Peak 40.00%

/----- (1) -----/ /----- (2) -----/ (1) vs (2)

Monthly KWh	On-Peak kWh	Off-Peak kWh	Present Rates			Proposed Rates			Overall Increase (Decrease)	
			Total	Default Service	Retail Delivery	Total	Default Service	Retail Delivery	Amount	%
700	420	280	\$100.95	\$61.44	\$39.51	\$99.61	\$61.44	\$38.17	(\$1.34)	-1.3%
1,000	600	400	\$140.74	\$87.77	\$52.97	\$138.98	\$87.77	\$51.21	(\$1.76)	-1.3%
1,300	780	520	\$180.53	\$114.10	\$66.43	\$178.35	\$114.10	\$64.25	(\$2.18)	-1.2%
1,600	960	640	\$220.32	\$140.43	\$79.89	\$217.72	\$140.43	\$77.29	(\$2.60)	-1.2%
1,900	1,140	760	\$260.12	\$166.76	\$93.36	\$257.10	\$166.76	\$90.34	(\$3.02)	-1.2%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$8.09	\$7.72
Distribution Charge		
On Peak kWh	kWh x \$0.05170	\$0.04938
Off Peak kWh	kWh x \$0.00049	\$0.00049
Def. Serv. Adj. Fctr	kWh x \$0.00000	\$0.00000
Transmission Charge	kWh x \$0.00841	\$0.00841
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate G-3 Default Service Customers

Hours Use

Monthly kWh	(1)			(2)			(1) vs (2)	
	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
600	\$87.28	\$52.66	\$34.62	\$86.10	\$52.66	\$33.44	(\$1.18)	-1.4%
800	\$114.40	\$70.22	\$44.18	\$112.92	\$70.22	\$42.70	(\$1.48)	-1.3%
1,200	\$168.60	\$105.32	\$63.28	\$166.52	\$105.32	\$61.20	(\$2.08)	-1.2%
1,500	\$209.29	\$131.66	\$77.63	\$206.75	\$131.66	\$75.09	(\$2.54)	-1.2%
2,000	\$277.05	\$175.54	\$101.51	\$273.76	\$175.54	\$98.22	(\$3.29)	-1.2%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$5.95	\$5.68
Distribution Charge kWh x	\$0.03361	\$0.03210
Transmission Charge kWh x	\$0.00892	\$0.00892
Stranded Cost Charge kWh x	\$0.00170	\$0.00170
System Benefits Charge kWh x	\$0.00300	\$0.00300
Electricity Consumption Tax kWh x	\$0.00055	\$0.00055

Supplier Services

Default Service kWh x	\$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate T Default Service Customers

Monthly kWh	(1)			(2)			(1) vs (2)	
	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
600	\$80.93	\$52.66	\$28.27	\$80.05	\$52.66	\$27.39	(\$0.88)	-1.1%
800	\$105.88	\$70.22	\$35.66	\$104.81	\$70.22	\$34.59	(\$1.07)	-1.0%
1,200	\$155.76	\$105.32	\$50.44	\$154.29	\$105.32	\$48.97	(\$1.47)	-0.9%
1,500	\$193.20	\$131.66	\$61.54	\$191.43	\$131.66	\$59.77	(\$1.77)	-0.9%
2,000	\$255.55	\$175.54	\$80.01	\$253.29	\$175.54	\$77.75	(\$2.26)	-0.9%

		<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge		\$6.09	\$5.81
Distribution Charge	kWh x	\$0.02221	\$0.02122
Transmission Charge	kWh x	\$0.00950	\$0.00950
Stranded Cost Charge	kWh x	\$0.00170	\$0.00170
System Benefits Charge	kWh x	\$0.00300	\$0.00300
Electricity Consumption Tax	kWh x	\$0.00055	\$0.00055

Supplier Services

Default Service	kWh x	\$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate V Default Service Customers

Monthly kWh	(1)			(2)			(1) vs (2)	
	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
600	\$80.23	\$52.66	\$27.57	\$79.39	\$52.66	\$26.73	(\$0.84)	-1.0%
800	\$106.97	\$70.22	\$36.75	\$105.86	\$70.22	\$35.64	(\$1.11)	-1.0%
1,200	\$160.43	\$105.32	\$55.11	\$158.76	\$105.32	\$53.44	(\$1.67)	-1.0%
1,500	\$200.57	\$131.66	\$68.91	\$198.48	\$131.66	\$66.82	(\$2.09)	-1.0%
2,000	\$267.40	\$175.54	\$91.86	\$264.62	\$175.54	\$89.08	(\$2.78)	-1.0%

		<u>Present Rates</u>	<u>Proposed Rates</u>
Minimum Charge		\$6.36	\$6.07
Distribution Charge	kWh x	\$0.03111	\$0.02972
Transmission Charge	kWh x	\$0.01001	\$0.01001
Stranded Cost Charge	kWh x	\$0.00126	\$0.00126
System Benefits Charge	kWh x	\$0.00300	\$0.00300
Electricity Consumption Tax	kWh x	\$0.00055	\$0.00055

Supplier Services

Default Service	kWh x	\$0.08777	\$0.08777
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate G-1 Default Service Customers

Hours Use	kWh Split				(1)		(2)		(1) vs (2)		
	250 On-Peak	60.00%	Off-Peak	40.00%							
kW	Monthly kWh	On-Peak kWh	Off-Peak kWh	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
200	50,000	30,000	20,000	\$6,387.64	\$4,679.00	\$1,708.64	\$6,340.99	\$4,679.00	\$1,661.99	(\$46.65)	-0.7%
300	75,000	45,000	30,000	\$9,531.29	\$7,018.50	\$2,512.79	\$9,463.59	\$7,018.50	\$2,445.09	(\$67.70)	-0.7%
400	100,000	60,000	40,000	\$12,674.94	\$9,358.00	\$3,316.94	\$12,586.19	\$9,358.00	\$3,228.19	(\$88.75)	-0.7%
500	125,000	75,000	50,000	\$15,818.59	\$11,697.50	\$4,121.09	\$15,708.79	\$11,697.50	\$4,011.29	(\$109.80)	-0.7%
1,000	250,000	150,000	100,000	\$31,536.84	\$23,395.00	\$8,141.84	\$31,321.79	\$23,395.00	\$7,926.79	(\$215.05)	-0.7%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$100.34	\$95.79
Distribution Charge		
On Peak kWh	kWh x \$0.00203	\$0.00196
Off Peak kWh	kWh x \$0.00057	\$0.00057
Distribution Demand Charge	kW x \$4.39	\$4.19
Transmission Charge	kWh x \$0.00791	\$0.00791
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.09358	\$0.09358
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate G-1 Default Service Customers

