I. OVERVIEW

The New York Public Service Commission (the Commission) is seeking an independent consultant to perform a comprehensive management audit of the Niagara Mohawk Power Corporation d/b/a National Grid (National Grid or the Company) electric business. The audit will be performed in accordance with Public Service Law, Section 66(19) which states that the “commission shall have power to provide for management and operations audits of gas corporations and electric corporations. Such audits shall be performed at least once every five years for combination gas and electric companies…” The Law also states that “the audit shall include, but not be limited to, an investigation of the company’s construction program planning in relation to the needs of its customers for reliable service and an evaluation of the efficiency of the company’s operations.”

The Law further requires that the cost of the audit be paid by the utility, but the consultant will be selected by the Commission. The management audit and the work of the consultant will be managed by Department of Public Service Staff (the Department or Staff). The audit will be both comprehensive and thorough, but will focus on the electric construction program planning, operational efficiency and performance, including reliability, as required by the Public Service Law. The National Grid management audit will focus on electric transmission and distribution in New York State and will not include natural gas. Gas is a separate line of business at National Grid and the organizational structure for gas is evolving more slowly due to the relatively recent acquisition of KeySpan Corporation. We plan to review gas construction program planning at National Grid in a future audit, after the integration with KeySpan Corporation’s operations is completed.

The National Grid Organization

National Grid has an international corporate structure that differs from the other electric/gas utilities in New York State. National Grid’s Executive Management is located in Great Britain (U.K.) including the Board of Directors, Chief Executive, and the Executive Directors for each of five separate lines of business—Transmission, Gas Distribution, Electric Distribution & Generation, Business Development & Non-Regulated, and Finance & Shared Services. Within each line of business there is an Executive Vice President for U.S. Operations which includes operations in New York and New England. Attachment 1 is a high level organization chart which illustrates the National Grid corporate structure. The focus of the management audit is on National Grid’s New York operations.

In 2007, National Grid began centralizing work processes and locations in support of their corporate goals and operating model. The physical location of the US facilities include main
offices which are centralized for employees who don’t need to be geographically located with operations; special purpose facilities including data centers, control centers, call centers and training facilities; and operations sites for field operations. For electric operations, New York is divided into three regions—Central, East and West (geographically includes parts of eastern upstate NY, Central NY, Western NY, Brooklyn and Long Island). Attachment 2 is a list of National Grid work locations which may be helpful to you in putting together your proposal. In addition, National Grid will make their senior executives, including their CEO, available for interviews in the U.S. so travel to the U.K. may not be necessary.

II. SCOPE

The management audit should focus on the following elements for electric distribution and transmission operations:

- Corporate Mission, Objectives, Goals and Planning
- Load Forecasting
- Supply Procurement
- System Planning
- Capital and O&M Budgeting
- Program and Project Planning and Management
- Work Force Management
- Performance and Results Measurement

These series of elements or functions are generally sequential in nature and can be viewed as a flow diagram or feedback loop. Although generally sequential, the elements require feedback from one or more of the latter elements to allow for revisions, adjustments and other changes, over both the short and long term. This framework will begin with the element of “corporate mission, objectives, goals and planning” and end with the element of “performance and results measurement.” This feedback typically facilitates the changes and improvements that should then result in better performance. In reviewing these elements the audit should evaluate this construction program feedback system.

The audit should emphasize an assessment of National Grid’s efficiency and effectiveness in meeting its mission, particularly with respect to meeting its performance goals and the extent to which there are opportunities for improvement.

Finally, your proposal should include a discussion of how you will identify, select and assess a representative sample of construction programs and projects that are completed and/or in progress, for the purpose of identifying opportunities to improve performance.

