STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

CASE 06-M-0878 - Joint Petition of National Grid PLC and KeySpan Corporation for Approval of Stock Acquisition and other Regulatory Authorizations.

CASE 06-G-1185 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York for Gas Service.

CASE 06-G-1186 - Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island for Gas Service.

MERGER & GAS REVENUE REQUIREMENT JOINT PROPOSAL

By:

KeySpan Corporation
The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York
KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island
National Grid plc
Niagara Mohawk Power Corporation
Staff of the New York State Department of Public Service
New York State Consumer Protection Board
City of New York
Public Utility Law Project
International Brotherhood of Electrical Workers, Locals 97,
And the Other Parties Executing Signature Pages

Dated: July 6, 2007

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MERGER & GAS REVENUE REQUIREMENT
JOINT PROPOSAL

This Merger & Gas Revenue Requirement Joint Proposal ("Joint Proposal") is made as of the 6th day of July, 2007 by and among KeySpan Corporation (KeySpan), The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York (KEDNY), KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island (KEDLI), National Grid plc (National Grid), Niagara Mohawk Power Corporation (Niagara Mohawk), the Staff of the New York State Department of Public Service (Staff), the New York State Consumer Protection Board, the City of New York, the Public Utility Law Project, the International Brotherhood of Electrical Workers Local 97, and the other parties executing signature pages (collectively referred to herein as "the Signatory Parties"). To the extent that a Signatory Party is not supportive of a particular provision of the Joint Proposal, they have noted that on their signature page(s).

I. PROCEDURAL BACKGROUND

On July 20, 2006, National Grid and KeySpan filed with the New York State Public Service Commission (Commission) a joint petition for approval of a proposed acquisition of the stock of KeySpan by National Grid and other regulatory approvals (Merger Filing). Case 06-M-0878 was instituted to provide a process for the Commission to consider the petition. The Merger Filing was later updated.

On October 3, 2006, KEDNY filed with the Commission revised tariff leaves intended to increase revenues from gas operations by approximately $213 million for the 12 month period ending March 31, 2008 (KEDNY Rate Filing). The Commission instituted Case 06-G-1185 to consider the KEDNY Rate Filing. The KEDNY Rate Filing was later updated. The revised tariff leaves are currently suspended.

On October 3, 2006, KEDLI filed with the Commission revised tariff leaves intended to increase revenues from gas operations by approximately $159 million for the 12 month period ending March 31, 2008 (KEDLI Rate Filing). The Commission instituted Case 06-G-1186 to consider the KEDLI Rate Filing. The KEDLI Rate Filing was later updated. The revised tariff leaves are currently suspended.

All three of the above-mentioned cases are being considered on a common evidentiary record.

On November 9, 2006, the Commission issued an order regarding the Merger Filing adopting a negative declaration pursuant to the State Environmental Quality Review Act. Accordingly, no environmental impact statement will be prepared regarding the proposed merger.

On May 31, 2007, a Joint Proposal for Interim Energy Efficiency Programs was executed by many of the parties to these proceedings and was filed with the Commission.

On May 11, 2007, many of the parties to these proceedings announced that they had reached an agreement in principle on most terms of three-year "stand-alone" (absent a merger) rate plans for KEDNY and KEDLI (the "Stand-Alone Rate Plans"). As of yet, a joint proposal setting forth in detail the terms for which agreement in principle was reached has not been executed.

II. OVERVIEW

This Joint Proposal arises within the merger proceeding in Case 06-M-0878 and the rate proceedings of KEDNY and KEDLI in Cases 06-G-1185 and 06-G-1186. A Notice of Impending Negotiations was sent to all persons reasonably known to have an interest in the outcome of negotiations and was duly filed with the Secretary by letter dated November 28, 2006. After notice to the parties, settlement conferences were held among the parties that desired to participate. Settlement is now feasible because, after thorough investigation and discussion, the Signatory Parties hereto more fully understand their respective positions and recognize that reasonable settlement of the discrete issues addressed herein is possible. The Signatory Parties hereto also believe that this Joint Proposal will further the objective of giving fair consideration to the interests of customers and utility investors alike in assuring the provision of safe and adequate service at just and reasonable rates.

Regarding the proposed merger, this Joint Proposal provides the framework under which the Signatory Parties can recommend that the acquisition of KeySpan by National

Grid could be approved as being in the public interest. It provides safeguards regarding corporate structure and rules for affiliate transactions. It provides protections to preserve the financial integrity of the affected companies and to help ensure access to capital by the utility affiliates on reasonable credit terms. It includes provisions to address concerns about vertical market power by providing for divestiture and/or long-term contracting arrangements and other safeguards to ensure that transmission system assets are not managed in a manner that favors generation assets owned by affiliates to the detriment of ratepayers.

If the merger is consummated, this Joint Proposal provides for five-year revenue requirement rate plans that provide significant economic benefits to KEDNY's and KEDLI's customers, and provides for an allocation of merger synergy savings to Niagara Mohawk customers.

This Joint Proposal does not address a number of issues in the rate proceedings of KEDNY and KEDLI in Cases 06-G-1185 and 06-G-1186 ("Reserved Issues"). It is the intent of the Signatory Parties that the Reserved Issues will be addressed either (a) in the intended joint proposal to Cases in Cases 06-G-1185 and 06-G-1186 setting forth in detail the terms for which agreement in principle was reached on May 11, 2007; or (b) in "collaboratives" to be undertaken by the parties to Cases 06-G-1185 and 06-G-1186 regarding: (i) energy efficiency program design (the energy efficiency collaborative will proceed in general accordance with the Joint Proposal for Interim Energy Efficiency Programs filed with the Commission on March 31, 2007); and (ii) rate design/revenue decoupling/and low income revenue allocation; or (c) through litigation at the evidentiary hearings currently scheduled in Cases 06-G-1185 and 06-G-1186 for October 2007. Such Reserved Issues in the rate proceedings of KEDNY and KEDLI in Cases 06-G-1185 and 06-G-1186 not addressed in this Joint Proposal include, among other matters:

(a) three-year "stand-alone" rate plans for KEDNY and KEDLI (if the merger is not consummated);

(b) site investigation & remediation (SIR) costs for the remediation of manufactured gas plant (MGP) sites, potential incentive programs related thereto, and the potential recovery from electric customers of an allocation of KEDLI SIR costs with the understanding that if the costs are not recovered from electric customers they will be recovered from KEDLI's customers;

(c) long-term energy efficiency program design, performance targets, and budgets funded by a surcharge to supersede the Interim Energy Efficiency

Program proposed in the May 31, 2007 Joint Proposal filed in Cases 06-G-1185 and 06-G-1186;

(d) revenue decoupling;

(e) institution of a low income rate program for KEDLI customers;

(f) revenue allocation and rate design, including but not limited to general rate design changes, further development of the low income rate programs at KEDNY and KEDLI, on-track and business incentive rate ("BIR") programs;

(g) retail access programs and rate unbundling;

(h) safety and reliability performance requirements and incentives (with the last year's values continued without change until the next rate filing);

(i) customer service quality performance requirements and incentives (with the last year's values continued without change until the next rate filing);

(j) lost and unaccounted for gas;

In addition to the above, the following issues associated with the merger are not addressed in this Joint Proposal. These issues (Merger Reserved Issues) will be addressed in a second phase of this proceeding. The Merger Reserved Issues are the following:

(a) policies, procedures, and agreements for transactions among affiliates in compliance with the provisions of Appendix 4; and

(b) transfer of gas contracts to Service Company affiliate.

III. DEFINITIONS

"Ravenswood Station" means the total electric production facilities owned and/or leased by KeySpan-Ravenswood, LLC at its Queens, New York site in the New York Independent System Operator's (NYISO's) Zone J. The Ravenswood Station includes: the approximately 2,200 MW facility purchased from Consolidated Edison Company of New York, Inc. (Con Edison) in June 1999; the 250-MW co-generation facility KeySpan-Ravenswood, LLC constructed at the same site; and any expansion in production facilities in Zone J from repowering or other means that will be owned and/or leased by KeySpan-Ravenswood, LLC (or any affiliate) or that the revenues from which will in any way redound to KeySpan-Ravenswood, LLC (or any affiliate).