Hours Use	kWh Split				(1)		(2)		(1) vs (2)		
	350 On-Peak	50.00%	Off-Peak	50.00%							
kW	Monthly kWh	On-Peak kWh	Off-Peak kWh	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
200	70,000	35,000	35,000	\$8,541.14	\$6,550.60	\$1,990.54	\$8,494.14	\$6,550.60	\$1,943.54	(\$47.00)	-0.6%
300	105,000	52,500	52,500	\$12,761.55	\$9,825.90	\$2,935.65	\$12,693.32	\$9,825.90	\$2,867.42	(\$68.23)	-0.5%
400	140,000	70,000	70,000	\$16,981.94	\$13,101.20	\$3,880.74	\$16,892.49	\$13,101.20	\$3,791.29	(\$89.45)	-0.5%
500	175,000	87,500	87,500	\$21,202.35	\$16,376.50	\$4,825.85	\$21,091.67	\$16,376.50	\$4,715.17	(\$110.68)	-0.5%
1,000	350,000	175,000	175,000	\$42,304.34	\$32,753.00	\$9,551.34	\$42,087.54	\$32,753.00	\$9,334.54	(\$216.80)	-0.5%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$100.34	\$95.79
Distribution Charge		
On Peak kWh	kWh x \$0.00203	\$0.00196
Off Peak kWh	kWh x \$0.00057	\$0.00057
Distribution Demand Charge	kW x \$4.39	\$4.19
Transmission Charge	kWh x \$0.00791	\$0.00791
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.09358	\$0.09358
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate G-1 Default Service Customers

Hours Use	kWh Split				(1)		(2)		(1) vs (2)		
	450 On-Peak	55.00%	Off-Peak	45.00%							
kW	Monthly kWh	On-Peak kWh	Off-Peak kWh	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
200	90,000	40,500	49,500	\$10,695.38	\$8,422.20	\$2,273.18	\$10,647.99	\$8,422.20	\$2,225.79	(\$47.39)	-0.4%
300	135,000	60,750	74,250	\$15,992.88	\$12,633.30	\$3,359.58	\$15,924.08	\$12,633.30	\$3,290.78	(\$68.80)	-0.4%
400	180,000	81,000	99,000	\$21,290.40	\$16,844.40	\$4,446.00	\$21,200.18	\$16,844.40	\$4,355.78	(\$90.22)	-0.4%
500	225,000	101,250	123,750	\$26,587.92	\$21,055.50	\$5,532.42	\$26,476.28	\$21,055.50	\$5,420.78	(\$111.64)	-0.4%
1,000	450,000	202,500	247,500	\$53,075.50	\$42,111.00	\$10,964.50	\$52,856.77	\$42,111.00	\$10,745.77	(\$218.73)	-0.4%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$100.34	\$95.79
Distribution Charge		
On Peak kWh	kWh x \$0.00203	\$0.00196
Off Peak kWh	kWh x \$0.00057	\$0.00057
Distribution Demand Charge	kW x \$4.39	\$4.19
Transmission Charge	kWh x \$0.00791	\$0.00791
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x	\$0.09358	\$0.09358
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Granite State Electric Company
 Proposed Distribution Rates - First Phase Reduction
 Calculation of Monthly Typical Bill
 Impact on Rate G-1 Default Service Customers

Hours Use	kWh Split				(1)		(2)		(1) vs (2)		
	450 On-Peak	40.00%	Off-Peak	60.00%							
kW	Monthly kWh	On-Peak kWh	Off-Peak kWh	Total	Present Rates Default Service	Retail Delivery	Total	Proposed Rates Default Service	Retail Delivery	Overall Increase (Decrease) Amount	%
200	90,000	36,000	54,000	\$10,688.80	\$8,422.20	\$2,266.60	\$10,641.73	\$8,422.20	\$2,219.53	(\$47.07)	-0.4%
300	135,000	54,000	81,000	\$15,983.03	\$12,633.30	\$3,349.73	\$15,914.70	\$12,633.30	\$3,281.40	(\$68.33)	-0.4%
400	180,000	72,000	108,000	\$21,277.26	\$16,844.40	\$4,432.86	\$21,187.67	\$16,844.40	\$4,343.27	(\$89.59)	-0.4%
500	225,000	90,000	135,000	\$26,571.49	\$21,055.50	\$5,515.99	\$26,460.64	\$21,055.50	\$5,405.14	(\$110.85)	-0.4%
1,000	450,000	180,000	270,000	\$53,042.64	\$42,111.00	\$10,931.64	\$52,825.49	\$42,111.00	\$10,714.49	(\$217.15)	-0.4%

	<u>Present Rates</u>	<u>Proposed Rates</u>
Customer Charge	\$100.34	\$95.79
Distribution Charge		
On Peak kWh	kWh x \$0.00203	\$0.00196
Off Peak kWh	kWh x \$0.00057	\$0.00057
Distribution Demand Charge	kW x \$4.39	\$4.19
Transmission Charge	kWh x \$0.00791	\$0.00791
Stranded Cost Charge	kWh x \$0.00170	\$0.00170
System Benefits Charge	kWh x \$0.00300	\$0.00300
Electricity Consumption Tax	kWh x \$0.00055	\$0.00055

Supplier Services

Default Service	kWh x \$0.09358	\$0.09358
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Exhibit GSE-5

Illustration of Excessive Inflation Adjustment

Granite State Electric Company
Excess Inflation Exogenous Event
Illustrative Calculation
(\$000)

		<u>CY</u> <u>2008</u>	<u>CY</u> <u>2009</u>	<u>CY</u> <u>2010</u>	<u>CY</u> <u>2011</u>	<u>CY</u> <u>2012</u>
<u>Illustrative Rate Adjustment Calculation</u>						
1	Actual Annual Inflation (GDPIPD)	4.25%	4.25%	4.75%	5.00%	
2	Average Rate of Inflation			4.42%	4.56%	
3						
4	Inflation Threshold			4.00%	4.00%	
5						
6	Excessive Inflation			0.42%	0.56%	
7						
8	Total Operation and Maintenance Expenses			\$11,050	\$11,603	
9	Less: Actual VMP and REP O&M Program spending			\$1,360	\$1,360	
10	Net O&M Amount			\$9,690	\$10,243	
11						
12	Total Excessive Inflation Exogenous Amount			\$40	\$58	
13	Less Current Year Rate Adjustment for Previous Year Exogenous amount			\$0	\$40	
14	Incremental Revenue Requirement			\$40	\$17	
15						
16	Calendar Year Rate Adjustment			\$40	\$17	

Line

- 1 Illustrative amounts to be replaced with actual Annual GDPIPD Inflation amounts
- 2 Average of Line 1 amounts
- 4 Settlement Value
- 6 Line 2 minus Line 4 but not less than zero
- 8 Illustrative amounts to be replaced with actual Annual O&M amounts
- 9 Aggregate Base Level of VMP and REP O&M spending of \$1,360
- 10 Illustrative amount to be replaced with actual VMP and REP O&M spending
- 10 Sum of Line 8 minus Line 9
- 12 Line 10 times Line 6
- 13 Prior Year Line 12 amount
- 14 Line 12 minus Line 13 but not less than zero
- 16 Prior Year Line 14 amount

Exhibit GSE-6

Illustration of Earnings Sharing Calculation

Granite State Electric Company
Earnings Sharing Mechanism
Cumulative Shared Earnings Calculation

ILLUSTRATIVE CUMULATIVE EARNINGS SHARING CALCULATION AT DECEMBER 31, 2012
(\$000)

