BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-7)
Merger Policy Panel

STANDARD & POOR'S **RatingsDirect**

RESEARCH

National Grid PLC

Publication date: 15-May-2006
Primary Credit Analyst: Paul Lund, London (44) 20-7176-3715; paul_lund@standardandpoors.com
Secondary Credit Analysts: William Ferara, London (44) 20-7176-3519; bill_ferara@standardandpoors.com
Gerrit Jepsen, CFA, New York (1) 212-438-2529; gerrit_jepsen@standardandpoors.com

(**Editor's Note:** This article, originally issued on May 10, 2006, has been republished to amend previously misstated adjusted ratios for 2005 in table 1 and cash flow adequacy ratios for 2005 in table 3. A corrected version follows.)

Corporate Credit Rating	
	A/Watch Neg/A-1

Financial risk profile:
Moderately aggressive

Outstanding Rating(s)	
National Grid PLC	
Sr unsecd debt	
Foreign currency	A-/Watch Neg
CP	
Foreign currency	/Watch NegA-1
Lattice Group PLC	
Corporate Credit Rating	A/Watch Neg/--
National Grid Holdings One PLC	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	
Foreign currency	A-/Watch Neg
National Grid Electricity Transmission PLC	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	A/Watch Neg
CP	/Watch NegA-1
National Grid Gas Holdings PLC	
Corporate Credit Rating	A/Watch Neg/--
Sr unsecd debt	
Local currency	A-/Watch Neg
National Grid USA	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	
Local currency	A-/Watch Neg
Massachusetts Electric Co.	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	
Local currency	A/Watch Neg
Sr secd debt	
Local currency	A+/Watch Neg
CP	

Local currency	/Watch NegA-1
Pfd stk	
Local currency	BBB+/Watch Neg
Narragansett Electric Co.	
Corporate Credit Rating	A/Watch Neg/A-1
Sr secd debt	
Local currency	A+/Watch Neg
CP	
Local currency	/Watch NegA-1
Pfd stk	
Local currency	BBB+/Watch Neg
National Grid Gas PLC	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	A/Watch Neg
CP	
Foreign currency	/Watch NegA-1
New England Power Co.	
Corporate Credit Rating	A/Watch Neg/A-1
Sr unsecd debt	
Local currency	A/Watch Neg
CP	
Local currency	/Watch NegA-1
Pfd stk	
Local currency	BBB+/Watch Neg
Niagara Mohawk Power Corp.	
Corporate Credit Rating	A/Watch Neg/--
Sr unsecd debt	
Local currency	A-/Watch Neg
Sr unsecd debt	
Foreign currency	NR
Sr secd debt	
Local currency	A+/Watch Neg
Pfd stk	
Local currency	BBB+/Watch Neg

Corporate Credit Rating History	
Jan. 31, 2002	A/A-1

Major Rating Factors

Strengths:

- Very strong regulated cash flows;
- Proven track record in managing acquisitions;
- Commitment to financial targets;
- Low operating-risk electricity and natural gas transmission and distribution operations; and
- Operating and regulatory diversity with operations in the U.K. and the U.S.

Weaknesses:

- Moderately aggressive financial profile;
- U.K. regulatory risk;
- Ongoing acquisition of a business with a weaker business profile; and
- Expected increase in debt levels due to KeySpan acquisition.

Rationale

The ratings on U.K.-based gas and electricity infrastructure company National Grid PLC (NG), and its subsidiaries, remain on CreditWatch with negative implications, following NG's confirmation that it has agreed to buy U.S. gas distributor KeySpan Corp. (A/Watch Neg/A-1) for $7.3 billion (£4.2 billion) plus assumed debt. The ratings on NG and its subsidiaries were originally placed on CreditWatch with negative implications on Feb. 24, 2006, after the group confirmed it was in discussions to acquire KeySpan.

The acquisition will be funded entirely with cash raised on the capital markets. Standard & Poor's Ratings Services anticipates lowering all the ratings on NG by one notch if the acquisition takes place, which is likely to be 12-18 months from the date of the announcement if successful. We will likely resolve the CreditWatch when the acquisition is approved and unconditional.

The ratings on NG and its subsidiaries continue to reflect the strong, predictable cash flows generated by the group's low operating-risk electricity and gas network operations in the U.K. and U.S. NG benefits from the generally supportive regulatory regimes in these operating areas The group has a proven track record in managing large acquisitions and delivering identified cost savings, and has had success in managing geographically remote subsidiaries. The ratings are also supported by the group's moderate financial policy. These strengths are offset by NG's moderately aggressive financial profile, potential regulatory revenue cuts for the U.K. operations from 2007, and the challenges of integrating KeySpan into the group.

NG's credit quality is underpinned by very strong regulated cash flows from the ownership and operation of its electricity transmission and gas networks in the U.K. and electricity transmission and distribution networks in the U.S. Following the 2006 sale of four of the group's U.K. gas distribution networks (GDN),, and prior to the acquisition of KeySpan, NG's subsidiaries National Grid Electricity Transmission PLC (NGET; A/Watch Neg/A-1) and National Grid Gas PLC (NGG; A/Watch Neg/A-1) together provide about 60% of operating cash flow, with the group's U.S. operations contributing about 30%. The strongly cash-generative nature of the business is offset by a moderately aggressive financial profile. The KeySpan acquisition and ongoing large capital-expenditure programs will likely weaken NG's credit ratios. Net debt is expected to increase to about £20 billion in 2009, including the KeySpan acquisition.

Short-term credit factors

The 'A-1' short-term ratings on NG and its subsidiaries reflect the group's maintenance of good liquidity in the form of committed backup lines, which give it the ability to repay maturing CP and fund maturing bond issues during the next year. The acquisition of KeySpan, however, creates a large funding requirement in addition to the large capital-expenditure needs in the short to medium term. To cover the cost of the acquisition and debt maturities over the next 12 months, NG will need approximately £6 billion. In addition, the group might need to fund a portion of its capital-expenditure program. Although this substantially exceeds NG's existing liquidity facilities, Standard & Poor's expects virtually the entire funding requirement to be raised in the capital markets or through CP (NG recently increased one of its MTN programs to accommodate increased issuance). NG maintains strong access to the debt markets and is an active issuer. The group maintains committed backup facilities, totaling about £2.6 billion at March 31, 2006, which remain undrawn. The debt maturity profile is relatively long term, and more than 50% of debt matures after March 2008. Furthermore, annual maturities are manageable, with about 15% of debt maturing in fiscal 2006-2007.

Business Description

NG is a U.K.-based, investor-owned utility. It owns and operates the high-voltage electricity transmission system in England and Wales via subsidiary NGET, and the U.K. gas transmission network and four local GDNs via subsidiary NGG. NG also has a significant presence in electricity transmission and distribution, and some gas distribution, in the northeast U.S.--in Massachusetts, Rhode Island, New York, and New Hampshire--serving about 3.9 million gas and electricity customers.

The KeySpan acquisition should complete during the summer of 2007. KeySpan's operations overlap those of NG's U.S. subsidiary, National Grid USA (NGUSA; A/Watch Neg/A-1), and synergies are expected with NGUSA's electricity distribution activities in Massachusetts, New England, and New Hampshire. We view the potential retention of KeySpan's generating assets on Long Island, New York, as a shift in NG's strategy to accepting generating-asset risk. These risks are offset, however, because the

Long Island generating assets are contracted until 2013 to the Long Island Power Authority. The Ravenswood plant, located in Queen's, New York, is in an urban pocket with significant transmission constraints, which leads to the strong value of the plant.

Table 1

National Grid PLC Financial Summary

(Mil. £)	2005	2004	2003	2002
Gross revenues	8,521	9,033	9,400	7,554
Net income from continuing operations	1,076.0	1,205.0	429.5	(359.0)
Funds from operations (FFO)	2,398.0	2,450.0	2,046.5	1,012.0
Net cash flow	1,770.0	1,890.0	1,475.5	534.0
Capital expenditures (capex)	1,591.0	1,594.0	1,720.5	1,734.0
Total capital	15,610	14,511	15,715	16,547
Adjusted ratios				
Pretax interest coverage (x)	2.18	2.54	1.83	0.82
Total debt/total capital (%)	91.80	92.10	93.12	89.34
FFO interest coverage (x)	3.50	3.63	2.84	2.29
FFO/average total debt (%)	15.80	15.50	12.91	13.53
Net cash flow/capex (%)	111.30	118.60	85.76	30.80

Rating Methodology

The ratings on NG and its subsidiaries reflect the consolidated corporate credit profile of the whole group, including the operating companies NGET, NGG, and NGUSA. Long-term debt raised at the holding-company level within NG is rated one notch below the corporate credit rating to reflect the structural subordination of holding-company debt to debt and other obligations at the operating-company level. Structural subordination affects debt or guarantees issued at NG, National Grid Holdings One PLC (NGH1), NGUSA, and NGG Finance PLC (guaranteed by NGH1 and NG).

The obligations of National Grid Gas Holdings PLC (NGG Holdings; A/Watch Neg/--) are also rated one notch below those of its directly held operating subsidiary, NGG. Although debt issued at NGG Holdings is recognized within the regulatory ring-fence established by the U.K. Office of Gas and Electricity Markets (OFGEM), in the event of insolvency at NGG, its creditors will have first claim over the operating-company assets, and NGG Holdings will have only a junior claim.

Business Risk Profile

Regulation

Virtually all of NG's consolidated revenues are regulated, with very high revenue predictability. Although the form of regulation varies between the U.K. and the U.S., it is transparent, and the regulatory regimes are generally supportive of credit quality. Given the "transportation" function of transmission and distribution activities, regulation directly affects revenues, the size of the asset base, and, consequently, returns on capital available. Future operating profit margins are, therefore, mostly reliant on NG's ability to control costs while managing capital projects required to sustain or improve network quality and match performance requirements.

U.K. In the U.K., OFGEM's separate regulation of GDNs has the potential to toughen efficiency targets across the industry and will likely lead to lower quality revenue flows for NG.

OFGEM resets U.K. transmission and distribution revenues every five years. Furthermore, regulation of the national grid (electricity) and national transmission system (gas) will be aligned from April 1, 2007. We expect this to lead to the same levels of allowed return for both gas and electricity transmission over the next regulatory period. Ring-fencing provisions, allowing the regulator to restrict cash flows in case of a substantial deterioration in credit quality to speculative grade, greatly reduce the likelihood of insolvency of the operating companies. NGET earns the maximum allowed transmission operator revenues, which rise at the retail price index minus 1.5%. Some regulatory risks exist, because the current regulatory period expires on March 31, 2007, and OFGEM might seek to reduce revenues to pass through some operational-cost and capital-expenditure savings achieved during the regulatory period through a one-off cut. OFGEM allows a pretax return on capital of 6.25% on NGET's regulatory asset value (which was approximately £5.6 billion during the current review period).

NGET also earns system operator revenues of about £400 million per year to operate the system and balance power across the network. Depending on performance against OFGEM's targets, the profit from system operator activities is adjusted up or down subject to a maximum adjustment. This provides an incentive for efficient operation of the transmission system. OFGEM's target and the maximum and minimum system operator profits are reset annually with the maximum profit/loss usually in the £10 million-£60 million range.

Like NGET, NGG's distribution and transmission revenues are governed by a retail-price-index-minus-x price control formula that takes into account operating costs; capital expenditure; replacement expenditure; cost of capital; regulatory asset values; and, when applicable, distribution volumes. Initial proposals for the next review period are scheduled to be published in June 2006, with final proposals due in December 2006. Like NGET, NGG's distribution and transmission businesses are currently allowed a pretax return on capital of 6.25% on the regulatory asset value of transmission and distribution assets, which have a regulatory asset value (RAV) of about £8.5 billion. This breaks down into an NGG transmission RAV of about £2.8 billion and a GDN RAV of about £5.8 billion. NGG's most crucial targets are those for operating and replacement expenditure, because underperformance on these targets will immediately affect the bottom line and cash flow.

NG's four U.K. GDN companies are regulated as part of NGG, with the next price review due to be implemented in April 2008. OFGEM will extend the current period by one year to differentiate the review from the high-pressure gas transmission network. Initial proposals for the one-year GDN price reviews should be published in September 2006, and prices finalized in December 2006. The new five-year price control proposals are due to be published in May 2007, finalized in December 2007, and effective from April 2008. The additional comparators available due to NG's June 2005 sale of four GDNs could lead to greater pressure on operating costs in future reviews.

U.S. In the U.S., Standard & Poor's views the Massachusetts, Rhode Island, and New York regulatory environments as generally supportive of credit quality, because the restructuring legislation allows for full recovery of stranded costs and eliminates exposure to commodity prices, while permitting a reasonable return on equity. In Massachusetts and Rhode Island, the restructuring legislation provides for a true-up mechanism that enables utilities to recover all purchased-power costs incurred in their providers-of-last-resort obligations. In New York, the cost of power is passed through to retail ratepayers, completely removing any commodity exposure, while all stranded costs are collected with a return. These are all long-term agreements, allowing the companies to keep a substantial portion of savings and removing any regulatory uncertainty.

Rates for NGUSA and Niagara Mohawk Power Corp. (NIMO; A/Watch Neg/--) were agreed with the various state regulators as part of the respective acquisition approval processes.

