

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Amended DPS-120-Cost components

Request #: DPS-120 (Amended)

Response Date: October 10, 2006

Respondent: P. McClellan

1. Provide the income statement by cost component for 2004.
2. Provide the income statement by cost component on a monthly basis for 12 months ending September 2006.

We have provided files to the PSC Staff containing cost component data for 2004 and for the 12 months ending September 2006 per discussion and agreement with the PSC Staff. Due to the large volume of data contained in these files, copies will be furnished upon request.

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

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

Re: Income Statements

Request #: DPS-264

Response Date: December 21, 2006

Respondent: J. O'Shaughnessy

Q:

1. Provide the income statement by cost component for 2003.
2. Provide the income statement by cost component for 2006, even though final adjustment may not be completed, no later than Jan 15, 2007.

A:

We have provided files to the PSC Staff containing cost component data for 2003. Due to the large volume of data contained in these files, copies will be furnished to other parties only upon request.

We will provide draft cost component data for 2006 no later than January 15, 2007.

**KEYSPAN ENERGY DELIVERY LONG ISLAND
15 MONTH INFLATION ESTIMATE**

**Exhibit____(ARP-1)
Schedule C
Page 3 of 13**

	YEAR	CALENDAR QUARTER	GDP DEFLATOR
FORECAST	2007	I	2.20%
FORECAST	2007	II	1.90%
FORECAST	2007	III	2.00%
FORECAST	2007	IV	2.20%
FORECAST	2008	I	2.10%
AVERAGE ANNUAL INFLATION RATE			2.08%
MONTHLY INFLATION FACTOR		$(1.0208)^{1/12-1}$	0.1717%
ESCALATION FACTOR FOR 15 MONTHS		$(1.001717)^{15-1}$	2.61%

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BLUE CHIP ECONOMIC INDICATORS

Top Analysts' Forecasts of the U.S. Economic Outlook For The Year Ahead

Vol. 32, No. 1 January 10, 2007

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3. Blue Chip Consensus: Quarterly Annualized Percent Change From Prior Quarter And Averages For Quarter.*