<u>Line</u>				
1	Actual Intrastate Earnings Available for Common - CY 2008	\$	2,878	(a)
2	Actual Intrastate Earnings Available for Common - CY 2009	\$	3,175	(b)
3	Actual Intrastate Earnings Available for Common - CY 2010	\$	3,375	(c)
4	Actual Intrastate Earnings Available for Common - CY 2011	\$	3,575	(d)
5	Actual Intrastate Earnings Available for Common - CY 2012	\$	<u>3,700</u>	(e)
6	Annual Average			\$3,341
7				
8	Actual Average Common Equity - CY 2008	\$	28,000	(a)
9	Actual Average Common Equity - CY 2009	\$	28,800	(b)
10	Actual Average Common Equity - CY 2010	\$	29,500	(c)
11	Actual Average Common Equity - CY 2011	\$	30,300	(d)
12	Actual Average Common Equity - CY 2012	\$	<u>31,000</u>	(e)
13	Five Year Average			\$29,520
14				
15	Average Annual Return		<u>11.32%</u>	Customer Share
16				
17	ROE > 11.00% shared 50% with customers and 50% with Company		0.32% * 50.00% =	0.16%
18				
19	Annual Average Equity (Line 13)			<u>\$ 29,520</u>
20				
21	Average Annual Customer Shared Earnings			\$ 47
22	Tax Gross-up			<u>/ 59.47%</u>
23				
24	Average Annual Customer Shared Earnings - Pre-tax			\$ 79
25	Number of Years			<u>x 5</u>
26				
27	Total Customer Shared Earnings 1/1/2008 - 12/31/2012			<u><u>\$ 394</u></u>

- (a) Illustrative amount to be replaced with actual amount from December 31, 2008 Earnings Report - To be Filed by May 1, 2009
- (b) Illustrative amount to be replaced with actual amount from December 31, 2009 Earnings Report - To be Filed by May 1, 2010
- (c) Illustrative amount to be replaced with actual amount from December 31, 2010 Earnings Report - To be Filed by May 1, 2011
- (d) Illustrative amount to be replaced with actual amount from December 31, 2011 Earnings Report - To be Filed by May 1, 2012
- (e) Illustrative amount to be replaced with actual amount from December 31, 2012 Earnings Report - To be Filed by May 1, 2013

Note: For purposes of calculating return and income taxes, Granite State shall use the imputed capital structure and associated costs of capital set forth in subsection 3(C) of the Granite State Rate Plan (Exhibit 1).

Exhibit GSE-7

Storm Fund

Major Storm Contingency Fund

Effective with the implementation of the Rate Plan, a storm contingency fund (“Storm Fund”) shall be established to pay for all of the operation and maintenance costs incurred by the Company as a result of major storms. The Storm Fund shall be established and maintained as follows:

1. Funding Level and Monthly Contributions

Beginning on the effective date of the Rate Plan, the Storm Fund shall be funded at a rate of \$120,000 per year, to be recorded monthly at \$10,000 per month. The accounting entry to record monthly contributions to the fund will be the following, provided that the fund is in a positive position:

DR	Account 924	Property insurance-storm contingency
CR	Account 254	Storm contingency reserve

The Storm Fund will be in a positive position when the cumulative amount funded exceeds amounts disbursed from the fund to pay for the operation and maintenance costs of Major Storms.

2. Definition of Major Storm

For purposes of the Storm Fund, a “Major Storm” shall be defined as a severe weather event or events causing 30 concurrent troubles and 15% of customers interrupted, or 45 concurrent troubles. (Troubles are defined as interruption events occurring on either primary or secondary lines).

3. Deferral of Negative Balances

If the costs of Major Storms charged to the fund exceed the balance in Account 254, such excess (i.e., a negative fund balance) shall be debited to Account 182, Deferred charges-storm fund. As long as the fund balance remains negative, the monthly entry to record the collection of Storm Fund proceeds will be:

DR	Account 924	Property insurance-storm contingency
CR	Account 182	Deferred charges-storm fund

4. Interest on Positive or Negative Balance

Interest shall be accrued on any positive or negative balance in the fund, calculated in accordance with the Terms and Conditions for interest expense calculated on

customer deposits. If the fund is in a positive position, the entry on the Company's books will be:

DR Account 431 Interest expense
CR Account 254 Storm contingency reserve

If the fund is in a negative position, the entry on the Company's book will be:

DR Account 182 Deferred charges-storm fund
CR Account 419 Interest income

5. Annual Storm Fund Report

Commencing April 1, 2009, and annually thereafter, the Company will file with the Commission a Storm Fund Report detailing the Collections credited to the Storm Fund and details of any qualifying storm costs that were charged to the fund during the preceding calendar year. The report will also include a description of the storm along with a summary of the extent of the damage to the distribution system, including the number of outages and length of outages.

Exhibit GSE-8

Reliability Enhancement Program

and

Vegetation Management

Reliability Enhancement Program and Vegetation Management Plans

(A) REP and VMP Commitment

For each fiscal year following the effective date of the Rate Plan, the Company will implement a Reliability Enhancement Program Plan (“REP”) and a Vegetation Management Plan (“VMP”) (collectively, “Plans”), as defined below. For purposes of this agreement, a fiscal year is defined as the 12 month period from April 1 through March 31 (“FY”). The purpose of the REP and VMP Plans is to improve the Company’s reliability performance in order to bring the Company back to the historical performance levels that existed prior to 2005, with the goal of meeting those historical performance levels by the end of FY 2013. The Company commits to developing annual REP and VMP Plans for review by Staff with the objective of achieving this purpose.

(B) Definitions of REP and VMP Activities

(1) Activities included in the REP are the following:

(a) “Feeder Hardening” Activities: The term “Feeder Hardening” is used by the Company to refer to a targeted program to improve the performance of the Company’s worst performing feeders through remediation measures. Remediation measures may include equipment upgrades, such as replacement of fuse cutouts, crossarms, poles, and transformers; installation of reclosers; lightning protection with bonding, grounding, and lightning arresters installations; and installation of animal guards. The best feeders to “harden” are identified by reviewing

cost/benefit and performance data. Feeders are inspected and design packages are created for the required construction.

(b) “Augmented tree trimming and clearing”: The term “Augmented tree trimming and clearing” is used by the Company to refer to the implementation of hazard tree removal into the cycle tree trimming program beyond what is normally included in tree trimming and improving circuit performance related to overhead vegetation. The enhanced specification is implemented to reduce overhead interruption risks by removing dead, dying, and damaged limbs from above the conductor, as well as increasing the overhead clearances to fifteen feet outside of residential areas. The augmented plan integrates the hazard tree removal program into the routine scheduled trimming, creating a more aggressive approach to removing tree hazards and overhang to improve performance.

(c) “Asset Replacement”: The asset replacement component of the REP targets potted porcelain cutouts, oil fuse cutouts, distribution transformers, underground cable, and poles for replacement. In addition, it includes adding new line reclosers and reconductoring selected feeders with spacer cable.

(d) “Inspection and Maintenance”: The inspection and maintenance component of the REP involves a comprehensive overhead assessment of the Company’s equipment and feeders prior to performance of the REP work.

(2) Activities and expenses included in the VMP are set forth below, with the applicable company charge code in parenthesis:

- (a) Spot Tree Trimming (DM1010);
- (b) Trouble & Restoration Maintenance (DM1210);
- (c) Planned Cycle Trimming (DM1215);
- (d) Cycle Trimming Police Details Expenses (DM1218);
- (e) Tree Hazard Removal (DM1220);
- (f) Interim Trimming (DM1235);
- (g) Tree Planting (DM 1240);
- (h) Subtransmission Right of Way Clearing (DM1250); and
- (i) Other Police Detail Expenses (DO9050).