Distribution rates for Massachusetts Electric Co. (A/Watch Neg/A-1), frozen until March 1, 2005, which give no explicit ROE ceiling and provide an impetus to reducing costs, now move in step with regional electricity distribution rates from March 2005 to December 2009. In November 2004, Massachusetts Electric filed a settlement agreement with its regulator that resolves a variety of issues regarding stranded-cost recovery, customer supply costs, and other miscellaneous issues. The settlement was approved on Dec. 29, 2004. From 2010 to 2019, any achieved savings of more than $70 million will be shared between the company and ratepayers.

Distribution rates for Rhode Island-based Narragansett Electric Co. (A/Watch Neg/A-1) were reduced by $13 million in 2000 and subsequently frozen until 2004, while allowing for an ROE of 12% before earnings must be shared with ratepayers. Rates are frozen for 2004-2009, after a reduction of $10.2 million in revenues and the sharing of $22.8 million over 12 months with customers and service quality penalties. During 2010-2019, $4.65 million in merger savings will be included in the cost of service. Sharing with customers will begin if ROE exceeds 10.5%, rate cases must be filed to increase rates, and rate increases will be limited to 80% of inflation. In New York, the regulatory agreement extends to December 2011 and provides for a 10-year rate freeze after an initial reduction of 8.2% and ROE of 11.75% before earnings must be shared with customers. In addition, the agreement called for NIMO to freeze gas distribution rates until the end of 2004, and allows the company to pass through gas costs and earn ROE of 10.6% before earnings must be shared with customers.

Markets

NG's credit quality is underpinned by the strong, generally stable economies in which it operates, and the offsetting of demand volatility through favorable regulation. Virtually all of NG's operating profits come from the U.K. (AAA/Stable/A-1+) and the U.S. (AAA/Stable/A-1+), which are both heavily reliant on electricity and gas to support economic activity. The outlook for electricity and gas demand growth in the U.K. is low, at 1.0%-1.5%, largely driven by the development of new housing and offices. In the U.S., demand growth is more in line with GDP growth forecasts. There is some differentiation in growth rates in the more affluent areas in Rhode Island and Massachusetts, however, with upstate New York hardly experiencing any growth.

U.K. NG's operating income from U.K. operations is not exposed to variation in the amount of electricity transmitted, due to the structure of the regulatory arrangements. Maximum allowed revenues are predetermined. In the future, there will be requirements for new capital expenditure in both the gas and electricity industry as a whole. In gas, changing patterns of supply--including the planned construction of new liquid natural gas (LNG) import terminals--will require investment in high-pressure gas mains. This will grow NG's asset base in the U.K., and increase regulatory revenues, offsetting the corresponding debt increase to fund the connections and system improvements. NGG will not be responsible for the capital requirements associated with the construction of new import terminals and gas interconnectors themselves. Rather, NGG's role is limited to connections and system reinforcement to account for changing patterns of supply. In electricity, the impact of renewable obligations in the U.K. and the subsequent construction of offshore wind farms are expected to create capital-expenditure obligations in the construction of new transmission links. Again, these might not be fully NGET's responsibility or could be partially offset by upfront customer contributions.

NG's U.K.-based operations cover the whole of England and Wales, and, in NGG's case, Scotland. As a result, the underlying business demonstrates a high degree of diversity, which further supports cash flow strength. High-voltage network use is promoted by the location of generating capacity away from major load centers.

U.S. NGUSA's service territory in Massachusetts, New Hampshire, and Rhode Island exhibits slightly higher-than-average demand growth characteristics, based on a robust economy and supported by diverse industries. As such, it is relatively resistant to cyclical downturns. Over the last five years, including a regional recession from late 2001 through 2003, kilowatt-hour (kWh) deliveries to the Massachusetts service territory averaged growth of 1.1% per year. KWh deliveries to the Rhode Island service area averaged growth of 1.5% over the same period while deliveries to the New Hampshire service area averaged growth of 3.1%. Residential and commercial customers account for about 80% of revenues in the New England service territory, supporting an above-average business profile. The company's customer base is relatively well diversified, with no single industry representing more than 3%, and no single customer representing more than 1% of revenues.

Although NIMO serves a far bigger area, its service territory has shown no significant kWh growth over the last five years, mainly owing to the sluggish local economy. In addition, NIMO's service territory has lower income per capita than NGUSA's other operational areas. As part of the consolidated NG group, however, NIMO provides considerable operating diversity and contributes strong cash flows to the group.

NG's U.S. grid operation initiative, GridAmerica, ceased operations in November 2005.

Operations

The KeySpan acquisition is likely to result in a deterioration of NG's business risk profile, as 35% of KeySpan's operating profit is derived from its Long Island generating plant. The assumption of generation risk is unusual for NG: in previous acquisitions this risk has been offset by the divestment of any generation assets combined with structures to offset stranded asset costs. In the case of KeySpan, however, concerns about NG taking on the generating plant are moderately offset by the fact that approximately 20% of KeySpan's generating profits come from its strong contract with the Long Island

Power Authority. The remaining 80% of generating operating profitability is derived from the 2,450 MW Ravenswood plant, which is situated in a highly constrained load pocket close to Manhattan, New York.

NG demonstrates high operating performance and frequently outperforms efficiency targets. Furthermore, it has a good track record of implementing cost-reduction programs and integration following an acquisition or merger. The individual regulation of GDNs might bring moderate pressure to bear on NG to cut costs further.

NG has continued to cut operating costs and deliver efficiencies in capital expenditure, although its capital expenditure is dependent on the geographical distribution of load and generation. Globally, NG is one of the best operators of transmission assets.

The high levels of capital expenditure forecast for the next three to five years are likely to increase operational challenges in the short term, but should lead to operational improvements in the medium to long term. The U.K. electricity grid system is entering a period of renewal, which will require careful management to meet demand for capacity during the interruption of the operation of the existing assets and commissioning of new equipment.

U.K. The operating performance of the electricity grid system in England and Wales stayed largely unchanged in the year to March 2005, with availability up only 0.1%, to 95.3%, despite increased maintenance. The winter peak performance fell to 97.6%, down by 0.4%, due to increased construction, connection, and maintenance work. During this period, system demand also hit a record peak of 55.3 gigawatts (GW), an increase of 0.9 GW on the previous year. Overall, 99.99998% of energy demanded during the year was delivered. Ongoing underlying increases in both electricity and gas demand resulting from normalized demand could hamper NG's achieving availability and reliability targets, however. The increasing construction of wind farms is expected to create additional challenges in balancing the grid over time due to the difficulties of predicting wind output, and because the bulk of renewable investment is taking place in remote areas. NG became the system operator for the entire U.K. from April 2005 (including the two Scottish networks), which enables it to balance the whole system more effectively. None of these issues are expected to be financially material for NG, however.

The performance of U.K. gas operations also improved, with maximum demand also falling for the second year running to 418 million cubic meters (mcm) of gas, from 444 mcm the previous year due to the warmer winter of 2004-2005. The winter of 2005-2006 was substantially colder, however, and peak gas demand will likely have increased. An increasing challenge will be the requirement to balance the gas system as the U.K. becomes a net gas importer. Although U.K. gas fields have provided production flexibility in the past, and the provision of flexible land-based storage is low. Significant NGG capital expenditure is, however, expected to result in increased flexibility from high pressure connections to the Milford Haven LNG terminal and the strengthening of the gas grid to support the Norwegian gas pipeline and the expansion of the Isle of Grain LNG terminal. Future flexibility might be reliant on interruptible contracts if there is insufficient flexibility, although this should be offset by new import projects from 2007 onward. Future gas demand is likely to be met by a combination of locally produced gas, gas from the Continent, and LNG imports. Poor gas flexibility, however, might restrict the availability of gas-fired generation capacity for electricity grid system-balancing purposes.

Although there is operational crossover between NGG and NGET, both companies have separate safety cases, which is likely to limit their ultimate ability to reduce costs. The U.K. Health and Safety Executive must approve procedural changes for gas network operators in advance. The U.K. group, covering NGG and NGET operations, is on target to achieve forecast operating cost savings.

U.S. NGUSA owns and operates only transmission and distribution assets. The company considerably improved its risk profile by exiting the generating businesses and energy marketing operations. NGUSA continues to deliver cost savings ahead of expectations. It also has no power market price risk because this is passed on to customers.

Overall performance at NGUSA subsidiaries has met operational targets, including that of Massachusetts Electric, which experienced outages in the summer of 2001. These outages were promptly addressed through various system upgrades. The principal NGUSA subsidiaries operate under service quality plans, which include performance measures in the areas of reliability, safety, and customer service. These subsidiaries have generally outperformed their customer service targets and underperformed on reliability. A major multi-year program to enhance distribution system reliability was launched last year.

Competitiveness
Although there is no direct competitive threat to network operations, regulatory demands for cost transparency can force down revenues. The sale of four GDNs in the U.K. will increase the number of comparators for operating expenditure available to the regulator. Standard & Poor's believes NG's business risk profile has weakened slightly as a result of the sale, because new entrants are expected to cut costs quickly. This could reduce NG's distribution revenues at the next price review in 2008, although it is unlikely to have a significant effect on credit quality.

Regulatory risks are the biggest threat to the group's financial profile, although they are offset in the U.K. by the regulator's view that NGET is an efficient operator. Moreover, the probability of significant tariff reductions at NGET's and NGG's next price review, in April 2007, appears remote. Regulatory risk for NGUSA (including that of NIMO) is limited because regulatory settlements are valid beyond 2010, providing a very stable revenue framework.

NGET and NGUSA are both monopoly operators of electricity transmission. NGUSA's also holds a monopoly on regional electricity distribution. There is, therefore, limited competitive threat to revenues. The major risk for electricity and gas transport operators in general, however, is the prospect of regulatory revenue cuts, which could be driven by comparisons with other operators. Other risks include generally poor economic conditions; declining demand for grid services; and locating power stations much closer to load centers than at present, potentially reducing transmission capacity demand. As with all transmission businesses, there is potential competition from industrial self-generation and alternative fuel sources, although the barriers to entry are high. The economic justification for a transmission system remains strong compared with the cost of maintaining local reserve generation capacity that would be required to ensure a reliable energy supply. Where self-generation is gas-fired, however, loss of revenues from the grid will be offset by additional gas demand.

Financial Risk Profile

Standard & Poor's assesses NG's consolidated financial profile and considers cash within the group to be largely transferable across the group. Net debt for the NG group was about £11 billion at year-end March 31, 2006, following the debt reduction after the sale of the four GDNs during the year. The Public Utilities Holding Company Act 1935 was repealed in 2005, removing SEC-enforced restrictions on NG's capital structure.

Accounting
NG's last full, consolidated accounts, for fiscal year to March 31, 2005, were prepared according to U.K. GAAP. With effect from the year ending March 31, 2006, however, it will adopt IFRS in the preparation of its consolidated accounts. Furthermore, NG will restate consolidated figures for the year ended March 31, 2005.

At fiscal year-end 2005, NG had net pension liabilities of £1,363 million calculated by financial reporting standard 17, a reduction from the £1,563 million at year-end 2004. Standard & Poor's treats the deficit as a debt-like obligation with an appropriate adjustment to the group's interest liability. The pension scheme liability includes the net liabilities at NGUSA.

NG also has limited future commitments under operating leases totaling £930 million, and a modest number of contingent liabilities and guarantees totaling £226 million.

Earnings protection and cash flow

Almost all NG revenues come from regulated businesses, and demonstrate very strong and stable characteristics that underpin the ratings. Furthermore, the network nature of all of these businesses provides strong protection against force majeure events that could interrupt revenue flow. Revenues for fiscal 2006 are expected to be lower than outturn figures at March 31, 2005, due to the sale of the four GDNs. These factors will be partially offset, however, by the lower debt-service requirements resulting from the debt reductions.

Cash flows are strongly underpinned by the low-risk cash flow contribution from regulated operations in the U.K. and U.S. NG's U.K. operations are expected to contribute about 50% of operating profits from fiscal 2006, with NGUSA representing about 40% of core operating profits. Standard & Poor's expects adjusted funds from operations (FFO) interest coverage to remain more than 3.5x following the acquisition of KeySpan, despite the increase in debt amounts. Adjusted FFO to debt is also expected to remain at more than 15%. However, NG is expected to require additional funding to meet its capital-expenditure requirements relating to the U.K. gas grid expansion and reinforcement, and electricity transmission renewal. Capital expenditure to total capital of about 8% is reasonable for the rating, but relatively high for a transmission business, reflecting a rather low capital base at book value.

Table 2

National Grid PLC Profitability

	--Year ended March 31--			
	2005	**2004**	**2003**	**2002**
Income statement (mil. £)				
Gross revenues	5,070	9,033	9,400	7,554
Operating expenses (excluding DD&A*)	1,132	5,673	6,295	5,153
Depreciation and amortization	3,366	1,117	1,088	973
EBITDA	898	3,546	2,860	1,601
Interest incurred	836	931	994	772
Net interest incurred	907	873	939	649
Net income	0	1,293	594	(137)
Earnings protection				
Pretax interest coverage (x)	2.30	2.70	1.95	0.81
Adjusted pretax interest coverage (x)	2.18	2.54	1.83	0.82
Net pretax interest coverage (x)	2.40	2.82	2.00	0.78
Adjusted net pretax interest coverage (x)	2.26	2.63	1.87	0.78
EBITDA interest coverage (x)	3.75	3.81	2.88	2.07
Total debt/EBITDA (%)	422.43	373.60	506.35	922.11
Return on average equity (%)	68.35	103.48	39.30	(15.36)
Annual expense growth (excluding DD&A) (%)	(10.63)	(9.88)	22.16	N.M.
Total operating expense/revenues (%)	59.50	62.80	66.97	68.22

*Depreciation, depletion and amortization. N.M.--Not meaningful.