Actuals ¹	% Change From Prior Quarter At Annualized Rate							Average For Quarter				
	Real GDP	GDP Price Index	Producer Price Index	Total Industrial Production	Disposable Personal Income	Personal Consump. Expend.	Unemployment Rate	3-Mo. Treas. Bills	10-Yr. Treas. Notes	Change in Business Inventories	Real Net Exports	
2006 1Q	5.6	3.3	2.2	-0.4	5.0	4.6	4.8	4.7	4.4	4.6	41.2	-636.6
2Q	2.6	3.3	4.9	4.5	6.5	-1.5	2.6	4.6	4.7	5.1	53.7	-624.2
3Q	2.0	1.9	3.0	0.3	4.0	4.1	2.8	4.7	4.9	4.9	55.4	-628.8
Blue Chip Forecasts												
	% Change From Prior Quarter At Annualized Rate							Average For Quarter				
4Q Consensus	2.3	1.3	-2.2	-4.4	0.8	5.3	3.6	4.5a	4.9a	4.6a	35.7	-617.8
Top 10 Avg.	3.0	2.6	-1.1	-2.4	3.4	7.6	4.4	--	--	--	48.7	-604.2
Bot. 10 Avg.	1.7	-0.6	-2.8	-6.9	-0.5	2.9	2.7	--	--	--	23.4	-634.0
2007 1Q Consensus	2.3	2.4	2.7	3.6	2.1	3.2	2.8	4.7	5.0	4.7	31.7	-613.3
Top 10 Avg.	2.9	3.1	3.7	6.1	3.5	4.7	3.5	4.9	5.1	4.9	44.5	-594.3
Bot. 10 Avg.	1.7	1.6	1.9	1.1	0.4	1.9	2.1	4.5	4.8	4.5	13.4	-634.9
2Q Consensus	2.5	2.1	2.6	1.7	2.6	2.7	2.6	4.8	4.9	4.7	30.3	-607.8
Top 10 Avg.	3.1	2.8	3.6	3.6	4.0	3.6	3.2	5.0	5.2	5.0	45.9	-579.0
Bot. 10 Avg.	1.8	1.6	1.9	-1.2	0.9	1.6	1.9	4.6	4.6	4.4	10.7	-638.2
3Q Consensus	2.9	2.1	2.5	2.3	2.9	2.9	2.7	4.8	4.8	4.8	30.4	-603.5
Top 10 Avg.	3.4	2.7	3.2	3.8	4.2	3.8	3.2	5.1	5.3	5.2	45.8	-565.0
Bot. 10 Avg.	2.1	1.6	2.0	1.3	1.5	1.8	1.9	4.5	4.3	4.4	10.4	-641.3
4Q Consensus	3.0	2.1	2.3	1.9	3.0	3.0	2.7	4.9	4.8	4.9	30.9	-600.4
Top 10 Avg.	3.6	2.7	3.1	3.1	4.2	3.8	3.3	5.2	5.4	5.3	46.6	-556.0
Bot. 10 Avg.	2.4	1.6	1.5	0.9	1.7	2.0	2.2	4.5	4.3	4.4	8.6	-646.5
2008 1Q Consensus	3.1	2.2	2.4	2.0	3.1	3.4	2.8	4.9	4.8	5.0	31.7	-598.0
Top 10 Avg.	3.5	2.8	3.1	3.1	4.2	4.3	3.3	5.2	5.3	5.4	46.7	-547.5
Bot. 10 Avg.	2.6	1.7	1.8	1.1	2.0	2.7	2.2	4.5	4.3	4.6	12.7	-652.4
2Q Consensus	3.0	2.1	2.4	1.8	3.2	3.3	2.8	4.9	4.8	5.0	32.9	-596.2
Top 10 Avg.	3.5	2.6	3.1	2.9	4.7	4.0	3.4	5.2	5.3	5.4	47.8	-541.2
Bot. 10 Avg.	2.4	1.5	1.7	0.8	1.9	2.7	2.1	4.5	4.3	4.6	13.8	-658.6
3Q Consensus	3.0	2.1	2.4	1.8	3.1	3.2	2.8	4.8	4.8	5.1	34.5	-594.1
Top 10 Avg.	3.5	2.5	3.1	2.9	4.3	3.7	3.3	5.2	5.4	5.5	49.0	-536.4
Bot. 10 Avg.	2.4	1.5	1.8	0.8	1.7	2.7	2.2	4.4	4.2	4.6	14.9	-662.5
4Q Consensus	3.0	2.1	2.4	1.7	3.0	3.2	2.8	4.8	4.8	5.1	36.2	-594.1
Top 10 Avg.	3.4	2.6	3.2	3.0	4.1	3.7	3.2	5.2	5.5	5.6	50.2	-534.3
Bot. 10 Avg.	2.5	1.5	1.8	0.4	1.6	2.7	2.2	4.4	4.2	4.6	17.7	-668.0

4. Blue Chip Consensus: Quarterly Annualized Values And Percent Change From Same Quarter In Prior Year.*

Real Gross Domestic Product							GDP Chained Price Index						
Billions Of Chained 2000\$ (SAAR)			% Change From Same Quarter In Prior Year ²				Index 2000 = 100 (SAAR)			% Change From Same Quarter In Prior Year ²			
Actual	Forecast ^a		Actual	Forecast			Actual	Forecast ^a		Actual	Forecast		
Quarter	2006	2007	2008	2006	2007	2008	Quarter	2006	2007	2008	2006	2007	2008
1Q	11316.4	11574.3	11906.0	3.7	2.3	2.9	1Q	114.967	117.5	120.0	3.1	2.2	2.1
2Q	11388.0	11647.4	11995.7	3.5	2.3	3.0	2Q	115.905	118.1	120.6	3.3	1.9	2.1
3Q	11443.5	11729.5	12086.0	3.0	2.5	3.0	3Q	116.446	118.7	121.3	2.9	2.0	2.1
4Q	11508.3	11816.8	12175.7	3.1	2.7	3.0	4Q	116.816	119.4	121.9	2.4	2.2	2.1