(C) REP and VMP for Fiscal Year 2008

It is understood that, for FY 2008, the Company has already commenced implementation of the REP and VMP Plans. The Company agrees that it will implement aggressive Plans for FY 2008, with an anticipated budget of \$1,950,000 for operation and maintenance expenses. By May 15, 2008, the Company will make a filing with the

Commission showing actual operating and maintenance (“O&M”) expenses incurred from the REP and VMP Plans’ implementation for FY 2008. To the extent the Company has incurred less than \$1,950,000 of operation and maintenance expenses from implementation of the REP and VMP Plans in FY 2008, the difference will be accounted for and applied to increase the Base Plan O&M amount (as set forth in section (E) below) for the REP and VMP Plans implemented for FY 2009. To the extent the operation and maintenance expenses exceed \$1,950,000, the Company will absorb that cost with no impact to the REP/VMP Adjustment Provision defined below in section (F).

The Company’s REP for FY 2008 also will have capital investments associated with it. The Company will be allowed to make up to \$950,000 of capital investments in its REP plan for FY 2008, the revenue requirement of which will be included in the REP Capital Investment Allowance, as detailed in section (G) below, effective July 1, 2008. It is expected that the Company’s level of investment in FY 2008 will exceed \$500,000.

(D) REP and VMP for FY 2009 through 2013

Beginning with FY 2009, (before the beginning of each fiscal year and no later than February 15) the Company will provide its REP and VMP Plans to Staff for the following fiscal year for Staff’s review. The Company will meet with Staff in technical sessions to discuss the Plans, obtain comments, and answer any questions regarding the plan to be implemented for the subsequent fiscal year.

The REP and VMP Plans shall provide a description of the activities along with targeted expenditures and investments of the proposed Plans to be implemented during

the following fiscal year. The Plans shall also include a description of the extent to which the studies set forth in Section J below were incorporated in the REP and VMP. The Plans will itemize the proposed activities by general category and provide budgets for both operation and maintenance expenses and capital investments expected from implementation of the Plans. The Company will provide an operation and maintenance (“O&M”) budget to Staff that assumes the REP and VMP O&M spending for the fiscal year will be approximately equal to the Base Plan O&M (as defined below in section (E)) for the fiscal year (“Base Plan O&M Budget”). The Company also may provide for consideration alternative Plans with O&M budgets that exceed the O&M Base Amount for the fiscal year.

After review by Staff, the Company will take all reasonable steps it deems appropriate to carry out and implement the Plans, taking into account the comments of Staff. The Company will reconcile actual expenditures and investments with the Plans’ targeted spending levels at the conclusion of the Plans’ period. Review by Staff of the Plans does not relieve the Company of its obligation to operate its business and maintain safe, reliable service through expenditures and other capital investments in the ordinary course of business that are not set forth in the Plans, nor does it bind Staff to a particular position regarding the adequacy and/or effectiveness of the Plans.

(E) O&M Base Expenses for FY 2009 through 2013

There shall be established for the Rate Plan for FY 2009 through FY 2013 a base O&M expense amount equal to \$1,360,000 that is associated with implementation of the

O&M components of the annual REP and VMP (“Base Plan O&M”). Actual expenses incurred by the Company in implementing the O&M components of the annual REP and VMP shall be reconciled to the Base Plan O&M amount of \$1,360,000 and shall be subject to the REP/VMP Adjustment Provision, as set forth in Section F below. Some categories of activities listed in the VMP in section (B)(2) include some of the activities described in the “augmented tree trimming and clearing” component of the REP described in section (B)(1). All of the combined expenses will be counted against the Base Plan O&M amount, along with any REP-related O&M that does not relate to a VMP category.

(F) REP/VMP Adjustment Provision

(1) During each fiscal year, the Company shall track all O&M expenses incurred in implementing the components of the REP and VMP Plans. By May 15 of each year, the Company will make a reconciliation filing with the Commission. To the extent that the Company, in implementing the Plans, incurs expenses in an amount less than the Base Plan O&M amount, the difference between the Base Plan O&M amount and the amount of expenses actually incurred shall be refunded to customers or credited to customers for future REP/VMP program O&M expenditures, as the Commission determines is appropriate, with interest accruing at the customer deposit rate.¹

¹ With respect to FY 2008, section (C) above specifies that it will be carried over to the FY 2009 Base Plan O&M Budget.

(2) To the extent the Plan submitted for review prior to the fiscal year includes a budget higher than the Base Plan O&M Budget and the Company incurs expenses over the Base Plan O&M amount (consistent with the alternative budget reviewed by Staff), the incremental expense above the Base Plan O&M amount shall be included in rates, subject to Commission approval, through a uniform adjustment factor on a per kilowatt-hour basis and recovered over a twelve month period, commencing for usage on and after July 1, with interest accruing at the customer deposit rate. Any over or under-recoveries at the end of the twelve month period shall be taken into account in the next REP/VMP Adjustment Provision reconciliation period. In lieu of a refund, the Commission (at its discretion) may authorize any credits owed to customers to be carried over to the following year's budget.

(G) REP Capital Investment Allowance

The Company shall track all capital investments made in accordance with the REP for each fiscal year including FY 2008 through 2013. At the same time that the Company makes its reconciliation filing for the REP/VMP Adjustment reconciliation, the Company shall file a report detailing the actual amount of capital investments made in accordance with implementing the REP during the prior fiscal year. The report shall include a calculation of the revenue requirement for adding these additional capital investments into rate base, using the imputed capital structure and rates set forth in Section 3.(C) of the Rate Plan, and as illustrated on the accompanying Attachment 1. Provided that the investments were made in accordance with the REP, the Company will

be allowed, subject to Commission approval, a permanent increase in its distribution rates to recover the annual revenue requirement for those investments. This permanent REP Capital Investment Allowance will take effect for usage on and after July 1, at the same time as any REP/VMP Adjustments are implemented for the preceding fiscal year as discussed in section (D) above. (The first Capital Investment Allowance would occur on July 1, 2008.)

(H) Procedure for Adjusting Base Distribution Rates for the REP Capital Investment Allowance

Base distribution rate increases approved pursuant to Section (G) will be implemented in a manner similar to the procedure used to adjust base distribution charges for the Rate Reduction implemented pursuant to Section 1 of the settlement agreement. An illustrative example is provided as Attachment 2 to this Exhibit.

(I) Annual Report, Plan Deviations, and SAIDI/SAIFI Results

The Company will file an annual report on the prior fiscal year's activities at the time it makes its reconciliation and rate adjustment filing described in section (F) above. In implementing the Plans, the circumstances encountered during the year may require reasonable deviations from the original Plans reviewed by Staff. In such cases, the Company would include an explanation of any deviations in the report. For cost recovery purposes, the Company has the burden to show that any deviations were due to

circumstances out of its reasonable control or, if within its control, were reasonable and prudent.

Included in the annual report, the Company will report its SAIDI and SAIFI results for the prior calendar year. The report shall include parallel reporting using the criteria for major storm exclusions from the IEEE Standard 1366 criteria and the definition of major storm events historically used by the Commission for the Company. The Commission definition is 30 concurrent troubles and 15% of customers interrupted, or 45 concurrent troubles (Troubles are defined as interruption events occurring on either primary or secondary lines).