Table 3

Cash Flow Protection*

	--Year ended March 31 --			
(Mil. £)	**2005**	**2004**	**2003**	**2002**
Cash flow				
Net income	907	1,293	594	(137)
Depreciation	1,132	1,117	1,088	973
Funds from operations (FFO)	2,398.0	2,450.0	2,046.5	1,012.0
Preferred dividends	0	0	0	0
Common dividends	628	560	571	478
Net cash flow (NCF)	1,770.0	1,890.0	1,475.5	534.0
Net capital expenditures (capex)	1,591.0	1,594.0	1,720.5	1,734.0
Discretionary cash flow	38	105	(267)	(1,415)
Cash flow adequacy				
Capex/average total capital (%)	10.56	10.55	10.67	20.96
NCF/capex (%)	111.25	118.57	85.76	30.80
NCF/capex and net acquisitions (%)	67.53	130.52	91.67	21.95

FFO/average total debt (%)	17.46	17.67	14.00	13.71
Adjusted FFO/average total debt (%)	15.78	15.53	12.91	13.53
FFO/average net debt (%)	17.59	17.81	14.28	14.15
Adjusted FFO/average net debt (%)	15.88	15.64	13.16	13.97
FFO interest coverage (x)	3.76	3.96	3.11	2.31
Adjusted FFO interest coverage (x)	3.50	3.63	2.84	2.29
FFO net interest coverage (x)	3.97	4.18	3.24	2.56
Adjusted FFO net interest coverage (x)	3.68	3.81	2.93	2.53

*Ratios treat replacement expenditure as 50% operating cost/50% capital expenditure.

Capital structure and financial flexibility

NG's consolidated capital structure, including goodwill resulting from the October 2002 merger with Lattice Group PLC, shows leverage of about 60% total debt to total capital. Net debt of about £11 billion for fiscal 2006 is expected to increase to about £20.5 billion in fiscal 2009 following the expected KeySpan acquisition, in addition to the ongoing capital-expenditure requirements. At the same time, total debt to total capital is likely to rise to about 85% in 2008.

NG maintains good financial liquidity and flexibility. It has maintained good access to the international capital markets, with a variety of new issues during fiscal 2005 and 2006. There is a requirement to raise $7.3 billion to acquire KeySpan's equity, as well as the requirement to fund capital expenditure and ongoing maturities. Heavy CP use is backed up by committed undrawn bank facilities of about £2.6 billion. NG has prudent financial policies, including maintaining average debt maturity at more than four years, not issuing CP above the level of its committed backup lines, and matching debt currency to cash flows to manage translation risk. The group has also stated its commitment to maintaining the credit ratings on its U.K. operating subsidiaries (NGG and NGET) in the 'A' category.

NG maintains a suitably long-term maturity profile on its debt, with about 50% of debt maturing after five years. It aims to maintain dividend payment growth at 7% per year until 2008, in addition to the £2.0 billion return of capital paid in fiscal 2006.

Table 4

National Grid PLC Capital Structure

	--Year ended March 31--			
	2005	**2004**	**2003**	**2002**
Balance sheet (mil. £)				
Cash and equivalents	100	96	119	464
Net plant	17,746	16,706	16,847	17,210
Total assets	24,711	23,397	24,943	26,203
Short-term debt	3,256	1,706	2,246	2,050
Long-term debt	10,963	11,542	12,233	12,713
Preferred stock	0	0	0	0
Common equity	1,391	1,263	1,236	1,784
Total capitalization	15,610	14,511	15,715	16,547
Total off-balance-sheet obligations	1,363	1,563	2,262	192
Balance-sheet ratios (%)				
Short-term debt/total capital	20.86	11.76	14.29	12.39
Long-term debt/capital	70.23	79.54	77.84	76.83
Preferred stock/total capital	0	0	0	0
Common equity/total capital	8.91	8.70	7.87	10.78
Total debt/total capitalization	91.09	91.30	92.13	89.22
Adjusted total debt/total capital	91.80	92.14	93.12	89.34
Net debt/net total capital	91.03	91.24	92.07	88.91

Rated Peer Comparison

Table 5

National Grid PLC Peer Comparison

	National Grid PLC	Red Electrica De Espana S.A.	Enagas S.A.	Bord Gais Eireann	Gas Natural SDG, S.A.
Corporate credit rating*	A/Watch Neg/A-1	AA-/Stable/A-1+	AA-/Stable/A-1+	A-/Positive/A-2	A+/Watch Neg/A-1
Country	U.K.	Spain	Spain	Ireland	Spain
Business	Electricity and gas transmission	Electricity transmission	Gas transmission	Gas transmission	Gas transmission
Financial year ended	March 31, 2005	Dec. 31, 2005	Dec. 31, 2005	Dec. 31, 2004	Dec. 31, 2005
Financial statistics (mil. €)					
Gross revenues	12,457.7	865.0	668.0	755.0	8,527.0
EBITDA	4,921.1	669.0	478.0	257.0	1,489.0
Funds from operations (FFO)	3,505.9	422.0	343.0	207.0	1,116.0
Total assets	36,127.5	4,562.0	3,226.0	2,464.0	13,713.0
Total debt	20,788.2	2,838.0	1,517.0	1,063.0	3,816.0
FFO interest coverage (x)	3.5	4.9	7.6	5.1	6.0
FFO/net debt (%)	15.9	17.7	22.6	19.8	32.3
Total debt/total capital (%)	91.8	74.7	57.7	52.2	39.8

*At May 10, 2006.

Additional Contact: Infrastructure Finance Ratings Europe; InfrastructureEurope@standardandpoors.com

Analytic services provided by Standard & Poor's Ratings Services (Ratings Services) are the result of separate activities designed to preserve the independence and objectivity of ratings opinions. The credit ratings and observations contained herein are solely statements of opinion and not statements of fact or recommendations to purchase, hold, or sell any securities or make any other investment decisions. Accordingly, any user of the information contained herein should not rely on any credit rating or other opinion contained herein in making any investment decision. Ratings are based on information received by Ratings Services. Other divisions of Standard & Poor's may have information that is not available to Ratings Services. Standard & Poor's has established policies and procedures to maintain the confidentiality of non-public information received during the ratings process.

Ratings Services receives compensation for its ratings. Such compensation is normally paid either by the issuers of such securities or third parties participating in marketing the securities. While Standard & Poor's reserves the right to disseminate the rating, it receives no payment for doing so, except for subscriptions to its publications. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

Copyright © 1994-2007 Standard & Poor's, a division of The McGraw-Hill Companies. All Rights Reserved. Privacy Notice

The McGraw-Hill Companies

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-8)
Merger Policy Panel

Moody's Investors Service

Global Credit Research
Rating Action
12 JAN 2007

Rating Action: National Grid Plc

Moody's announces various rating changes to National Grid following new methodology

London, 12 January 2007 – Moody's Investors Service has placed the A2 unsecured ratings and Prime-1 short term ratings of National Grid Gas Plc (NGG) and National Grid Electricity Transmission Plc (NGET) on review for downgrade. The A3 rating of National Grid Gas Holding Plc (NGGH) was affirmed and the outlook returned to stable. At the same time, Moody's confirmed the Baa1 unsecured ratings of National Grid Plc, the ultimate group holding company, with a developing outlook.

The ratings of National Grid Plc (NG) are thus no longer on review for downgrade, where they were placed on 27 February 2006 following the announced acquisition of US utility KeySpan, which is expected to formally complete towards the second half of 2007.

The rating actions follow today's introduction of Moody's revised rating methodology for European regulated utility groups. In November 2006, Moody's published a Request for Comment, entitled "European Regulated Utility Groups: Methodology Update". The principal proposed change related to the fact that the ratings of wholly-owned regulated issuers would now be allowed to exceed the consolidated rating of the group only in certain circumstances. Following market feedback, Moody's published earlier today a final version clarifying further the amendments made to its methodology and their rating implications – please refer to Moody's Rating Methodology entitled "European Regulated Utility Groups: Methodology Update".

The review for downgrade of the group's UK subsidiaries, NGG and NGET, reflects the likelihood that the consolidated rating of the group will fall by one notch to A3 following completion of the KeySpan acquisition. Subsidiary ratings will therefore be constrained at that level.

The affirmation of the A3 stable rating of NGGH – NGG's intermediate holding company – reflects the fact that its ratings are notched for structural subordination from NGG's uncapped credit quality.

The confirmation of the Baa1 rating of National Grid Plc – the ultimate group holding company – is based on Moody's new methodology, whereby the notching between holding companies and the consolidated credit quality of the group is normally limited to one notch at firm investment grade rating levels. Consequently, should the acquisition of KeySpan complete under current assumptions, whereby the most likely result would be a one notch downgrade of the consolidated group to A3, the holding company would be affirmed at Baa1. Conversely, in the event that the acquisition does not complete, the holding company rating could be upgraded.

Headquartered in London, England, National Grid Plc is the holding company for a range of international businesses focusing on the ownership and operation of electricity and gas networks. Its two principal geographic areas of activity are the UK and the US.

London
Philipp L. Lotter
VP - Senior Credit Officer
Corporate Finance
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

London
Stuart Lawton
Managing Director
Corporate Finance
Moody's Investors Service Ltd.
JOURNALISTS: 44 20 7772 5456
SUBSCRIBERS: 44 20 7772 5454

© Copyright 2007, Moody's Investors Service, Inc. and/or its licensors including Moody's Assurance Company, Inc. (together, "MOODY'S"). All rights reserved.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY COPYRIGHT LAW AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED,

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-9)
Merger Policy Panel

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: KEDNY and KEDLI Capital Structures

Request #: DPS-24

Response Date: September 12, 2006

Respondent: A. Dinkel

Q:

1. Provide projections of KEDNY and KEDLI capital structures for the term of the rate plan. Indicate the amount of goodwill if any that is included in the common equity balance for either company. Include short term debt and current maturities of long term debt in the capital structure calculations.

2. To the extent that the 50% equity ratio used for KEDNY and KEDLI (Exhibit 8, page 2 of 12) is not based on KEDNY's or KEDLI's actual equity ratio, explain why it would be appropriate for the Commission to use the 50% equity ratio. Provide any studies or analyses performed by the company to support this response.

3. Do either KEDLI or KEDNY have any financial liabilities or other relationships/transactions which are not reported as debt on their balance sheets but are considered debt by Moody's and/or Standard & Poor's? If so, identify these items and provide estimates of the amounts which the bond rating agencies add to KEDLI and KEDNY's debt balances to reflect their effects.

A:

1. Projections of KEDNY's and KEDLI's capital structures for ratemaking purposes over the term of the Rate Plan are shown on Lines 12, 13, and 14, Page 2 of Exhibit 8. No goodwill is included in the common equity balance for either company and 50% of the capital structure is assumed to be long term debt

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-10)
Merger Policy Panel

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Capital Structure (DPS-24)

Request #: DPS-103

Response Date: October 10, 2006

Respondent: A. Dinkel, M. Laflamme

Q:

1. Provide projections of KEDNY and KEDLI's capital structures for the term of the rate plan which show the actual balances of short term debt, long term debt, common equity and any outstanding preferred stock. Annual cash flow statements should be included to provide the basis for capital structure changes from year to year. To the extent that a 50% equity ratio is maintained throughout the term of the rate plan, the cash flow statements should reflect the transactions required to maintain such a ratio.

A:

No formal balance sheet or cash flow projections have been prepared for KEDNY or KEDLI over the proposed Rate Plans.

The Rate Plans start off with the capital structure as reflected in Schedule 2, Exhibit 4 – KEDNY (JSB-15) and Schedule 2, Exhibit 4 – KEDLI (JSB-15). These capital structures consist of a 50% equity component for each Company for the year ended March 31, 2008.

For the duration of the Rate Plans, we have proposed an imputed 50% equity ratio, with goodwill excluded from the capital structure.

The use of an imputed 50% equity ratio and a capital structure excluding goodwill is intended to ensure that rate regulation of KEDNY and KEDLI is unaffected by any goodwill, which may be pushed down to these subsidiaries.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-11)
Merger Policy Panel

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Goodwill

Request #: DPS-28

Response Date: September 12, 2006

Respondent: R. Burlingame

Q

1. Does National Grid propose to push goodwill down to KEDLI and KEDNY? If so, provide estimates of the amounts recorded for KEDNY, KEDLI and all other former KeySpan business entities which will reflect goodwill from the transaction on their balance sheet(s).

2. For KEDNY and KEDLI:

   (a) Explain and show the calculations used to develop the goodwill amounts which National Grid proposes for their books.

   (b) Explain how a utility whose rates are set based on its underlying cost of service can produce cash flows which justify a purchase price in excess of book value.

   (c) Explain why KEDNY and KEDLI, as regulated utilities subject to cost of service regulation, are likely to produce cash flows that justify the goodwill estimates provided in part (a). Show all relevant calculations.

   (d) Will KEDNY and KEDLI regularly amortize a portion of their goodwill to earnings during the term of the rate plan? Explain the response.

   (e) Would KEDNY and KEDLI's goodwill be immediately impaired or soon become impaired if 100% of the merger savings were immediately flowed to ratepayers? Explain the response.

A.