Total Industrial Production							Consumer Price Index						
Index 2002 = 100 (SAAR)			% Change From Same Quarter In Prior Year ²				Index 1982-1984 = 100 (SAAR)			% Change From Same Quarter In Prior Year ²			
Actual	Forecast ^a		Actual	Forecast			Actual	Forecast ^a		Actual	Forecast		
Quarter	2006	2007	2008	2006	2007	2008	Quarter	2006	2007	2008	2006	2007	2008
1Q	109.5	113.1	116.4	3.3	3.3	2.9	1Q	199.3	203.4	208.4	3.7	2.1	2.5
2Q	111.2	113.8	117.3	4.2	2.4	3.1	2Q	201.7	204.7	209.6	4.0	1.5	2.4
3Q	112.3	114.7	118.2	5.1	2.1	3.1	3Q	203.2	206.0	210.9	3.4	1.4	2.4
4Q	112.5	115.5	119.1	4.1	2.6	3.1	4Q	202.1	207.2	212.1	1.9	2.5	2.4

* See explanatory notes on inside of back cover for details of how this data is compiled.

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

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: KEDLI Pensions and OPEBs

Request #: DPS-312

Response Date: January 11, 2007

Respondent: P. McClellan, J. Orlando

Q: See below (Numbers 4 and 5 are not on the original question)

1.
 - a) Fully explain and demonstrate the breakdown of the 2005 SFAS 87 cost per the actuarial / FAS 132 disclosure report to amount booked by KEDLI for the fiscal year ending December 31, 2005.
 - b) Fully explain and show the allocation of pension cost by plan (e.g. Long Island Qualified and Unqualified plans, NY Qualified and Unqualified pans, SERP plans, etc.) to KEDLI.
 - c) Fully explain and show the allocation of pension cost by business unit (e.g. KeySpan Corporate, KeySpan Utility Services, etc.) to KEDLI.
 - d) Explain and show the determination of pension cost that was capitalized.
2.
 - a) Fully explain and demonstrate the breakdown of the 2005 SFAS 106 cost per the actuarial reports/ FAS 132 disclosure report to amount booked by KEDLI for the fiscal year ending December 31, 2005.
 - b) Fully explain and show the allocation of OPEB cost by plan (e.g. LI Union, Management and Unfunded Life Insurance plans, LI Union, Management and Unfunded Health Insurance plans, etc.) to KEDLI.
 - c) Fully explain the accounting and ratemaking treatment of the amortization of LILCO OPEB transition obligation to KEDLI.
 - d) Fully explain and show the allocation of OPEB cost by business unit (e.g. KeySpan Corporate, KeySpan Utility Services, etc.) to KEDLI.
- e) Explain and show the determination of OPEB cost that was capitalized in 2005.
3. Indicate whether the NYSPSC has ever made a determination concerning KEDLI's pension and OPEB deferral accounting. This includes a determination as to the preexisting LILCO deferral accounting for pension and OPEBs which carried over onto to the merged entities' books. If yes, provide the Commission order and cite in which such a determination was made. If not, provide a complete analysis of the deferred accounting between January 1, 1993 and December 31, 2005.
6. The NYSPSC's Policy Statement concerning pension and OPEBs requires the establishment of internal reserve accounts to track the pension/OPEB rate allowances not

deposited into an external trust as well as to record interest, if applicable, on all account credit balances. Provide the transaction activity in KEDLI Pension and OPEB internal reserve account balances, and sub-account balances, from January 1, 1993 to date.

7. The company's historic test year rate base calculation includes \$45.7 million for deferred pension and OPEB expense. Since it is a non-cash deferral with no supporting capitalization, doesn't its inclusion in the historic year rate base create a mismatch between rate base and the capitalization supporting the rate base? If not, fully explain why not.