"Zone J" means the New York City geographical area designated by the New York Independent System Operator (NYISO) as "Zone J," currently defined by electrical transmission interfaces by the NYISO in its Transmission Services Manual.

"Rate Year One" means January 1, 2008 through December 31, 2008.

"Rate Year Two" means January 1, 2009 through December 31, 2009.

"Rate Year Three" means January 1, 2010 through December 31, 2010.

"Rate Year Four" means January 1, 2011 through December 31, 2011.

"Rate Year Five" means January 1, 2012 through December 31, 2012.

"Stayout" means that the level of rates established pursuant to this Joint Proposal and the other provisions of this Joint Proposal remain effective by default, without change or reaffirmation except as stated in this Joint Proposal, beyond the last day of Rate Year Five.

"Rate Period" means Rate Year One through Rate Year Five, plus any Stayout period.

IV. GENERAL PROVISIONS

1. It is understood that each provision of this Joint Proposal is in consideration and support of all of the other provisions of this Joint Proposal and is expressly conditioned upon approval of the terms of this Joint Proposal in full by the Commission. If the Commission fails to adopt the terms of this Joint Proposal, the parties to the Joint Proposal shall be free to pursue their respective positions in these proceedings without prejudice.

2. With the exception of any agreements that may pertain to the Reserved Issues identified above, this Joint Proposal contains the entire agreement of the Signatory Parties regarding the matters contained herein and supersedes and replaces any and all prior or contemporaneous written and verbal agreements or understandings.

3. The Signatory Parties, , have agreed upon the testimony and exhibits that should be admitted into evidence to constitute the evidentiary record in these proceedings that supports this Joint Proposal, the results of which is set forth in "Appendix 1" attached hereto and made a part of this Joint Proposal.

4. The Signatory Parties believe that the record in this proceeding fully justifies the approval of the terms of this Joint Proposal. It is the intent of the Signatory Parties that the provisions of this Joint Proposal will be approved by the Commission as being in the public interest. The Signatory Parties agree to submit this Joint Proposal to the Commission along with

a request that the Commission adopt the terms and provisions of this Joint Proposal as set forth herein.

5. The Signatory Parties agree that KEDNY and KEDLI will file tariffs in a manner consistent with the terms of this Joint Proposal.

6. Nothing in this Joint Proposal shall prohibit the Commission (upon its own motion or upon motion of an interested party) from exercising its ongoing statutory authority to act on the level of KEDNY's gas rates in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to KEDNY's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service. Nothing in this Joint Proposal shall prohibit the Commission (upon its own motion or upon motion of an interested party) from exercising its ongoing statutory authority to act on the level of KEDLI's gas rates in the event of unforeseen circumstances that, in the Commission's judgment, have such a substantial impact on the rate of return as to render the return on the common equity devoted to KEDLI's gas operations unreasonable, unnecessary, or inadequate for the provision of safe and adequate service.

7. Nothing in this Joint Proposal shall prohibit KEDNY or KEDLI from implementing changes to rates or charges, in a manner to be determined by the Commission, as may be required by newly-enacted legislation or regulations.

8. The Signatory Parties recognize that certain provisions of this Joint Proposal contemplate actions to be taken in the future to effectuate fully this Joint Proposal. Accordingly, the Signatory Parties agree to cooperate with each other in good faith in taking such actions.

9. In the event of any disagreement over the interpretation of this Joint Proposal or implementation of any of the provisions of this Joint Proposal, which cannot be resolved informally among the Signatory Parties, such disagreement shall be resolved in the following manner: (a) the Signatory Parties shall promptly convene a conference and in good faith attempt to resolve any such disagreement; and (b) if any such disagreement cannot be resolved by the Signatory Parties, any Signatory Party may petition the Commission for resolution of the disputed matter.

10. This Joint Proposal is being executed in counterpart originals, and shall be binding on all of the Signatory Parties when the counterparts have been executed.

11. This Joint Proposal represents a negotiated agreement and the terms and provisions of this Joint Proposal apply solely to, and are binding on each Signatory Party only in, the context of these proceedings. None of the positions taken herein by any Signatory Party, including agreement to the terms and provisions of this Joint Proposal and any methodology or principle utilized herein, may be cited or relied upon in any fashion as precedent in any other proceeding before this Commission or before any other regulatory agency or any court of law for any purpose, except in furtherance of ensuring the effectuation of the purposes and results of this Joint Proposal.

12. If the merger is consummated, the rate plans provided for in this Joint Proposal shall commence on the first day of January, 2008 (the first day of Rate Year One) and shall continue through the last day of Rate Year Five, plus any Stayout period. All of the provisions of this Joint Proposal regarding required services and programs will continue beyond Rate Year Five on a year-to-year basis until modified by the Commission. Unless otherwise specified herein, any targets, goals, deferral thresholds or other similar items set forth in this Joint Proposal will continue beyond Rate Year Five on a year-to-year basis at the level set forth herein for Rate Year Five until modified by the Commission.

V. MERGER

Conditioned on the terms included in this Joint Proposal, the Signatory Parties recommend the following findings, consents, and approvals associated with the proposed merger between National Grid and KeySpan:

(a) The merger of KeySpan Corporation, a holding company owning directly or indirectly the common stock of KEDNY and KEDLI, which are natural gas corporations, and the common stock of KeySpan Generation LLC, KeySpan-Ravenswood LLC, KeySpan-Port Jefferson Energy Center, LLC, and KeySpan-Glenwood Energy Center, LLC, which are electric corporations, into a subsidiary of National Grid plc is consistent with the public interest and is approved under Section 70 of the Public Service Law.

(b) The merger of KeySpan Corporation, a holding company owning directly or indirectly the common stock of KeySpan Communications Corporation, which is a telephone corporation, into National Grid plc or its subsidiary is consistent with the public interest and is approved under Sections 99 and 100 of the Public Service Law.

(c) Effective on the closing of the merger, KEDNY and KEDLI may adopt fiscal years ending March 31, consistent with the National Grid companies.

VI. CORPORATE STRUCTURE AND AFFILIATE RULES

Effective on the closing of the merger, National Grid will implement the Corporate Structure and Affiliate Rules set forth in "Appendix 4" attached hereto and made a part of this Joint Proposal. Such Corporate Structure and Affiliate Rules will continue in effect unless and until such time as the Commission authorizes an express change.

The Corporate Structure and Affiliate Rules authorize National Grid and KeySpan to consolidate their service companies and to adopt the general allocation approach now in place for the KeySpan service companies. That consolidation will occur when the other required regulatory approvals are received and the required accounting systems are in place. At that time, National Grid shall also file with the Director of Accounting, Finance and Economics revised policies, procedures, and agreements for transactions among affiliates in compliance with the provisions of Appendix 4 for KEDNY, KEDLI, and Niagara Mohawk Power Corporation ("Niagara Mohawk"). That filing shall be treated as a Merger Reserved Issue under this Joint Proposal. Any disagreement associated with the filing shall be referred to the Commission for decision.

In the interim, the National Grid Service Company shall execute agreements with the KeySpan operating companies to provide services after the Merger under its approved allocation methods, and the KeySpan service companies shall execute agreements with the National Grid operating companies to provide services after the Merger under their approved allocation methods. These agreements will be filed with the Commission pursuant to Section 110 of the Public Service Law.

VII. FINANCIAL PROTECTIONS

Effective on the closing of the merger, National Grid will implement the financial protections for KEDNY and KEDLI set forth in "Appendix 5" attached hereto and made a part of this Joint Proposal. Such financial protections will continue in effect unless and until such time as the Commission authorizes an expressed change.

VIII. TREATMENT OF GENERATION & TRANSMISSION ASSETS

A. Ravenswood Station

If the merger is consummated, National Grid agrees to the following general principles regarding vertical market power and its ownership of the Ravenswood Station:

(a) National Grid agrees to the goal of divesting the Ravenswood Station in the manner described below;

(b) National Grid agrees that in the period prior to divestiture of the Ravenswood Station, it shall take steps described below to assure that it is financially indifferent to the price of energy in Zone J with respect to the output of the Ravenswood Station;

(c) National Grid will plan and operate its transmission system without regard to the financial impacts that such actions may have on the profitability of the Ravenswood Station; and

(d) National Grid's ownership of the Ravenswood Station will not alter National Grid's commitment to propose and build regulated transmission lines that are needed to provide reliability or economic benefits to customers in New York State.