1.
National Grid will perform an analysis of the allocation of value to be assigned to the entities and assets being acquired. This analysis will be finalized after completion of the merger. It is intended that all assets and liabilities will be recorded at their fair market values at the date of acquisition as required by SEC rules. Any excess of the cost of acquiring KeySpan stock and the fair market values assigned to specific assets and liabilities would be recorded as goodwill as required by SFAS 141. Any goodwill assigned to the various subsidiaries would be pushed down to those subsidiaries. After the initial allocation of goodwill, SFAS 142 states that intangible assets with an indefinite useful life should not be amortized, but should be tested for impairment at least annually.

2.

(a) See response to Question 1 above.

(b) and (c)

Our allocation of fair market value and allocation of the excess cost to goodwill will not be included in the underlying cost of service of KEDNY and KEDLI. Goodwill will not be included in rate base. This question is being addressed directly in the proceedings on Case 01-M-0075, and the Company's position is set forth in its September 1, 2006 filing in that proceeding.

(d)
See response to part (a).

(e)
See response to part (a).

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Goodwill (DPS-28)

Request #: DPS-106

Response Date: October 10, 2006

Respondent: J. Cochrane

Q:

1. Provide estimates of the amount of goodwill that will be pushed down to each of KEDNY, KEDLI and Niagara Mohawk as a result of the transaction.

2. As requested in question 2b of DPS-28, explain how a utility whose rates are set based on its underlying cost of service can produce cash flows which justify a purchase price above book value.

3. As requested in question 2c of DPS-28, explain why KEDNY and KEDLI, as regulated utilities subject to cost of service regulation, are likely to produce cash flows which justify a payment above book value.

4. As requested in question 2d of DPS-28, explain whether KEDNY and KEDLI will regularly amortize a portion of their goodwill to earnings during the term of the rateplan?

5. As requested in question 2e of DPS-28, would KEDNY's and KEDLI's goodwill become impaired if 100% of the merger savings and the costs to achieve were immediately captured by the ratemaking process for ratepayers?

A:

1:

No goodwill will be pushed down to Niagara Mohawk as part of this transaction as goodwill is only pushed down to the business units being acquired. At this time, we do not have an amount of goodwill that will be recorded on KEDNY and KEDLI. As stated in the response to DPS – 28, National Grid will perform an accounting analysis of the allocation of the fair value to be assigned to the entities and the assets and liabilities being acquired. We will supply this study to the Commission when it is completed.

The purchase method of accounting is proposed to be used to record the Transaction. Under Generally Accepted Accounting Principles ("GAAP") for purchase accounting, the purchase price for KeySpan Corporation, together with transaction costs, is allocated to each of its subsidiaries. The purchase price will first be allocated to the assets, both tangible and intangible, and liabilities, of the acquired companies, including the regulated companies in New York and New England, Generation companies, LIPA contracts, and other unregulated companies, at the fair value of these assets. Any remaining excess over the fair value of the tangible and intangible assets and liabilities is recorded as goodwill on the acquired business units.

As stated in our response to DPS 104, Q1 and Q2, as a result of this analysis, the amount of goodwill recorded is not the difference between the amount paid and the existing book value of the equity of Keypsan prior to the transaction. It is a complex allocation to the fair value of all of the acquired regulated and unregulated assets (both tangible and intangible) and liabilities first, with the remaining difference between these fair values and the amount paid recorded as goodwill and pushed down to the Keyspan business units.

2:

In our October 2, 2006 Motion for Confidential Treatment and Protective Order, National Grid proposed to provide Staff with a copy of National Grid's valuation of KeySpan. This valuation provides support for the $42 price.

3.

National Grid's valuation of KeySpan assessed the combined value of all of KeySpan's businesses, some of which are not "regulated utilities subject to cost of service regulation." This valuation, as referenced in our answer to 2 above, supported our offering price.

The pushdown of any goodwill to KEDNY or KEDLI will not affect their rates. KEDNY's and KEDLI's respective rate bases will continue to reflect the pre-merger net book values of their plant. Under the Rate Plans proposed in the Petition, any goodwill allocated to each company is proposed to be excluded from rate base and the earnings base in the Earnings Base/Capitalization analysis, and rates to customers will continue to be based on the net book value of the company's assets. A similar approach will be used in the earnings sharing analysis for KEDNY and KEDLI.

In addition, KEDNY and KEDLI propose to adopt an imputed capital structure for ratemaking. By using an imputed capital structure, the goodwill associated with this Transaction will have no effect on KEDNY's or KEDLI's rates, revenue requirements, or the earnings calculated for regulatory purposes during the period of the Rate Plans. In short, we are proposing to exclude goodwill from both the earnings base and the capital structure of KEDNY and KEDLI to assure that goodwill has no effect on either the rates or the regulated earnings reported by the Company.

4.

As stated in the response to Question 2d and 2a of DPS-28, "After the initial allocation of goodwill, SFAS 142 states that intangible assets with an indefinite useful life should not be amortized, but should be tested for impairment at least annually."

5.

As stated in the response to Question 2e and 2a of DPS-28, National Grid will perform an analysis of the allocation of value to be assigned to the entities and assets (and liabilities) being acquired. This analysis will be finalized by completion of the merger. The allocation of value to tangible and intangible assets, liabilities, and the recording of goodwill at closing will be based on the fair value study to be conducted at that time.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-12)
Merger Policy Panel

Exh__(MPP-12)

Assumptions	
Return applied to beginning of Year Plant	
Annual Investment	1000
AnnualPlant Additions	0
Depreciation Life	10
Tax Life (SL)	5
Operating Expenses	400
Inflation	4%
Tax Rate	40%
Equity Ratio	45%
Debt Ratio	55%
Cost of Equity	9%
Cost of Debt	6%
After Tax Cost of Capital	6.030000%
Cost of Capital	7.3500%

	1	2	3	4	5	6	7	8	9	10
Beginning Book Plant	1000	900	800	700	600	500	400	300	200	100
Beginning Rate Base	1000	860	720	580	440	300	240	180	120	60
Book Depreciation	100	100	100	100	100	100	100	100	100	100
Tax Depreciation	200	200	200	200	200	0	0	0	0	0
Deferred Taxes	-40	-40	-40	-40	-40	40	40	40	40	40
Ending Book Plant	900	800	700	600	500	400	300	200	100	0
Beginnnig Rate Base	1000	860	720	580	440	300	240	180	120	60
Ending Rate Base	860	720	580	440	300	240	180	120	60	0
Net Income	40.5	34.83	29.16	23.49	17.82	12.15	9.72	7.29	4.86	2.43
Interest	33	28.38	23.76	19.14	14.52	9.9	7.92	5.94	3.96	1.98
Federal Income Taxes	27	23.22	19.44	15.66	11.88	8.1	6.48	4.86	3.24	1.62
Book Depreciation	100	100	100	100	100	100	100	100	100	100
Operating Expenses	400	416	432.64	449.9456	467.9434	486.6612	506.1276	526.3727	547.4276	569.3247
Revenue Requirement	600.5	602.43	605	608.2356	612.1634	616.8112	630.2476	644.4627	659.4876	675.3547
Revenues	600.5	602.43	605	608.2356	612.1634	616.8112	630.2476	644.4627	659.4876	675.3547
Operating Expenses	400	416	432.64	449.9456	467.9434	486.6612	506.1276	526.3727	547.4276	569.3247
Operating Income	200.5	186.43	172.36	158.29	144.22	130.15	124.12	118.09	112.06	106.03
Depreciation	100	100	100	100	100	100	100	100	100	100
FIT	27	23.22	19.44	15.66	11.88	8.1	6.48	4.86	3.24	1.62
Deferred FIT	-40	-40	-40	-40	-40	40	40	40	40	40
Interest	33	28.38	23.76	19.14	14.52	9.9	7.92	5.94	3.96	1.98
Net Income	40.5	34.83	29.16	23.49	17.82	12.15	9.72	7.29	4.86	2.43
Depreciation @ 45%	$45.00	$45.00	$45.00	$45.00	$45.00	$45.00	$45.00	$45.00	$45.00	$45.00
Equity portioin of Dtaxes	-18	-18	-18	-18	-18	18	18	18	18	18
equity weighted CF	$103.50	$97.83	$92.16	$86.49	$80.82	$39.15	$36.72	$34.29	$31.86	$29.43
PV at 9% of cash flows for equity	$450.00									

Academic CF: Rev	600.5	602.43	605	608.2356	612.1634	616.8112	630.2476	644.4627	659.4876	675.3547
Less: variable costs	400	416	432.64	449.9456	467.9434	486.6612	506.1276	526.3727	547.4276	569.3247
less: fixed cash costs	0	0	0	0	0	0	0	0	0	0
NET	200.5	186.43	172.36	158.29	144.22	130.15	124.12	118.09	112.06	106.03
TIMES Tax Effect (1-Trate)=.6	120.3	111.858	103.416	94.974	86.532	78.09	74.472	70.854	67.236	63.618
Depreciation*Tax Rate	80	80	80	80	80	0	0	0	0	0
SUM	200.3	191.858	183.416	174.974	166.532	78.09	74.472	70.854	67.236	63.618
PV at 6.03% of after tax cash flows	$1,000.00									

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-13)
Merger Policy Panel

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Goodwill

Request #: DPS-28

Response Date: September 12, 2006

Respondent: R. Burlingame

Q

1. Does National Grid propose to push goodwill down to KEDLI and KEDNY? If so, provide estimates of the amounts recorded for KEDNY, KEDLI and all other former KeySpan business entities which will reflect goodwill from the transaction on their balance sheet(s).

2. For KEDNY and KEDLI:

   (a) Explain and show the calculations used to develop the goodwill amounts which National Grid proposes for their books.

   (b) Explain how a utility whose rates are set based on its underlying cost of service can produce cash flows which justify a purchase price in excess of book value.

   (c) Explain why KEDNY and KEDLI, as regulated utilities subject to cost of service regulation, are likely to produce cash flows that justify the goodwill estimates provided in part (a). Show all relevant calculations.

   (d) Will KEDNY and KEDLI regularly amortize a portion of their goodwill to earnings during the term of the rate plan? Explain the response.

   (e) Would KEDNY and KEDLI's goodwill be immediately impaired or soon become impaired if 100% of the merger savings were immediately flowed to ratepayers? Explain the response.

A.

1.
National Grid will perform an analysis of the allocation of value to be assigned to the entities and assets being acquired. This analysis will be finalized after completion of the merger. It is intended that all assets and liabilities will be recorded at their fair market values at the date of acquisition as required by SEC rules. Any excess of the cost of acquiring KeySpan stock and the fair market values assigned to specific assets and liabilities would be recorded as goodwill as required by SFAS 141. Any goodwill assigned to the various subsidiaries would be pushed down to those subsidiaries. After the initial allocation of goodwill, SFAS 142 states that intangible assets with an indefinite useful life should not be amortized, but should be tested for impairment at least annually.

2.

(a) See response to Question 1 above.

(b) and (c)

Our allocation of fair market value and allocation of the excess cost to goodwill will not be included in the underlying cost of service of KEDNY and KEDLI. Goodwill will not be included in rate base. This question is being addressed directly in the proceedings on Case 01-M-0075, and the Company's position is set forth in its September 1, 2006 filing in that proceeding.

(d)
See response to part (a).

(e)
See response to part (a).

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Recovery of Goodwill

Request #: DPS-35

Response Date: September 12, 2006

Respondent: R. Burlingame

Q:

1. Please provide the Company's current estimated amount of goodwill that will be recorded as a result of the KeySpan acquisition, broken down by type of cost (e.g., acquisition cost in excess of book value, transaction costs, etc).

2. Provide a breakdown by year of the major components that will result in stockholders recovering the goodwill, as calculated in part 1. above (e.g., stockholders' share of merger savings net of stockholders' share of costs to achieve; cost of money differentials (acquiring KeySpan through debt at __% vs. setting KeySpan rates on an overall higher cost of capital which includes a return on equity, unregulated earnings, etc). Include all workpapers, calculations and explanations as to how each of these components was estimated by year.

A:

1. See response to DPS-28.

2. Our allocation of fair market value and allocation of the excess cost to goodwill will not be included in the underlying cost of service of KEDNY and KEDLI. Goodwill will not be included in rate base and will not be recovered directly.

See the September 1, 2006 filing in Case 01-M-0075 for the Company's position on the treatment of goodwill.

SFAS 142 states that intangible assets with an indefinite useful life should not be amortized, but should be tested for impairment at least annually.

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Goodwill (DPS-28)

Request #: DPS-106

Response Date: October 10, 2006

Respondent: J. Cochrane

Q:

1. Provide estimates of the amount of goodwill that will be pushed down to each of KEDNY, KEDLI and Niagara Mohawk as a result of the transaction.

2. As requested in question 2b of DPS-28, explain how a utility whose rates are set based on its underlying cost of service can produce cash flows which justify a purchase price above book value.

3. As requested in question 2c of DPS-28, explain why KEDNY and KEDLI, as regulated utilities subject to cost of service regulation, are likely to produce cash flows which justify a payment above book value.

4. As requested in question 2d of DPS-28, explain whether KEDNY and KEDLI will regularly amortize a portion of their goodwill to earnings during the term of the rateplan?

5. As requested in question 2e of DPS-28, would KEDNY's and KEDLI's goodwill become impaired if 100% of the merger savings and the costs to achieve were immediately captured by the ratemaking process for ratepayers?

