

nationalgrid

Alexandra E. Blackmore
Senior Attorney

December 19, 2006

VIA OVERNIGHT & 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; National Grid/Keyspan Merger Integration Team Update

Dear Ms. Howland:

I am submitting Granite State Electric Company's d/b/a National Grid update to the synergy savings analysis, which we had originally intended to file with the parties to the above-captioned proceeding by January 5, 2007. Also enclosed is the joint testimony of Richard J. Levin and Alan V. Feibelman of Mercer Management Consulting, which explains the analysis. As explained in Mr. Levin and Mr. Feibelman's testimony, the attached update reflects the current projection of synergy savings by the integration team. The updated analysis confirms the estimate of \$200 million per year of total synergy savings that was initially estimated in our August 10, 2006 Joint Petition. However, today's update provides greater detail regarding the synergy savings, identifies the source of those savings for each of the nine functional teams in the integration process, describes the specific programs and activities that are expected to give rise to the savings in each function, and ascribes a degree of uncertainty associated with each segment of the savings.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me at 508-389-3243.

Very truly yours,



Alexandra E. Blackmore

cc: Thomas Frantz
Stephen Frink
Randy Knepper
George McCluskey

Ms. Debra A. Howland
December 19, 2006
Page 2 of 2

Amanda Noonan
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Service List (via electronic mail)

DIRECT TESTIMONY OF
ALAN V. FEIBELMAN AND RICHARD J. LEVIN
ON BEHALF OF
NATIONAL GRID plc AND KEYSpan CORPORATION
DOCKET NO. DG 06-107

December 19, 2006

1 **I. Introduction**

2 **Q. Mr. Feibelman, please state your full name and business address for the record.**

3 A. My name is Alan V. Feibelman. My business address is 200 Clarendon Street, Boston,
4 MA 02116. I am a Director of Mercer Management Consulting.

5 **Q. Mr. Levin, please state your full name and business address for the record.**

6 A. My name is Richard J. Levin. My business address is 200 Clarendon Street, Boston, MA
7 02116. I am a management consultant with Mercer Management Consulting (“Mercer”).

8 **Q. Mr. Feibelman, please describe your educational background and professional
9 experience.**

10 A. I received a B.S. degree (magna cum laude) in mechanical engineering in 1979 from
11 Brown University and a MBA degree (with distinction) in 1983 from the Harvard Graduate
12 School of Business Administration.

13 My professional experience includes over 20 years as a consultant to electric and gas
14 utilities. I joined Mercer in 1983. During my consulting career, I have led a broad range of
15 assignments encompassing:

- 16 • Post-merger integration planning;
17 • Organizational and performance improvement; and
18 • Strategic and business planning.

19 Since the late 1990s, I have been actively involved in the merger and acquisitions (M&A)
20 area and have assisted utilities in post-merger integration planning. I led Mercer’s support
21 of National Grid, plc (“National Grid”) (and its predecessor) in the integration planning for
22 the Niagara Mohawk and Eastern Utilities Associates mergers. I have also been involved
23 in organizational and/or performance improvement work at more than 30 utilities.

1 **Q. Mr. Feibelman, have you testified before this or any other regulatory commission in**
2 **the past?**

3 A. No, I have not.

4 **Q. Mr. Levin, have you previously submitted testimony in this proceeding?**

5 A. Yes. I co-sponsored (along with David J. Hoffman of Mercer) testimony supporting
6 Schedule MMC-1 to the August 10, 2006 joint petition of National Grid and KeySpan
7 Corporation (“KeySpan”) (collectively “the Companies”) that provided an estimate of
8 potential savings for the merger of National Grid and KeySpan. That testimony also
9 described the integration planning initiative underway to establish how the combined
10 company will operate in the future and to develop a more detailed estimate of savings and
11 costs to achieve.

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

13 A. The purpose of this testimony is to provide an update to the merger savings estimate
14 presented in Schedule MMC-1 to the Companies’ August 10, 2006 joint petition. That
15 estimate was considered preliminary. This update, based on an expanded scope and a more
16 detailed function-by-function review by the integration team and the many National Grid
17 and KeySpan personnel involved, is the Companies’ best estimate to date of potential
18 merger savings. In addition, we will also discuss how the merger will benefit customers by
19 increasing or, at a minimum, maintaining service quality while delivering merger savings.

20 **Q. Mr. Feibelman, what role are you playing in the integration planning initiative?**

21 A. I am managing Mercer’s support of the Companies on the integration planning initiative. I
22 assist the team leaders in managing the day-to-day work of the functional teams and

1 communicating progress to executive leadership. My role is similar to the role that I played
2 in the Niagara Mohawk and EUA mergers.

3 **Q. Mr. Levin, what role are you playing in the integration planning initiative?**

4 A. I have been working with the integration team on a day-to-day basis to identify and
5 quantify savings opportunities in administrative and general and customer-related
6 functions. This work has included reviewing current processes and practices at both
7 companies and helping the team identify how the combined company will operate in the
8 future.

9 **Q. How is the remainder of this updated testimony organized?**

10 A. The remainder is organized into four sections that provide:

- 11 • An overview of the integration planning initiative and timeline for completing the
- 12 work;
- 13 • An updated estimate of potential merger savings developed by the integration team;
- 14 • A discussion on the favorable impacts to service quality; and
- 15 • A discussion on the potential effect on employees.

16 **II. Overview of the Integration Planning Initiative**

17 **Q. Please describe the Companies' integration planning initiative.**

18 A. In early 2006, National Grid and KeySpan began an integration planning initiative to
19 establish how the combined company will operate in the future and to develop more
20 detailed estimates of merger savings and cost to achieve.

21

22 The integration team is led by senior executives of both companies and has reviewed all
23 aspects of the current operations of the operating companies of National Grid and KeySpan

1 to identify areas in which greater efficiencies can be realized or where greater value can be
2 provided to customers.

3
4 The objectives of the integration team are to make preliminary recommendations to the
5 company leadership so that they can make decisions regarding how to achieve synergy
6 savings, develop service improvements for the combined company, and assure a seamless
7 transition on the closing date of the Transaction. With regard to the synergy savings, the
8 integration team is currently completing the analysis from which it intends to formulate
9 preliminary recommendations for company leadership to decide how best to target specific
10 synergy savings in each function of the business.

11
12 **Q. How is the integration team managed and structured?**

13 A. The team is led on a day-to-day basis by Mr. Kwong Nuey of National Grid and Mr. John
14 Caroselli of KeySpan. Nine functional teams, reporting to Mr. Nuey and Mr. Caroselli,
15 were established to design recommended approaches and processes for the future and to
16 develop detailed estimates of potential merger savings and costs for their respective areas.

17 The nine teams were organized around the following functional areas:

- 18 • Corporate Services;
- 19 • Finance and Accounting;
- 20 • Human Resources;
- 21 • Information Technology;
- 22 • Customer Service and Marketing;
- 23 • Gas Operations;

- 1 • Electric Transmission and Distribution;
- 2 • Shared Services; and
- 3 • Generation and Energy Supply.