The scope is described specifically, below. The scope elements and their components are the major elements of the construction program feedback loop. Included within each element of the construction program planning feedback loop are components, issues, parameters, etc. We encourage you to include in your proposal any additional components that are relevant and important.
Within the context of each element, you should be prepared to address the generic issues of: (1) purpose, mission, planning, goals and objectives, and strategies, (2) functions processes, practices, and systems, (3) organizational design, (4) staffing, responsibilities and accountabilities, (5) cost control/cost oversight, (6) efficiency and effectiveness, (7) results and performance, (8) opportunities for improvements, including “best practices” (based on your past experience) that are appropriate to National Grid’s operating environment. The following scope elements and components should be evaluated:

**Corporate Mission, Objectives, Goals, and Planning**

- Governance, organizational structure, missions and relationships within National Grid as they relate to the electric construction program planning process
- Organizational responsibilities for planning priorities and budgeting allocations for the electric business
- Role of the Board of Directors and executive and senior management in the development of budgeting guidelines and periodic budget reviews and approvals
- National Grid’s financial position and the level of its rates that are factored into the budgeting process
- National Grid’s use of measurable goals, metrics, key performance indicators, etc. to achieve the corporate mission and objectives, and the performance improvement process at successive levels of management
- Performance and compliance with procedures and practices related to the scope of this audit, e.g., internal controls, internal audit function and Sarbanes Oxley Act
- Management performance and compensation programs and alignment with the corporate mission, objectives and goals at all organizational levels

**Load Forecasting**

- Models, assumptions and key drivers, and other inputs used to forecast local and system-wide load requirements
- Inputs, including demand side management (demand response, etc.), energy efficiency, and other initiatives that are factors in the forecasting process
- Organization and staffing of forecasting functions
- Extent to which the planning for electric load, as well region-specific factors, is integrated into the overall business processes and strategies
- The New York Independent System Operator’s (NYISO) role in the State’s electric forecasting, as it affects National Grid’s forecasting

**Supply Procurement**

- Identify and evaluate supply portfolio principles, goals and objectives for mass market default customers
- Identify and evaluate risk management strategies and practices
- Review supply procurement strategies, policies, processes, and methods
- Review National Grid’s financial and physical hedging practices
• Examine National Grid’s use of performance benchmarking with other utilities
• Review portfolio performance goals
• Evaluate portfolio oversight and controls
• Examine the role of demand management/response, energy efficiency, and migration of retail customers to competitive suppliers in the portfolio and procurement processes

**System Planning**

• Infrastructure planning and engineering functions
• Priorities, guidance and other instructions for evaluations, tradeoffs and decision making, including (1) an asset condition and management process (2) using input from the asset health review process, and (3) linking asset management decisions (e.g., predictive failure analyses) to improved reliability and performance
• Development of electric system forecasts and infrastructure requirements
• Consideration of alternative resources such as distributed generation and demand response initiatives in the planning process
• Consideration of other load and infrastructure factors, such as advanced metering, smart grid, and energy efficiency initiatives, in the planning process
• Processes for identifying, developing, and justifying the need for major projects (e.g., substations, breakers, switches, transmission feeders, secondary system, etc.)
• Process and criteria for making decisions regarding replace versus repair, including how the overall construction program planning process is affected
• Planning processes for: (a) network versus radial systems, (b) underground versus overhead systems, (c) reliability versus new business tradeoffs, and (d) regional versus central planning dynamics
• Extent to which benefit/cost analyses and risk analyses are considered in the decision-making process; and an assessment of the specific types of benefit/cost and risk analysis methodologies
• Optimization of trade-offs with respect to the replacement of older technology with newer technology and the resulting impact on the useful lives and depreciation assumptions of the existing infrastructure, cash flow and system reliability

**Capital and O&M Budgeting**

• Roles of the Board of Directors, and executive and senior management
• Processes by which the Board gets involved in the capital and O&M budgets. Identify the level of budget detail the Board sees and what their responsibilities are with regard to the budgets
• Construction/capital priority setting process
• Incremental O&M expenses associated with new construction that are factored into the budgeting process
• The effects of allowed revenues/rates and financing opportunities or constraints on budget levels and priorities
• Relationships among planned/budgeted expenditures, rate case proposed expenditures, and actual expenditures
- Capital budgeting process, including project authorization, project appropriation, increase/decrease of authorization/appropriation, capital budget status reporting, validation in advance of appropriation, funding controls, and other elements of the capital budgeting process.
- Budgeting guidelines, practices and procedures, including “zero–based” and other alternative methods
- Roles of and relationships between regional and centralized planning and budgeting functions
- Methodology for prioritizing and determining which capital projects get approved, including an examination of modeling software for capital and O&M budgeting
- Management and control of capital budgeting. Include the methodologies used to control and manage program and project capital costs in the near and long term; the annual process for reviewing and determining whether total capital and O&M planned expenditures are adequate; cost control systems and processes from both a top-down and bottom-up perspective; controls to ensure that increases and decreases to the construction budget/expenditures are justified and appropriately approved
- Bottom-up and top-down processes for developing the budgets for capital/construction classifications and categories