8. For the same reason that the pension and OPEB deferrals should not be included in the historic test year rate base for EB/cap purposes (i.e. the deferrals are non-cash transactions and not supported by capitalization), should the \$61.3 million for deferred pension and OPEB expense be removed from the rate year rate base? If not, why not.

9. In September 2006, the FASB issued SFAS No. 158 which requires companies to recognize a net liability or asset to report the funded status of their defined benefit pension and OPEB benefit plans on their balance sheet as of December 31, 2006. Recognizing the funded status of a company's benefit plans as a net liability or asset will require an offsetting adjustment to accumulated other comprehensive income (AOCI) in shareholders' equity. As a result, companies will no longer report prepaid pension assets on their balance sheets. Fully explain how the company will account for the SFAS No. 158. Additionally, indicate whether the prepayment related to pension/OPEB should be removed from KEDLI rate year forecast of rate base. If not, why not?

10. With respect to the prepaid pension/OPEB balance, indicate whether and how much of the balance is related to special termination payments and payments made to cover obligations of supplemental and directors' plans. Indicate whether it is appropriate to include the costs associated with these activities in the regulated company accounts.

11. Fully explain how funding is allocated to the various KeySpan plans. For example, explain how the contributions of \$16,500,000, \$16,500,000, \$16,500,000, \$89,350,702,

\$76,000,000, and \$98,500,000 made to the Long Island retirement plan in the fiscal years 2000 through 2005 were allocated to the various companies participating in those plans including KEDLI. Also, indicate how much of this funding was actually made by LIPA.

A:

1.a)

Pension	Actuary Report Reference	Page #	KEDLI 2005
Actuary Expense	End of Year Accounting Addendum December 31, 2005	17	9,752,118.35
Allocated Expense from Servco			4,986,899.21
Capital Loadings			(6,347,238.74)
True-Up Deferral			(6,068,778.82)
Booked Pension Expense			<u>2,323,000.00</u>

As illustrated in the table above, the booked pension expense is comprised of the FAS 87 net periodic pension expense attributable directly to KEDLI as determined by our actuary, Price Waterhouse Coopers LLP., (PWC), plus the amount of pension expense allocated to KEDLI from our Service Companies, less pension costs capitalized, plus or minus the reconciliation amount necessary to match recorded expense with the amount being recovered in rates.

1.b) The assignment of Plan costs to KeySpan entities is not accomplished through allocation. Rather, each Plan participant is assigned to an entity. PWC aggregates each individual participant's plan costs by assigned entity and presents the summarized results in their annual Actuary Report.

1.c) Pension costs are treated as a labor burden, i.e. overhead, for the purpose of charging capital work or work performed on behalf of other entities. As such, pension costs are loaded on top of labor where appropriate,

according to a calculated burden rate. All Service Company labor is loaded with pension burdens and charged among the various Service Company Project/Activities. As a result, pension costs become part of the allocable Service Company cost pools that are allocated among the operating companies as described in detail in Exhibit PJM-13, Schedule 1.

The allocated pension costs are identifiable within KEDLI's books by the account code block combination containing the Cost Type segment value, 716-Pension Burden, along with a Provider Company segment value of either, 31-Corporate Services, 32-Utility Services, or 33-Engineering Services. The allocated pension costs by entity are presented in the following table as well as in Exhibit PJM-5 Schedule 24.