4 Each of these functional teams is led jointly by two senior managers: one from KeySpan
5 and one from National Grid. More than 200 National Grid and KeySpan employees have
6 been involved in the work to ensure that the planning initiative benefits from the company-
7 specific knowledge and expertise of both organizations.

8 **Q. What is the status of the team's efforts?**

9 A. Since April, the integration team has completed a number of tasks necessary to design how
10 the combined company will operate in the future, to identify merger savings and to make
11 sure that the business will effectively operate and serve customers on Day 1 (upon closing
12 of the transaction). Completed tasks include developing and aligning baseline costs and
13 staffing for the Companies, documenting the processes and practices currently used,
14 identifying best practices, and determining Day 1 requirements. The team is currently in
15 the process of developing and refining recommendations as to how the combined company
16 will operate and be organized in the future, as well as refining estimates of potential merger
17 savings and costs to achieve. The team will continue working on these issues and will be
18 presenting their recommendations, as well as refined savings and cost estimates, to
19 executive leadership in workshops tentatively scheduled in January and March 2007.
20 During the first quarter of 2007, an overall implementation plan and individual plans for
21 each of the nine teams will be developed. The team's work is expected to end some time in
22 the second quarter. Thereafter, any initiatives which executive leadership decides to take
23 forward will be managed by the respective business lines.

1 **III. Updated Estimate of Merger Savings**

2 **Q. How did the team develop its estimate of merger savings?**

3 A. Since completing (in August 2006) their function-by-function evaluations of how the
4 Companies currently operate, the nine functional teams have been identifying changes that
5 would lead to merger savings and improvements to service quality. These recommended
6 changes fall into the following broad categories:

- 7 • Consolidation of pre-merger National Grid and KeySpan organizations into a single
8 post-merger organization (e.g., moving from two information technology organizations
9 to one consolidated organization) and the elimination of redundant positions;
- 10 • Standardization and improvement of business processes and practices and adoption of
11 best practices leading to greater efficiencies and enhanced service;
- 12 • Consolidation of information technology operations, architecture and business
13 applications;
- 14 • Standardization and joint purchase of materials and services to enhance purchasing
15 power and reduce costs;
- 16 • Optimization of office and operating facilities, transportation fleets, and material and
17 supply inventory;
- 18 • Elimination of overlapping or duplicative costs, such as outside counsel, other
19 professional services and membership dues and fees; and
- 20 • Improvements to customer service levels and the expansion of service offerings to
21 customers.

22 Updated savings have been quantified based on the Companies' current budgets. Labor
23 savings have been quantified based on the estimated full-time equivalent (FTE) employee

1 reductions and National Grid and KeySpan compensation levels, including benefits. Non-
2 labor savings have been based on current budgeted expenditures. The functional teams
3 also have allocated savings between O&M and capital. Offsetting these savings will be
4 significant costs to achieve, such as information technology consolidation costs.

5 **Q. Is the team confident that 100 percent of potential savings can be achieved?**

6 A. No. While some recommended changes have been characterized as “certain,” other
7 recommendations face significant challenges and achieving 100 percent of potential
8 savings is far less certain. For example, some cost-saving recommendations would require
9 changes in work practices and labor agreements with one or more labor unions; some
10 recommendations would require productivity improvements to be achieved before savings
11 could occur; some recommendations would require either regulatory approvals or
12 successful negotiations with vendors; in the credit and collections area, customer payment
13 behavior would have to change in order to capture estimated reductions in uncollectibles
14 expense.

15 The common theme for these types of cost-saving recommendations is that the actual
16 savings achieved will depend on actions by labor unions, the workforce, regulators,
17 vendors and customers. These various dependencies and estimates of the currently
18 assessed probability of successfully resolving these considerations are discussed below.

19 **Q. How did the team address this issue in the quantification of savings?**

20 A. The functional teams assigned one of the following confidence levels to each cost-saving
21 recommendation, based on the uncertainties and dependencies discussed above:

- 22 • **Certainty:** 100 % probability to achieve;
- 23 • **High level of confidence:** 75% to 100% probability to achieve;

1 • **Medium level of confidence:** 50% to 75% probability to achieve; or

2 • **Low level of confidence:** 0% to 50% probability to achieve.

3 For each recommendation, the team developed a low-end estimate and a high-end estimate
4 of savings, based on the probability ranges described above. For example, if the team
5 identified a savings opportunity of \$1 million and assigned that opportunity at a “medium
6 level of confidence,” then the range of savings was estimated at \$500,000 (\$1 million x
7 50%) to \$750,000 (\$1 million x 75%). The team considered the range of \$500,000 to
8 \$750,000 as the estimated expected value of the recommendation.

9 **Q. Please describe Schedule AVF/RJL-1.**

10 A. Schedule AVF/RJL-1 is a two-page document that shows the integration team’s current
11 estimate of merger savings in total (on the first page), as well as estimated savings for each
12 of the nine functional teams (on the second page). The ranges shown are based on the
13 expected value (as described earlier) of cost-saving recommendations.

14 As shown on page 1 of Schedule AVF/RJL-1, the team’s preliminary estimate of merger
15 savings includes:

- 16 • Annual O&M (combined labor and non-labor) savings, excluding reduced
17 uncollectibles expense, in the range of \$153 to \$208 million;
- 18 • Position reductions in the range of 874 to 1,332 FTEs (these position reductions are
19 reflected in the savings figures above); and
- 20 • A reduction in annual uncollectibles expense of \$8 to \$21 million.

21 **Q. Please describe Schedule AVF/RJL-2.**

1 A. Schedule AVF/RJL-2 is an eighteen-page document that provides two pages of additional
2 details for each of the nine functional teams. For each team, the following information is
3 provided:

- 4 • Estimated labor and non-labor O&M savings and FTE position reductions in total and
5 by confidence level; and
- 6 • Examples of team recommendations organized around the different cost reduction
7 strategies (e.g., functional consolidation, business process and practice improvement)
8 and related dependencies.

9 **Q. Do you believe that the team developed a reasonable estimate of merger savings, as**
10 **shown in Schedule AVF/RJL-1 and Schedule AVF/RJL-2?**

11 A. Yes. During team meetings, the team leaders continually challenged the functional teams
12 to identify cost-savings opportunities. In our judgment, the team has aggressively pursued
13 cost-reduction opportunities. The team's estimate of merger savings has also been made
14 more realistic by considering uncertainties and dependencies and using the expected values
15 of the cost-reduction opportunities.

16 **Q. Have the cost-reduction recommendations described in Schedule AVF/RJL-2 been**
17 **approved and adopted by the executive leadership of the Companies?**

18 A. Not at this point. The integration team is still refining its work. The team is planning to
19 present recommended strategies and savings estimates to executive leadership in the first
20 quarter of 2007 workshops discussed earlier. Decisions about whether to adopt, modify or
21 reject recommendations are expected to be made by the leadership at that time.

22 **Q. What do you conclude from the integration team's analysis and updated estimate of**
23 **savings?**

1 A. We believe that:

- 2 • The integration team’s work 1) confirms that the \$200 million of synergy savings
3 referenced in the Joint Petition is an aggressive but reasonable target and 2) supports
4 the continued use of \$200 million for the allocation of synergy savings; and
- 5 • The realization of \$200 million in savings is difficult but achievable, and the
6 challenges, uncertainties and dependencies referenced above and in our schedules
7 indicate that much work remains to be completed by the management of the combined
8 company.