A:

1:

No goodwill will be pushed down to Niagara Mohawk as part of this transaction as goodwill is only pushed down to the business units being acquired. At this time, we do not have an amount of goodwill that will be recorded on KEDNY and KEDLI. As stated in the response to DPS – 28, National Grid will perform an accounting analysis of the allocation of the fair value to be assigned to the entities and the assets and liabilities being acquired. We will supply this study to the Commission when it is completed.

The purchase method of accounting is proposed to be used to record the Transaction. Under Generally Accepted Accounting Principles ("GAAP") for purchase accounting, the purchase price for KeySpan Corporation, together with transaction costs, is allocated to each of its subsidiaries. The purchase price will first be allocated to the assets, both tangible and intangible, and liabilities, of the acquired companies, including the regulated companies in New York and New England, Generation companies, LIPA contracts, and other unregulated companies, at the fair value of these assets. Any remaining excess over the fair value of the tangible and intangible assets and liabilities is recorded as goodwill on the acquired business units.

As stated in our response to DPS 104, Q1 and Q2, as a result of this analysis, the amount of goodwill recorded is not the difference between the amount paid and the existing book value of the equity of Keypsan prior to the transaction. It is a complex allocation to the fair value of all of the acquired regulated and unregulated assets (both tangible and intangible) and liabilities first, with the remaining difference between these fair values and the amount paid recorded as goodwill and pushed down to the Keyspan business units.

2:

In our October 2, 2006 Motion for Confidential Treatment and Protective Order, National Grid proposed to provide Staff with a copy of National Grid's valuation of KeySpan. This valuation provides support for the $42 price.

3.

National Grid's valuation of KeySpan assessed the combined value of all of KeySpan's businesses, some of which are not "regulated utilities subject to cost of service regulation." This valuation, as referenced in our answer to 2 above, supported our offering price.

The pushdown of any goodwill to KEDNY or KEDLI will not affect their rates. KEDNY's and KEDLI's respective rate bases will continue to reflect the pre-merger net book values of their plant. Under the Rate Plans proposed in the Petition, any goodwill allocated to each company is proposed to be excluded from rate base and the earnings base in the Earnings Base/Capitalization analysis, and rates to customers will continue to be based on the net book value of the company's assets. A similar approach will be used in the earnings sharing analysis for KEDNY and KEDLI.

In addition, KEDNY and KEDLI propose to adopt an imputed capital structure for ratemaking. By using an imputed capital structure, the goodwill associated with this Transaction will have no effect on KEDNY's or KEDLI's rates, revenue requirements, or the earnings calculated for regulatory purposes during the period of the Rate Plans. In short, we are proposing to exclude goodwill from both the earnings base and the capital structure of KEDNY and KEDLI to assure that goodwill has no effect on either the rates or the regulated earnings reported by the Company.

4.

As stated in the response to Question 2d and 2a of DPS-28, "After the initial allocation of goodwill, SFAS 142 states that intangible assets with an indefinite useful life should not be amortized, but should be tested for impairment at least annually."

5.

As stated in the response to Question 2e and 2a of DPS-28, National Grid will perform an analysis of the allocation of value to be assigned to the entities and assets (and liabilities) being acquired. This analysis will be finalized by completion of the merger. The allocation of value to tangible and intangible assets, liabilities, and the recording of goodwill at closing will be based on the fair value study to be conducted at that time.

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Recovery of Goodwill (DPS-35)

Request #: DPS-108

Response Date: October 10, 2006

Respondent: J. Cochrane

Q:

1. Provide an annual breakdown of the cash flows that support the goodwill that will be reflected on the books of National Grid's New York State utility subsidiaries.

2. Provide the derivation of the cash flows shown in question 1 of DPS-108.

3. Is it National Grid's position that the write-off of goodwill associated with utility acquisitions is inevitable if rates are consistently set based on underlying costs? Explain the response.

4. Absent the adoption of FAS 142, National Grid's New York State utility subsidiaries would have likely written off goodwill through a 40 year amortization. Under FAS 142 does National Grid expect the full amounts of goodwill initially recorded as a result of the proposed transaction to be reflected on these subsidiaries' balance sheets 40 years from now?

A:

1:

At this time we have not conducted a fair value study to determine the amount of goodwill that will be recorded on KEDNY's and KEDLI's books . As stated in the response to DPS – 28, National Grid will perform an analysis of the allocation of value to be assigned to the entities and assets being acquired. The allocation of the acquisition amount to the various entities includes not only an allocation to KEDNY and KEDLI, but to all KeySpan entities being acquired.

2.

See response to Part 1., above.

3.

The fair value assigned to all assets and liabilities in an acquisition, both tangible and intangible, is based on an allocation that reflects the facts, circumstances, and regulatory environment in place at the time of recording the goodwill (at the completion of the merger or acquisition).

The essence of the impairment test assessment required by FAS 142 is to compare the market value of a business unit to the carrying value, including goodwill. The market value is a function of a number of factors in place when the test is performed. National Grid cannot predict today what the market value of the businesses will be at the time of each annual impairment test.

4.

See response to Part 3., above.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-14)
Merger Policy Panel

CALCULATION OF PERCENTAGE BASE RATE INCREASE
DATA FROM MDL/JMM - 4 page 1 of 12

	1	2	3	4	5 (1+3)	6 (2+4)	7	8	9 (5+7)	10 (6+8)
	KEDNY Delivery	KEDLI Delivery	KEDNY Growth	KEDLI Growth	KEDNY Del Base	KEDLI Del Base	KEDNY Rate In.	KEDLI Rate In.	KEDNY W/Rates	KEDLI W/Rates
2008	520.7	350.5	0	0	520.7	350.5	0	0	520.7	350.5
2009	520.7	350.5	5.4	6.1	526.1	356.6	0	0	526.1	356.6
2010	520.7	350.5	13	14	533.7	364.5	61.6	59.2	595.3	423.7
2011	520.7	350.5	21.6	23.4	542.3	373.9	61.6	59.2	603.9	433.1
2012	520.7	350.5	33.1	35.2	553.8	385.7	104.2	110.1	658	495.8
2013	520.7	350.5	39.7	43.7	560.4	394.2	104.2	110.1	664.6	504.3
2014	520.7	350.5	49.4	54.9	570.1	405.4	146.8	160.9	716.9	566.3
2015	520.7	350.5	59.8	67.4	580.5	417.9	146.8	160.9	727.3	578.8
2016	520.7	350.5	73.8	83.4	594.5	433.9	189.3	211.8	783.8	645.7
2017	520.7	350.5	81.5	94.2	602.2	444.7	189.3	211.8	791.5	656.5

	5	6	9	10
Total Percentage Increase	15.7%	26.9%	52.0%	87.3%
Annual Compound Increase	1.6%	2.7%	4.8%	7.2%
Less Compound Increase Due to Growth			1.6%	2.7%
Net Annual Compound Base Rate Increase After Removing Effect of Growth			3.1%	4.5%

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-15)
Merger Policy Panel

LDAC RATE INCREASE ILLUSTRATION

	Deferred Property Taxes	Deferred SIR Cost Rev Req	Deferred DSM & Low In	Deferred Cap Ad Rev Req	TOTAL ANNUAL DEFERRAL	**LDAC RATE INCREASE**	Average Def Bal	Interest @ 5%	Ending Def Bal
2008	0	10.6	37.0	3.7	51.4	**0.0**	27.0	2.6	54.0
2009	8.892	22.3	37.8	9.6	78.5	**0.0**	95.5	4.7	137.1
2010	18.90828	27.9	38.6	15.2	100.7	**41.0**	171.1	8.3	205.1
2011	29.63307	29.3	39.5	20.8	119.2	**82.0**	229.3	11.2	253.5
2012	41.75784	26.3	40.4	26.3	134.8	**123.0**	265.9	13.0	278.3
2013	54.882	21.6	41.3	31.8	149.6	**164.0**	277.8	13.6	277.4
2014	69.31353	16.4	42.2	37.4	165.3	**205.0**	264.0	12.9	250.6
2015	85.26979	11.4	43.1	42.9	182.6	**246.0**	224.3	10.9	198.1
2016	102.6783	6.6	44.0	48.3	201.7	**287.0**	159.3	7.8	120.6
2017	121.7777	2.0	45.0	53.8	222.6	**328.0**	69.5	3.4	18.5

NOTE: Because interest is calculated on this page, the amounts taken from other Schedules are before the application of the 5% interest rate.

Combined Delivery Rate Impact

	KEDNY Delivery	KEDLI Delivery	KEDNY Growth	KEDLI Growth	KEDNY Increase	KEDLI Increase	Previous Yr LDAC	Total Delivery Revenue	Incremental LDAC	Increase %
2010	520.7	350.5	13	14	61.6	59.2	0	1019	41	0.040236
2011	520.7	350.5	21.6	23.4	61.6	59.2	41.0	1078	41	0.038033
2012	520.7	350.5	33.1	35.2	104.2	110.1	82.0	1235.8	41	0.033177
2013	520.7	350.5	39.7	43.7	104.2	110.1	123.0	1291.9	41	0.031736
2014	520.7	350.5	49.4	54.9	146.8	160.9	164.0	1447.2	41	0.028331
2015	520.7	350.5	59.8	67.4	146.8	160.9	205.0	1511.1	41	0.027133
2016	520.7	350.5	73.8	83.4	189.3	211.8	246.0	1675.5	41	0.02447
2017	520.7	350.5	81.5	94.2	189.3	211.8	287.0	1735	41	0.023631
								Average Delivery Increase		0.030843

Source of Data:Update Exhibit 8 KEDNY and KEDLI page 1 of 12

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-16)
Merger Policy Panel

Special Franchise and Real Estate Tax True-Ups

	SF/RE Taxes KEDNY	9% Escalate	Difference	SF/RE Taxes KEDLI	4% Escalate	Difference	Total Difference	Average Def Revenue	Return @ 5%	Balance Ending
2008	106.8	106.8	0	99.5	99.5	0	0	0	0	0
2009	109.2	116.412	7.212	101.8	103.48	1.68	8.892	4.446	0.2223	9.1143
2010	111.6	126.8891	15.28908	104	107.6192	3.6192	18.90828	18.56844	0.928422	28.951
2011	114.2	138.3091	24.1091	106.4	111.924	5.523968	29.63307	43.76753	2.188377	60.77244
2012	116.7	150.7569	34.05692	108.7	116.4009	7.700927	41.75784	81.65137	4.082568	106.6129
2013	119.3	164.325	45.02504	111.2	121.057	9.856964	54.882	134.0539	6.702693	168.1975
2014	122	179.1143	57.11429	113.7	125.8992	12.19924	69.31353	202.8543	10.14272	247.6538
2015	124.7	195.2346	70.53458	116.2	130.9352	14.73521	85.26979	290.2887	14.51443	347.438
2016	127.5	212.8057	85.30569	118.8	136.1726	17.37262	102.6783	398.7772	19.93886	470.0552
2017	130.4	231.9582	101.5582	121.4	141.6195	20.21953	121.7777	530.9441	26.5472	618.3801
	Total		440.2049			92.90766			Terminal	618.3801

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-17)
Merger Policy Panel

SIR True Up Implications

	1	2	3	4	5	6	7	8		10	11	12	13
	SIR Exp. KEDLI & KEDNY	SIR Exp. Not in DPS 37	SUM	Sum Less Rate Plan Amount	Average SIR Balance	Deprec.	Return & FIT	Ending Deferred Expense		Revenue Req	Average Def Revenue	Return @ 5%	Balance Ending
2008	93.2	6.74	99.94	73.44	33.048	7.344	3.3048	66.096		10.6488	5.3244	0.26622	10.91502
2009	82.1	6.74	88.84	62.34	86.805	13.578	8.6805	114.858		22.2585	22.04427	1.102214	34.27573
2010	48.7	6.74	55.44	28.94	114.303	16.472	11.4303	127.326		27.9023	48.22688	2.411344	64.58938
2011	32	6.74	38.74	12.24	116.362	17.696	11.6362	121.87		29.3322	79.25548	3.962774	97.88435
2012	7.5	6.74	14.24	-12.26	98.657	16.47	9.8657	93.14		26.3357	111.0522	5.55261	129.7727
2013	2.1	6.74	8.84	-17.66	68.723	14.704	6.8723	60.776		21.5763	140.5608	7.028041	158.377
2014	0	6.74	6.74	-19.76	37.18	12.728	3.718	28.288		16.446	166.6	8.33	183.153
2015	0	6.74	6.74	-19.76	6.668	10.752	0.6668	-2.224		11.4188	188.8624	9.44312	204.0149
2016	0	6.74	6.74	-19.76	-21.868	8.776	-2.1868	-30.76		6.5892	207.3095	10.36548	220.9696
2017	0	6.74	6.74	-19.76	-48.428	6.8	-4.8428	-57.32		1.9572	221.9482	11.09741	234.0242
sum	265.6								sum	174.465		Terminal	234.0242

-Column 1: DPS 37 Sum of Stand Alone Forecasts
-Column 2: SEC reported $333 of total KEDNY and KEDLI SIR expenditures less Column 1 total, spread over 10 years.
-Column 3: Total Expected SIR for KEDNY and KEDLI
-Column 4: Amount of SIR not reflected in Rate Plan (Column 3 less $26.5 levlel rate plan forecast)
-Column 5: Average Deferred SIR amount Consistent with Deferring Rev Req Impacts
-Column 6: Depreciation assuming 10 year life
-Column 7: 10% Pre tax return, as if allowed in rates
-Column 8: Beginning balance ($0 in first year) less depreciation
-Column 10 Add Columns 6 and 7
-Column 11 Average Deferred Revenue Assuming Revenue Requirements Not Collected in LDAC
-Column 12 5% Carrying Cost
-Column 13 Column 10 plus Column 12