Service Company	KEDLI 2005
31 – Corporate Services	4,182,758.05
32 – Utility Services	735,540.05
33 – Engineering Services	68,601.11
Allocated Pension Expense	4,986,899.21

1.d) Please see response to 1. c) above. The capitalized pension costs are identifiable within KEDLI's books by the account code block combination containing the Cost Type segment value, 716-Pension Burden, a Provider Company segment value of 37-KEDLI and a Capital G/L account. The capitalized pension costs are presented in the table provided in answer 1. a)

2.a)

OPEB	Actuary Report Reference	Page #	KEDLI 2005
Actuary Expense	End of Year Accounting Addendum December 31, 2005	17	11,701,228.00
Transition Obligation Amortization			3,450,000.00
Allocated Expense from Servco			5,749,278.10
Capital/Clearing			(9,705,390.75)
Misc. Adjustment			169,384.56
True-Up Deferral			(6,710,562.38)
Booked OPEB Expense			<u>4,653,937.53</u>

As illustrated in the table above, the booked OPEB expense is comprised of the FAS 106 net periodic OPEB expense attributable directly to KEDLI as determined by our actuary, Price Waterhouse Coopers LLP., (PWC), plus the amortization of the Transition obligation, plus the amount of OPEB expense allocated to KEDLI from our Service Companies, less OPEB costs capitalized, plus or minus the reconciliation amount necessary to match recorded expense with the amount being recovered in rates.

2.b) See answer provided to 1. b)

2.c) Pursuant to Commission statement of policy, C. 91-M-0890, issued September 7, 1993, the KEDLI transition obligation resulting from SFAS No. 106 is being amortized over 20 years. That amortization is expensed to Operations and Maintenance expense account 926.

2.d) Similar to pension costs, OPEB costs are also treated as a labor burden, i.e. overhead, for the purpose of charging capital work or work performed on behalf of other entities. As such, OPEB costs are loaded on top of labor where appropriate, according to a calculated burden rate. All Service Company labor is loaded with OPEB burdens and charged among the various Service Company Project/Activities. As a result, OPEB costs become part of the allocable Service Company cost pools that are allocated among the operating companies as described in detail in Exhibit PJM-13, Schedule 1.

The allocated OPEB costs are identifiable within KEDLI's books by the account code block combination containing the Cost Type segment value, 717-OPEB Burden, along with a Provider Company segment value of either, 31-Corporate Services, 32-Utility Services, or 33-Engineering Services. The allocated OPEB costs by entity are presented in the following table as well as in Exhibit PJM-5 Schedule 20.

Service Company	KEDLI 2005
31 – Corporate Services	4,399,948.43
32 – Utility Services	1,284,825.41
33 – Engineering Services	64,504.26
Allocated OPEB Expense	<u>5,749,278.10</u>

2.e) Please see response to 2.d) above. The capitalized OPEB costs are identifiable within KEDLI's books by the account code block combination containing the Cost Type segment value, 717-OPEB Burden, a Provider Company segment value of 37-KEDLI and a Capital G/L account. The capitalized OPEB costs are presented in the table provided in answer 2.a).

3. The Commission's February 5, 1998 order and its April 14, 1998 Opinion No. 98-9, C. 97-M-0567, adopting the terms of settlement in the Long Island Lighting Company and The Brooklyn Union Gas Company merger. That settlement agreement provides, under the LILCO gas rate plan section, for a rate allowance and deferral true up.

6. Please see response to 7. below.

7. The company's historic test year rate base calculation of \$45.7 million represents cash contributions or funding in excess of the rate allowance.

8. Please see response to 7. above. The \$61.3 million represents expected cash contributions or funding in excess of the rate allowance.

9. Based upon preliminary assumptions from Price Waterhouse Coopers, LLP., (PWC), KEDLI estimates that the increase in its postretirement liability resulting from the adoption of SFAS 158 will be approximately \$150.1 million. This amount will be offset in Other Comprehensive Income, (OCI). The prepayment of \$45.7 million, see response to 7. above, should not be removed from rate base because it represents cash contributions or funding in excess of the rate allowance and is not affected by the provisions of SFAS 158. SFAS 158 has no effect on rate base.

10. There are no special termination payments or payments made to cover obligations of supplemental and directors' plans included in the regulated company accounts.

11. Plan Funding is ratably allocated among the entities in proportion to each entities respective share of Plan costs.

LIPA has not funded any of these amounts.