9 Finally, we believe that \$200 million as the estimated level of synergy savings is an
10 appropriate stretch goal for management and that \$400 million (twice the level of savings)
11 as the estimated costs to achieve (an offset to savings) is appropriate for this transaction.

12 **IV. Potential Impacts on Reliability and Service Quality**

13 **Q. How will the preliminary recommendations described in Schedule AVF/RJL-2, if
14 implemented, impact reliability and service quality?**

15 A. Based on the team’s recommendations, we believe that reliability and service quality will
16 either improve or remain at current levels. The Companies have elsewhere outlined
17 specific initiatives, independent of the Transaction, that are designed to improve reliability
18 and customer satisfaction, such as National Grid’s Reliability Enhancement Program. In
19 addition, the Companies’ have a strategic focus on excellence in customer service and
20 operations. Consistent with this focus, each functional team, since the beginning of the
21 planning initiative, was given clear direction that recommendations would have to either
22 improve or, at a minimum, maintain current service levels. During team meetings, the
23 team leaders reinforced this principle and the teams conducted their work accordingly. In

1 fact, the functional teams have identified a number of initiatives to improve overall service
2 quality:

- 3 • **Customer service levels:** the integration team is recommending strategies that will
4 benefit EnergyNorth customers, such as having virtual contact centers that can handle
5 any customer calls in an overflow situation. This will directly benefit customers in
6 emergency and peak call volume situations.
- 7 • **Customer offerings:** the team is recommending the expansion of self-service options
8 available to customers on the Companies' website and interactive voice response (IVR)
9 units. The Team is also recommending the expanded use of electronic bill presentation
10 and payment (EBPP) that provides customers with a convenient channel to pay bills.

11 These initiatives are designed to make it easier for customers to conduct business with
12 the company.

13 We believe that the team's strategies and recommendations will result in improved service
14 for customers. After the integration process is complete, the Companies will be better able
15 to evaluate the final initiatives collectively and assess potential impacts on service quality.

16 **V. Potential Effect on Employees**

17 **Q. What is the estimated reduction in employees associated with the updated estimate of**
18 **savings?**

19 A. As shown on page 1 of Schedule AVF/RJL-1, the integration team estimated reductions in
20 the range of 874 to 1,332 employees if the preliminary recommendations are adopted. This
21 range represents 5 percent to 8 percent of the combined pre-merger workforce with most
22 reductions occurring in administrative and general, office and support functions and not in
23 field positions.

1 VI. Conclusion

2 Q. Does that complete your testimony?

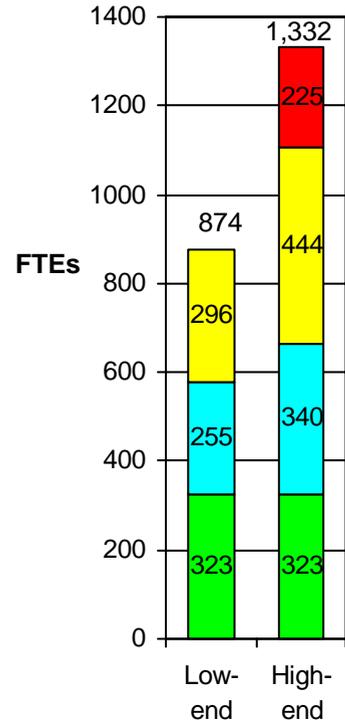
3 A. Yes, it does.

Updated Estimate of Merger Savings

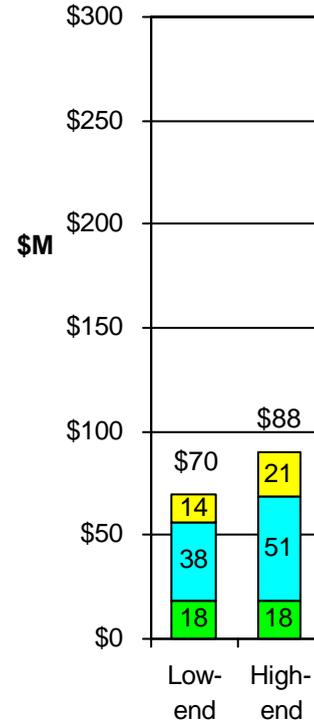
Total O&M Savings
(excluding uncollectibles)