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-18)
Merger Policy Panel

DSM and Low Income Program Cost Deferrals

	1	2	3	4	5	6
	DSM Costs	Low Income Prog Costs	Total	Average Def Revenue	Return @ 5%	Balance Ending
2008	30	7	37	18.5	0.925	37.925
2009	30.66	7.154	37.814	56.832	2.8416	78.5806
2010	31.33452	7.311388	38.64591	97.90355	4.895178	122.1217
2011	32.02388	7.47223854	39.49612	141.8697	7.093487	168.7113
2012	32.7284	7.63662778	40.36503	188.8938	9.44469	218.521
2013	33.44843	7.8046336	41.25306	239.1475	11.95738	271.7315
2014	34.1843	7.97633553	42.16063	292.8118	14.64059	328.5327
2015	34.93635	8.15181492	43.08816	350.0768	17.50384	389.1247
2016	35.70495	8.33115484	44.0361	411.1427	20.55714	453.7179
2017	36.49046	8.51444025	45.0049	476.2204	23.81102	522.5338
Total	331.5113	77.3526335	408.8639		Terminal	522.5338

-Column 1 DSM Cost Per Petitioner Statements
-Column 2 Petitioner Adjusted for Latest Staff Position
-Column 3 Add Columns 1 and 2
-Column 4 Average Deferred Revenue Assuming Revenue Requirements Not Collected in LDAC
-Column 5 5% Carrying Cost
-Column 6 Column 10 plus Column 12

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-19)
Merger Policy Panel

CALCULATION OF KEDNY DEFERRED REVENUE FROM PLANT ADDITION TRUE-UPS

KEDNY Stand Alone Capital Program

Production/Other	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Growth	50.7	50.7	50.7	51.9	53	54.2	55.5	56.7	58	59.4
Mandated	92	86.5	85.9	87.9	89.9	91.9	94	96.2	98.4	100.7
Reliability Intergrity	25.6	30.6	31.1	31.8	32.5	33.3	34	34.8	35.6	36.4
Other	2.1	2.1	2.1	2.1	2.2	2.2	2.3	2.3	2.4	2.4
Total Gas	170.4	169.9	169.8	173.7	177.6	181.6	185.8	190	194.4	198.9
Information Tech Projects										
Gas Operations	17.9	9.5								
Corporate Services	1	3.1	1.3	1.4	1.4	1.4	1.5	1.5	1.5	1.6
Customer	6.1	1.2	3.7	3.8	3.9	3.9	4	4.1	4.2	4.3
Infrastructure	2.3	2.9	3.6	3.7	3.8	3.9	4	4.1	4.2	4.2
Total IT	27.3	16.7	8.6	8.9	9.1	9.2	9.5	9.7	9.9	10.1
Facilities	4.5	3.1	4.9	5.1	5.2	5.3	5.4	5.5	5.7	5.8
Corporate Services Allocated	1.2	1.2	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.5
GRAND TOTAL KEDNY	203.4	190.9	184.5	189	193.2	197.4	202.1	206.6	211.4	216.3
								2008-2017 total		1994.8

Calculation of KEDLI Targets	KEDNY Stand Alone 2008	Merger Adjust. 2008	Rate Plan Targets 2008
City/State Stand alone	72	27.5	44.5
Other Direct Gas Non Growth	47.7	18.2	29.5
Total	119.7	45.7	74
Equates to total (Gas - Growth)	119.7		

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Totals
(Gas - Growth) Stand Alone	119.7	119.2	119.1	121.8	124.6	127.4	130.3	133.3	136.4	139.5	
Target	74.0	74.0	74.0	75.7	77.4	79.2	81.0	82.8	84.7	86.7	
Deferred Capital Addition	45.7	45.2	45.1	46.1	47.2	48.2	49.3	50.5	51.7	52.8	481.8
Average Bal	22.1	65.3	106.6	146.9	186.7	226.0	264.7	302.8	340.5	377.6	
Return at 10%	2.2	6.5	10.7	14.7	18.7	22.6	26.5	30.3	34.0	37.8	
Ending Balance	44.2	86.3	126.9	166.9	206.5	245.5	283.9	321.8	359.2	395.9	
Dep at 30 years	1.5	3.0	4.5	6.1	7.6	9.3	10.9	12.6	14.3	16.1	
REVENUE REQUIREMENT	3.7	9.6	15.2	20.8	26.3	31.8	37.4	42.9	48.3	53.8	289.8
				Total Revenue Requirement Associated with Deferred Items						289.8	
DEFERRED REV REQ ACCUMULATION											
Return plus dep average balance	1.9	8.6	21.4	40.5	66.0	98.4	137.9	184.9	239.8	302.9	
Interest at 5%	0.1	0.4	1.1	2.0	3.3	4.9	6.9	9.2	12.0	15.1	
Ending balance	3.8	13.8	30.1	52.9	82.5	119.2	163.5	215.6	275.9	344.9	
				Deferred Revenues Assuming No LDAC RECOVERY						344.9	
KEDNY Rate Plan Cap Expen.	134.4	134.4	134.4	137.2	140.1	143.0	146.0	149.1	152.2	155.4	1426.2

KEDLI PLANT ADDITION INFORMATION STAND ALONE VERSUS RATE PLAN

Production/Other	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Growth	42.4	42.4	42.4	43.4	44.3	45.3	46.4	47.5	48.5	49.7
Mandated	41.2	45	43.7	44.7	45.7	46.8	47.8	48.9	50.1	51.2
Reliability Intergrity	34.2	33.2	23	23.5	24.1	24.6	25.2	25.8	26.4	27
Other	0.6	0.6	0.6	0.7	0.7	0.7	0.7	0.7	0.7	0.8
Total Gas	118.4	121.2	109.7	112.3	114.8	117.4	120.1	122.9	125.7	128.7
Islander East	46.9									
Information Tech Projects										
Gas Operations	7.9	4.2								
Corporate Services	0.6	1.9	0.8	0.9	0.9	0.9	0.9	0.9	1	1
Customer	2	27.6	1.6	1.6	1.7	1.7	1.8	1.8	1.8	1.9
Infrastructure	1.2	1.4	2	2	2.1	2.1	2.2	2.2	2.3	2.3
Total IT	11.7	35.1	4.4	4.5	4.7	4.7	4.9	4.9	5.1	5.2
Facilities	7	7.1	5	5.1	5.2	5.4	5.5	5.6	5.7	5.9
Corporate Services Allocated	1	1	1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
GRAND TOTAL KEDLI	185	164.4	120.1	123	125.8	128.6	131.6	134.6	137.7	141
								2008-2017 total		1391.8

KEDLI Rate Plan Cap Expen.	137.1	137.1	137.1	140.2	143.3	146.6	150	153.4	157	160.6
								2008-2017 total		1462.4

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-20)
Merger Policy Panel

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

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Capital Expenditures and Program Changes

Request #: DPS-317

Response Date: January 22, 2007

Respondent: A. Dinkel

Q:

1. Witness Haran notes that the use of average capital expenditures for the period 2003-2005 represents a reasonable approach for estimating non-growth capital expenditures for a ten year plan. Does the witness also support this same forecasting methodology for a one year rate case? If not, why not?

2. Witnesses LaFlamme and Molloy reduced or eliminated several "Program Changes contained in the stand alone rate cases in preparing the starting point for the company's 10 year rate plan (Merger Testimony page 34 of 49). The amount of these reductions total $24.9 million for KEDNY and $11.3 million for KEDLI. Does KeySpan support these reductions for the one year rate cases? If not, why not?

A:

1.

Witness Haran does not support the use of the 2003-2005 historical average forecasting methodology for estimating non-growth capital expenditures in KEDNY's and KEDLI's one year stand alone rate cases. The capital expenditure forecasts presented in the one year stand alone rate cases are predicated on specific programs and projects that have been identified and planned for the rate year. The annual capital expenditure forecast in the 10 year rate plans represents a level that reasonably would be expected to be spent on average over the 10 year period. The use of an average level based on the most recent three years of actual expenditures for non-growth capital projects provides the most reasonable estimate of what can be expected to occur on average over the long term. Furthermore, under both 10 year rate plans, the Companies have proposed that non-growth capital expenditures be reconciled annually with deviations between actual and forecasted levels deferred in KEDNY's and KEDLI's balancing accounts. Under this mechanism, under runs in any year will be used to offset overruns in others, which will have the effect of smoothing out expenditure levels over the long run.

2.

KeySpan does not support the reductions in and eliminations of O&M program changes totaling $24.9 million for KEDNY and $11.3 million for KEDLI in their respective one year stand alone rate cases. The program changes proposed in the one year stand alone rate cases are supported by KEDNY's and KEDLI's pre-filed testimony and exhibits as being necessary or justified in the event that the National Grid/KeySpan merger does not occur. As indicated in the testimony of Michael LaFlamme and James Molloy, the stand alone rate case O&M program changes that potentially could be impacted by the merger were either reduced or eliminated pending approval of the merger. To the extent that these expenditures will be required, the Companies have proposed that they be deferred in the balancing accounts and recovered via the LDAC.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-21)
Merger Policy Panel

Percentage of Benefits for Shareholders for Out of State Utilities

	Shareholder's 10 Year Percent	Out of State Net Total Savings	Dollar Amount Shareholders
Mass Electric	65%	$158.5	$103.0
Nantucket Electric	65%	$1.9	$1.2
New England Power	0%	$56.9	$0.0
Essex Gas	100%	$8.7	$8.7
Colonial Gas	100%	$29.2	$29.2
Boston Gas	100%	$104.5	$104.5
Granite State	100%	$6.7	$6.7
EnergyNorth Gas	100%	$12.8	$12.8
Unregulated	100%	$50.3	$50.3
Narragannsett	50%	$63.9	$32.0
Providence Gas	50%	$47.4	$23.7
Total		$540.8	$372.1

Total Percentage of Benefits for Shareholders for Out of State Utilities 68.8%

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-22)
Merger Policy Panel

EXCERPT

NIAGARA MOHAWK

PowerChoice

Settlement Document

Volume 1 - Agreement

Niagara Mohawk Power Corporation

PSC Case Nos. 94-E-0098 and 94-E-0099

October 10, 1997

prices, either into a spot market or under bilateral contracts. They will have no remaining contract with or obligation to RegCo for the sale of energy or capacity.

Niagara Mohawk will define the terms and conditions of a two year extension in the fossil/hydro contract as part of the auction plan, which is subject to separate PSC approval. If the PSC determines that the 2-year extension is appropriate, then the net auction proceeds and CTC will reflect the incremental/decremental value of the contract extension.

As the generation transition contracts expire or are terminated, and if a nuclear plant is retired, the energy subject to them will become unhedged. The market prices of unhedged energy will be flowed through directly to customers, unless otherwise specified herein (See Section 4.0).

3.1.2 Generation Purchased from IPPs

Contracts with IPPs who are not parties to the MRA shall continue in force and effect, subject to their own terms, except that Niagara Mohawk shall continue to pursue opportunities to restructure, auction, or buy out the IPP contracts. Rate treatment for such additional restructuring or buyouts is discussed in Section 2.6.4 herein.

Purchases of generation from IPPs who are parties to the MRA will be governed by the MRA and contracts executed pursuant to the MRA.

Some IPPs who are signatories to the MRA shall have their contracts terminated as a consequence. These IPPs will have discretion to sell their output to others, to sell to Niagara Mohawk at market prices, or to close their operations, among other options. Other IPPs who are signatories to the MRA shall have their contracts restated or amended as described therein.

3.2 GUIDING PRINCIPLES FOR FOSSIL/HYDRO GENERATION AUCTION

3.2.1 Agreement to Divest Fossil/Hydro Generation

Divestiture

Niagara Mohawk will commit to hold a broad-based auction of its non-nuclear generation assets (the auction) and at its discretion may include some IPP Power Purchase Agreements (inclusion of the IPP contracts will be consistent with contractual rights or consent of the IPPs). Any hydro projects that are part of a nuclear license and any wind and solar generation projects described elsewhere in this agreement will be excluded from the auction and divestiture.

After the auction and/or spinoff transactions described herein are complete, Niagara Mohawk and its subsidiaries agree not to own any generation assets in New York State, with the exception of any sale/leaseback transactions and reorganizations necessary to close the MRA and except as otherwise provided for in this agreement. In the case of a reorganization transaction pursuant to the MRA, NMPC will either lease any project facilities acquired in the reorganization to a third party operator, or enter into a management and services contract with such a third party approved by the PSC, or operate the facility itself but only for the purpose of generating a source, or a backup source, of supply for its own use and not for re-sale. In addition, neither HoldCo nor RegCo will own any generation assets inside or outside of New York, except as otherwise provided for in this agreement. However, any other affiliate of HoldCo is not restricted in any way by this agreement from owning generation assets outside New York.

Because the PSC will review merger applications under the Public Service Law, nothing in this agreement will limit the Company's ability to merge with or be acquired by another entity owning generation. Moreover, nothing in this agreement will limit the Company's ability to form partnerships or affiliations with entities who own generation in New York State, provided that those partnerships or affiliations do not involve ownership of generation assets. An unregulated affiliate of HoldCo may enter into arms length contracts with an entity owning generation in New York State.