(J) Studies

(1) Within one year of the Commission's approval of the merger, system studies will be completed to determine if additional fuse placement on feeders and taps, additional recloser placement on feeders and taps, and the potential splitting of distribution circuits is warranted. A report shall be generated for each study detailing results, and submitted to Staff.

(2) Within one year after the Commission's approval of the merger, a vegetation management study shall be completed. This study will include, at a minimum, a review of cycle trimming and clearance specifications. The Company plans to employ a consultant to review the entire National Grid vegetation management program, including

New Hampshire specifically. A report shall be generated detailing results and submitted to Staff.

(3) Within one year of the Commission's approval of the merger, transmission outages from 1999 through 2006 will be analyzed separately for the three major work areas for cause to determine if action to improve reliability is required. The study results shall be supplied to Staff in the form of a report detailing the results and actions to be taken.

(4) Within one year of the effective date of the merger, company caused human related outages from 1999 through 2006 will be analyzed separately for the three major work areas for cause to determine if action to improve reliability is required. The study results shall be supplied to Staff in the form of a report detailing the results and actions to be taken.

Granite State Electric Company
Illustrative Incremental REP Program
Illustrative Annual Rate Changes

Granite State Electric
Docket No. DG 06-107
Exhibit GSE-8
Attachment 1
Page 1 of 3

<u>Annual Incremental Rate Adjustments</u>		<u>07/01/2007</u>	<u>07/01/2008</u>	<u>07/01/2009</u>	<u>07/01/2010</u>	<u>07/01/2011</u>	<u>07/01/2012</u>
1	REP O&M Program	0	0	0	0	0	0
2							
3	REP Capital Program	0	172,126	84,733	81,898	79,174	76,554
4							
5	Total	0	172,126	84,733	81,898	79,174	76,554

Line 1 From Page 2 of 3 Line 16

Line 3 From Page 3 of 3 Line 40

Line 5 Line 1 minus Line 2

Granite State Electric Company
Illustrative Incremental VMP and REP O&M Program
Illustrative Computation of Annual Revenue Requirement

Granite State Electric
Docket No. DG 06-107
Exhibit GSE-8
Attachment 1
Page 2 of 3

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012		
<u>Incremental VMP O&M Spend</u>							
1	VMP Program Budget	1,500,000	1,160,000	1,160,000	1,160,000	1,160,000	
2	VMP Base Spending Level	1,500,000	1,160,000	1,160,000	1,160,000	1,160,000	
3	Incremental Amount	0	0	0	0	0	
4							
<u>Incremental REP O&M Spend</u>							
6	REP O&M Program Budget	450,000	200,000	200,000	200,000	200,000	
7	REP O&M Base Spending Level	450,000	200,000	200,000	200,000	200,000	
8	Incremental Amount	0	0	0	0	0	
9							
10	Total Revenue Requirement	0	0	0	0	0	
11							
12	<u>Annual Rate Adjustment</u>	<u>7/1/2007</u>	<u>7/1/2008</u>	<u>7/1/2009</u>	<u>7/1/2010</u>	<u>7/1/2011</u>	<u>7/1/2012</u>
13							
14	Current Year Rate Adjustment		0	0	0	0	0
15	Expiration of Prior Year Rate Adj.		0	0	0	0	0
16	Incremental Rate Adjustment	0	0	0	0	0	0

Line 1 Illustrative Targeted VMP program spend. To be replaced with Actual amounts spent.
Line 2 Base amount of VMP program spend embedded in base rates based on CY 2006 Vegetation Management spending.
Line 3 Line 1 minus Line 2
Line 6 Illustrative Targeted REP O&M program spend. To be replaced with actual REP O&M spending.
Line 7 Base amount of REP O&M spend embedded in base rates based on CY 2006 REP O&M amount.
Line 8 Line 6 minus Line 7
Line 10 Line 3 plus Line 8
Line 14 Prior Column Line 10
Line 15 Minus prior year Line 14
Line 16 Line 14 plus Line 15

Granite State Electric Company
Illustrative Incremental REP Capital Program
Illustrative Computation of Revenue Requirement

Granite State Electric
Docket No. DG 06-107
Exhibit GSE-8
Attachment 1
Page 3 of 3

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	
Defered Tax Calculation							
1	REP Progam Annual Spend	950,000	500,000	500,000	500,000	500,000	
2	Cumulative REP Program Spend	950,000	1,450,000	1,950,000	2,450,000	2,950,000	
3							
4	Book Depreciation Rate (a)	3.79%	3.79%	3.79%	3.79%	3.79%	
5	20 YR MACRS Tax Depr. Rates	3.75%	7.22%	6.68%	6.18%	5.71%	
6	Vinatge Year Tax Depreciation:						
7	Year 1 Spend	35,625	68,581	63,432	58,682	54,274	
8	Year 2 Spend		18,750	36,095	33,385	30,885	
9	Year 3 Spend			18,750	36,095	33,385	
10	Year 4 Spend				18,750	36,095	
11	Year 5 Spend					18,750	
12							
13	Annual Tax Depreciation	35,625	87,331	118,277	146,912	173,389	
14	Cumulative Tax Depreciation	35,625	122,956	241,232	388,144	561,532	
15							
16	Book Depreciation	36,005	54,955	73,905	92,855	111,805	
17	Cumulative Book Depreciation	36,005	90,960	164,865	257,720	369,525	
18							
19	Book/Tax Timer	(380)	31,996	76,367	130,424	192,007	
20	Effective Tax Rate	40.53%	40.53%	40.53%	40.53%	40.53%	
21							
22	Deferred Tax Reserve	(154)	12,966	30,948	52,854	77,811	
23							
24	Rate Base Calculation						
25	Plant In Service	950,000	1,450,000	1,950,000	2,450,000	2,950,000	
26	Accum Depr	(36,005)	(90,960)	(164,865)	(257,720)	(369,525)	
27	Def Tax Reserve	154	(12,966)	(30,948)	(52,854)	(77,811)	
28	Year End Rate Base	914,149	1,346,074	1,754,187	2,139,426	2,502,664	
29							
30	Revenue Requirement Calculation						
31	Year End Rate Base	914,149	1,346,074	1,754,187	2,139,426	2,502,664	
32	Pre-Tax ROR	11.91%	11.91%	11.91%	11.91%	11.91%	
33	Return and Taxes	108,856	160,289	208,886	254,760	298,014	
34	Book Depreciation	36,005	54,955	73,905	92,855	111,805	
35	Property Taxes (b) 2.87%	27,265	41,615	55,965	70,315	84,665	
36	Annual Revenue Requirement	172,126	256,859	338,756	417,930	494,484	
37							
38	Annual Rate Adjustment						
39							
40	Incremental Aannual Rate Adjustment		172,126	84,733	81,898	79,174	
41							
42							
43	Imputed Capital Structure						
44		Ratio	Rate	Weighted Rate	Pre Tax		
45	Long Term Debt (c)	50.00%	7.54%	3.77%	3.77%		
46							
47	Common Equity	50.00%	9.67%	4.84%	8.14%		
48							
49		100.00%		8.61%	11.91%		

(a) Actual 2006 Composite Depreciation rate for distribution property
(b) Actual 2006 ratio of municipal tax expense to net plant in service
(c) Actual 2006 LTD Rate