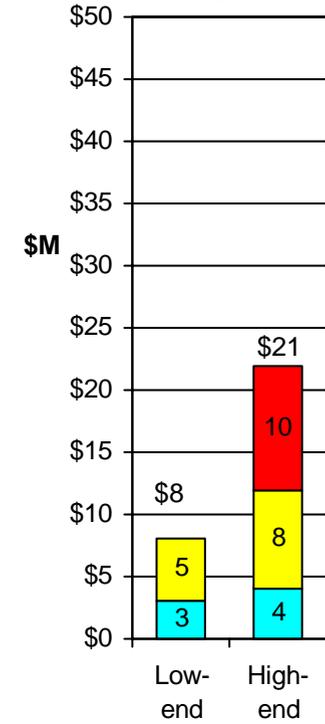
FTE Savings



Non-Labor O&M Savings

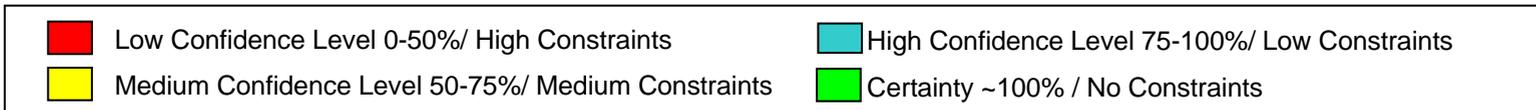


Reduction in Uncollectibles Expense



Low-end = expected value calculated at low end of probability range

High-end = expected value calculated at high end of probability range



Updated Estimate of Merger Savings

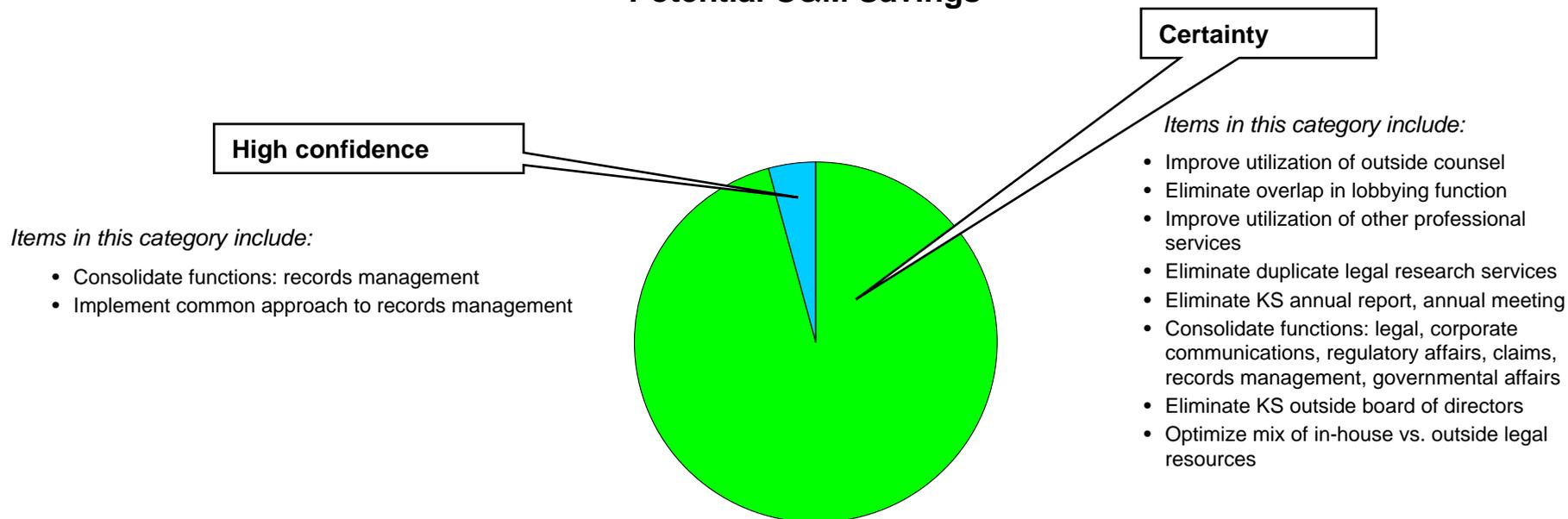
Functional Team	Total O&M Savings (\$M) excludes uncollectibles		FTEs	
	Low-end	High-end	Low-end	High-end
Corporate Services	\$12.5	\$12.6	47	48
Finance and Accounting	\$18.3	\$22.9	76	110
Human Resources	\$6.1	\$6.4	34	37
Information Services	\$29.4	\$37.9	177	217
Customer Service and Marketing	\$22.1	\$40.8	238	517
Gas Operations	\$10.9	\$16.6	47	82
Electric Transmission and Distribution	\$10.3	\$14.1	79	117
Shared Services	\$42.4	\$56.1	170	197
Generation and Energy Supply	\$0.7	\$0.9	6	7
Total	\$153	\$208	874	1,332

Low-end = expected value calculated at low end of probability range

High-end = expected value calculated at high end of probability range

Corporate Services: Confidence Levels

Potential O&M Savings



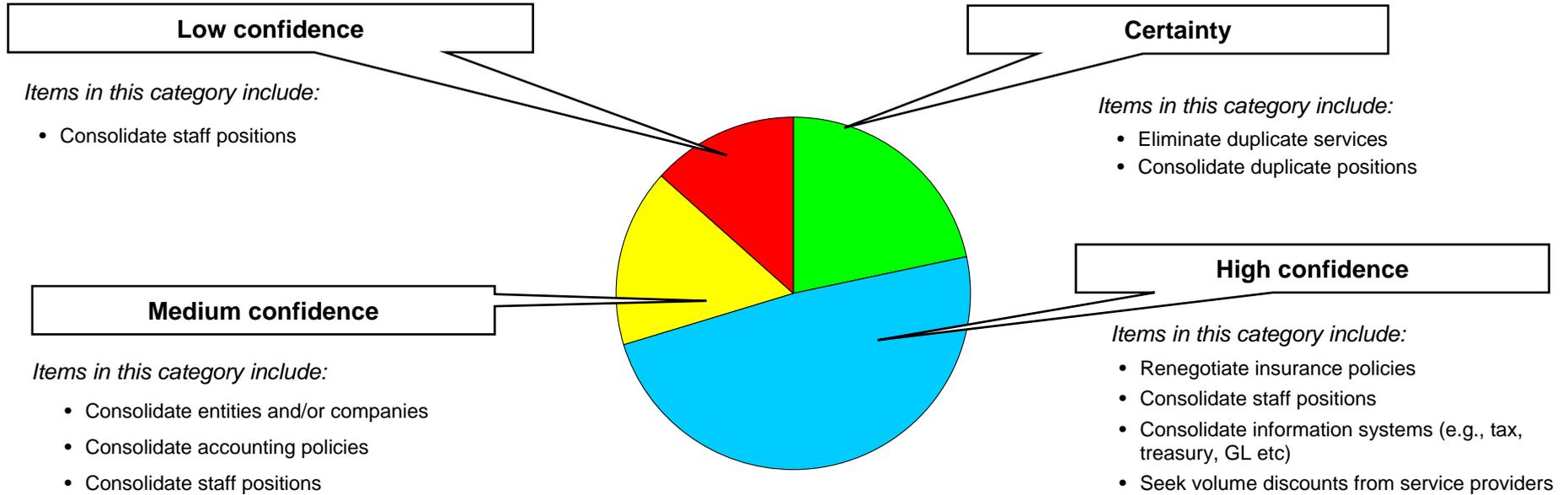
Confidence Levels	Probability to Achieve	FTEs	O&M Savings (\$M)		
			Labor Savings	Non-Labor Savings	Total
Certainty	 100%	45	6.5	5.6	12.1
High Level of Confidence	 75-100%	2 - 3	0.3 - 0.4	0 - 0	0.3 - 0.4
Medium Level of Confidence	 50-75%	0 - 0	0 - 0	0 - 0	0 - 0
Low Level of Confidence	 0-50%	0 - 0	0 - 0	0 - 0	0 - 0
TOTAL		47 - 48	6.9 - 7	5.6 - 5.6	12.5 - 12.6

Corporate Services: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: legal, corporate communications, regulatory affairs, claims, records management, governmental affairs ◆ Eliminate KS outside board of directors 	
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Implement common approach to records management ◆ Optimize mix of in-house vs. outside legal resources 	
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Improve utilization of outside counsel ◆ Eliminate overlap in lobbying function ◆ Improve utilization of other professional services ◆ Eliminate duplicate legal research services ◆ Eliminate KS annual report, annual meeting 	<ul style="list-style-type: none"> ◆ Vendor: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 		