**Program and Project Planning and Management**

- Conversion of capital and O&M plans and budgets into specific programs and projects
- Process for prioritization and approvals over various time horizons
- Program and project planning, design, estimating, engineering, costing, scheduling and execution
- Planning and management of materials, equipment, transportation and other logistical support for programs and projects
- Analysis and decision-making for tradeoffs to optimize the use of in-house workforce versus contractor labor
- Contractor and engineering bidding practices
- Planning and management of construction contractor projects
- Quality assurance and quality control at the program and project level
- Contractor management, project/program management, including accountability, goals, objectives, and performance measurement
- Methodology for tracking costs, work units and work quality for specific programs and projects. Identify the typical variances between original budgeted and actual capital expenditures and work units. Determine how variances are tracked and minimized in order to improve the cost control, efficiency/productivity and work quality

**Work Management**

- Planning, conversion and execution of programs and projects into short-term and day-to-day work
- Work management systems that are used to schedule and manage field crews, including transportation, equipment, and materials
- Roles and responsibilities of project managers, supervisors, inspectors.
• Quality assurance and quality control
• Management of employee availability, utilization, efficiency, productivity and effectiveness
• Management of program and project schedules on a day-to-day basis
• Translation of information about rework, failures, repair history, etc. into corrective actions, infrastructure aging analysis, and repair versus replace decisions
• Feedback of workforce and work management systems into performance improvement opportunities

**Performance and Results Management**

• Processes for feedback of performance (reliability, productivity, etc.) to the corporate mission, objectives and goals for the purpose of improving processes, redirecting resources, and changing priorities
• Role and responsibility of the Board of Directors in this feedback loop
• Management accountability for performance improvements, e.g., cost savings and productivity gains anticipated from specific capital and O&M programs and projects, and specific corporate goals
• Goals, key performance indicators, metrics.
• Benchmarking, for identifying and developing performance targets
• Change management and continuous improvement processes, and any impediments that might constrain performance improvements and necessary changes
• Compensation and performance metrics
• Any additional performance measures or indicators that are needed to facilitate the corporate mission, objectives and goals, including leading indicators, metrics, key performance indicators and other measures that will help improve performance

As part of your proposal, please include resources for workshop-type training for Department of Public Service Staff. We anticipate that we will need as many as five full-day workshops, most likely at the Department offices in Albany, to be scheduled after the audit begins, and these workshops will be distributed over the audit duration. We expect that the number of Staff participants in the workshops will range from ten to fifteen. The workshop subjects will be determined after the audit starts but, for example, one workshop may be focused on optimum (or “best”) practices and processes that utilities use to assess operational risks associated with the delivery of the commodity, how risk assessment impacts the long-term corporate construction and O&M decisions, and how budgeting priorities are managed. We are particularly interested in developing in-house Staff knowledge and skills that will allow the Department to analyze these practices and processes as part of our regulatory oversight responsibilities. Please identify a separate price for this work, and include the price in your total not-to-exceed price.

All of the above items should be considered in the development of your proposal and will also form the foundation of the audit report. Your proposal should identify any additional aspects of the process that you believe necessary to provide a thorough evaluation. A final report will be prepared and all finding and recommendations should be thoroughly documented. Further, while the planned date for the initial draft is September 2009, we expect the consultant to bring to Staff’s and the National Grid’s attention any matters of significance in advance of the initial draft report.
(as they are identified) that would, if adopted, improve National Grid’s construction program planning process.

Please read the accompanying Guide for Consultants (Guide). The Guide is designed to assist you in preparing your proposal, and includes important requirements that must be incorporated.

### III. SPECIFIC DELIVERABLES

You will be expected to provide the following key documents:

1) **Work Plan** - The chosen consultant will be expected to confer with Staff during the creation of its initial work plan. The consultant will be responsible for submission of an initial and final draft work plan to Staff. These drafts should outline in additional detail the scope and methods to be employed by the consultant during the course of the engagement as well as a detailed schedule (including milestones) for the remainder of the review. The consultant may modify the initial draft after giving due consideration to Staff’s comments, and must then submit a final draft work plan to Staff for approval. Approval of the work plan by Staff will authorize the consultant to execute the tasks as stated therein.1

2) **Briefings** - The consultant will provide regular briefings to Staff on the progress of the audit and will identify emerging issues as the audit progresses.