To implement the above-stated general principles if the merger is consummated, National Grid agrees that:

(1) By January 1, 2008, National Grid will enter into a single forward financial sale contract for all the energy output from the entire Ravenswood Station for up to a three-year term. The contract will be subject to review by Staff to assure that the contract complies with the intent of this Joint Proposal, and does not create any new or unanticipated market power concerns. Any dispute between Staff and National Grid regarding the contract will be submitted to the Commission for resolution.

(2) No less than fourteen months prior to the end of the term of the financial sale described in "(1)" above, National Grid will issue an offering document requesting bids for the purchase of the Ravenswood Station. If National Grid wishes, it may also simultaneously issue an offering document requesting bids for an alternative backstop long-term bilateral physical or financial contract (minimum 15 years) for all the products of the entire Ravenswood Station. If the Federal Energy Regulatory Commission (FERC) does not allow a long-term bilateral physical contract for <u>all</u> the products of the entire Ravenswood Station, the long-term bilateral physical contract alternative shall not be pursued. If FERC does not allow a long-term bilateral financial contract for <u>all</u> the products of the entire Ravenswood Station, the long-term bilateral financial contract alternative shall not be pursued. The Signatory Parties recognize that under current FERC

rules and the NYISO Tariff approval of bilateral financial contracts is not required.

(3) No less than six months prior to the end of the term of the financial sale described in "(1)" above, National Grid will file with the Commission:

(a) a petition under Section 70 of the Public Service Law seeking approval to sell the Ravenswood Station to a counterparty that does not own any electric transmission facilities in New York State or any generation capacity in Zone J previously divested by Consolidated Edison (other than NYPA), with the understanding that such a sale would be subject to approval by the Commission and FERC on conditions that are reasonably acceptable to National Grid and to the purchaser, it being the expectation of the Signatory Parties that the Commission's review of any such Section 70 Petition would be based on substantially the same standards and criteria as have been applied by the Commission in reviewing the sale of other generating stations divested by Consolidated Edison operating in the New York City market; or

(b) a petition seeking approval for an alternative backstop long-term bilateral physical or financial contract (minimum 15 years) for <u>all</u> of the products of the entire Ravenswood Station, which petition will be subject to approval by the Commission to assure that such contract complies with the intent of this Joint Proposal, and does not create any new or unanticipated market power concerns; or

(c) a statement that National Grid has not accepted a proposal for either a divestiture or a long-term contract and, therefore, commencing at the end of the term of the financial sale described in "(1)", above, the revenues from all of the products of the entire Ravenswood Station (subject to the FERC qualifying provisions in "(2)" above) that exceed the cost of service, including an allowed return on investment set by the Commission, will be transferred by National Grid and applied to the benefit of electric ratepayers in Zone J in a manner to be determined by the Commission.

(4) In the event that National Grid makes either of the petitions described in "3(a)" or "3(b)" above, but the Commission rejects the petition or imposes conditions that are unacceptable to the purchaser or counterparty, National Grid will have a one-time right to enter into a second contract for the sale of energy pursuant to "(1)" above, but only for a period of one year, during which time National Grid will repeat the process described in "(2)" and "(3)" above, except that the fourteen-month period provided for in "(2)" above will be reduced to eleven months.

(5) In the event that National Grid makes a second petition described in "3(a)" or "3(b)" above, by exercising its rights in "(4)" above, but the Commission rejects the petition or imposes conditions that are unacceptable to the purchaser or

counterparty for reasons that do not reflect substantially the same standards and criteria as have been applied by the Commission in reviewing the sale of other generating stations divested by Consolidated Edison operating in the New York City market, National Grid, Staff and any interested party that wishes to attend will meet and determine whether there are additional options that could be considered in lieu of a cost-of-service approach.

(6) The revenues from all of the products of the entire Ravenswood Station that exceed the cost of service, including an allowed return on investment set by the Commission, will be transferred by National Grid and applied to the benefit of electric ratepayers in Zone J in a manner to be determined by the Commission:

(a) commencing January 1, 2008 if National Grid does not make an approved financial sale described in "(1)" above by January 1, 2008;

(b) commencing upon the expiration of any approved financial sale described in "(1)" or second financial sale described in "(4)" above unless replaced by divestiture or an alternative backstop long-term bilateral physical or financial contract (minimum 15 years) for <u>all</u> of the products of the entire Ravenswood Station; and

(c) commencing upon the expiration of any alternative backstop long-term bilateral physical or financial contract unless replaced by divestiture or another alternative backstop long-term bilateral physical or financial contract (minimum 15 years) for <u>all</u> of the products of the entire Ravenswood Station.

(7) In the event the revenues from all of the products of the entire Ravenswood Station that exceed the cost of service, including an allowed return on investment set by the Commission, will be transferred by National Grid and applied to the benefit of electric ratepayers in Zone J in a manner to be determined by the Commission, the following shall apply:

(a) The cost of service associated with the Ravenswood Station will be set by the Commission from time to time in the same substantive manner as the Commission used when it set electric rates that included regulated costs for electric generation with an equity return calculated using the average of the Implied Return on the Standard & Poor's 500 and the Requied Return on the Standard & Poor's 500 as published in Merrill Lynch Quantitative Profiles. .

(b) Staff will have free access to all the books and records of National Grid and its affiliates that relate to the Ravenswood Station.

(c) The rate base for the cost of service will be based on KeySpan's purchase price for the Ravenswood Station, together with any reasonable investments made by KeySpan in the Ravenswood Station since its acquisition of the plant, including the cost of construction of KeySpan's new combined cycle plant, less retirements and depreciation assuming that the Ravenswood combined cycle Unit 40 was financed in a manner that would be on- balance sheet rather than financed off-balance sheet through a sale-lease-back transaction.

(d) The mechanism described above for calculating the cost of service associated with the Ravenswood Station, and the transfer for the benefit of electric rate payers in Zone J of revenues that exceed the cost of service, is not an establishment of "cost of service regulation" and provides no recourse for obtaining any revenues for electric ratepayers in Zone J.

(e) During the period that revenues in excess of the cost of service are directed to Zone J electric ratepayers as provided in this subsection, National Grid will implement the following bidding protocols:

i. Capacity will be bid at zero;
ii. Energy will be bid at the lower of marginal costs or the NYISO reference price for the unit;
iii. Ancillary services will be bid at the lower of marginal costs or the otherwise applicable bid or price cap for the unit.

(8) National Grid will provide Staff with draft and final documents related to and will apprise Staff from time to time of the progress of all offerings described above (all activities in "(2)" above). National Grid will retain all offers and other communications from bidders and other potential counterparties for a minimum of one year after National Grid's filing for approval of any divestiture or alternative backstop long-term bilateral physical or financial contract (minimum 15 years) for <u>all</u> of the products of the entire Ravenswood Station.

B. Other Commitments

1. For the period prior to the divestiture of Ravenswood Station in accordance with Section 3(a) or the implementation of the alternative long-terms bilateral physical or financial contract pursuant to Section 3(b):

(a) National Grid agrees to continue to examine the necessity and practicality of building regulated transmission projects. Additionally, National Grid in collaboration with Con Edison, will perform, or agree to perform, a feasibility study and stands ready to enter into good faith negotiations with Con Edison and other interested parties to determine fair and reasonable recovery and allocation of costs if either or both utilities propose the New Scotland to Pleasant Valley Reconstruction and Sprainbrook to Rainey 345 kV transmission project.

(b) National Grid will continue to vote in the transmission segment in the NYISO stakeholder process, and will vote on market rules in a manner designed to further the interests of its electric transmission and distribution customers.