Finance and Accounting: Confidence Levels

Potential O&M Savings



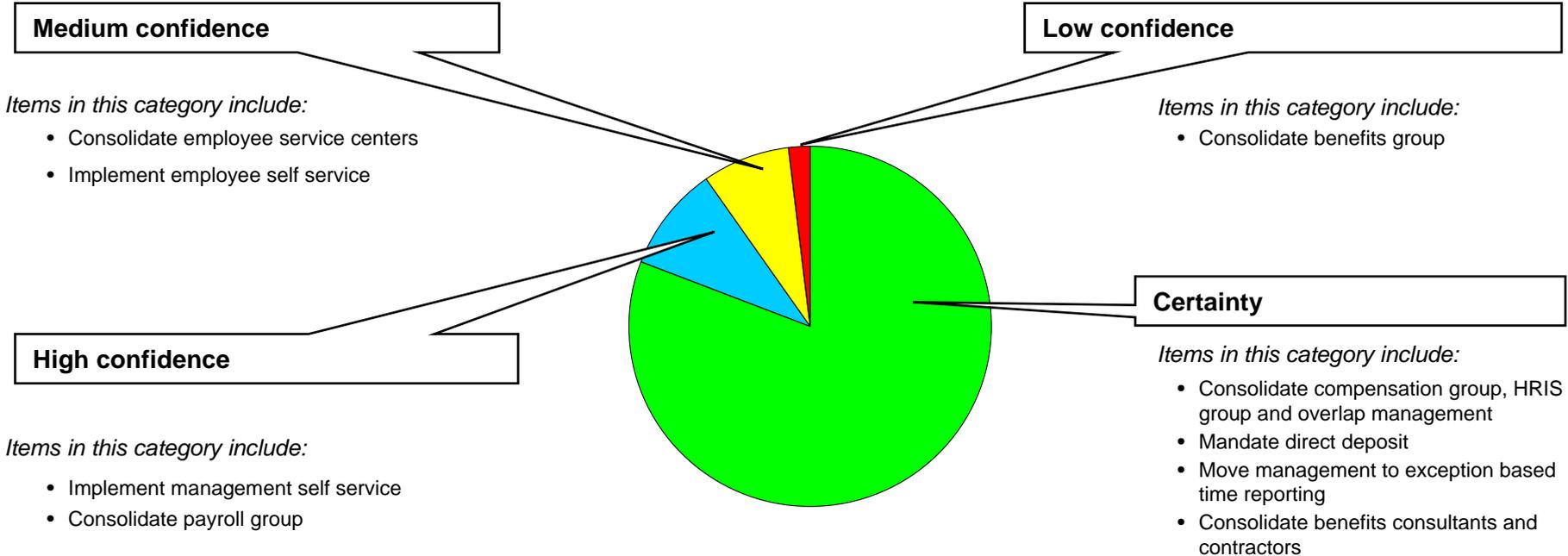
Confidence Levels	Probability to Achieve	FTEs	O&M Savings (\$M)		
			Labor Savings	Non-Labor Savings	Total
Certainty	 100%	17	1.9	7.6	9.4
High Level of Confidence	 75 – 100%	39 - 52	4.3 - 5.7	2.4 - 3.2	6.7 - 8.9
Medium Level of Confidence	 50 – 75%	20 - 30	2.2 - 3.3	0 - 0.1	2.2 - 3.3
Low Level of Confidence	 0 – 50%	0 - 12	0 - 1.3	0 - 0	0 - 1.3
TOTAL		76 - 110	8.3 - 12.1	10 - 10.8	18.3 - 22.9

Finance and Accounting: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: accounting, tax, treasury, financial planning, internal audit, SOX 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes/policies – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Consolidate accounting policies ◆ Convert manual to automated billing ◆ Consolidate lock boxes ◆ Simplify bank accounts ◆ Consolidate entities and/or companies 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Eliminate duplicate services (e.g., auditors, tax consultants, insurance) ◆ Seek volume discounts from service providers 	<ul style="list-style-type: none"> ◆ Vendor: contract negotiations
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Implement common systems: general ledger, treasury workstation, PAWS, tax software 	<ul style="list-style-type: none"> ◆ Collective bargaining

Human Resources: Confidence Levels

Potential O&M Savings



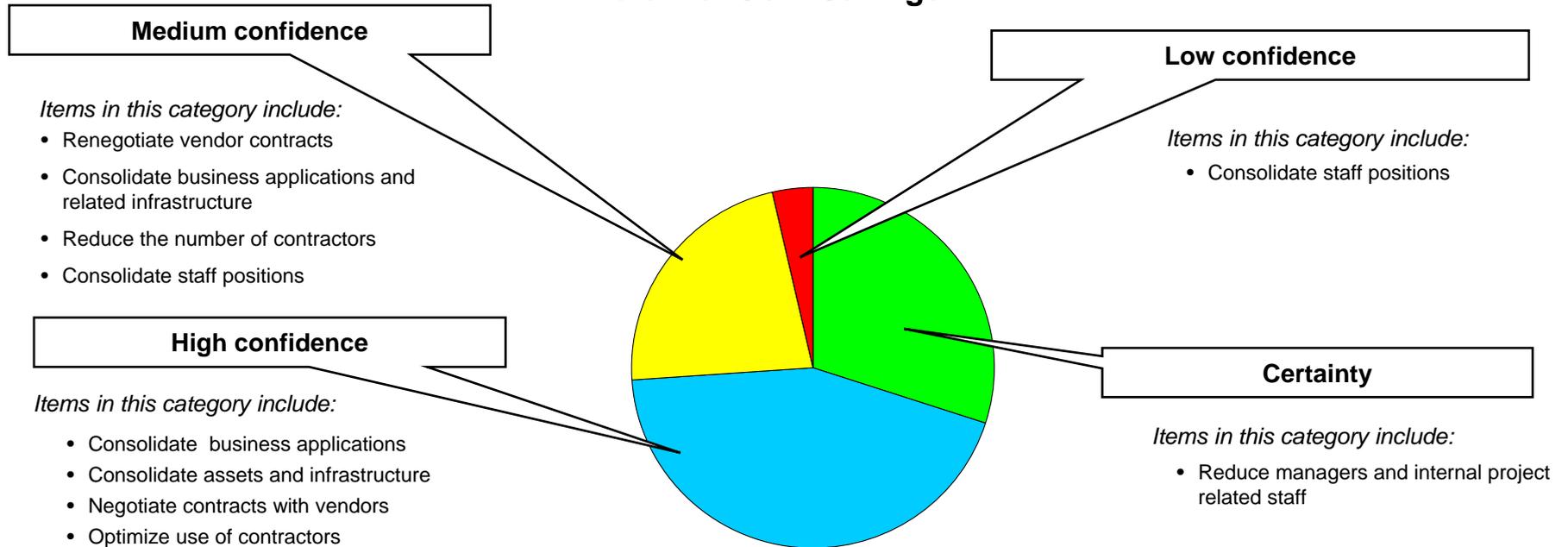
Confidence Levels	Probability to Achieve		FTEs	O&M Savings (\$M)		
				Labor Savings	Non-Labor Savings	Total
Certainty		100%	28	4.1	1.5	5.6
High Level of Confidence		75-100%	4 - 5	0.3 - 0.5	0 - 0	0.3 - 0.5
Medium Level of Confidence		50-75%	2 - 3	0.2 - 0.3	0 - 0	0.2 - 0.3
Low Level of Confidence		0-50%	0 - 1	0 - 0	0 - 0	0 - 0
TOTAL			34 - 37	4.6 - 4.9	1.5 - 1.5	6.1 - 6.4

Human Resources: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: compensation, labor relations, HRIS, organizational development, recruiting, employee services, benefits, payroll 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Standardize approach to performance management and organizational development ◆ Mandate direct deposit ◆ Require management to use electronic payroll advices ◆ Move management to exception based time reporting ◆ Implement employee self service 	
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Consolidate duplicate service providers (benefits, recruiting, actuarial, consulting) 	<ul style="list-style-type: none"> ◆ Collective bargaining ◆ Vendor: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Consolidate systems: HRIS, time entry, organization chart, employee inquiries and associated staffing 	