3) **Draft Reports** - The schedule for the initial draft report is September 2009 as set forth in the schedule below. This initial draft report must represent the final work product. Staff will review the initial draft report and provide the consultant with any comments. Thereafter, the consultant will present a revised draft report to Staff. Staff will authorize the consultant to send the revised draft report to the utility for review of factual accuracy. For the final report, the consultant may make modifications to address specific comments as it deems necessary, after consultation with Staff.

4) **Final Report** - A final report by December 2009 to Staff will document the consultant’s evaluation of each aspect of the audit scope, as outlined in this RFP and the subsequent approved detailed work plan. All consultant work papers must be available for Staff’s review.

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1 Payments to consultants are discussed in detail in the Guide; however, bidders should be aware that 10% of the professional fees will be retained throughout the project. In addition, the Department will retain an additional 5% of professional fees pending the approval of the detailed workplan. Once the Department approves the workplan, the 5% retained will be released. Further discussion of payments and retentions are discussed in the Guide.
IV. SCHEDULE

The schedule for this project is set forth below. A different schedule may be proposed if the consultant believes that the schedule is not achievable. If a consultant proposes a different schedule, the consultant should provide a rationale. On the other hand, if a consultant believes it can accelerate the schedule, we strongly encourage you to propose that, and provide a rationale.

<table>
<thead>
<tr>
<th>Target Date</th>
<th>Task</th>
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<tbody>
<tr>
<td>July 16, 2008</td>
<td>Issue RFP²</td>
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<tr>
<td>August 15, 2008</td>
<td>Consultant Proposals Due</td>
</tr>
<tr>
<td>September 8-10, 2008</td>
<td>Finalist Interviews</td>
</tr>
<tr>
<td>October 2008</td>
<td>Consultant Selected</td>
</tr>
<tr>
<td>November 2008</td>
<td>Orientation Meetings</td>
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<tr>
<td>December 2008</td>
<td>Draft Workplan Submitted to Staff</td>
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<tr>
<td>January 2009</td>
<td>Workplan Approved by Staff</td>
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<tr>
<td>September 2009</td>
<td>Draft Report Submitted to Staff</td>
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<tr>
<td>October 2009</td>
<td>Revised Draft Report to NG - Factual Accuracy</td>
</tr>
<tr>
<td>November 2009</td>
<td>Revised Draft Report to Staff/NG</td>
</tr>
<tr>
<td>December 2009</td>
<td>Final Report to the Department³</td>
</tr>
</tbody>
</table>

V. PROPOSAL FORM and CONTENT

This RFP is bid in whole. We encourage firms and individual consultants to work with others to form an audit team under the leadership of an experienced project manager. However, there must be one entity or person that represents the entire consultant team and there must be one person who is authorized to represent the team and sign the contract. Therefore, there will be only one consulting “firm” retained. All firms, employees of firms, and subcontracting firms and individuals that are part of the proposal must be approved by Staff and must comply with all aspects of the RFP, including the conflict/ethics provisions set forth in the Guide. The proposal must demonstrate a clear understanding of the objectives and deliverables. It should also illustrate the consultant’s approach to meeting the objectives in a timely and comprehensive manner. Proposals should comply with the Guide in all respects. If you are proposing to deviate from the Guide, please highlight the specifics and provide a rationale for our consideration.

VI. PROPOSAL SUBMISSION

Consultants interested in responding to this RFP must submit original and 9 copies of the proposal. Prior to submission of your proposal, if you have any questions regarding the RFP, contact the project manager, Patrice O’Connor either by phone at 518-473-8149 or by e-mail (patrice_oconnor@dps.state.ny.us). The Department must receive all proposals no later than 5:00 PM on Friday, August 15, 2008. All materials should be enclosed in a sealed inner envelope and be identified on the outside as “Response to RFP for A Comprehensive Management Audit of

² The RFP will be posted to the Department’s web page at http://www.dps.state.ny.us.
³ The final report will also be posted to the Department’s web page.
Niagara Mohawk Power Corporation d/b/a National Grid.” Consultants should also submit an electronic version of their proposal on **August 15, 2008** to Patrice O’Connor at patrice_oconnor@dps.state.ny.us. The Department will not accept e-mail submissions or facsimile copies of proposals as a substitute for the hardcopies of the proposal. Further, submission of electronic version or facsimile copy of the proposal will not be considered as sufficient with respect to the bid receipt deadline of 5:00 PM on **Friday, August 15, 2008** for the hardcopy.