(c) National Grid agrees to complete within 180 days of the closing of the KeySpan merger, a repowering study of the Ravenswood Generating Station, particularly investigating the feasibility of retiring Units 10 and 20, which have a total of 750 MWs of steam generating capacity, and replacing them with new combined cycle generation having equivalent or greater capacity.

(d) Immediately after closing of the merger, National Grid will be willing to enter into good faith negotiations with Consolidated Edison Company of New York, Inc. (Con Edison) to the end of supplying Con Edison with a source of economical steam for resale to its steam customers and enabling Con Edison to retire the "A" House steam plant located at the Ravenswood site.

2. Unless modified by the Commission:

(a) National Grid will not own or develop additional generation facilities in New York State unless specifically requested by LIPA or NYPA under a long term contract, or unless such ownership or development occurs as a result of repowering its existing generation facilities.

(b) National Grid will not execute any new financial swaps (forward purchases of capacity) of any amount in Zone J. Financial sales of capacity equal to no more than the total available capacity at the Ravenswood Station will be allowed.

(c) National Grid will continue to be bound by the Commission's vertical market power guidelines in any follow-on transactions in New York State. If at any time it appears that any generation facilities currently under long term contract to NYPA or LIPA will no longer be under long term contract to NYPA or LIPA due to contract expiration or otherwise, National Grid will prepare and file with the Commission an analysis demonstrating how its continued ownership of such generation facilities conforms or does not conform with the Commission's vertical market power guidelines, and if necessary, identifying conditions under which such ownership could conform.

(d) KeySpan (pre-closing) and National Grid (post-closing) agree that they each will respectively work cooperatively and in good faith with the City of New York and other parties to resolve expeditiously issues pending at the Federal Energy Regulatory Commission surrounding the capacity (UCAP) market in New York City (NYISO Zone J).

IX. KEDNY RATE PLAN

A. Overall Revenue Requirement

If the merger is consummated, the Signatory Parties have agreed upon expense and revenue adjustments to the KEDNY Rate Filing to be allowed as the basis for calculating revenue requirement, and a calculation of KEDNY revenue requirement to be allowed as the basis for setting rates, the results of which are set forth in "Appendix 2" attached hereto and made a part of this Joint Proposal. The calculation of revenue requirement indicates no increase in base KEDNY Gas Delivery Service Rates for Rate Year One, Rate Year Two, Rate Year Three, Rate Year Four or Rate Year Five. The calculation of revenue requirement, based on estimated gas costs, indicates an increase in costs in the gas adjustment clause (GAC) of $26.7 million for Rate Year One, with no additional increases, other than minor inflationary increases (approximately $300,000 per year) on costs transferred to the GAC as part of rate unbundling, indicated for Rate Year Two, Rate Year Three, Rate Year Four or Rate Year Five. Commodity-related uncollectible expense, purchased gas working capital and return on gas in storage will be assigned fixed factors and will reconcile to actual gas costs. In addition, one hundred percent of net savings (savings less cost to achieve) KEDNY attains in its combined gas resource portfolio as a result of the merger will flow to KEDNY gas commodity customers through the GAC. KEDNY Gas Delivery Service revenue requirement will remain frozen at the levels reflected in Appendix 2 through the five rate years and thereafter through the end of the Rate Period of this Joint Proposal, without adjustment up or down, except as specifically set forth in this Joint Proposal. Except as otherwise provided in this Joint Proposal, KEDNY will not file new tariff leaves for existing services designed to produce additional annual revenues to become effective prior to January 1, 2013. KEDNY shall be allowed to file tariffs for new services.

B. Merger Synergy Savings and Costs to Achieve

The calculation of revenue requirement in Section IX.A reflects the flow through of 50 percent of the net synergy savings allocable to KEDNY as a share of $156 million of estimated annual mature synergy savings on the KeySpan and National Grid systems over the first five years of the merger, which excludes efficiency gains that could occur without the merger and gas commodity savings which will flow to ratepayers through the various gas adjustment clauses. 100 percent of efficiency gains applicable to KEDNY have been reflected directly. Following the termination of the Rate Period, KEDNY's cost of service will be based on its costs, which will reflect 100 percent of KEDNY's share of any synergy savings from the merger.

The net synergy savings also reflect the flow through of the costs to achieve these synergy savings allocable to KEDNY as a share of the levelization of $398 million in costs to achieve based on an approach using a 7.58 percent return. This synergy savings amount excludes executive benefits, capitalized information technology costs, and the costs to achieve associated with efficiency gains. KEDNY shall be authorized to include the annual amortizations of its allocation of the $398 million of costs to achieve in years six through ten in the event that it adjusts its base delivery rates in those years. Individual components of the $398 million costs to achieve, the annual gross synergy savings over the first five years of the rate plan and the allocation factor used to develop KEDNY's share of the net synergy savings are included in Appendix 6 attached hereto and made a part of this Joint Proposal. KEDNY shall also record separately its costs to achieve associated with the National Grid/KeySpan merger in a separate work order, and exclude any of these costs to achieve other than the agreed upon allowance from its future cost of service filings.

C. Adjustability

No adjustments, reconciliations or deferrals shall be allowed during the Rate Period except as set forth in this Joint Proposal, as determined in another phase of these proceedings, or as authorized by the Commission.

For each rate year, KEDNY will reconcile the following costs recovered in base KEDNY Gas Delivery Service Rates to the levels set forth below. All deferred amounts will be reflected in the existing KEDNY Balancing Account and recovered from customers or credited to customers after the expiration of the KEDNY Rate Period in a manner to be determined by the Commission.

1. <u>Pensions and Other Post Employment Benefits ("OPEB")</u>

On the first day of Rate Year One, KEDNY will return to the Commission's Statement of Policy for Pensions and OPEBs, issued September 7, 1993 in Case 91-M-0980, and will reconcile its actual pension and OPEB expense to the Estimated Pension and OPEB Expense shown below (millions). Fair value adjustments to the Pension and OPEB plans made in connection with the merger shall be amortized over ten years in accordance with the Statement of Policy and reflected in the reconciliation of actual pension and OPEB expense to the Estimated Pension and OPEB Expense. Settlement and curtailment costs from merger-related programs for KEDNY, which are included in costs to achieve, shall be excluded from the pension and OPEB reconciliation. In addition to the reconciliation, KEDNY will reduce the annual revenue requirement by $6 million for the five Rate Years as payment for returning to the pension policy. This $30 million together with the $99 million reduction in revenue requirements over the five rate years shall be recorded as a regulatory liability and amortized over the five rate years to match the adjustments to the cost of service shown in Appendix 2 and fund KEDNY's Pension/OPEB plans in Rate Year One by $60 million, less the funding that KEDNY has made since March 31, 2007. The benefit of this funding shall inure only to KEDNY ratepayers. As part of this Joint Proposal KEDNY agrees to participate in a study to determine what the appropriate starting deferral balance as of September 30, 1996, should be when KEDNY is on the policy statement.

	Pension Expense	OPEB Expense
Rate Year One	$13.766	$17.178
Rate Year Two	$14.151	$17.659
Rate Year Three	$14.547	$18.154
Rate Year Four	$14.9545	$18.6625
Rate Year Five	$15.3735	$19.1855

Subsequent years will be reconciled to $15.3735 million for Pensions and $19.1855 million for OPEBs.

2. Property and Special Franchise Taxes

KEDNY will defer 90% of the difference between its actual property and special franchise taxes and the following amounts (millions):

Rate Year One	-	$119.709
Rate Year Two	-	$125.694
Rate Year Three	-	$131.979
Rate Year Four	-	$138.578
Rate Year Five	-	$145.507

Subsequent years will be reconciled for property and special franchise taxes to $145.507 million. If KEDNY is successful in obtaining tax refunds, it will have the right to petition the Commission to share in such refunds. Other parties may take any position concerning any Petition filed by KEDNY.

3. SIR Costs

Subject to the cost sharing incentive mechanism described below, this Joint Proposal provides for the reconciliation or "true-up" of 100% of KEDNY's actual SIR costs. The base KEDNY Gas Delivery Service Rates established pursuant to this Joint Proposal reflect the annual amortization of $2.787 million of SIR costs which will increase by $3.186 million in Rate Year Four to reflect the shift of the KEDNY merger expense amortization to SIR cost category.