The sale/leaseback transactions, reorganizations, partnerships and affiliations and arms-length contracts referred to above are all subject to the restriction that they must not create a conflict between the interests of RegCo ratepayers and Company stockholders by tying the profitability of the Company to the profitability of ~~the~~ entity's generation business.

Any material violation of the above restrictions may result in, inter alia, an affiliate being prohibited from further transacting business with end users within the RegCo service territory or divestiture of the affiliate, provided, however, that the Company shall be given the opportunity to explain why a violation has not occurred and to remedy any such alleged violation in accordance with the procedures outlined in Section 9.3.9 regarding Corporate Structure and Affiliate Transactions.

Auction

Niagara Mohawk commits to file a detailed auction plan within 30 days of the PSC Order approving the PowerChoice Settlement Agreement. The detailed auction plan will undergo Commission review, with an opportunity for comment by other parties, and approval. Winning bidders in the auction will be selected within 11 months of plan approval. Niagara Mohawk will use its best efforts to transfer title within 9 months of the selection of winning bidders, contingent on Niagara Mohawk and the buyer(s) receiving all necessary regulatory approvals to effectuate the transaction(s).

The auction process will include a screening stage to establish minimum standards for qualified bidders, and one or more bidding stages. The auction features may include the sale of the portfolio in its entirety, in any combination, or as individual plants or sites. (Likely sub-groupings are: (a) coal plants, (b) Albany, (c) Oswego, (d) 1-3 hydro plant combinations, (e) other generation, and (f) any IPP contracts included in the auction). After completion of the transactions resulting from the auction process as described herein, no fossil or hydro assets included in the auction and receiving positive bids will remain part of Niagara Mohawk.

Niagara Mohawk retains the right to reject the following types of bids for any asset or group of assets:

(1) Any bids that are less than zero:. The rejected bid will cap the level of mitigated stranded costs for assets whose bids were rejected. The assets whose bids are rejected will remain part of RegCo.

(2) Bids that are greater than zero that are deemed too low: Niagara Mohawk reserves the right to reject any and all bids that it deems too low. If it rejects all bids for an asset or group of assets, then it commits to form a subsidiary consisting of the assets with non-negative bids, and spin the assets to a legally separate generating company. The greater of the rejected bid(s) or the average trading value of the stock of the spun entity for the 30 trading days after the stock is publicly traded, will determine the market value of the assets for the purpose of mitigating stranded costs. Nothing in this agreement precludes the Commission from ordering an alternative

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-23)
Merger Policy Panel

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Joint Petition of Niagara Mohawk Holdings, Inc.) Niagara Mohawk Power Corporation, National Grid) Group plc and National Grid USA for Approval of) Merger and Stock Acquisition)	Case No. 01-M-0075

PETITIONERS' STATEMENT IN SUPPORT OF JOINT PROPOSAL

October 15, 2001

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Joint Petition of Niagara Mohawk Holdings, Inc.)
Niagara Mohawk Power Corporation, National Grid)
Group plc and National Grid USA for Approval of)
Merger and Stock Acquisition) Case No. 01-M-0075

PETITIONERS' STATEMENT IN SUPPORT OF JOINT PROPOSAL

Niagara Mohawk Holdings, Niagara Mohawk Power Corporation (Niagara Mohawk), National Grid USA (National Grid), and National Grid Group plc (collectively Petitioners) instituted this proceeding on January 17, 2001 by filing with the New York State Public Service Commission (the "Commission") a Merger Petition and Draft Joint Proposal requesting approval of the indirect acquisition of 100 percent of Niagara Mohawk's common equity by National Grid Group plc, and setting forth a proposed Rate Plan[1] for the period following the merger.[2]

Niagara Mohawk served notice of the filing on all parties to Niagara Mohawk's most recent electric and gas rate proceedings. More than 50 parties intervened and were placed on the Commission's service list. Following discovery and several informational and technical sessions, the parties concluded that a settlement of the issues in the

[1] Capitalized terms in this Statement in Support shall have the meaning established in the Joint Proposal.
[2] The January 17, 2001 filing consisted of three volumes: Volume 1, the Merger Petition, which included the filing letter, petition, background material on National Grid Group plc and National Grid, an estimate of the synergy savings and efficiency gains following the merger, and the environmental assessment form for the merger; Volume 2, Joint Proposal, which represented the Petitioners' initial proposal for the resolution of this proceeding and which has been fully superceded by the Joint Proposal filed on October 11, 2001; and Volume 3, which is the merger agreement among the Petitioners. (The January 17 filing will be cited herein as: "1/17 Filing, Vol. _, p._.") In addition, the Petitioners filed workpapers in January 2001. (The workpapers will be cited herein as: "WP, p.__.") The Joint Proposal consists of three volumes, the

proceeding might be possible and, accordingly, on April 4, 2001 convened settlement negotiations pursuant to Section 3.9 of the Commission's Rules of Procedure. 16 NYCRR §3.9. Settlement discussions have continued since that date and have produced the Joint Proposal that was filed with the Commission on October 11, 2001. The signatories to the Joint Proposal are:

Niagara Mohawk Holdings, Inc.
Niagara Mohawk Power Corporation
Niagara Mohawk Energy, Inc.
National Grid Group plc
National Grid USA
New York State Department of Public Service
New York State Consumer Protection Board
New York State Department of Economic Development
Empire State Development Corporation
Multiple Intervenors
Public Utility Law Project
Energetix, Inc.
Advantage Energy, Inc.
Leveraged Energy Purchasing Corporation, Inc.
Community Energy, Inc.
Natural Resources Defense Council
Association for Environmental Defense
American Wind Energy Association
Distributed Power Coalition of America
E Cubed Company, L. L. C.
Keyspan Technology, Inc.
Capstone Turbine
Integrated Energy Concepts Engineering PC
RealEnergy
International Brotherhood of Electrical Workers Local – 97
Niagara Mohawk Pension Club – Utica (IBEW Members Club No. 310)
Niagara Mohawk Pension Club – East
Niagara Mohawk Pension Club – Western Division
Niagara Mohawk Retirees Club – Potsdam
The Ski Resorts Coalition
Energy Enterprises, Inc.

---

agreement and two volumes of attachments. (It will be cited herein as: "JP, p._" for the agreement and "JP, Att. __" for the attachments.

This broad range of support was achieved through extensive negotiations that comprehensively addressed the issues presented by the transaction, including rates. The length and extent of the discussions required a substantial commitment of time, energy and resources by the parties to this proceeding, and the Petitioners greatly appreciate the effort by all participants. That effort was worthwhile. Our discussions have produced a Rate Plan that will benefit Niagara Mohawk's customers and further the public interest well into the future. Through the Rate Plan, the Petitioners have promised to reduce and then stabilize electricity delivery rates, improve service, and restore Niagara Mohawk's financial integrity. For the reasons stated below, the Petitioners urge the Commission to approve the merger and the Rate Plan on the terms set forth in the Joint Proposal.

This Statement in Support begins with a brief discussion of the strategy underlying the merger. That discussion is followed by a detailed summary of the Rate Plan, which is a key component of the merger application and the chief demonstration that the merger is in the public interest. The benefits of the Rate Plan are made possible by the merger and, as a result, the Rate Plan is conditioned on the closing of the merger (JP, p. 61). The discussion of the Rate Plan is followed by discussions of both the other advantages of the merger and of the application of the Commission's settlement guidelines to this proceeding. The Rate Plan, the other advantages of the merger, and the Settlement procedures used by the parties support approval of the Joint Proposal by the Commission..

I. THE MERGER

The merger between Niagara Mohawk and National Grid brings together two major utilities that are focused on the transmission and distribution of electricity and natural gas subject to comprehensive regulation of their prices and terms of service. This merger is thus somewhat different from many of the mergers that are taking place in the utility industry today. Niagara Mohawk and National Grid are not seeking to combine to increase their market share in the commodity markets. National Grid has exited the commodity market: it has divested its marketing affiliate, and nearly all generation. Niagara Mohawk Holdings, Inc. recently announced an agreement to sell its marketing subsidiary, Niagara Mohawk Energy Marketing, Inc. Niagara Mohawk is in the final stages of exiting the generation business. Pending before the Commission is a petition to sell its interests in the Nine Mile Point Nuclear Units.

Rather, the strategy supporting this merger is refreshingly simple. Niagara Mohawk and National Grid are combining to rebuild the economies of scale that have been substantially diminished through divestiture of generation. The administrative and general functions that were supported by both the generation and delivery business in the past are now supported by only the delivery business. Horizontal combinations can rebuild the scale economies lost by the sale of generation through elimination of duplicative functions and improved efficiencies. The larger organization can provide more and better services at a lower cost per unit of energy delivered than two smaller, independent corporations. The larger organization also has the scope and size to develop the infrastructure that is now required to facilitate the larger and more vigorous wholesale and retail markets in electricity and gas.

The Rate Plan in the Joint Proposal is designed to set the regulatory framework that will allow these savings to be realized and to allocate the resulting benefits between Niagara Mohawk and its customers. As described below, the benefits to customers from the merger are substantial. Efficiency Gains and Synergy Savings are shared; a substantial amount of stranded costs are written off; and Electricity Delivery Rates are reduced. Service quality is maintained and improved; new services are introduced to encourage markets and help low income customers; and economic development programs are expanded. The natural gas delivery service rate freeze is extended. The Commission's regulatory authority over Niagara Mohawk is not impaired. The merger will result in lower rates, better service, and a return to financial health for Niagara Mohawk. The merger is in the public interest. It should be approved.

II. THE RATE PLAN—PRICING PROVISIONS

A. Reduced and Stable Electricity Delivery Rates

On its Effective Date,[3] the Rate Plan will reduce Niagara Mohawk's Electricity Delivery Rates by $159.8 million per year, or 8.4 percent, (JP, Att. 4, p. 2, line 14, col. G and J). Electricity Delivery Rates recover Niagara Mohawk's costs of providing transmission and distribution service to retail customers and include Niagara Mohawk's Competitive Transition Charge ("CTC") that is designed to recover the generation-related stranded costs associated with industry restructuring. In addition to the Electricity Delivery Rates, Niagara Mohawk also charges its Standard Rate Service customers for commodity and the commodity-related Delivery Cost Adjustment ("DCA"). The Rate

[3] The Effective Date is defined in Section 1.1.1 of the Joint Proposal (JP, p. 3), as the day after the closing of the merger. The closing will occur after the receipt of all regulatory approvals and the closing of the sale of the Nine Mile Point Nuclear Units. All regulatory approvals have been obtained except for the Commission's and that of the Securities and Exchange Commission (SEC), which waits until all other approvals are in hand before acting. Although Section 1.2.4.18 of the Joint Proposal (JP, p. 25) maintains the economic benefits of a January 1, 2002 Effective Date, we still request action on an expedited schedule as a delay in the receipt of the Commission's or the SEC's approvals could require an extension of the other approvals that expire on dates certain in early 2002. Specifically, the HartScottRodino approval and the approval by the New Hampshire Public Utilities Commission would both require extension if the transaction were not to close by mid-February 2002. To avoid the need for further action by those agencies, we are requesting Commission action in November 2001. Action by the Commission in

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-24)
Merger Policy Panel

NYISO Geographic Markets

An Analysis of Transmission Interface Limits for 2000-2006

Anping Liu

January, 2007

1

Purpose

Effective market monitoring requires a correct definition of markets, and market definition depends on transmission constraints.

Transmission constraints are constantly changing and so are markets. This analysis provides an estimate how often a load zone is a load pocket and how often it is a part of larger markets.

2

Definition of Load Zones

Load zones are defined based on a NYISO document that contains the information on zonal and sub-zonal determination for billing purposes. This information provides details on inter-zone and intra-zone transmission facilities as well as generators within each zone. The transmission interface between two zones is considered to be constrained if the limit of the transmission capacity of one of the facilities is reached.

3

The Basics

The NYISO consists of 11 load zones, connected by transmission interfaces. For reliability, transmission of power between two zones has to be limited to the capacity of the transmission lines. When transmission is limited, the NYISO may be divided into isolated geographic markets, as power may not freely flow from one zone to another. The topology of these markets depends on the combination of the transmission constraints between the zones. This analysis is focused on the NYC zone and its neighboring zones.

4

The Methodology and Data

The analysis uses the actual day ahead market (DAM) LBMPs to determine whether the transmission between two load zones are constrained. For each hour, we compute the LBMP differential, net of line losses, between two generator buses selected from two load zones. The generator buses we selected for each zone are as follows: generation buses for the load zones E through K are, respectively, NYISO Reference Bus (zone E), Albany 1 (F), Bowline 1 (G), Indian Point 2 (H), Kensico (I), Ravenswood 3 (J), and Northport 1 (K). Data are DAM LBMPs from NYISO for January 1, 2000 through December 31, 2006.

5

Definition of Constraints

The transmission interface between the two load zones is considered constrained during an hour if the LBMP (net of line losses) differential between the two selected generation bus in that hour is greater than $0.1 per MWh. This threshold is used to minimize the effect of trivial LBMP differentials as a result of pricing generation resources under the complex transmission grid. The result of this approach is consistent with that using the actual day ahead transmission modeling data from NYISO.

6

Scope of Study

We do not analyze the transmission constraints within zones A-E and F-H in this study. Each of the groups is treated as one market. The former is West NY, and the latter Upstate East. Nor do we analyze the intra-zone transmission constraints within the NYC zone. For example, we select a generator bus from the 345KV load pocket to focus on the limitations of the power flow from outside the NYC zone. We do analyze the Dunwoodie zone individually because of its unique characters and relationship with the NYC zone. We will explain further later in the report.