All proposals must be received in our office at:

Jaclyn A. Brilling, Secretary  
New York State Department of Public Service  
3 Empire State Plaza  
Albany, New York 12223-1350

All proposals should include a cover letter, signed by a responsible person certifying:

- the accuracy of all information in the proposal;
- the bidders’ commitment and ability to perform all the work contained in its proposal; and,
- compliance with all Request for Proposal requirements.

The cover letter should include the address, name of a contact person, telephone number, e-mail, address and fax number. In addition, the cover letter should contain a statement that the proposal is a firm offer for a 180-day (or more) period. Staff will acknowledge receipt of each proposal by e-mail. Additionally, you may submit a self-addressed stamped envelope requesting that Staff verify that your proposal was received.

**VII. PROPOSAL EVALUATION**

**Overview**

All proposals will be evaluated by Staff. The Commission will select the consultant who will provide the “best value,” taking into consideration the most beneficial combination of qualifications, services and cost, and the consistency of the proposal with the requirements of this RFP. Only proposals deemed to be responsive to the submission requirements will be evaluated. The criteria against which each proposal will be evaluated are described below.

**Evaluation Criteria**

The selection process entails two steps. First, initial review of the proposals based on the criteria identified below will be conducted by Staff. Second, based upon this initial evaluation, one or more of the consulting firms will be selected and interviews with the finalists will be scheduled. Costs associated with preparation of the proposal and participation in finalist interviews are the responsibility of the consulting firm, and are not reimbursable.

The initial evaluations of the proposals will be based on the following:
Criteria 1: Content of Proposal - The proposals will be reviewed by Staff for conformity with the RFP and the Guide, and reviewed for substantive content. The ability of the consulting firm to prepare a proposal that is clearly written, concise, complete and well organized will be considered a strong indication of the firm’s ability to produce a final report of similar quality. The criteria will also include the firm’s proposed project management processes. Any proposed reservations or constraints concerning Staff’s involvement must appear in the proposal and will be a factor in its evaluation.

Criteria 2: Firm and Individual Consultant Expertise and Experience - In evaluating the proposals, we will consider the experience, ability and expertise of the consulting firm and the experience of the individuals assigned to the project, including any subcontractors. The proposal should demonstrate the firm’s ability to manage the project and present its proposed approach and methods to be used to conduct the evaluation and meet the objectives as outlined in the project scope. The expertise and experience of individuals to their proposed work assignments associated with this audit should be clearly outlined as it will be an important factor in this aspect of the evaluation.

Criteria 3: Cost - The not-to-exceed cost of the consultant's proposal will be analyzed from the perspective of the amount of work that needs to be done, the number of consultant days and the consultant billing rates, as well as administrative, travel and out-of-pocket expenses.

Proposal Price

The consultant shall provide a not-to-exceed price in which the cost of professional services, professional out-of-pocket expenses, and support services (clerical, secretarial, research, and report preparation services) are separately stated, and the criteria for each defined for billing purposes. The proposal must include the current professional fee (billing) rates for each individual as well as an estimate of out-of-pocket expenses for each individual. The cost for all draft reports should be included in the not-to-exceed cost, as well as the cost of printing 10 hardcopies of the final report which should be provided to the Commission. If Staff determines that the consultant should provide additional printed copies of the final report, the consultant will be reimbursed for its cost of printing these additional copies. The individual professional fees and out-of-pocket expenses, along with the costs of support services should be rolled up to the not-to-exceed project cost.

For billing purposes, the professional billing rate should be an all inclusive rate that captures both the professional fee and out-of-pocket expenses for each individual, and which rolls up to the not-to-exceed project cost. The intended method of billing for clerical, secretarial, research, and all report preparation services must be explained in your proposal. An example of the invoice detail that is to be submitted and billed is shown in Exhibit 2-2 of the Guide. Staff will audit all invoices and no payment will be made by the utility until authorized by Staff.