KEDNY will be permitted to retain 10% of any recovery of SIR costs from insurance carriers and/or other potentially responsible parties, net of costs to recover such as, attorney fees, expert and consultant fees. KEDNY will pursue such recoveries aggressively and will credit 90% of such net recoveries against its SIR cost balance.

In the event that KEDNY disposes of any property upon which investigation and remediation activities have occurred, it will credit after-tax gains resulting from such disposition to the total SIR cost for the specific site.

For any SIR activity engaged in by KEDNY following the effective date of the rates established in this proceeding, KEDNY agrees, subject to the Department of Environmental Conservation's (DEC) determination of the nature and scope of the SIR Activity, to consult with Staff and any other interested party, including the City of New York, in order to establish a reasonable targeted cost level for each separate phase of the SIR Activity on any particular site.

Notwithstanding the above provisions the parties hereto acknowledge that (i) the DEC has primary jurisdiction over the activities of KEDNY in its SIR activity, with the Department of Health (DOH) having responsibility for supporting the DEC in the assessment of health risk associated with SIR activities; (ii) in the exercise of its jurisdiction over KEDNY's SIR Activity, the DEC provides various forums and other opportunities for interested parties to comment on and participate in, the process of identifying potential SIR sites, investigating such sites, and if necessary, determining the most appropriate methods, timing, and objectives of remediation; (iii) that nothing in this Joint Proposal is intended to or infringes on the rights of DEC or DOH in the exercise of their respective jurisdiction, or on the rights of interested parties to comment on and participate in the DEC processes described above.

4. Capital Tracker

i. City/State Construction

The projected level of City/State Construction expenditures, net of reimbursements, for calendar year 2008, 2009, 2010, 2011, and 2012 is set forth in Appendix 2, page 21. To the extent that KEDNY's actual capital spending for City/State construction net of reimbursements differs from the amount set forth in Appendix 2, page 21, in any calendar year, KEDNY will defer to the Balancing Account the full revenue requirement effect associated with the difference. If KEDNY's actual City/State construction expenditures exceed the level set forth in Appendix 2, page 21, by more than 20 percent then KEDNY shall have the right to defer following a filing with the Director of Accounting, Finance, and Economics that demonstrates that amounts were reasonable and beyond the Company's control. Any disagreement associated with the filing shall be referred to the Commission for decision.

ii. Non-Growth-Related Capital

If at the end of any calendar year 2008 through 2012, KEDNY has spent less than the amount forecasted in the categories of Non-Growth , LNG Liquefaction System, and Information Technology, Facilities, and Other Capital Expenditures set forth on Appendix 2, page 21, KEDNY will defer the full revenue requirement effect of any shortfall for each category to its Balancing Account. For purposes of this provision, the Growth Capital category is excluded and limited to capital costs for local main extensions, services and meters.

5. Exogenous Costs

One hundred percent of all Exogenous Costs (including any credits) shall be deferred and reflected in the KEDNY Balancing Account. "Exogenous Costs" means all of the incremental effects on KEDNY's costs, revenues, or revenue requirements above or below the amounts set forth in Appendix 2 associated with or caused by:

(i) any externally imposed accounting change;

(ii) any change in the Federal, state or local rates, laws, regulations, or precedents governing income, revenue, sales, or franchise taxes; or

(iii) any legislative, court, or regulatory change, which imposes new or modifies existing obligations or duties.

If these Exogenous Costs individually in any one Rate Year ending December 31 exceed three percent (3%) of KEDNY's pre-tax utility income (determined in accordance with the methodology set forth for Earnings Sharing in the KEDNY Merger Rate Plan) for the year in which the change first occurs, the total impact of the Exogenous Costs will be included in the Balancing Account pursuant to this section. In the event that exogenous costs are incurred, KEDNY shall file a letter with the Director of Accounting, Finance, and Economics setting forth the rational for the deferral and its calculation. Any disagreement associated with the filing shall be referred to the Commission for a decision.

6. Additional Deferrals

Nothing in this Joint Proposal shall preclude KEDNY from implementing additional deferrals as the result of the resolution of Reserved Issues or if otherwise approved by the Commission.

7. Limitation on Deferrals

When calculating the level of earned common equity return that may be subject to sharing under Section IX.E of this Proposal, KEDNY will reduce expenses (debits) deferred for later recovery pursuant to the Proposal by up to 50% of the total deferral in any Rate Year, provided, however, that such reduction in deferrals will not cause the resulting earnings to decrease below 11.3%, and provided further that deferrals of SIR costs, deferrals associated with incentives, deferrals associated with amounts recovered through the GAC and/or TAC, deferred DSM costs, deferred Pension and OPEB expenses, and deferrals of the revenue requirements associated with City/State Construction expenditures will be excluded from this deferral limitation provision.

D. Other Provisions

1. Temperature Controlled and Interruptible Services

Temperature Controlled Service and Interruptible Service will remain as distinct service classifications. However, the terms of the Temperature Controlled Service Classification will be modified to include an annual price cap that equals the annual revenue, including all surcharges, that would be derived from providing service to such customers under S.C. No. 2. The monthly price cap will be removed from the tariff for the Temperature Controlled Service Classification. In addition, KEDNY's Temperature Controlled Service Classification will be changed so that the allocation of gas demand charges to Temperature Controlled Sales customers will increase from

\$.10/dth to \$.46/dth. KEDNY will credit all such allocated demand charges paid to firm customers through the GAC.

E. Earnings Sharing

Following each of the five rate years, KEDNY will make a computation of its gas rate of return on common equity capital (ROE) for the applicable preceding rate year utilizing a capital structure with an equity component equal to 45 percent. In the event of a Stayout, KEDNY will make the computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period. The computations and the underlying data will be made available to the Signatory Parties and filed with the Commission not later than 150 days following the end of the applicable twelve-month period. The filings will include supporting workpapers and the ROE calculation based on traditional ratemaking practices and methodologies applicable to KEDNY as to includable costs, revenues and appropriate capital structure. The computation of ROE will be calculated from KEDNY's books of account for the applicable twelve-month period, except that:

(a) KEDNY's rate base shall not include any goodwill associated with the National Grid/KeySpan merger,

(b) KEDNY's return shall exclude the effects of discrete incentives, if any, as may be applied as a result of this or another phase of these proceedings,

(c) KEDNY's operating expenses shall reflect the levelized cost to achieve and synergy savings shown on page 1 of Appendix 6 such that 50 percent of the levelized net synergy savings (*i.e.*, line 13 of page 1 of Appendix 6) shall be excluded from the earnings calculation. This provision will not extend in the event of a Stayout.

(d) KEDNY's return shall exclude the effect of any costs to achieve merger savings, which are associated with executive benefits,

(e) KEDNY shall include the annual amortization of the regulatory liability associated with any margin revenues that are not realized in actual sales to customers and are being amortized over the five Rate Years to match the adjustments to the cost of service shown in Appendix 2,

(f) KEDNY shall include in the earnings sharing calculation the annual amortization of the regulatory liability associated with the company's buy back and return to the Commission's Pension and OPEB Policy Statement, and

(g) KEDNY's return shall exclude revenue adjustments due to prior period over- or under-revenue recoveries related to revenue decoupling mechanisms.

If the level of earned common equity return in any rate year exceeds 10.5 percent ("Earnings Sharing Threshold"), the amount in excess of 10.5% shall be deemed "Shared Earnings" for the purposes of this Joint Proposal. In the event of a Stayout, the earnings sharing provisions will continue for the Rate period, to be applied, if necessary, on a pro-rata basis based on monthly operating revenues. The customers' share of any earnings will be credited to KEDNY's Balancing Account for the benefit of customers. For each twelve-month period covered by this Joint Proposal, KEDNY will allocate the revenue equivalent of its earned common equity return, if any, in excess of the 10.5 percent Earnings Sharing Threshold as follows:

(a) for the first 200 basis points above the Earnings Sharing Threshold (*i.e.* >10.5% - 12.5%), 50% of the revenue equivalent of any Shared Earnings will be deferred for the benefit of customers and the remaining 50% will be retained by KEDNY;

(b) for the next 100 basis points above the Earnings Sharing Threshold (*i.e.* >12.5% to 13.5%), 65% of the revenue equivalent of the Shared Earnings will be deferred for the benefit of customers and 35% will be retained by KEDNY; and

(c) all Shared Earnings in excess of 13.5% will be deferred for the benefit of customers.