27-Apr-07

Granite State Electric
Rate Settlement
Procedure for Adjusting Distribution Rates for Capital Investment Allowance (Illustrative Only)
Calculation of Percentage Adjustment to Distribution Rates
Rates Effective July 1, 2009

(1) Increase in Annual Revenue Requirement	\$100,000
(2) Forecasted Base Distribution Revenue	25,000,000
(3) Percentage of Adjustment to Distribution Rates	0.40%

- (1) Approved by Commission pursuant to Section (E), Exhibit GSE-6 of the settlement agreement
- (2) Forecasted Billing Units for the applicable period multiplied by current rates.
- (3) Line (3) ÷ Line (4)

Granite State Electric
Rate Settlement
Procedure for Adjusting Distribution Rates for Capital Investment Allowance (Illustrative Only)
Calculation of Proposed Distribution Rates
Rates Effective July 1, 2009

<u>Rate Class and Distribution Energy Component</u>	<u>Current Base Distribution Charges</u> (a)	<u>Proposed Distribution % Increase</u> (b)	<u>Proposed Base Distribution Charges</u> (c)	<u>Current Business Profits Surcharge</u> (d)	<u>Current Default Service Cost Reclassification Distribution Credit</u> (e)	<u>Proposed Total Distribution Charges</u> (f)
D						
Customer Charge	\$4.72	0.40%	\$4.73			\$4.73
1st 250 kWh	\$0.01773	0.40%	\$0.01780	\$0.00057	(\$0.00017)	\$0.01820
Excess 250 kWh	\$0.04615	0.40%	\$0.04633	\$0.00057	(\$0.00017)	\$0.04673
Off Peak kWh	\$0.01695	0.40%	\$0.01701	\$0.00057	(\$0.00017)	\$0.01741
Farm kWh	\$0.02755	0.40%	\$0.02766	\$0.00057	(\$0.00017)	\$0.02806
D-6 kWh	\$0.01773	0.40%	\$0.01780	\$0.00057	(\$0.00017)	\$0.01820
D-10						
Customer Charge	\$8.09	0.40%	\$8.12			\$8.12
On Peak kWh	\$0.05121	0.40%	\$0.05141	\$0.00057	(\$0.00008)	\$0.05190
Off Peak kWh	\$0.00000	0.40%	\$0.00000	\$0.00057	(\$0.00008)	\$0.00049
G-1						
Customer Charge	\$100.34	0.40%	\$100.74			\$100.74
Demand Charge	\$4.39	0.40%	\$4.40			\$4.40
On Peak kWh	\$0.00146	0.40%	\$0.00146	\$0.00057	\$0.00000	\$0.00203
Off Peak kWh	\$0.00000	0.40%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
G-2						
Customer Charge	\$26.87	0.40%	\$26.97			\$26.97
Demand Charge	\$4.86	0.40%	\$4.87			\$4.87
All kWh	\$0.00035	0.40%	\$0.00035	\$0.00057	\$0.00000	\$0.00092
G-3						
Customer Charge	\$5.95	0.40%	\$5.97			\$5.97
All kWh	\$0.03321	0.40%	\$0.03334	\$0.00057	(\$0.00017)	\$0.03374
M						
All kWh	\$0.00000	0.40%	\$0.00000	\$0.00057	\$0.00000	\$0.00057
T						
Customer Charge	\$6.09	0.40%	\$6.11			\$6.11
All kWh	\$0.02171	0.40%	\$0.02179	\$0.00057	(\$0.00007)	\$0.02229
V						
Minimum Charge	\$6.36	0.40%	\$6.38			\$6.38
All kWh	\$0.03063	0.40%	\$0.03075	\$0.00057	(\$0.00009)	\$0.03123

- (a) Per currently effective tariffs
- (b) Exhibit GSE-6, Page 2
- (c) Column (a) x (1-Column (b))
- (d) Distribution Energy Charges include a Business Profits Tax Surcharge of \$0.00057 per kWh for usage on and after 8/1/01
- (e) Per Default Service Cost Reclassification Adjustment Provision
- (f) Column (c) + Column (d) + Column (e)

Exhibit 2

Energy North Merger Rate Agreement

TABLE OF CONTENTS

1.	First Rate Case and One-Year Rate Freeze	
A.	First Rate Case Filing.....	2
B.	Test Year for First Rate Case.....	3
C.	Savings Credit for Customers and Amortization of CTA.....	3
D.	Capital Structure	4
E.	Pension and OPEB Fair Value.....	4
F.	No Acquisition Premium Recovery	4
2.	Synergy Savings Allowance	
A.	Allowance in Second Rate Case	5
B.	Saving Proof Methodology	5
C.	Savings Proof and Allowance without Rate Case.....	5
D.	Shared Earnings After Tenth Year.....	6
3.	Amortization of Costs to Achieve	7
4.	Comparison to Merger Benefits in New York.....	8
5.	Cast Iron/Bare Steel Replacement Program	9
6.	Call Answering Time	9
7.	Operating Commitments and Annual Report	
A.	Ownership of System.....	11
B.	Cast Iron Encroachment Policy	11
C.	Critical Values	12
D.	Annual Operating Report.....	12
E.	Aldyl A Pipe	12
F.	Contact Information.....	13
G.	Outside Contractor Activities	13
H.	Quality Assurance/Quality Control (QA/QC) System Program Update	14
I.	Marking of Underground Facilities	14
J.	Operator Qualification (OQ) Plan Compliance	15
K.	Location of Operation Centers.....	15
L.	Peak Shaving Facilities.....	15
M.	Internet Access to Operations Manuals and Procedures.....	16
N.	Emergency Response Time.....	16

EnergyNorth Merger Rate Agreement

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

1. First Rate Case and One Year Rate Freeze

(A) First Rate Case Filing

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

(B) Test Year for First Rate Case

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

(C) Savings Credit for Customers and Amortization of CTA

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

(D) Capital Structure

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

(E) Pension and OPEB Fair Value

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

(F) No Acquisition Premium Recovery

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

2. Synergy Savings Allowance

(A) Allowance in Second Rate Case

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

(B) Savings Proof Methodology

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

(C) Savings Proof and Allowance without Rate Case

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

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

(D) Shared Earnings After Tenth Year

Subsequent to the end of the Rate Agreement Period, an earnings sharing mechanism shall be established. For each full twelve month period following the Rate Agreement Period¹, the Company will file annual earnings reports calculating its return on equity. For purposes of calculating return and income taxes, EnergyNorth shall use the Commission-approved imputed or actual capital structure and cost of capital determined using the Commission-approved return on equity and updated cost of debt in effect at that time. The Company’s allowed rate of return on common equity shall be the last Commission approved return on common equity for the Company (the “Sharing Threshold”). Results will be adjusted to reflect established Commission ratemaking

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

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

3. Amortization of Costs to Achieve

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

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

4. Comparison to Merger Benefits in New York

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

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

5. Cast Iron/Bare Steel Replacement Program

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

6. Call Answering Time

(A) By the end of the first full calendar year following the closing of the Merger, the Company agrees to bring the Company's performance regarding call answering time to answering 80% of calls within 30 seconds. Thereafter, the Company agrees to maintain its call answering time at no worse than that level until such time as the Company's customer information system is consolidated with the rest of National Grid. If the Company believes that it would be imprudent to incur the cost or suffer other unforeseen consequences in order to achieve the standard, it will meet with Staff and the OCA to explain its concerns. If Staff and the OCA agree with the Company's concerns, the Company, Staff and the OCA agree to negotiate in good faith a new call answering standard, taking into account the needs of customers.