Payments made under the contract will be made according to a negotiated schedule of deliverables; however, 15% of the professional fees will be retained until Staff approves the
detailed workplan. With the approval of the workplan the incremental 5% of professional fees which were withheld pending approval of the workplan will be released and subsequently 10% of the professional fees will be retained until Staff determines that all deliverables have been provided to Staff. Furthermore, until such time as the consultant has completed its draft report and delivered it to the Department for its review, no more than 75% of the budgeted professional fees will be paid to the consultant. Proposals should identify key milestones for payment. A more detailed discussion of invoices and consultant payments is included in the Guide.
Attachment 1 – National Grid Organization Chart

Our Operating Model

Chief Executive

Transmission  Gas Distribution  Nec Distribution & Generation  Network & Reg Dev  Finance & Shared Services

UK Electric T  UK Gas T  UK Gas D  Business Development  Metering  Grain, Property  UK Shared Services


Global Functions  Global Finance / Global HR / Global IS

August 2007

National Grid
Attachment 2 – National Grid Work Locations

Work Locations as Described in 7-23-07 Employee Communication

The following information on future work locations was provided to employees on July 23, 2007.

National Grid will be centralizing processes and work streams over time in order to: spur cultural change and better enable us to do things “one way;” help drive efficiency and enhance the way we do business; support our new operating model and decrease facility costs.

Going forward all U.S. facilities will be classified as follows:
- **Main offices** – Central locations for employees who don’t have to be geographically located with field operations.
- **Special purpose facilities** – Data centers, control centers, call centers and training facilities
- **Operations sites** – Broken down into three categories (A, B, C), all with field workers and truck/van parking, but different types and sizes of engineering and support staff.

Future Locations:
**Customer & Markets** - Customer Contact Centers will continue to be located in each of the four major areas – NE, Syracuse, LI and MetroTech. Sales & Account Management will also be performed in each of these regions. Marketing will be centralized in MetroTech, while retaining a significant presence on LI. Customer Strategy will be split between MetroTech and NE. Communications will be located in MetroTech, NE and on LI. Energy Efficiency will be centralized in NE, while retaining a major presence on LI.

**Electric Distribution** – The business and leadership will be centered in NE, with major presences remaining on LI to service LIPA, and in Syracuse for upstate NY operations.

**Electric Generation** – National Grid will continue to operate the power plants on LI and at Ravenswood. Electric Generation leadership will be concentrated on LI.

**Electric Transmission** – The business and leadership will be centered in NE.

**Energy Portfolio Management** will be centralized on LI.

**External Affairs** will be distributed geographically as necessary to support its underlying functions.

**Finance** – Tax and Treasury will be centralized in MetroTech. Decision Support resources will be located in MetroTech, NE and LI with their respective lines of business.

**Gas Distribution** – The business and leadership will be centered in Brooklyn, with major presences remaining in NE, LI and upstate New York.
**Human Resources** – Business Support Services will be located geographically. Corporate Human Resources will be located in Brooklyn and NE.

**Information Services** (IS) will ultimately be largely centralized in NE. Infrastructure and Business System Support resources will be primarily located in Syracuse and on LI.

**Internal Audit** will be split between NE and LI.

**Legal, Regulatory and Pricing** – Lawyers and support staff will largely be split between a single location in downstate New York and a single location in NE, with a few individuals in other locations where it’s important to be near internal clients or external stakeholders. Regulatory and Pricing will ultimately be centralized in NE, with local representation in each state as required. The Environmental and Safety Audit function will be dispersed geographically.

**Shared Services** will be significantly consolidated, with the head of Shared Services located in MetroTech and major end-to-end processes located in each the four major regions. Financial Services will be largely centralized in MetroTech. Plant Accounting and the Energy Trading backoffice will be located on LI. Customer Financial Services will be substantially centralized in Syracuse. Human Resource Services will be substantially centralized in downstate NY, with Employee Services on LI and the balance in MetroTech. Supply Chain Services will be substantially centralized in Syracuse, with direct field support resources distributed geographically. Property Services will be centralized in NE, with direct field support resources distributed geographically.

**SHES** (Safety, Health, Environmental, Security) – Field support workers will be located as geographically appropriate. Leadership and non-field workers will be substantially centralized in NE.