Pursuant to another phase of these proceedings, the Signatory Parties will collaborate to establish certain targets associated with the implementation and operation of demand side management programs. In the event that these targets are met in any applicable twelve-month period, KEDNY's Earnings Sharing Threshold and all other earnings sharing thresholds as identified above shall be adjusted upward by 10 basis points for the applicable twelve-month period, as follows:

(a) for the first 200 basis points above the Earnings Sharing Threshold (*i.e.* >10.6% - 12.6%), 50% of the revenue equivalent of any Shared Earnings will be deferred for the benefit of customers and the remaining 50% will be retained by KEDNY;

(b) for the next 100 basis points above the Earnings Sharing Threshold (*i.e.* >12.6% to 13.6%), 65% of the revenue equivalent of the Shared Earnings will be deferred for the benefit of customers and 35% will be retained by KEDNY; and

(c) all Shared Earnings in excess of 13.6% will be deferred for the benefit of customers.

X. KEDLI RATE PLAN

A. Overall Revenue Requirement

If the merger is consummated, the Signatory Parties have agreed upon expense and revenue adjustments to the KEDLI Rate Filing to be allowed as the basis for calculating revenue requirement, and a calculation of KEDLI revenue requirement to be allowed as the basis for setting rates, the results of which are set forth in "Appendix 3" attached hereto and made a part of this Joint Proposal. The calculation of revenue requirement indicates an increase of $60 million in base KEDLI Gas Delivery Service Rates for Rate Year One, with no additional increases indicated for Rate Year Two, Rate Year Three, Rate Year Four or Rate Year Five. The calculation of revenue requirement, based on estimated gas costs, indicates an increase in costs in the gas adjustment clause (GAC) of $12.5 million for Rate Year One, with no additional increases, other than minor inflationary increases (approximately $90,000 per year) on costs transferred to the GAC as part of rate unbundling, indicated for Rate Year Two, Rate Year Three, Rate Year Four or Rate Year Five. Commodity-related uncollectible expense, purchased gas working capital and return on gas in storage will be assigned fixed factors and will reconcile to actual gas costs. In addition, one hundred percent of net savings (savings less cost to achieve) KEDLI attains in its combined gas resource portfolio as a result of the merger will flow to KEDLI gas commodity customers through the GAC. KEDLI Gas Delivery Service revenue requirement will remain frozen at the levels reflected in Appendix 2 through the five rate years and thereafter through the end of the Rate Period of this Joint Proposal, without adjustment up or down, except as specifically set forth in this Joint Proposal. Except as otherwise provided in this Joint Proposal, KEDLI will not file new tariff leaves for existing services designed to produce additional annual revenues to become effective prior to January 1, 2013. KEDLI shall be allowed to file tariffs for new services.

B. Merger Synergy Savings and Costs to Achieve

The calculation of revenue requirement in Section X.A reflects the flow through of 50 percent of the net synergy savings allocable to KEDLI as a share of $156 million of estimated annual mature synergy savings on the KeySpan and National Grid systems over the first five years of the merger, which excludes efficiency gains that could occur without the merger and gas commodity savings which will flow to ratepayers through the various gas adjustment clauses.

100 percent of efficiency gains applicable to KEDLI have been reflected directly. Following the termination of the Rate Period, KEDLI's cost of service will be based on its costs, which will reflect 100 percent of KEDLI's share of any synergy savings from the merger. The net synergy savings also reflects the flow through of the costs to achieve these synergy savings allocable to KEDLI as a share of the levelization of $398 million in costs to achieve based on an approach using an 8.39 percent return. This synergy savings amount excludes executive benefits, capitalized information technology costs, and the costs to achieve associated with efficiency gains. KEDLI shall be authorized to include the annual amortizations of its allocation of the $398 million of costs to achieve in years six through ten in the event that it adjusts its base delivery rates in those years. Individual components of the $398 million costs to achieve, the annual gross synergy savings over the first five years of the rate plan and the allocation factor used to develop KEDLI's share of the net synergy savings are included in Appendix 6 attached hereto and made a part of this Joint Proposal. KEDLI shall also record separately its costs to achieve associated with the National Grid/KeySpan merger in a separate work order, and exclude any of these costs to achieve other than the agreed upon allowance from its future cost of service filings.

C. Adjustability

No adjustments, reconciliations or deferrals shall be allowed during the Rate Period except as set forth in this Joint Proposal, as determined in another phase of these proceedings, or as authorized by the Commission.

For each Rate Year KEDLI will reconcile the following costs recovered in base KEDLI Gas Delivery Service Rates to the levels set forth below. All deferred amounts will be reflected in the existing KEDLI Balancing Account and recovered from customers or credited to customers after the expiration of the KEDLI Rate Period in a manner to be determined by the Commission.

1. <u>Pensions and Other Post Employment Benefits ("OPEB")</u>

KEDLI will reconcile its actual pension and OPEB expense to the Estimated Pension and OPEB Expense shown below (millions). Fair value adjustments to the Pension and OPEB plans made in connection with the merger shall be amortized over ten years in accordance with the Statement of Policy and reflected in the reconciliation of actual pension and OPEB expense to the Estimated Pension and OPEB Expense. Settlement and curtailment costs from merger-related programs for KEDLI, which are included in costs to achieve, shall be excluded from the pension and OPEB reconciliation. As part of this Joint Proposal, KEDLI agrees to participate in a study to determine what the appropriate deferral balance should be at the start of the rate plan.

	Pension Expense	**OPEB Expense**
Rate Year One	$10.084	$12.413
Rate Year Two	$10.367	$12.761
Rate Year Three	$10.657	$13.118
Rate Year Four	$10.955	$13.485
Rate Year Five	$11.262	$13.863

Subsequent years will be reconciled to $11.262 million for Pensions and $13.863 million for OPEBs.

2. Property and Special Franchise Taxes

KEDLI will defer 90% of the difference between its actual property and special franchise taxes and the following amounts (millions):

Rate Year One	-	$97.610
Rate Year Two	-	$102.491
Rate Year Three	-	$107.615
Rate Year Four	-	$112.996
Rate Year Five	-	$118.646

Subsequent years will be reconciled for property and special franchise taxes to $118.646 million.

If KEDLI is successful in obtaining tax refunds, it will have the right to petition the Commission to share in such refunds. Other parties may take any position concerning any Petition filed by KEDLI.

The above reconciliation excludes all refunds associated with KEDLI's ongoing litigation with Nassau County over its prior assessments of property taxes in Index Nos. 011695-97, 011440-99, which are pending before the New York Supreme Court, Nassau County ("Nassau County Litigation"). KEDLI will retain all refunds or prospective reductions in property taxes that it may receive through litigation or settlement of the Nassau County litigation even if those refunds or reductions occur after the Rate Plan period. Accordingly, for the purposes of 16

NYCRR §89.3, the Signatory Parties agree that 100 percent of the tax refunds or prospective reductions would be retained by KEDLI and not distributed to its customers. Nothing in this Merger Joint Proposal shall in any way restrict the ability of KEDLI to settle this property tax dispute with Nassau County or affect the form of that settlement. The Signatory Parties stipulate that by approving this Joint Proposal the Commission is neither determining liability nor the amount of damages in the Nassau County Litigation. Rather, the resolution in this Joint Proposal is for rate making purposes only and shall not prejudice any party in the ongoing Nassau County Litigation.

3. <u>SIR Costs</u>

Subject to the cost sharing incentive mechanism described below, this Joint Proposal provides for the reconciliation or "true-up" of 100% of KEDLI's actual SIR costs. The base KEDLI Gas Delivery Service Rates established pursuant to this Joint Proposal reflect the annual amortization of $2.444 million of SIR costs which will increase by $657,000 in Rate Year Four to reflect the shift of the KEDLI merger expense amortization to SIR cost category.