Information Services: Confidence Levels

Potential O&M Savings

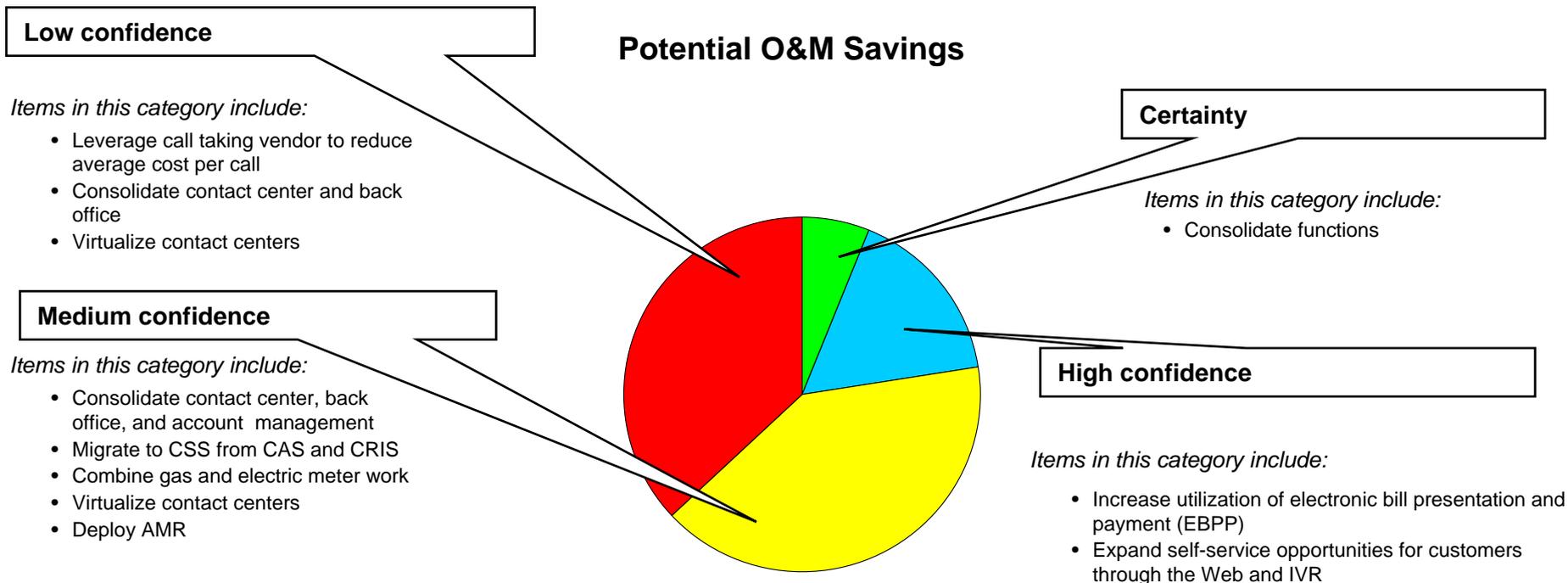


Confidence Levels	Probability to Achieve	FTEs	O&M Savings (\$M)		
			Labor Savings	Non-Labor Savings	Total
Certainty	 100%	91	8.6	0.0	8.6
High Level of Confidence	 75 – 100%	69 - 91	8.4 - 11.1	7.2 - 9.6	15.6 - 20.7
Medium Level of Confidence	 50 – 75%	18 - 27	2.3 - 3.5	2.9 - 4.4	5.3 - 7.9
Low Level of Confidence	 0 – 50%	0 - 8	0 - 0.7	0 - 0	0 - 0.7
TOTAL		177 - 217	19.3 - 23.9	10.1 - 14	29.4 - 37.9

Information Services: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate organization based on optimizing reporting structure and supporting infrastructure, <ul style="list-style-type: none"> – e.g., managers, supervisors, staff redundancies, help desk, data center etc. 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Standardize application development processes, user-support, infrastructure design, desktop support, project management, and contract management 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Optimize use of and negotiate global volume discounts with key vendors <ul style="list-style-type: none"> – e.g., software, hardware, contractor/consultants 	<ul style="list-style-type: none"> ◆ Vendor: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Consolidate business applications to eliminate redundancy and improve company-wide performance: <ul style="list-style-type: none"> – Corporate applications – Customer applications – Operations applications 	<ul style="list-style-type: none"> ◆ LIPA: service agreement ◆ Collective bargaining

Customer Service and Marketing: Confidence Levels



Confidence Levels	Probability to Achieve		FTEs	O&M Savings (\$M)		
				Labor Savings	Non-Labor Savings	Total
Certainty		100%	30	3.1	0.4	3.5
High Level of Confidence		75-100%	32 - 42	3.9 - 5.2	3.1 - 4.2	7 - 9.4
Medium Level of Confidence		50-75%	177 - 265	12.7 - 19.1	-1.1 - -1.7	11.6 - 17.4
Low Level of Confidence		0-50%	0 - 180	0 - 13.6	0 - -3.1	0 - 10.5
TOTAL			238 - 517	19.7 - 40.9	2.5 - -0.1	22.1 - 40.8

Customer Service and Marketing: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: contact centers, customer systems support, credit & collections, back office, large account management 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Expand self-service opportunities for customers through the Web and IVR ◆ Combine electric and gas meter work ◆ Expand deployment of AMR to reduce meter-reading costs and reduce billing and collection costs ◆ Adopt best credit and collections practices in account initiation, account management, field collections and final bill ◆ Implement virtualization of contact centers to enhance disaster recovery and better manage call peaking ◆ Increase utilization of electronic bill presentation and payment (EBPP) to expand customer options and reduce billing and mailing costs 	<ul style="list-style-type: none"> ◆ Collective bargaining ◆ Customer: changing payment behavior
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Leverage call taking vendor to reduce average cost per call ◆ Consolidate other contact center vendors to capture volume discounts 	<ul style="list-style-type: none"> ◆ Vendor: contracts ◆ Collective bargaining
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Consolidate customer applications (migrate from CAS and CRIS to CSS) 	<ul style="list-style-type: none"> ◆ LIPA: service agreement ◆ Resource availability

Gas Operations: Confidence Levels

Potential O&M Savings

Low confidence

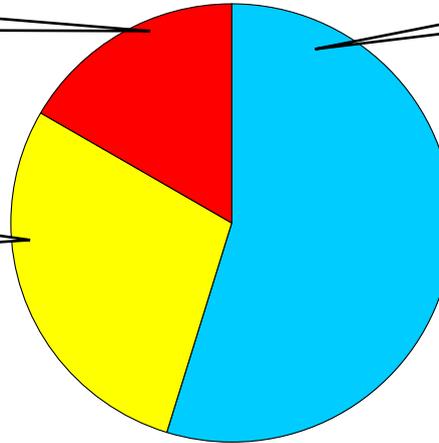
Items in this category include:

- Explore competitive pricing opportunities for locating and cast iron monitoring

Medium confidence

Items in this category include:

- Improve field performance by increasing supervisor time spent in field
- Consolidate control centers
- Standardize design/mapping processes
- Implement first responder leak process



High confidence

Items in this category include:

- Consolidate organizational structure
- Implement KeySpan's leak tracking system at National Grid
- Adopt common systems (e.g., GIS, work management, SCADA)
- Roll out GPS/AVLS
- Rationalize contractor usage to reduce unit costs and increase service levels
- Standardize material specifications to increase purchasing leverage (pipe, meters, vehicles, etc.)
- Optimize equipment management (right sizing, utilization of excess resources, inventory centralization)

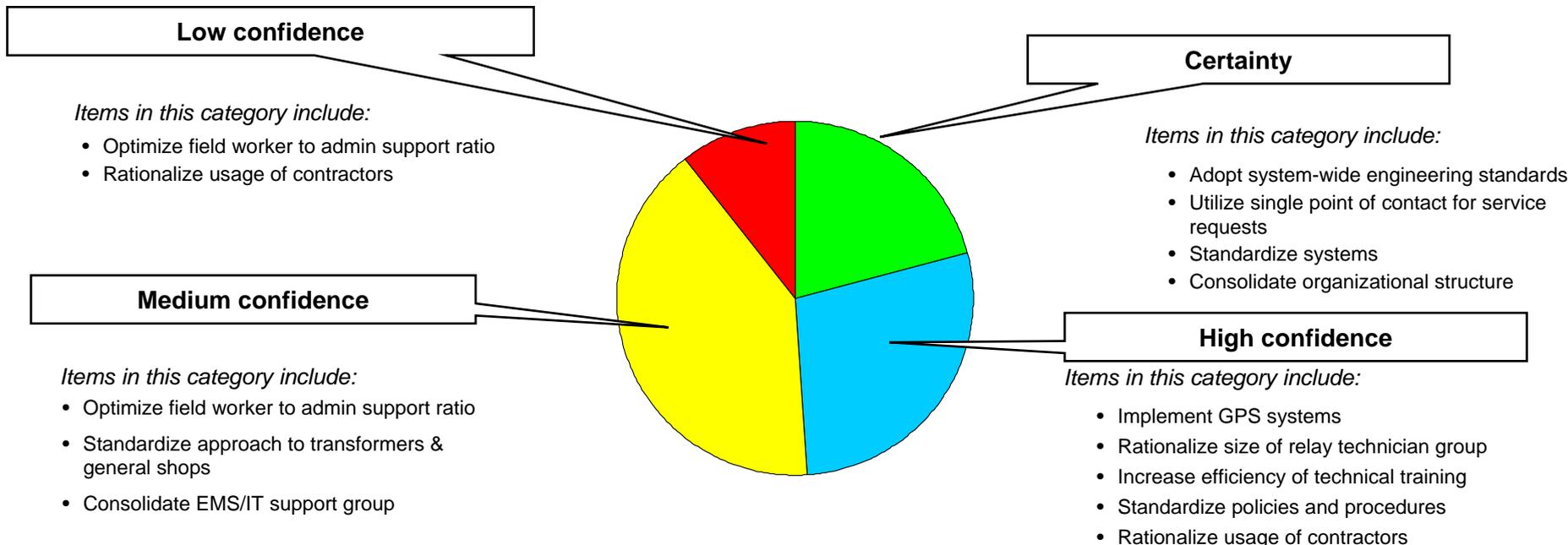
Confidence Levels	Probability to Achieve		FTEs	O&M Savings (\$M)		
				Labor Savings	Non-Labor Savings	Total
Certainty		100%	0	0.0	0.0	0.0
High Level of Confidence		75-100%	22 - 29	1.8 - 2.4	6.3 - 8.3	8.1 - 10.8
Medium Level of Confidence		50-75%	25 - 38	1.4 - 2.1	1.4 - 2.1	2.8 - 4.2
Low Level of Confidence		0-50%	0 - 16	0 - 1.6	0 - 0	0 - 1.6
TOTAL			47 - 82	3.2 - 6.2	7.6 - 10.4	10.9 - 16.6

Gas Operations: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: asset management, control centers 	
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Standardize level of detail for design/mapping work ◆ Adopt common approach to first response (crew size, process) ◆ Explore competitive pricing for new and replacement main services, DigSafe, cast iron monitoring ◆ Improve field performance by increasing supervisor time spent in field ◆ Optimize equipment management (right sizing, utilization of excess resources, inventory centralization) 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Standardize on material specifications to increase purchasing leverage (e.g., pipe, meters, vehicles, etc.) ◆ Rationalize contractor usage to reduce unit costs and increase service levels 	<ul style="list-style-type: none"> ◆ Vendor: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Adopt common systems (e.g., GIS, work management, SCADA) ◆ Implement KeySpan’s leak tracking system at National Grid ◆ Roll out GPS/AVLS 	

Electric Transmission and Distribution: Confidence Levels

Potential O&M Savings



Confidence Levels	Probability to Achieve	FTEs	O&M Savings (\$M)		
			Labor Savings	Non-Labor Savings	Total
Certainty	 100%	14	2.3	1.1	3.4
High Level of Confidence	 75 – 100%	19 - 25	0.9 - 1.2	2.6 - 3.4	3.5 - 4.6
Medium Level of Confidence	 50 – 75%	47 - 70	3.1 - 4.6	0.3 - 0.5	3.4 - 5.1
Low Level of Confidence	 0 – 50%	0 - 8	0 - 0.5	0 - 0.4	0 - 0.9
TOTAL		79 - 117	6.3 - 8.7	4 - 5.4	10.3 - 14.1

Electric Transmission and Distribution: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: control centers, dispatch centers, EMS/IT support 	
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Adopt system-wide engineering standards ◆ Utilize single point of contact for service requests ◆ Rationalize size of relay technician group ◆ Standardize approach to transformers & general shops ◆ Optimize the field worker to admin support ratio ◆ Increase efficiency of technical training 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Standardize on material specifications to increase purchasing leverage (e.g., transformers, wire, vehicles) ◆ Rationalize contractor usage to reduce unit costs and increase service levels (e.g., tree trimming) 	<ul style="list-style-type: none"> ◆ Vendors: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Implement Distribution Automation (DA) system at National Grid to improve reliability ◆ Implement GPS at KeySpan ◆ Standardize systems (e.g., GIS/design, work management, contractor invoicing) 	<ul style="list-style-type: none"> ◆ Collective bargaining

Shared Services: Confidence Levels

Potential O&M Savings

Medium Confidence

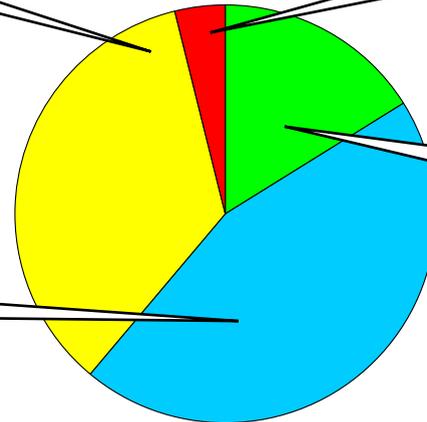
Items in this category include:

- Standardize training programs
- Optimize use of in-house/outside resources
- Consolidate facilities - warehouses
- Leverage volume and material standardization

High Confidence

Items in this category include:

- Consolidate facilities - office sites
- Leverage volume and material standardization



Low Confidence

Items in this category include:

- Reduce size of required fleet
- Standardize systems: A/P

Certainty

Items in this category include:

- Consolidate and centralize functions - procurement, fleet management, safety and health, real estate and property
- Standardize systems - procurement

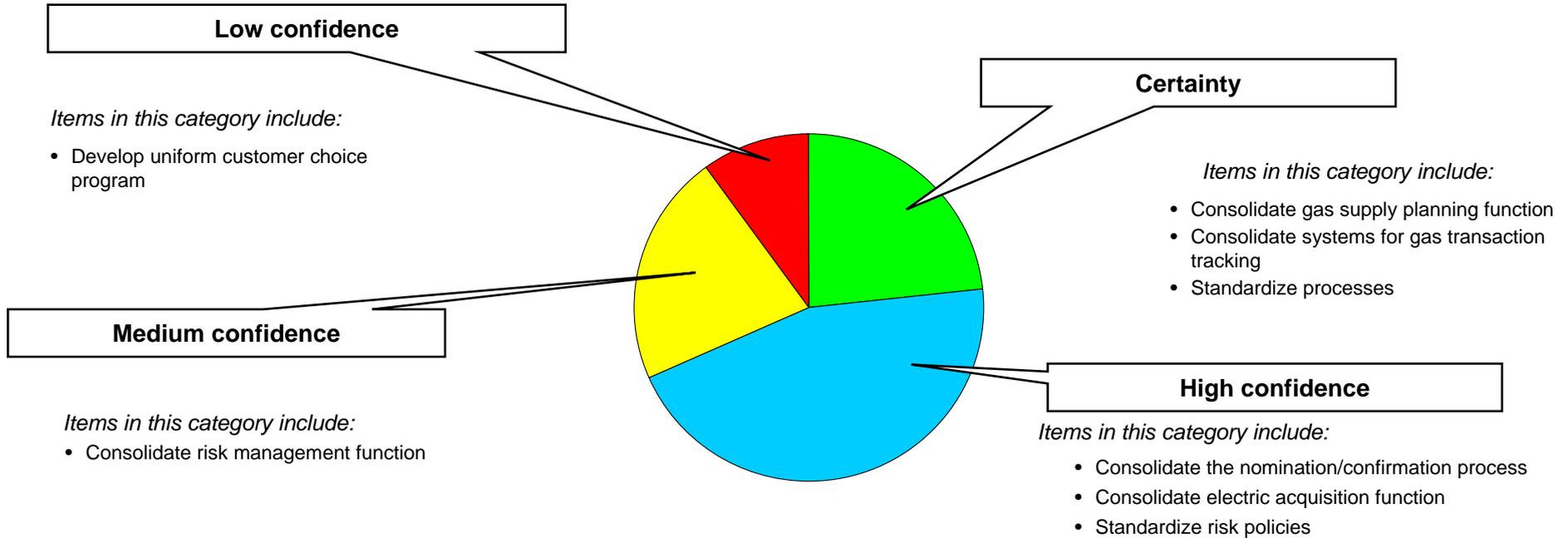
Confidence Levels	Probability to Achieve		FTE	O&M Savings (\$M)		
				Labor Savings	Non-Labor Savings	Total
Certainty		100%	96	8.7	1.6	10.3
High Level of Confidence		75 - 100%	67 - 89	4.7 - 6.3	16.4 - 21.8	21.1 - 28.1
Medium Level of Confidence		50 - 75%	8 - 11	0.4 - 0.5	10.7 - 16.1	11.1 - 16.6
Low Level of Confidence		0 - 50%	0 - 1	0 - 0.1	0 - 1	0 - 1.1
TOTAL Unadjusted			170 - 197	13.8 - 15.6	28.7 - 40.5	42.4 - 56.1

Shared Services: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate and centralize functions: procurement, facility management, fleet management, inventory management, accounts payable, technical training, real estate and property, safety and health, business systems support services ◆ Consolidate facilities (e.g., office sites, data centers, warehouses, training centers) 	<ul style="list-style-type: none"> ◆ Collective bargaining ◆ Vendor: lease contracts
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Fleet: reduce size of required fleet, standardize fleet auction process, standardize company-supplied vehicle policy ◆ Inventory: Adopt MMT process to reduce inventory ◆ Training: standardize training programs ◆ Optimize use of in-house/outside resources 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Leverage volume and material standardization to reduce unit costs of purchased materials and services (e.g., direct gas and electric materials, SIR contractors, security technology, etc.) 	<ul style="list-style-type: none"> ◆ Collective bargaining
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Standardize systems: procurement, AP Systems ◆ Utilize best technologies: e-Invoicing from KeySpan, Inventory management from National Grid 	

Generation and Energy Supply: Confidence Levels

Potential O&M Savings



Confidence Levels	Probability to Achieve		FTEs	O&M Savings (\$M)		
				Labor Savings	Non-Labor Savings	Total
Certainty		100%	2	0.2	0.0	0.2
High Level of Confidence		75 – 100%	3 - 4	0.4 - 0.5	0 - 0	0.4 - 0.5
Medium Level of Confidence		50 – 75%	1 - 1	0.1 - 0.2	0 - 0	0.1 - 0.2
Low Level of Confidence		0 – 50%	0 - 1	0 - 0.1	0 - 0	0 - 0.1
TOTAL			6 - 7	0.7 - 0.9	0 - 0	0.7 - 0.9

Generation and Energy Supply: Major Recommendations

Savings Strategies	Team Recommendations	Dependencies
<p>Organizational Consolidation and Redesign</p> <ul style="list-style-type: none"> – Eliminate overlaps between company functions – Streamline management structure 	<ul style="list-style-type: none"> ◆ Consolidate functions: electric supply acquisition and planning, gas supply planning, risk management, customer choice program management (nomination/confirmation process), gas transactions & portfolio optimization 	
<p>Business Process and Practice improvement</p> <ul style="list-style-type: none"> – Incorporate best practices – Streamline processes – Utilize increased scale 	<ul style="list-style-type: none"> ◆ Standardize tracking, reporting and billing processes ◆ In-source all portfolio optimization to create revenue opportunity ◆ Develop uniform customer choice program ◆ Standardize risk policies 	
<p>Vendor Consolidation and Rationalization</p> <ul style="list-style-type: none"> – Eliminate duplicate vendors – Reduce unit costs – Improve utilization 	<ul style="list-style-type: none"> ◆ Rationalize spend on services and subscriptions (e.g., send out, weather services) 	<ul style="list-style-type: none"> ◆ Vendor: contracts
<p>Technology consolidation and implementation</p> <ul style="list-style-type: none"> – Migrate to common applications – Adopt efficiency improving solutions 	<ul style="list-style-type: none"> ◆ Consolidate systems for gas transaction tracking, customer choice, ISO bid management and billing 	