

**National Grid/KeySpan Merger**  
**Interrogatory/Document Request**  
**Response of National Grid/KeySpan**

Re: Gas Costs

Request #: DPS 48

Response Date: September 12, 2006

Respondents: J. Allocca, S. McCauley, L. Klosowski

Q:

1. Regarding your 7/20/06 Petition and Exhibits, Exhibit 6, KEDNY Rate Plan, Page 9 of 26, and the KEDLI Rate Plan, Page 11 of 28:
  - a) KEDNY and KEDLI request authorization to transfer any or all of their gas contracts for pipeline, storage and supply to an affiliate. Provide the name and description of such affiliate. Would this affiliate be regulated and, if so, by whom?
  - b) Would Niagara Mohawk's gas contracts be transferred to the above affiliate or any other entity?
  - c) Are any KEDNY, KEDLI or Niagara Mohawk gas pipeline, storage and supply contracts currently being held/managed by an affiliate or other entity? If so, provide the name and a description of such affiliate or entity. Is such affiliate or entity regulated and, if so, by whom?

A.

- a) The Companies have not yet determined which affiliate should hold the asset contracts. In any case, we expect that the affiliate chosen to hold the contracts will be an unregulated entity, such as National Grid USA Service Company. The affiliate chosen will manage only the portfolio contracts of regulated companies, and will not mix regulated assets with unregulated assets.
- b) Transfer of Niagara Mohawk contracts to the affiliate described in 1a) is a likely alternative under consideration.

- c) KEDNY and KEDLI currently hold their own portfolio contracts, but they are administered by service company personnel. Niagara Mohawk currently has a Portfolio Partnering Agreement with Total Gas & Power North America (Total) wherein Total is designated agent for Niagara Mohawk gas supply contracts to assist Niagara Mohawk in optimizing its gas portfolio.

While common management and dispatch of the contracts has been helpful, we believe that multiple benefits are available from an operations standpoint from transferring the utilities' asset contracts to a single entity, in that it would:

- 1) Allow us to net across entities, therefore reducing the potential credit risk.
- 2) Lower the total uncollateralized credit risk
- 3) Reduce guarantees
- 4) Allow for more efficient trading, scheduling and optimization of the assets by:
  - Reducing shipper must have title issues.
  - Reducing scheduling, invoicing, and data entry; and
- 5) Reduce number of contracts (ISDA & NAESB) and manpower requirements.

A single entity holding the contracts would assist the Companies in achieving maximum synergy savings from the combined portfolio.

Cases: 06-M-0878  
06-G-1185  
06-G-1186

**National Grid/KeySpan Merger**

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Assignment of Gas Contracts

Request #: DPS-181

Response Date: November 6, 2006

Respondent: C. Nesser, K. Maloney

Q:

1. Regarding your response to DPS-48, and assuming the gas asset contracts are held by an unregulated entity:
  - a) Would new or revised gas asset contracts continue to have to be filed with the New York State Department of Public Service? If so, under what regulation(s)?
  - b) Under what authority would the New York State Department of Public Service have access to gas asset contracts?
  - c) Under what authority would the New York State Department of Public Service have to conduct a prudence review of the gas asset contracts?

A:

a)

As this structure is envisioned, the unregulated service company would enter full requirements agreements with the jurisdictional utilities, which contracts would be filed with the Commission. New and amended gas asset contracts would continue to be filed with the Commission consistent with current practice.

b)

DPS Staff would have the same access to the jurisdictional utilities' gas asset contracts as it has today. The intent of the proposed assignment to an unregulated service company is solely to facilitate administration of the combined portfolio, not to avert regulatory oversight. PSL §110 affords the Commission authority to investigate the books and records of utility affiliates to the extent of their transactions with the jurisdictional utilities. Every entity involved in the administration of the jurisdictional utilities' gas asset contracts will cooperate fully with DPS Staff in connection with any such inquiry.

c)

The Commission's authority to conduct a prudence review of the gas asset contracts would not be changed by the proposed assignment.