KEDLI will be permitted to retain 10% of any recovery of SIR costs from insurance carriers and/or other potentially responsible parties, net of costs to recover such as, attorney fees, expert and consultant fees. KEDLI will pursue such recoveries aggressively and will credit 90% of such net recoveries against its SIR cost balance.

In the event that KEDLI disposes of any property upon which investigation and remediation activities have occurred, it will credit after-tax gains resulting from such disposition to the total SIR cost for the specific site.

For any SIR activity engaged in by KEDLI following the effective date of the rates established in this proceeding, KEDLI agrees, subject to the Department of Environmental Conservation's (DEC) determination of the nature and scope of the SIR Activity, to consult with Staff and any other interested party, including the Suffolk and Nassau Counties and the City of New York, in order to establish a reasonable targeted cost level for each separate phase of the SIR Activity on any particular site.

Notwithstanding the above provisions the parties hereto acknowledge that (i) the DEC has primary jurisdiction over the activities of KEDLI in its SIR activity, with the Department of Health (DOH) having responsibility for supporting the DEC in the assessment of health risk associated with SIR activities; (ii) in the exercise of its jurisdiction over KEDLI's SIR Activity, the DEC provides various forums and other opportunities for interested parties to comment on and participate in, the process of identifying potential SIR sites, investigating such sites, and if necessary, determining the most appropriate methods, timing, and objectives of remediation; (iii) that nothing in this Joint Proposal is intended to or infringes on the rights of DEC or DOH in the exercise of their respective jurisdiction, or on the rights of interested parties to comment on and participate in the DEC processes described above.

4. Capital Tracker

i. City/State Construction

The projected level of City/State Construction expenditures, net of reimbursements, for calendar year 2008, 2009, 2010, 2011, and 2012 is set forth on Appendix 3, page 21. To the extent that KEDLI's actual capital spending for City/State construction, net of reimbursements, differs from the amount set forth in Appendix 3, page 21, by more than 20 percent in any calendar year, KEDLI will defer to the Balancing Account the full revenue requirement effect associated with the difference. If KEDLI's actual City/State construction expenditures exceed the level set forth in Appendix 3, page 21, then KEDLI shall have the right to defer following a filing with the Director of Accounting, Finance, and Economics that demonstrates that amounts were reasonable and beyond the Company's control. Any disagreement associated with the filing shall be referred to the Commission for decision.

ii. Non-Growth-Related Capital

If at the end of any calendar year 2008 through 2012, KEDLI has spent less than the amount forecasted in the categories of Non-Growth, Islander East Alternative, and Information Technology, Facilities, and Other Capital Expenditures set forth on Appendix 3, page 21, KEDLI will defer the full revenue requirement effect of any shortfall for each category to its Balancing Account. For purposes of this provision, the Growth Capital category is excluded and limited to capital costs for local main extensions, services and meters.

With respect to capital expenditures associated with its Pipeline Safety Replacement Program, to the extent that KEDLI underspends its budget for this Program in any one year, it will be permitted to carry forward such unexpended amount for future calendar years. If by the end of calendar year 2012 there is still a carry forward balance, KEDLI will defer in the Balancing Account the full revenue requirement associated with the unspent balance from the year it was not spent.

KEDLI's Gas Business Unit Capital forecast includes $23 million of capital expenditures that are associated with the construction of new and reinforced facilities required to receive additional quantities of gas on Long Island commencing on November 1, 2008. The $23 million capital expenditure level assumes that these quantities will be delivered at South Commack by the Iroquois pipeline. In the event that the Islander East pipeline receives all necessary approvals to commence construction in time to meet the in-service date of November 2008 such additional quantities will be delivered to Long Island by Islander East rather than by Iroquois. If such event occurs, KEDLI will advise the Commission in writing and KEDLI will be permitted to defer the actual difference between the full revenue requirement effect associated with the $23 million placeholder amount described above and the lesser of the full revenue requirement effect associated with the total construction cost of Islander East or $46.9 million.

5. <u>Exogenous Costs</u>

One hundred percent of all Exogenous Costs (including any credits) shall be deferred and reflected in the KEDLI Balancing Account. "Exogenous Costs" means all of the incremental effects on KEDLI's costs, revenues, or revenue requirements above or below the amounts set forth in Appendix 3 associated with or caused by:

(i) any externally imposed accounting change;

(ii) any change in the Federal, state or local rates, laws, regulations, or precedents governing income, revenue, sales, or franchise taxes; or

(iii) any legislative, court, or regulatory change, which imposes new or modifies existing obligations or duties.

If these Exogenous Costs individually or collectively in any one Rate Year ending December 31 exceed three percent (3%) of KEDLI's pre-tax utility income (determined in accordance with the methodology set forth for Earnings Sharing in the KEDLI Merger Rate Plan) for the year in which the change first occurs, the total impact of the Exogenous Costs will be included in the Balancing Account pursuant to this section. In the event that exogenous costs are incurred, KEDLI shall file a letter with the Director of Accounting, Finance, and Economics setting forth the rational for the deferral and its calculation. Any disagreement associated with the filing shall be referred to the Commission for a decision.

6. Additional Deferrals

Nothing in this Merger Joint Proposal shall preclude KEDLI from implementing additional deferrals as the result of the resolution of Reserved Issues or if otherwise approved by the Commission.

7. Limitation on Deferrals

When calculating the level of earned common equity return that may be subject to sharing under Section X.E of this Proposal, KEDLI will reduce expenses (debits) deferred for later recovery pursuant to the Proposal by up to 50% of the total deferral in any Rate Year, provided, however, that such reduction in deferrals will not cause the resulting earnings to decrease below 11.3%, and provided further that deferrals of SIR costs, deferrals associated with incentives, deferrals associated with amounts recovered through the GAC and/or TAC, deferred DSM costs, deferred Pension and OPEB expenses, and deferrals of the revenue requirements associated with City/State Construction or other specific capital expenditures identified in Section 4 will be excluded from this deferral limitation provision.

D. Other Provisions

1. Temperature Controlled and Interruptible Services

Temperature Controlled Service and Interruptible Service will remain as distinct service classifications. However, the terms of the Temperature Controlled Service Classification will be modified to include an annual price cap to equal the annual revenue, including all surcharges, that would be derived from providing service to such customers under S.C. No. 2. The monthly price cap will be removed from the tariff for the Temperature Controlled Service Classification. In addition, KEDLI's Temperature Controlled Service Classification will be changed so that the allocation of gas demand charges to Temperature Controlled Sales customers will increase from \$.10/dth to \$.46/dth. KEDLI will credit all such allocated demand charges paid to firm customers through the GAC.

E. Earnings Sharing

Following each of the five rate years, KEDLI will make a computation of its gas rate of return on common equity capital (ROE) for the applicable preceding rate year utilizing a capital structure with an equity component equal to 45 percent. In the event of a Stayout, KEDLI will make the computation for any subsequent twelve-month period during which the Stayout was in effect for at least a portion of the twelve-month period. The computations and the underlying data will be made available to the Signatory Parties and filed with the Commission not later than 150 days following the end of the applicable twelve-month period. The filings will include supporting workpapers and the ROE calculation based on traditional ratemaking practices and methodologies applicable to KEDLI as to includable costs, revenues and appropriate capital structure. The computation of ROE will be calculated from KEDLI's books of account for the applicable twelve-month period, except that:

(a) KEDLI's rate base shall not include any goodwill associated with the National Grid/KeySpan merger,

(b) KEDLI's return shall exclude the effects of discrete incentives, if any, as may be applied as a result of this or another phase of these proceedings,

(c) KEDLI's operating expenses shall reflect the levelized cost to achieve and synergy savings shown on page 1 of Appendix 6 such that 50 percent of the levelized net synergy savings (*i.e.*, line 26 of page 1 of Appendix 6) shall be excluded from the earnings calculation. This provision will not extend in the event of a Stayout.

