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August 18, 2006

Office of Electricity
and Environment

SEP 12 2006

Mr. William M. Flynn, Chairman
Public Service Commission
Three Empire Plaza
Albany, NY 12223-1350

Distribution Systems
And Generation

Dear *Chairman Flynn* ¹

As you know, National Grid is strongly committed to improving reliability. The Company has undertaken a \$1 billion Reliability Enhancement Program to be implemented over the next five years. We have also reviewed our emergency procedures and have sought ways to improve customer communications during major events.

In response to a suggestion from Sandra Sloane and Jim Gallagher of your Staff, National Grid has begun holding daily conference calls to update local officials and community leaders during a major event. We contacted the other utilities who have made these conference calls part of their routine to understand their best practice and implemented the daily calls with our last major outage. The conference calls were very successful and were well-received by the officials. The conference calls will be incorporated into our Electric Emergency Procedures manual when it is updated.

National Grid will continue to work closely with the local Emergency Management Coordinators to provide more frequent updates and coordination.

Thank you for your support. We will keep you and your Staff posted on our continued progress in improving reliability. Please don't hesitate to contact me if you have questions or have concerns.

Best Regards,

Bill

William F. Edwards
President, NY Distribution

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Mercer Study Operational Objectives

Request #: DPS-12

Response Date: September 12, 2006

Respondent: J. Ash and M. Smith

Q:

1. The Companies state that one of their key operational objectives of the merger integration is to "keep the light on and the gas flowing."
 - (a) Are there any additional risks to providing safe and reliable service created by the proposed merger?
 - (b) Are any infrastructure improvements, replacements, or maintenance being foregone at Niagara Mohawk to directly or indirectly finance the acquisition of KeySpan?
 - (c) Please provide any studies over the past three years that detail future investment in Niagara Mohawk's infrastructure?
 - (d) Over the 10 years of the rate plan, how much investment will be made in capital improvements to KeySpan's infrastructure? Please provide any studies done by either of the Companies that examine the cost of maintaining system safety and reliability.

A:

- a) The Companies are confident that the safety and reliability of service will be enhanced as a result of the proposed merger. For example, while the Companies have developed well-conceived reliability and safety plans with the resources available, their combination will allow for even more creative solutions to

promote safety, reliability and high quality and efficient customer service across both operating territories.

- b) There are no electric infrastructure improvements, replacements, or maintenance activities that will be forgone as a consequence of the merger. In fact, National Grid is committed to investing \$750M in their new electric reliability enhancement program (REP) over the next five years. \$360M will be invested in the existing NY electric infrastructure on reliability programs. Further, there are no natural gas infrastructure improvements, replacements, or maintenance activities being forgone to directly or indirectly finance the KeySpan acquisition.
- c) As mentioned in subpart b above, National Grid has been increasing, not reducing its planned expenditures on NY electric infrastructure. Specific plans have been developed for current year and next year for feeder hardening. At the end of each year, the next most deserving facilities/feeders are selected for remediation activities for the next year. Projects are initiated from (i) customer requests for new or upgraded service, (ii) response to other customer inquiries regarding voltage and reliability, (iii) relocations from DOT or municipalities, (iv) capacity expansion projects identified through peak load reports, (v) equipment replacements as identified by field personnel from inspections, (vi) projects identified in the annual reliability report filed to the Commission each March pursuant to the NYS Service Quality Standards.

With respect to its NY gas system, National Grid has spent \$25M to \$29M annually in the past three years on capital infrastructure enhancements or replacements. The current 5-year forecast includes capital spending of at least \$29M annually on infrastructure enhancements/ replacements. National Grid monitors the safety and reliability performance of the gas infrastructure and makes appropriate spending plans should performance exhibit unfavorable or unacceptable trends. To date, negative trends have not been seen in DPS Gas Safety Staff's statistics for "Gas Leaks Discovered per pipe mile," Gas Main Repairs per Main Mile and "Service Leaks per 1000 Services" metrics over the past 3 years. In fact, National Grid's performance has been either 2nd or 3rd out of the 11 major gas utilities measured in NY State. It should be noted that the leading performer, St. Lawrence Gas, has infrastructure comprised 100% of plastic or cathodically protected wrapped steel, both state of the art materials. Should National Grid's safety performance begin to trend negatively in the future, either seen through these indicators or other available statistics, the company will evaluate and modify infrastructure spending accordingly to correct those unacceptable trends.

DPS-12 Tables 1 and 2 summarize the capital spending plans of recent years for the NY electric and gas systems.

- (d) The KEDNY Rate Plan projects capital improvements of \$945,000,000 to be

made to KEDNY's infrastructure during the term of the Rate Plan. The KEDLI Rate Plan projects capital improvements of \$1,069,000,000 to be made to KEDLI's infrastructure during the term of the Rate Plan.

The Companies continually monitor the safety and reliability performance of the gas infrastructure and both current and planned spending are premised on achieving safe and reliable system performance.

DPS-12 Table 1

NY Capital Expenditures (\$ millions)

	FY05	FY06	FY07	FY08	FY09	FY10
Distribution						
Actual/Business Plan - by fiscal year	\$161	\$169	\$193	\$202	\$206	\$205
Transmission						
Actual/Business Plan - by fiscal year	\$48	\$50	\$86	\$103	\$118	\$132
Total - Actual/Business Plan	\$209	\$219	\$279	\$305	\$324	\$337

Gas Construction Budget (\$000)				
Year FY2004 to FY2007				
	FY 2004	FY 2005	FY 2006	FY 2007
Value Creation				
Meters	\$ 1,891	\$ 1,670	\$ 1,354	\$ 2,013
New Station		\$ -	\$ -	
New Main	\$ 5,941	\$ 6,275	\$ 6,072	\$ 7,225
New Services	\$ 8,888	\$ 8,868	\$ 8,360	\$ 10,745
Franchise Services	\$ 209	\$ -	\$ -	
Franchises	\$ 54	\$ -	\$ -	
Value Creation Sub-total	\$ 16,982	\$ 16,813	\$ 15,786	\$ 19,983
Non-Value Creation				
Company Programs				
Tools	\$ 670	\$ 645	\$ 500	\$ 400
Infrastructure				
Meters - PT's/Merc Reg/Pneum.vlvs	\$ 1,523	\$ 1,551	\$ 2,955	\$ 2,202
Regulator Station	\$ 1,865	\$ 1,707	\$ 1,829	\$ 2,405
Replacement Main	\$ 4,774	\$ 9,268	\$ 11,574	\$ 13,749
Service Renewals	\$ 6,571	\$ 7,974	\$ 7,958	\$ 8,286
Government	\$ 7,015	\$ 5,193	\$ 4,550	\$ 5,825
Third Party Damage	\$ 117	\$ 132	\$ 124	\$ 85
SCADA	\$ 145	\$ 140	\$ 275	\$ 205
RTU-Marketing	\$ -	\$ -	\$ -	
Exposures - Main				\$ 360
CAD/Accruals				
Infrastructure Sub-Total	\$ 27,116	\$ 25,965	\$ 29,264	\$ 33,117
Non-Value Creation Sub-Total	\$ 27,786	\$ 26,610	\$ 29,764	\$ 33,517
Value and Non-Value Sub-Total	\$ 44,768	\$ 43,423	\$ 45,550	\$ 53,500
Special Programs				
Pipe Line E-36	\$ 16,900	\$ 275	\$ -	
GEMS upgrade				\$ 2,300
Tennessee Gate				
Total Gas Construction Budget	\$ 61,668	\$ 43,698	\$ 45,550	\$ 55,800