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

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

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

(E) Monthly Reports and Meetings with Staff and OCA

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

7. Operating Commitments and Annual Report

(A) Ownership of System

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

(B) Cast Iron Encroachment Policy

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

(C) Critical Valves

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

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

(D) Annual Operating Report

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

(E) Aldyl A Pipe

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

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

(F) Contact Information

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

(G) Outside Contractor Activities

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

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

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

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

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

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

(I) Marking of Underground Facilities

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

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

(J) Operator Qualification (OQ) Plan Compliance

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

(K) Location of Operation Centers

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

(L) Peak Shaving Facilities

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

(M) Internet Access to Operations Manuals and Procedures.

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

(N) Emergency Response Time

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

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

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

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

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

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

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

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

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

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

Exhibit EN-1

Savings Proof Methodology

**Energy North
Synergy Savings Demonstration Methodology**

**Energy North
Docket DG 06 - 107
Energy North Merger Rate Agreement
Exhibit EN - 1**

Illustrative Synergy Savings Demonstration - EnergyNorth
Year by Year Analysis of Net Synergy Savings

	2007	2008	2009	2010	2011	2012
<u>Estimated Net Synergies</u>						
1 Keyspan Synergies		784,675	1,072,395	1,374,005	1,690,019	1,732,269
2 Keyspan CTA - Levelized Est.		409,203	409,203	409,203	409,203	409,203
3 Keyspan Net Synergies		<u>375,472</u>	<u>663,192</u>	<u>964,802</u>	<u>1,280,816</u>	<u>1,323,066</u>
<u>Synergy Savings Demonstration</u>						
4 Benchmark Inflated	8,604,904	8,820,026	9,040,527	9,266,540	9,498,204	9,735,659
5 Actual Costs	<u>8,604,904</u>	<u>8,444,554</u>	<u>8,377,335</u>	<u>8,301,738</u>	<u>8,217,387</u>	<u>8,412,592</u>
6 Calculated Synergy	-	375,472	663,192	964,802	1,280,816	1,323,066
7 Company Share of Synergy Savings		<u>187,736</u>	<u>331,596</u>	<u>482,401</u>	<u>640,408</u>	<u>661,533</u>

- 1 For Illustrative purposes only, from Joint Petition Exhibit JGC - 1, Page 1
- 2 For Illustrative purposes only, from Merger rate Agreement Exhibit EN - 3
- 3 Line 1 minus Line 2
- 4 Energy North actual 900 account expense for CY 2005 less uncollectable and environmental expenses escalated by 2.95% in 2006 and 2.50% thereafter. To be replaced with actual inflation rates.
- 5 Line 4 minus Line 3 for illustrative purposes. To be replaced with actual 900 account data less uncollectable and environmental expenses.
- 6 Line 4 Minus Line 5
- 7 Line 5 times 50%

Exhibit EN-2

Estimate of Costs to Achieve

Energy North
Calculation of Levelized CTA Amortization with Return

Calculation of 10 Year Levelized Cost to Achieve Value by Year

<u>Energy North</u>	1	2	3	4	5	6	7	8	9	10
1 Cost to Achieve	\$1,208,086	\$480,221	\$470,805	\$212,804	\$228,184	\$187,380	\$145,322	\$66,540	\$68,424	\$70,621
2 NPV \$2,277,484.18										
3 Levelized	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203	\$409,203

Line Notes:

- 1 Per Joint Petition dated August 2006, Schedule JGC - 1
- 2 NPV of annual costs to achieve discounted at the pre-tax weighted average cost of capital of 12.37%
- 3 10 year levelized payment using an interest rate equal to the pre-tax weighted average cost of capital of 12.37%

Imputed Capital Structure

	<u>Ratio</u>	<u>Rate</u>	Weighted <u>Rate</u>	<u>Pre Tax</u>
Long Term Debt (a)	50.00%	7.25%	3.63%	3.63%
Short Term Debt	0.00%	0.00%	0.00%	0.00%
Common Equity (b)	50.00%	10.39%	5.20%	8.74%
	<u>100.00%</u>		<u>8.83%</u>	<u>12.37%</u>

- (a) Actual CY 2006 Debt Rate
- (b) Last approved ROE. To be replaced with ROE determined in Energy North's first base rate case and subsequent base rate cases.

Exhibit EN-3

Cast Iron/Bare Steel Replacement Program

Cast Iron/Bare Steel Replacement Program

(A) Preparation and Review of Plans

(1) This program shall begin for fiscal year 2009 (April 1, 2008 through March 31, 2009). By no later than January 15 of each year, the Company will provide a copy of its Cast Iron/Bare Steel Replacement Program Plan (“CIBS Plan”) to Staff for Staff’s review and comment. The Company will meet with Staff in technical sessions to discuss the Plans, obtain comments, and answer any questions on the Plan to be implemented for the subsequent fiscal year.

(2) The CIBS Plan shall provide a description of the activities along with targeted amount of investments to be made during the following fiscal year and a budget of no less than the CIBS Base Amount set forth in Section C. The CIBS Plan will itemize the proposed activities by general category. The CIBS Plan will pertain to cast iron and bare steel pipe replacements that are prioritized based on factors including leakage, material condition, age and other components affecting pipe integrity, and does not address replacement of cast iron and bare steel pipes required in public works projects and/or carried out pursuant to the main encroachment policy in effect on January 1, 2007, which the Company will continue in the ordinary course of business. However, it is recognized that the Company may include in its CIBS Plan replacement of cast iron and bare steel pipe located in the vicinity of public works projects, where replacement is not required as a part of the project, but permitted for convenience or other reasons.

(3) After review by Staff, the Company will take all reasonable steps to carry out and implement the Plan, taking into account the comments of Staff. It is recognized that the Company will not finalize its plans until after the winter frost patrol ends in early April. By May 1, the Company will finalize actual projects and provide a copy of the final plans to Staff. Staff In addition, the priority rankings of main segments for replacement may change over the course of the year due to new information that may become available. In such case, if the Company believes it is prudent to change the rankings from the approved plan, it will notify Staff, stating the reasons for the change prior to construction. If Staff does not believe that any particular components of the revised plans are reasonable, Staff may object and the matter may be referred to the Commission if not resolved between the Company and Staff.

(5) The Company will reconcile actual capital expenditures with the CIBS Plan's targets at the conclusion of the CIBS Plan period. Review by Staff of the CIBS Plan does not relieve the Company of its obligation to operate its business and maintain safe, reliable service through expenditures and other capital investments in the ordinary course of business that are not set forth in the CIBS Plan nor does it bind Staff to a particular position regarding the adequacy and/or effectiveness of the Plan.

(B) Process to be Used to Develop CIBS Plan

The Company will engage in an evaluation and selection process to target investments to be proposed in the CIBS Plan, as follows:

- (1) The Company will undertake an annual review of the performance of the Company's distribution system in New Hampshire as it relates to the integrity of its cast iron and bare steel pipelines. This review will provide a detailed analysis of leak activity over the preceding ten years on the bare steel and cast iron gas mains and an evaluation of which main segments represent the highest priority segments for replacement. Consideration will be given to the age of the main, the date the leak(s) occurred, leak classification, type of leak, number of clamps used in leak repair, condition of main when repaired, specific leak location, and building types in the area of the main segment.
- (2) Adjustments in the priority of main segment replacement may be made due to planned paving projects, public relations, or identification of new main segments by operating personnel in the field that were not captured through the company's data systems.
- (3) Categories of spending in this program will include the following:
 - a. Unprotected bare steel main replacement,
 - b. Cast iron main replacement, and
 - c. Main replacement candidates requested by operating personnel.
- (4) Using the process identified above, the Company will rank and prioritize those mains to be replaced in the following year and provide its plans to the Commission.