(d) KEDLI's return shall exclude the effect of any costs to achieve merger savings associated with executive benefits,

(e) KEDLI shall include the annual amortization of the regulatory liability associated with any margin revenues that are not realized in actual sales to customers and are being amortized over the five Rate Years to match the adjustments to the cost of service shown in Appendix 3, and

(f) KEDLI's return shall exclude revenue adjustments due to prior period over- or under-revenue recoveries related to revenue decoupling mechanisms.

If the level of earned common equity return in any rate year exceeds 10.5 percent ("Earnings Sharing Threshold"), the amount in excess of 10.5% shall be deemed "Shared Earnings" for the purposes of this Joint Proposal. In the event of a Stayout, the earnings sharing provisions will continue for the Rate period, to be applied, if necessary, on a pro-rata basis based on monthly operating revenues. The customers' share of any earnings will be credited to KEDLI's Balancing Account for the benefit of customers. For each twelve-month period covered by this Joint Proposal, KEDLI will allocate the revenue equivalent of its earned common equity return, if any, in excess of the 10.5 percent Earnings Sharing Threshold as follows:

(a) for the first 200 basis points above the Earnings Sharing Threshold (*i.e.* >10.5% - 12.5%), 50% of the revenue equivalent of any Shared Earnings will be deferred for the benefit of customers and the remaining 50% will be retained by KEDLI;

(b) for the next 100 basis points above the Earnings Sharing Threshold (*i.e.* >12.5% to 13.5%), 65% of the revenue equivalent of the Shared Earnings will be deferred for the benefit of customers and 35% will be retained by KEDLI; and

(c) all Shared Earnings in excess of 13.5% will be deferred for the benefit of customers.

Pursuant to another phase of these proceedings, the Signatory Parties will collaborate to establish certain targets associated with the implementation and operation of demand side management programs. In the event that these targets are met in any applicable twelve-month period, KEDLI's Earnings Sharing Threshold and all other earnings sharing thresholds as identified above shall be adjusted upward by 10 basis points for the applicable twelve-month period, as follows:

(a) for the first 200 basis points above the Earnings Sharing Threshold (*i.e.* >10.6% - 12.6%), 50% of the revenue equivalent of any Shared Earnings will be deferred for the benefit of customers and the remaining 50% will be retained by KEDLI;
(b) for the next 100 basis points above the Earnings Sharing Threshold (*i.e.* >12.6% to 13.6%), 65% of the revenue equivalent of the Shared Earnings will be deferred for the benefit of customers and 35% will be retained by KEDLI; and
(c) all Shared Earnings in excess of 13.6% will be deferred for the benefit of customers.

XI. PROVISIONS AFFECTING NIAGARA MOHAWK POWER CORPORATION

A. Merger Synergy Savings and Costs to Achieve

In a separate filing to the Commission, Niagara Mohawk will provide for a flow-through to its customers of a share of the net synergy savings allocable to Niagara Mohawk in accordance with Attachment 10 to the Niagara Mohawk rate plan.

B. Accelerated Rate Credit

In a separate rate filing made under its rate plan, contemporaneously with its next CTC reset filing for consideration by the parties in that case, Niagara Mohawk will propose an alternative one-month credit of the net synergy savings for balance of the Niagara Mohawk rate plan.

C. Commitment to Increase Internal Company Staffing in Upstate New York

1. Transmission Staffing

National Grid shall initially implement a voluntary program for at least thirty line mechanics and thirty electricians to work in the Transmission Group in Upstate New York with an opt-out that stays with the employee. Any line mechanic or electrician opting to work in the Transmission Group will be back-filled one-for-one in distribution in Niagara Mohawk's Service Territory.

2. Distribution Staffing

In addition to the backfilling of Distribution Line positions for transfers to the Transmission Group, National Grid intends to maintain a staffing level of 700 positions in the Distribution Line Department located in Niagara Mohawk's Service Territory, and seek to add at least 30 positions annually over the next three years.

3. Customer Service Staffing

Regarding Customer Service, incumbent employees currently occupying positions in the upstate New York Customer Service Contact Centers will be maintained through 2010. National Grid will commit to operating one call center business in upstate New York through 2010, and possibly beyond, if a new and separate labor agreement can be reached. The agreement will provide maximum flexibility to ensure the highest of quality standards, including work performance metrics, so that the center can operate competitively compared to the call center marketplace.

4. Article VII Compliance Staffing

National Grid shall implement the following enhanced procedures with respect to the preparation and prosecution of Article VII and Part 102 proceedings for transmission projects with the goal of processing efficiently the Commission filings for the significant level of capital projects and spending in Upstate New York:

(a) National Grid shall organize a cross-functional in-house Permitting & Licensing Team dedicated to Upstate New York projects, which includes representatives from the Environmental, Project Management, Engineering, Communications, and Legal functions. This team shall be supplemented by the addition of National Grid staff members devoted to engineering and project management for New York projects;

(b) the in-house Permitting & Licensing Team shall be supported by recently designated engineering consultants, environmental consultants, and New York counsel that may include outside counsel based in New York;

(c) National Grid shall implement improved quality control over consultant-produced documents prior to their submission to the PSC; and

(d) National Grid shall hold periodic meetings and consultations with Staff, in which Company personnel and its consultants will discuss the status of and issues associated with existing filings, the upcoming schedule for future Article VII filings, and improvements that can be made to those filings or the process before the Commission, with the objective of fully meeting the Staff's and Commission's expectations for those filings and process.

XII. PROVISIONS ASSOCIATED WITH LIPA AGREEMENT

A. Additional Benefits to Long Island Customers through LIPA Agreement

Several provisions in the LIPA agreements represent significant additional value to several Signatory Parties that they believe support the Commission's public interest determination in this case. Those provisions include the following:

> "5, Staffing of On-Island Field Force and Storm Support. Section 4.6 of the Amended and Restated MSA is amended to add a new subsection (D) thereto to read as follows:
>
> > 'Staffing of On-Island Field Force and Storm Support. The Manager shall maintain an appropriate level of field personnel (to include Electric Design & Construction, Electric Service, Electric System Operations, Substation Maintenance, and Meter & Test or their successors performing similar functions) in LIPA's Service Area reasonably necessary to satisfy the Manager's contractual obligations under this Agreement and to meet the target performance levels for the Performance Metrics; The Manager, shall provide LIPA with reasonable advance notice of any proposed changes to the level of such field personnel in LIPA's Service Area in order to enable LIPA to fairly consider Manager's proposed changes, and the Manager shall consider LIPA's concerns before making any changes to the staffing level of such field personnel that could be reasonably expected to negatively impact service quality in LIPA's Service Area. In the event of a storm or other adverse operational condition, National Grid shall provide or cause to be provided field support, logistics support and mutual aid services from its other business units to support LIPA as if LIPA were an Affiliate of National Grid and, if necessary, shall cause its Affiliates to provide field support, logistics support and mutual aid services to LIPA, National Grid shall provide LIPA with mutual aid services in accordance with the terms and conditions of National Grid's Mutual Assistance Agreement, then in effect. LIPA

will be afforded the opportunity to consult on any proposed changes to National Grid's Mutual Assistance Agreement.

"6. Customer Service Long Island Presence and Storm Support. Section 4.9 of the Amended and Restated MSA is amended to add a new subsection (K) thereto to read as follows:

"(K) Customer Service Long Island Presence and Storm Support. The Manager shall maintain at all times during the Term hereof a call center on Long Island, sufficiently staffed to handle normal call activity (excluding credit and collections calls). The Manager agrees that during the Term hereof it will not (1) reduce the number of customer walk-in centers from those in existence on January 1, 2006 as well as the Far Rockaway customer walk-in facility without LIPA's prior written approval, (2) relocate any customer walk-in centers without LIPA's prior written approval (which LIPA may not unreasonably withhold), or (3) outsource meter reading or meter services without LIPA's prior written approval. As provided in Section 4.6(D), in the event of a storm or other adverse operational condition, National Grid shall provide or cause to be provided customer service support to LIPA as if LIPA were an Affiliate of National Grid and, if necessary, shall cause its Affiliates to provide customer service support to LIPA."

IN WITNESS WHEREOF, the Signatory Parties hereto have this day signed and executed this Joint Proposal.

[The signature pages have been excluded from this version of the document]