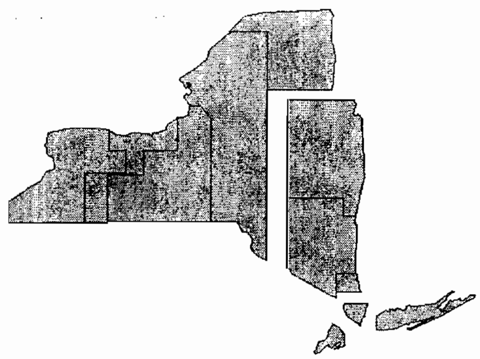
7

Results

The percentages of time by year for 2000-2006 for various combinations of these markets, from the NYC zone perspective, are given below.

8

On one extreme, the transmission constraints divided the state into five markets: West, Upstate East, Dunwoodie, NYC, and Long Island. In the DAM, this is the case for 15% of the time in 2006.

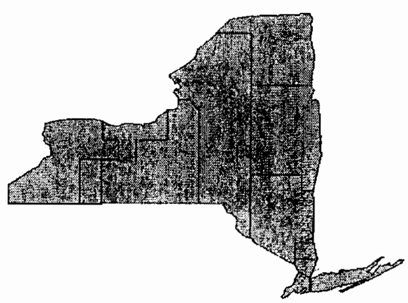


Year	2000	2001	2002	2003	2004	2005	2006
Hours	4%	9%	11%	16%	17%	23%	16%

9

Another extreme is when there is no transmission constraint between any two zones. The NYISO is one integrated market in this case, which was about 5% of the time of year in 2006. This is the case when the NYS electric market is most competitive. Since the inception of NYISO, the time that NYS is a one market has steadily decreased from 35% to only 5% of the time.

Peak Load
Summer (2006):
33,939 MW
Winter (2004):
25,541 MW



Year	2000	2001	2002	2003	2004	2005	2006
Hours	35%	33%	17%	19%	15%	8%	5%

10

Other cases are in between the above two extremes. As listed below, the percentage of time for 2006 are given for each market from the NYC zone perspective. These markets are listed in order of the increasing degree of competition. Case No. 1 is the least competitive market, whereas case No. 8 is the most competitive market.

Duration of Geographic Markets from NYC Perspective

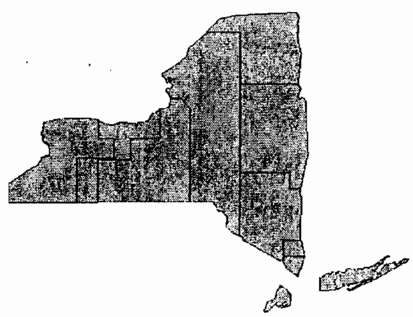
2006

MARKETS	No.	Hours	Percent
NYC	1	2632	30.0%
NYC+LI	2	35	0.4%
NYC+Dunwoodie	3	1034	11.8%
NYC+LI+Dunwoodie	4	226	2.6%
NYC+Dunwoodie+UstateE	5	597	6.8%
NYC+LI+Dunwoodie+UstateE	6	127	1.4%
NYC+Dunwoodie+UstateE+West	7	3648	41.6%
NYC+LI+Dunwoodie+UstateE+West	8	452	5.2%
Total		8759	100.0%

11

One frequently occuring case (30%) is when the NYC zone is independent of the rest of State, during which the Long Island zone is also a separate market.

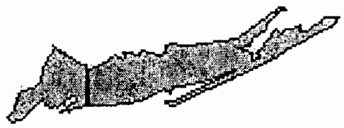
Year	Hours
2000	5%
2001	16%
2002	36%
2003	47%
2004	43%
2005	37%
2006	30%



Both transmission I-J and J-K are constrained. When I-J is constrained, I-K is also constrained most of the time.

12

The next layer is when NYC is pooled with another neighboring zone, either Long Island (case No. 2) or Dunwoodie (case No. 3), but isolated from the rest of the state. There is a very small chance when NYC joins only with Long Island, about 0.4% of the time in 2006. The mitigation measure will take effect for this case.

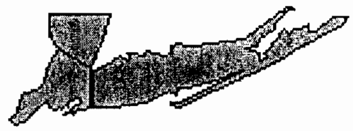


13

There is relatively bigger chance when NYC and Dunwoodie combine into one market. For 2006, there was close to 11.8% of time during which the transmission interface between zones H and I was congested but that between zones I and J was not. The percentage was even much higher during the summer months when load is high, reaching 21% in June through August.

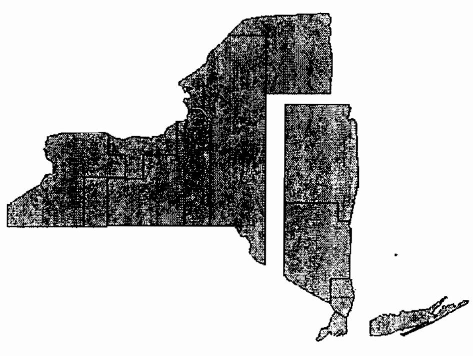
14

There is a small probability (2.6% in 2006) that the three downstate zones are one market, but separated from rest of the state.



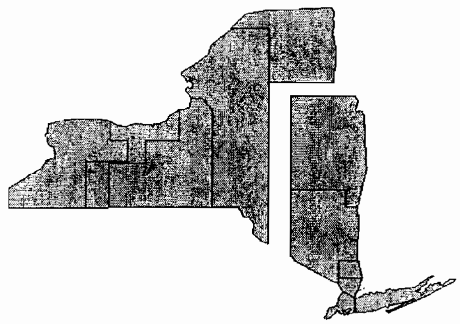
15

For a small amount of time (6.8%) in 2006, NYC is joined by the Dunwoodie and Upstate East (F,G,H) zone. In is situation, there are three markets as shown below.



16

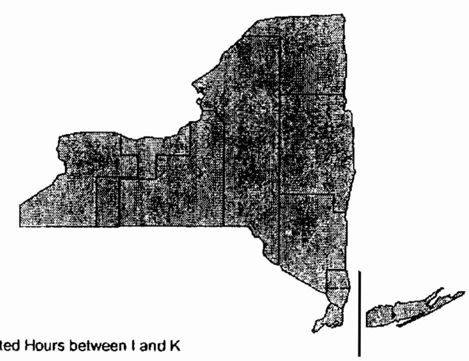
There is a slight chance that the market is only divided between West and East, in which NYC is part of east New York (1.4% of time in 2006).



17

But for 41.6% of the time of 2006, the Long Island zone is severed from the rest of New York, while NYC is part of the bigger market. Meanwhile, zones I and K are separate market most of the time (90%) in 2006.

Year	Hours
2000	33%
2001	30%
2002	24%
2003	25%
2004	35%
2005	41%
2006	42%



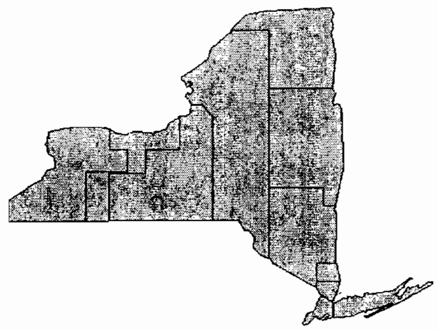
Congested Hours between I and K

2000	2001	2002	2003	2004	2005	2006
46%	54%	71%	76%	83%	87%	90%

18

Finally, when power flows freely in the entire system without any transmission limits, the NYISO is one single market. For 2006, it counts about 5.2% of time.

Year	Hours
2000	35%
2001	33%
2002	17%
2003	19%
2003	16%
2004	8%
2005	5%



19

For more information, here are the hours for seven years for all the markets discussed above.

MARKETS	No.	[illegible]	[illegible]	2002	2003	2004	2005	2006
NYC	1	425	1363	3158	4132	3748	3201	2632
NYC+LI	2	267	95	45	62	45	125	35
NYC+Dunwoodie	3	566	276	586	209	202	488	1034
NYC+LI+Dunwoodie	4	1188	498	658	306	59	219	226
NYC+Dunwoodie+UstateE	5	160	499	356	127	227	367	597
NYC+LI+Dunwoodie+UstateE	6	226	591	310	40	49	66	127
NYC+Dunwoodie+UstateE+West	7	2906	2590	2133	2210	3082	3570	3648
NYC+LI+Dunwoodie+UstateE+West	8	3045	2847	1513	1673	1371	723	452
Total		8783	8759	8759	8759	8783	8759	8759

20

And listed below are the percentage of time for seven years for all the markets analyzed above.

MARKETS	No.	2000	2001	2002	2003	2004	2005	2006
NYC	1	5%	16%	36%	47%	43%	37%	30%
NYC+LI	2	3%	1%	1%	1%	1%	1%	0%
NYC+Dunwoodie	3	6%	3%	7%	2%	2%	6%	12%
NYC+LI+Dunwoodie	4	14%	6%	8%	3%	1%	3%	3%
NYC+Dunwoodie+UstateE	5	2%	6%	4%	1%	3%	4%	7%
NYC+LI+Dunwoodie+UstateE	6	3%	7%	4%	0%	1%	1%	1%
NYC+Dunwoodie+UstateE+West	7	33%	30%	24%	25%	35%	41%	42%
NYC+LI+Dunwoodie+UstateE+West	8	35%	33%	17%	19%	16%	8%	5%
Total		100%	100%	100%	100%	100%	100%	100%

Note: The addition of 1000 MW capacity in generation may have contributed to the decreases in transmission congestions to NYC after 2005.
The significant increase in transmission congestions to NYC in 2002 is a result of software remodeling that more properly captures the constraints associated with the sub-pockets within the NYC.

21

Conclusion

The competitiveness of the markets should be measured for the correctly defined geographic markets using transmission constraints.

Depending on transmission constraints, the NYC zone can be a load pocket or part of various larger markets, of which the degree of competition varies.

22

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-25)
Merger Policy Panel
REDACTED

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-26)
Merger Policy Panel
REDACTED

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-27)
Merger Policy Panel

Case: 06-M-0878

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: KeySpan Generation

Request #: DPS-27

Response Date: September 12, 2006

Respondents: J. Bodanza, J. Cochrane

Q:

1. Regarding the continued ownership of generation after KeySpan is acquired:

   (a) Did KeySpan require that all bids be premised on the bidder's continued ownership of generation? If the answer is yes, explain why this was a condition.

   (b) Did KeySpan perform any studies or analyses, or have any outside parties perform studies or analyses addressing how the divestiture of generation (before, after or as part of the sale of KeySpan) was likely to affect the total value received by KeySpan and its shareholders? If so, provide the analyses.

(c) Is it KeySpan's position that its value to shareholders is maximized by the continued ownership of generation as opposed to the divestiture of its generation? Explain why. Provide all studies and analyses performed to address this topic.

(d) Did KeySpan receive any bids which were premised on the divestiture of generation assets before, after or as part of the sale? If so, provide all pertinent details of such bids and explain the basis for rejection.

(e) Did National Grid consider making a bid for KeySpan which reflected the divestiture of generation before, after or as part of the sale? If not, explain why and provide any studies or analyses employed to make that decision.

(f) Provide all studies and analyses performed by or on behalf of National Grid prior to KeySpan's acceptance of the $42 per share which addressed the implications of the transaction given the Commission's established position on vertical market power. Evidence submitted as part of this response should clearly show the date of work product, the people involved and the time and location of any formal meetings at which this work product was considered.

(g) Is it National Grid's position that KeySpan's value to shareholders is maximized by the continued ownership of generation as opposed to the divestiture of its generation? Explain why. Provide all studies and analyses performed to address this topic.

A:

(a) No.

(b) No.

(c) KeySpan shareholders are receiving the value associated with an all cash stock acquisition, which was approved by its shareholders. There are no such studies or analyses.

(d) No.

(e) National Grid did not consider or make a bid for KeySpan that did not include KeySpan's generation facilities.

(f) National Grid's response to this question will be made available to the Staff on a confidential basis at the Company's offices in Albany. This information is being provided pursuant to a request for confidential treatment.

(g) National Grid cannot answer whether this is in the best interest of KeySpan's shareholders.

BEFORE THE
STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

In the Matter of

National Grid PLC and KeySpan Corporation - Proposed Merger
Case 06-M-0878

The Brooklyn Union Gas Company d/b/a KeySpan Energy Delivery New York - Gas Rates
Case 06-G-1185

KeySpan Gas East Corporation d/b/a KeySpan Energy Delivery Long Island - Gas Rates
Case 06-G-1186
January 2007

Exhibit__(MPP-28)
Merger Policy Panel

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

National Grid/KeySpan Merger

Interrogatory/Document Request

Response of National Grid/KeySpan

Re: Ravenswood

Request #: DPS-240

Response Date: December 8, 2006

Respondent: T. McCormick

Q:

1. **Prior to KeySpan accepting National Grid's bid, did National Grid share with KeySpan any studies or analyses performed by or on behalf of National Grid which addressed the ownership of Ravenswood and/or the possibility that the plant might have to be divested? If yes, provide that information. If not, explain why not.**

A.

No. National Grid did not share any such studies with KeySpan.

There was no certainty that a transaction between National Grid and KeySpan would proceed and the acquisition price for KeySpan was only agreed at a late stage in the process. It would have been inappropriate for National Grid to share such information in such circumstances.