(C) CIBS Base Amount

There shall be established for the Rate Agreement a base amount of capital expenditures equal to \$ 500,000 (“CIBS Base Amount”). The CIBS Base Amount excludes replacement activity required by public works projects and/or carried out pursuant to the main encroachment policy in effect on January 1, 2007.

(D) Capital Investment Allowance

(1) After Staff reviews the CIBS Plan for a given fiscal year, the Company shall track all capital investments made in accordance with the CIBS Plan. On May 15, the Company shall file a report (“CIBS Report”) with the Commission detailing the actual amount of capital investments made in accordance with implementing the CIBS Plan during the prior fiscal year. The report shall include a calculation of the incremental revenue requirement associated with the capital investments into rate base above the CIBS Base Amount, using the Commission-approved imputed or actual capital structure and cost of capital determined using the Commission-approved return on equity and updated cost of debt in effect at that time, and as illustrated on the accompanying Attachment A to this Exhibit. If the Commission has not made a final determination in the First Rate Case by the time the first adjustment is to be calculated, a reasonable proxy shall be used for the rate calculation and an adjustment shall be made to the revenue requirement to reconcile to the approved cost of capital rates when the rates from the First Rate Case go into effect.

(2) Provided that the investments were made in accordance with the approved CIBS Plan, the Company will be allowed a permanent increase in its base distribution delivery rates to recover the annual revenue requirement for those investments made in the preceding fiscal year ended March 31st in excess of the CIBS Base Amount. This permanent “Capital Investment Allowance” will first take effect for usage on and after July 1, 2009 and annually on July 1 thereafter.

(E) Annual Report and Plan Deviations

The Company will file an annual CIBS Report on the prior fiscal year’s activities at the time it makes its rate adjustment filing on May 15. In implementing the CIBS Plan, the circumstances encountered during the year may require reasonable deviations from the original Plan. In such cases, the Company would include an explanation of any deviations in the report. For cost recovery purposes, the Company has the burden to show that any deviations were due to circumstances out of its reasonable control or, if within its control, were reasonable and prudent.

(F) Term of CIBS Program

It is the intention of the parties that the CIBS program will remain in place through and beyond the Company’s future rate cases contemplated in the Rate Agreement, until terminated by the Commission or by mutual agreement at the end of a given fiscal year, with a final capital allowance pertaining to the final year. This program shall commence for Fiscal Year 2009 and is not contingent upon the closing of the Merger.

Energy North
Illustrative Cast Iron, Bare Steel Replacement Program
Illustrative Computation of Revenue Requirement

Energy North
Docket No. DG 06-107
Exhibit EN-3
Attachment A

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	
<u>Deferred Tax Calculation</u>							
1	CIBS Program Targeted Spend	2,100,000	2,100,000	2,100,000	2,100,000	2,100,000	
2	Base Spending Amount	500,000	500,000	500,000	500,000	500,000	
3	Incremental Amount	1,600,000	1,600,000	1,600,000	1,600,000	1,600,000	
4	Cumulative REP Program Spend	1,600,000	3,200,000	4,800,000	6,400,000	8,000,000	
5							
6	Book Depreciation Rate (a)	2.66%	2.66%	2.66%	2.66%	2.66%	
7	20 YR MACRS Tax Depr. Rates	3.75%	7.22%	6.68%	6.18%	5.71%	
8	Vinatge Year Tax Depreciation:						
9	Year 1 Spend	78,750	151,599	140,217	129,717	119,973	
10	Year 2 Spend		78,750	151,599	140,217	129,717	
11	Year 3 Spend			78,750	151,599	140,217	
12	Year 4 Spend				78,750	151,599	
13	Year 5 Spend					78,750	
14							
15	Annual Tax Depreciation	78,750	230,349	370,566	500,283	620,256	
16	Cumulative Tax Depreciation	78,750	309,099	679,665	1,179,948	1,800,204	
17							
18	Book Depreciation	55,860	85,120	127,680	170,240	212,800	
19	Cumulative Book Depreciation	55,860	140,980	268,660	438,900	651,700	
20							
21	Book/Tax Timer	22,890	168,119	411,005	741,048	1,148,504	
22	Effective Tax Rate	40.53%	40.53%	40.53%	40.53%	40.53%	
23							
24	Deferred Tax Reserve	9,276	68,130	166,560	300,310	465,431	
25							
26	<u>Rate Base Calculation</u>						
27	Plant In Service	1,600,000	3,200,000	4,800,000	6,400,000	8,000,000	
28	Accum Depr	(55,860)	(140,980)	(268,660)	(438,900)	(651,700)	
29	Def Tax Reserve	(9,276)	(68,130)	(166,560)	(300,310)	(465,431)	
30	Year End Rate Base	1,534,864	2,990,890	4,364,780	5,660,790	6,882,869	
31							
32	<u>Revenue Requirement Calculation</u>						
33	Year End Rate Base	1,534,864	2,990,890	4,364,780	5,660,790	6,882,869	
34	Pre-Tax ROR	12.37%	12.37%	12.37%	12.37%	12.37%	
35	Return and Taxes	189,911	370,068	540,062	700,419	851,629	
36	Book Depreciation	55,860	85,120	127,680	170,240	212,800	
37	Property Taxes (b) 1.96%	31,360	62,720	94,080	125,440	156,800	
38	Annual Revenue Requirement	277,131	517,908	761,822	996,099	1,221,229	
39							
40	<u>Annual Rate Adjustment</u>						
41		<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	
42	Incremental Annual Rate Adjustment	277,131	240,777	243,914	234,278	225,130	
43							
44							
45	<u>Imputed Capital Structure</u>						
46		<u>Ratio</u>	<u>Rate</u>	<u>Weighted Rate</u>	<u>Pre Tax</u>		
47	Long Term Debt (c)	50.00%	7.25%	3.63%	3.63%		
48	Short Term Debt	0.00%	0.00%	0.00%	0.00%		
49	Common Equity (d)	50.00%	10.39%	5.20%	8.74%		
50							
51		<u>100.00%</u>		<u>8.83%</u>	<u>12.37%</u>		

- (a) Actual 2006 Composite Depreciation for Energy North Mains
(b) Actual 2006 ratio of municipal tax expense to net plant in service
(c) Actual 2006 LTD Rate
(d) Last approved ROE. To be replaced with ROE ultimately approved in the Energy North rate case.

Exhibit EN-4

Emergency Response Standards

Emergency Response Standards

Emergency Response Performance Measures		
Performance Measures	Response Time	Percent to Achieve
Normal Business Hours	30 Minutes	82%
	45 minutes	90%
	60 minutes	97%
After hours	30 Minutes	80%
	45 minutes	86%
	60 minutes	95%
Weekends/Holidays	30 Minutes	76%
	45 minutes	84%
	60 minutes	94%